

12 Sep 2024

## Buy

**Price**  
 RM2.37

**Target Price**  
 RM3.20

### Market Data

Bloomberg Code	BAUTO MK
No. of shares (m)	1,162.2
Market cap (RMm)	2,754.3
52-week high/low (RM)	2.60 / 2.07
Avg daily turnover (RMm)	7.4
KLCI (pts)	1,639.8

Source: Bloomberg, CIMB Securities

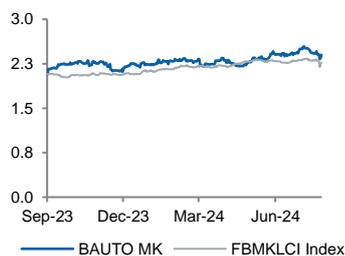
### Major Shareholder (%)

Dynamic Milestone	14.8%
EPF	13.3%
PNB	11.2%
Free Float	60.7%

Source: Bloomberg, CIMB Securities

### Performance

	3M	6M	12M
Absolute (%)	1.5	(1.8)	13.8
Rel Market (%)	1.1	(6.6)	3.0



Source: Bloomberg, CIMB Securities

### Analyst

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# Bermaz Auto

## Shifting gears with EPMB

1QFY25 results were broadly in line with expectations at 22%/23% of our/consensus estimates. Core net profit in 1QFY25 slipped 31% yoy due to lower sales volume and higher base during sales tax holiday exemption period. We expect stronger earnings growth in 2HFY25F driven by the launch of the new Kia Sportage CKD program and higher EV sales. Bermaz is investing RM20m to buy an 11.5% stake in EPMB as part of its diversification strategy to ensure the viability of its CKD program. We like Bermaz for its attractive FY25-26F yields of 9.3-10.1%. We see potential special dividend from Mazda Malaysia as key re-rating catalyst for the stock. **Maintain Buy.**

### Financial Highlights

FYE Apr	2023	2024	2025F	2026F	2027F
Revenue (RMm)	3,541	3,940	3,936	4,307	4,445
Core net profit (RMm)	305.8	351.0	318.6	348.3	358.6
Core EPS (Sen)	26.3	30.2	27.4	30.0	30.9
EPS growth (%)	97.2	14.8	(9.2)	9.3	2.9
DPS (Sen)	22.0	26.0	22.0	24.0	25.0
Core PE (x)	9.2	8.0	8.9	8.1	7.9
Div yield (%)	9.3	11.0	9.3	10.1	10.5
ROE (%)	43.7	44.3	37.8	39.2	38.6
Net Gearing (%)					
PBV(x)	3.6	3.4	3.2	3.0	2.9

Source: Company, CIMB Securities

### 1QFY4/25 revenue and core EPS fell 22% and 31% yoy due to lower sales volume

Bermaz Auto's (BAuto) 1QFY4/25 revenue fell 22% yoy due to lower sales volume from Malaysia and the Philippines. Total sales volume in 1QFY25 dropped 23% yoy to 5.1k units. The group attributed the lower sales volume in the Malaysian market to increasing competition from other distributors and lower replenishment of new orders following the high fulfilment of Mazda 3 orders in 1QFY24. Overall, 1QFY25 core net profit slipped 31% yoy. Despite the lower volumes delivered, Bermaz's Philippines operations is gaining good traction from newer generation models such as CX60 and CX90, which commands relatively higher margin. Bermaz Auto Philippines (BAP) posted 35% yoy growth in pretax profit driven by healthy margin expansion from 14.5% in 1QFY24 to 19.9% in 1QFY25. In addition, Bermaz also benefitted from higher shares of associates profits, which grew 25% yoy to RM10.7m on the back of a higher contribution from 1) Inokom and 2) Kia Malaysia driven by higher export volume. The group declared lower interim DPS of 3.5 sen/share in the quarter (vs 5.0 sen/share in 1QFY24).

### Cautiously optimistic over the remainder of FY4/25F

Bermaz remains cautiously optimistic on its FY4/25F outlook driven by resilient demand for complete-knocked down (CKD) models such as Mazda CX-5, CX-30 and CX-8, which accounted for 80% of Mazda sales volume in FY24. The group is targeting 25k (+5% yoy) units' sales volume in FY4/25F driven by 1) higher contribution from Kia on the back of new and facelift launches such as Sportage, Carnival and Sorento, and maiden contribution from Xpeng Motors following the launched of G6 EV model in Malaysia on 27 Aug 2024. We gathered the group have secured over 100 units bookings registration over the past two weeks. However, we see potential downside risks to BAuto's FY25F sales target given a softer consumer sentiment and intensifying competition, especially from the EV segment. Nevertheless, we see the upcoming Kia Sportage CKD model, scheduled for launch in Jan-2025 would pave the way for stronger growth beyond FY4/25F. Meanwhile, our channel checks indicated that Bermaz's order backlog stood around 1.5-1.6k units as of end Aug 24.

### Diversifying its domestic production capacity with RM20m investment into EPMB

Yesterday, Bermaz's 100%-owned subsidiary, Bermaz Capital Sdn Bhd, has entered into an agreement with EP Manufacturing Bhd (EPMB MK, RM0.61, NR) to subscribe for 33.0m new

shares at 60sen/share, representing 15% of EPMB's existing share capital, for RM19.8m. EPMM is a public-listed company involved in manufacturing automotive parts for brands like Mazda, Perodua, Proton, and Honda. The group is looking to set up a new manufacturing hub for internal combustion engine (ICE), energy efficient vehicle (EEV) and EVs in Hicom Pegoh Industrial Park, Malacca for a total investment of over RM100m. Upon completion, the first phase of the Malacca manufacturing hub will have an annual production capacity of 12k units. In addition, we gathered that EPMB is also exploring new project for next generation Mazda CKD program in Malaysia. We see Bermaz investment into EPMB as a diversification strategy to ensure the viability of its CKD program amidst growing interest for domestic assembly program from Chinese automotive original equipment manufacturers (OEMs). Overall, Bermaz will hold an 11.5% equity stake in EPMB after the completion of the deal targeted in Dec-2024, making it the second largest shareholder.

#### Reiterate Buy recommendations with an unchanged RM3.20 target price

We are maintaining our earnings forecasts and Buy rating on the stock with an unchanged target price of RM3.20, still based on 11x CY25F P/E, which is 0.5 s.d. below its 10-year mean P/E of 13x. The discount is to reflect the FY24-27F EPS CAGR of 2%. Despite this, BAuto still offers an attractive 9.3%-10.1% dividend yield in FY25-26F (based on 80% payout), backed by a net cash position of RM324m (RM0.28/share) as of 31 July 2024. Meanwhile we estimate for every 10% movement in Ringgit against the Japanese Yen would potentially impact Bermaz's EPS by 3%.

#### Potential catalysts and risks

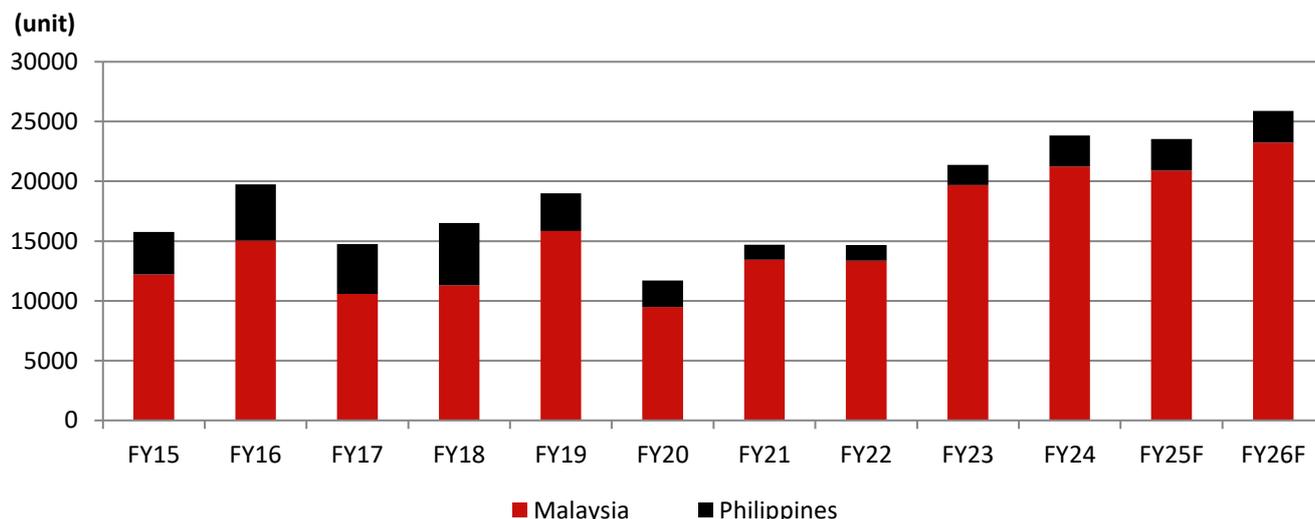
Potential re-rating catalysts include acquiring new EV marque distributorships, implementing new localization programs, stronger Ringgit, and higher-than-expected dividends. Key risks to our Buy call include delay in new CKD program rollout, deterioration in consumer sentiment following diesel subsidy removal and unfavorable movements in forex.

#### Exhibit 1: Results comparison

FYE Apr (RM m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Prev. FY25F
Revenue	846	1,089	(22.3)	938	(9.7)	3,936
Operating costs	(753)	(951)	(20.8)	(821)	(8.2)	(3,494)
<b>EBITDA</b>	<b>93</b>	<b>138</b>	<b>(32.6)</b>	<b>117</b>	<b>(20.5)</b>	<b>441</b>
<i>EBITDA margin (%)</i>	<i>11.0</i>	<i>12.7</i>		<i>12.5</i>		<i>11.2</i>
Depn & amort.	(6.2)	(6.1)	3.1	(6.6)	(5.8)	(27.9)
<b>EBIT</b>	<b>86.7</b>	<b>131.9</b>	<b>(34.3)</b>	<b>110.2</b>	<b>(21.3)</b>	<b>413</b>
Interest expense	(2.2)	(1.8)	21.9	(1.7)	25.3	(6.3)
Interest & invt inc	1.9	3.2	(39.3)	2.1	(6.5)	10.1
Associates	10.7	8.6	24.6	19.6	(45.0)	40.0
Exceptionals	0.6	(1.3)	> 100	0.5	21.4	-
<b>Pretax profit</b>	<b>97.8</b>	<b>140.7</b>	<b>(30.5)</b>	<b>130.6</b>	<b>(25.1)</b>	<b>457</b>
Tax	(22.4)	(32.8)	(31.7)	(31.0)	(27.7)	(116.1)
<i>Tax rate (%)</i>	<i>22.9</i>	<i>23.3</i>		<i>23.7</i>		<i>25.4</i>
Minority interests	(5.2)	(7.7)	(32.8)	(9.4)	(44.9)	(22.5)
Net profit	70.2	100.2	(29.9)	90.2	(22.2)	319
<b>Core net profit</b>	<b>69.7</b>	<b>101.5</b>	<b>(31.4)</b>	<b>89.8</b>	<b>(22.4)</b>	<b>319</b>
EPS (sen)	6.0	8.6	(30.0)	7.8	(22.2)	27.8
Core EPS (sen)	6.0	8.7	(31.4)	7.7	(22.4)	27.8
Net DPS (sen)	3.5	5.0	(30.0)	11.8	(70.2)	22.0

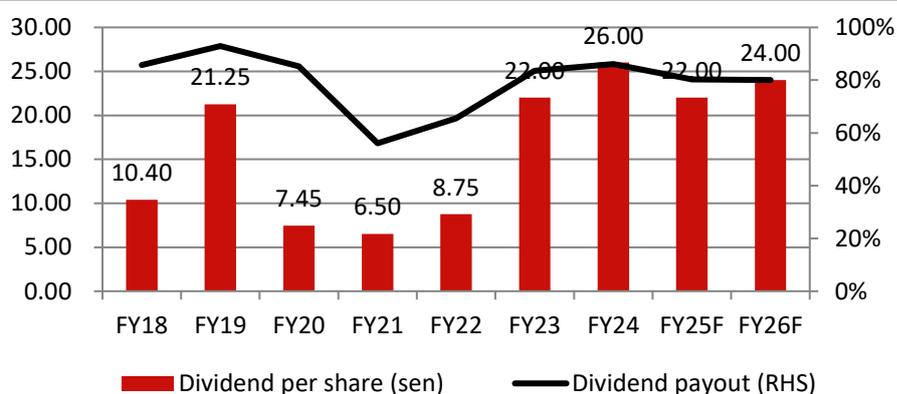
Source: Company, CIMB Securities

**Exhibit 2: Bermaz annual sales volumes actual and forecasts**



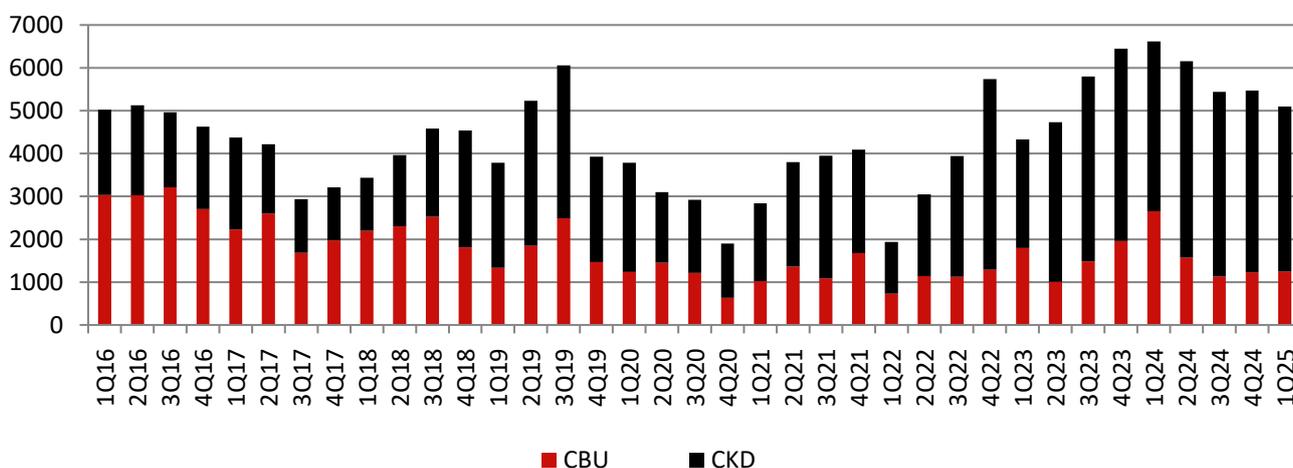
Source: Company, CIMB Securities

**Exhibit 3: Historical and FY25-26F DPS and dividend payout forecasts**



Source: Company, CIMB Securities

**Exhibit 4: Quarterly sales volumes of BAUTO CBU and CKD in Malaysia on the rise due to CX-30 and new addition from Kia**



Source: Company, CIMB Securities

**Income Statement**

<b>FYE Apr (RMm)</b>	<b>2023</b>	<b>2024</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
<b>Revenue</b>	<b>3,540.6</b>	<b>3,940.3</b>	<b>3,935.5</b>	<b>4,306.9</b>	<b>4,444.8</b>
<b>EBITDA</b>	<b>400.3</b>	<b>463.0</b>	<b>438.1</b>	<b>478.2</b>	<b>485.5</b>
Depreciation/Amortisation	(23.4)	(26.8)	(24.8)	(25.6)	(20.8)
Operating income (EBIT)	376.8	436.2	413.3	452.7	464.7
Other income & associates	41.1	50.0	40.0	45.0	50.0
Net interest	5.4	3.0	3.9	4.6	4.9
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>423.3</b>	<b>489.1</b>	<b>457.2</b>	<b>502.3</b>	<b>519.6</b>
Taxation	(94.0)	(111.4)	(116.1)	(127.6)	(132.0)
Minorities/pref dividends	(23.5)	(26.7)	(22.5)	(26.4)	(29.0)
<b>Net profit</b>	<b>305.8</b>	<b>351.0</b>	<b>318.6</b>	<b>348.3</b>	<b>358.6</b>
<b>Core net profit</b>	<b>305.8</b>	<b>351.0</b>	<b>318.6</b>	<b>348.3</b>	<b>358.6</b>

**Balance Sheet**

<b>FYE Apr (RMm)</b>	<b>2023</b>	<b>2024</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Fixed assets	44.6	41.3	36.5	26.0	20.2
Intangible assets	0.5	0.5	0.5	0.5	0.5
Other long-term assets	176.9	202.1	202.1	202.1	202.1
<b>Total non-current assets</b>	<b>538.5</b>	<b>609.9</b>	<b>645.1</b>	<b>679.6</b>	<b>723.8</b>
Cash & equivalent	537.6	364.8	405.6	458.2	495.0
Stock	503.9	687.1	686.2	751.0	775.0
Trade debtors	207.8	196.5	196.3	214.8	221.7
Other current assets	0.3	3.5	3.5	3.5	3.5
<b>Total current assets</b>	<b>1,249.6</b>	<b>1,251.9</b>	<b>1,291.6</b>	<b>1,427.5</b>	<b>1,495.2</b>
Trade creditors	360.1	350.9	350.5	383.6	395.9
Short-term borrowings	99.9	62.5	62.5	62.5	62.5
Other current liabilities	142.8	147.0	147.0	147.0	147.0
<b>Total current liabilities</b>	<b>602.9</b>	<b>560.4</b>	<b>560.0</b>	<b>593.1</b>	<b>605.4</b>
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	343.7	387.3	397.2	460.3	497.9
<b>Total long-term liabilities</b>	<b>343.7</b>	<b>387.3</b>	<b>397.2</b>	<b>460.3</b>	<b>497.9</b>
<b>Shareholders' funds</b>	<b>764.9</b>	<b>821.2</b>	<b>864.2</b>	<b>912.0</b>	<b>945.0</b>
Minority interests	76.6	92.9	115.4	141.7	170.7

**Cash flow Statement**

<b>FYE Apr (RMm)</b>	<b>2023</b>	<b>2024</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Pretax profit	423.3	489.1	457.2	502.3	519.6
Depreciation/Amortisation	23.4	26.8	24.8	25.6	20.8
Net change in working capital	(244.5)	(181.1)	0.6	(50.2)	(18.6)
Others	(89.0)	(139.4)	(150.2)	(114.0)	(149.2)
<b>Cash flow from operations</b>	<b>113.2</b>	<b>195.5</b>	<b>332.4</b>	<b>363.6</b>	<b>372.5</b>
Capital expenditure	(10.5)	(7.5)	(20.0)	(15.0)	(15.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	13.2	(0.8)	10.1	11.5	12.4
<b>Cash flow from investing</b>	<b>2.7</b>	<b>(8.3)</b>	<b>(9.9)</b>	<b>(3.5)</b>	<b>(2.6)</b>
Debt raised/(repaid)	(31.5)	(100.0)	(37.5)	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(78.4)	(154.0)	(297.7)	(275.5)	(300.6)
Others	(158.8)	(107.3)	53.4	(31.9)	(32.5)
<b>Cash flow from financing</b>	<b>(268.7)</b>	<b>(361.4)</b>	<b>(281.8)</b>	<b>(307.5)</b>	<b>(333.1)</b>
<b>Net cash flow</b>	<b>(152.8)</b>	<b>(174.1)</b>	<b>40.8</b>	<b>52.6</b>	<b>36.8</b>
<b>Cash b/f</b>	<b>543.4</b>	<b>390.6</b>	<b>216.5</b>	<b>257.2</b>	<b>309.9</b>
<b>Cash c/f</b>	<b>781.2</b>	<b>432.9</b>	<b>514.5</b>	<b>619.7</b>	<b>693.3</b>

**Key Ratios**

<b>FYE Apr</b>	<b>2023</b>	<b>2024</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>
Revenue growth (%)	52.4	11.3	(0.1)	9.4	3.2
EBITDA growth (%)	78.6	15.7	(5.4)	9.2	1.5
Pretax margins (%)	12.0	12.4	11.6	11.7	11.7
Net profit margins (%)	8.6	8.9	8.1	8.1	8.1
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	22.2	22.8	25.4	25.4	25.4
Net dividend payout (%)	81.0	95.4	86.5	86.3	90.8
Debtors turnover (days)	19	19	18	17	18
Stock turnover (days)	37	55	64	61	63
Creditors turnover (days)	33	33	33	31	32

Source: Bloomberg, CIMB Securities

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<b>Buy</b>	The stock's total return is expected to exceed 10% over the next twelve (12) months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next twelve (12) months.
	<i>Note: The total expected return of a stock is defined as the sum of: the percentage difference between the target price and the current price; and the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.</i>
<b>Sector Rating</b>	<b>Definition</b>
<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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