

Bermaz Auto Berhad

(5248 | BAUTO MK) Main | Consumer Products & Services

Another record-breaking year in the making**KEY INVESTMENT HIGHLIGHTS**

- **BAuto's 1HFY24 result beats estimates**
- **Higher net profit driven by strong CKD CX30 sales**
- **Softer outstanding bookings due to accelerated deliveries but new bookings sustaining**
- **FY24F/25F earnings raised +3.4% / +3.4%**
- **Re-affirm BUY at higher TP of RM3.39**

Yet another beat. BAuto beat expectations yet again in its latest result. The group reported a net profit of RM90m for its 2QFY24, which brought 1HFY24 core earnings to RM190m, accounting for 59%/62% of our/consensus estimates. Outperformance against our forecast is mainly due to stronger than expected Mazda sales volume and associate contribution. A second interim dividend of 5sen/share was declared bringing 1HFY24 dividends to 10sen/share, representing 61% DPR, still slightly below our 80% FY24F DPR.

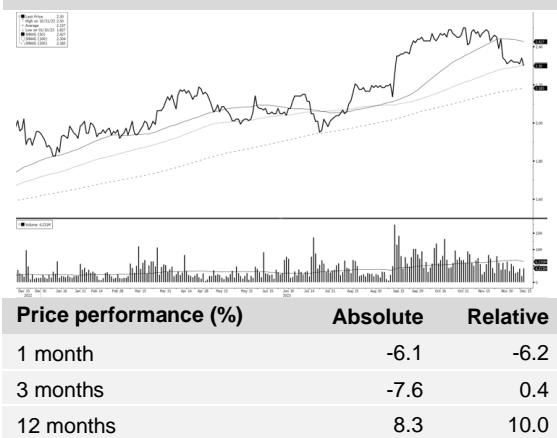
Key Highlights. 2QFY24 core earnings was up +36%yoY driven by a +31% increase in groupwide sales volume to 6184 units, led by Mazda MY (+49%yoY) and Kia (+4%yoY). This was partly offset by a -59%yoY contraction in Peugeot sales to 260 units. The stronger Mazda sales in 2QFY24 was largely driven by the CKD CX30 (37% of Mazda TIV) introduced in March 2023. Associate earnings grew +56%yoY driven by higher production of Mazda/Kia coupled with strong contribution from Chery, which has been making good progress after its re-entry into the domestic market since July 2023, accounting for 1.5% of industry TIV in October. Sequentially, there was some easing in group earnings (-10%qoq) given margin normalization following exceptionally high CBU Mazda 3 deliveries last quarter which carried higher margins, which was partly due to the weaker JPY. CBU contribution normalised to 19% in 2QFY24 from 32% in 1QFY24. BAuto has hedged its JPY exposure up to mid-CY24 at JPYx100:RM3.20.

Softer backlog but momentum sustaining. Group outstanding bookings now stand at 2.9K (comprising 2500/300/100 for Mazda/Kia/Peugeot), which is lower compared to 4.5K groupwide outstanding bookings in September due to accelerated deliveries. Nevertheless, we gather that booking momentum is still sustaining at around 1.5K-1.6K monthly. The CX5 facelift is expected to be introduced in January 2024 at higher pricing, which could provide a boost to 2HFY24 earnings. Other new models in the pipeline include the Mazda CX3 facelift and the CX60. For Kia, the CKD Sportage and Carens are slated for introduction in CY24, which we believe could be important volume drivers going forward. Overall, the group is targeting Mazda/Kia/Peugeot sales of 18K/2.5K/1K (+15% / +14% / -47%yoY) for FY24F, translating into groupwide sales volume growth of +9%yoY to 21.5K units.

Revised Target Price: RM3.39
(previously RM3.36)

RETURN STATISTICS

Price @ 12 th Dec. 2023 (RM)	2.30
Expected share price return (%)	+47.6
Expected dividend yield (%)	10.0
Expected total return (%)	+57.6

SHARE PRICE CHART**INVESTMENT STATISTICS**

FYE April (RMm)	2023A	2024F	2025F
Revenue	3,548	3,769	3,735
Operating Profit	377	430	442
Profit Before Tax	421	470	484
Core PATAMI	305	335	345
Core EPS (sen)	26.2	28.8	29.6
PER (x)	8.8	8.0	7.8
DPS (sen)	22.0	23.0	23.7
Dividend Yield (%)	9.6	10.0	10.3

KEY STATISTICS

FBM KLCI	1,447.12
Issue shares (m)	1165.93
Estimated free float (%)	51.96
Market Capitalisation (RM'm)	2,685.48
52-wk price range	RM1.91-RM2.55
3-mth average daily volume (m)	6.59
3-mth average daily value (RM'm)	16.09
Top Shareholders (%)	
Dynamic Milestone Sdn Bhd	14.85
Employees Provident Fund Board	13.35
Amanah Saham Nasional Bhd	6.13

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Separately, the group expects minimal impact from the loss of Peugeot distributorship as the unit is still loss making (-RM1.4m loss in 2QFY24) with very small volume contribution. BAuto will likely remain a dealer for Peugeot through its 20 Bermaz Anshin outlets and one 3S centre in Glenmarie where the group expects to account for 25%-30% of Peugeot sales going forward. On the introduction of luxury tax, we gather that the threshold price point could be raised from the previous indicative RM200K price point to RM300K. Since the group's marques have little exposure in this price range, we expect minimal impact to BAuto.

Earnings revision. We raise FY24F/25F net profit by +3.4%/+3.4% to reflect higher sales volume for Mazda MY mainly given stronger than expected demand for the CX30 and more resilient than expected demand for the CX5. So far, there seems to be little cannibalization of the CX5 sales from introduction of CKD CX30 despite some overlapping price points.

Recommendation. Re-affirm **BUY** on BAuto at higher **TP of RM3.39** (from RM3.36 previously) following the upward earnings revision. Our valuation pegs BAuto at 11.8x FY24F earnings, at par to its 7-year historical mean. We like BAuto for its above-industry earnings and volume growth (throughout our forecast horizon) driven by recent acquisition of Kia brand and expansion in its Mazda/Kia CKD line-up. Coupled with undemanding valuation of 8x FY24F PER and attractive dividend yield of 10%, BAuto remains one of our top sector picks. Net cash now stands at RM414m (RM0.36/share) accounting for 15% of market cap. Key catalysts: (1) Sustained earnings improvement for underlying Mazda operations on improving margins and demand recovery, (2) A weak JPY, (3) Rollout of CKD Kia Sportage and Carens, (3) BEV duty exemptions which may incentivize consumer take-up of EV models – BAuto is well positioned to capitalize on this with ready EV models from Kia (EV6 & Niro EV), Peugeot (e-2008 EV) and Mazda (MX30 EV). 

Table 1: Key volume assumptions

Volume assumptions (units) (MY)	FY22	FY23	FY24F	FY25F
Mazda	12,038	15,598	17,103	17,151
Kia	360	2,194	2,500	2,625
Peugeot	964	1,896	1,000	300
Total	13,362	19,688	20,603	20,076
Growth	-2.3%	47.3%	4.6%	-2.6%

Source: Company, MIDFR

Exhibit 1: BAuto Product Map

	CY2023		CY2024		
	CX-30 CKD (Mar'23) 	New Mazda 3 (Sep '23) 	CX-3 IPM5 (Jan '24) 	CX-5 IPM6 (Jan '24) 	New CX-60 (TBA) 
	New Landtrek (Mar'23) 	New e-2008 EV (Jun '23) 		New 408 (TBA) 	
	Niro EV (Jul '23) 		All-New Sportage (TBA) 	Carens (KY) (TBA) 	

Source: Company, MIDFR

Table 2: BAuto 1HFY24 Result Summary

FYE Apr (RMm)	2Q23	1Q24	2Q24	QoQ	YoY	1H23	1H24	YTD
Revenue	783.0	1,089.3	1,007.0	-7.6%	28.6%	1,499.8	2,096.2	39.8%
Operating profit	81.2	130.7	107.6	-17.7%	32.5%	151.4	238.3	57.4%
Investment income	3.3	3.2	2.9	-8.4%	-12.2%	6.2	6.1	-1.6%
Finance cost	(2.2)	(1.8)	(2.1)	13.2%	-5.8%	(4.7)	(3.9)	-17.6%
Associates	9.3	8.6	14.4	66.9%	55.5%	13.3	23.0	73.3%
Pretax profit	91.6	140.7	122.8	-12.7%	34.1%	166.2	263.5	58.6%
Tax	(20.8)	(32.8)	(27.1)			(38.7)	(59.9)	
PAT	70.8	107.9	95.7	-11.3%	35.2%	127.4	203.6	59.8%
MI	5.1	7.7	5.6	-26.8%	9.5%	11.6	13.3	14.8%
Net profit	65.7	100.2	90.1	-10.1%	37.2%	115.8	190.3	64.3%
Core net profit	66.1	100.2	90.1	-10.1%	36.4%	116.5	190.3	63.3%
Core EPS (sen)	5.67	8.60	7.73	-10.1%	36.4%	10.00	16.34	63%
GDPS (sen)	3.50	5.00	5.00	0.0%	42.9%	6.50	10.00	54%
Operating margin	10.4%	12.0%	10.7%			10.1%	11.4%	
Pretax margin	11.7%	12.9%	12.2%			11.1%	12.6%	
Core net profit margin	8.4%	9.2%	8.9%			7.8%	9.1%	
Tax rate	22.7%	23.3%	22.1%			23.3%	22.7%	
Malaysia revenue (RMm)	730.7	988.9	918.0	-7.2%	25.6%	1,388.7	1,906.9	37.3%
Philippines revenue (RMm)	52.3	100.3	88.9	-11.4%	70.1%	111.2	189.3	70.3%
Malaysia operating profit (RMm)	75.2	116.1	91.7	-21.0%	22.0%	138.3	207.8	50.3%
Philippines operating profit (RMm)	6.6	14.9	16.5	10.8%	150.2%	14.0	31.4	124.0%
Malaysia EBIT margin	10.3%	11.7%	10.0%			10.0%	10.9%	
Philippines EBIT margin	12.6%	14.9%	18.6%			12.6%	16.6%	

Sales volume (units) (subsidiaries)	2Q23	1Q24	2Q24	QoQ	YoY	1H23	1H24	YTD
Mazda (Malaysian operations)	3,332	4,999	4,918	-1.6%	47.6%	6,318	9,917	57.0%
Peugeot (Malaysian operations)	629	313	260	-16.9%	-58.7%	1,103	573	-48.1%
Kia (Malaysian operations)	381	606	396	-34.7%	3.9%	829	1,002	20.9%
Mazda (Philippines)	387	730	610	-16.4%	57.6%	809	1,340	65.6%
Total volume	4,729	6,648	6,184	-7.0%	30.8%	9,059	12,832	41.6%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021	2022	2023	2024F	2025F
Revenue	2,287.9	2,325.1	3,548.2	3,769.2	3,735.5
Operating profit	159.6	204.5	376.8	-3,325.5	-3,279.1
Net interest expense	-7.4	-3.9	5.4	430.3	442.2
Associates	20.5	18.1	39.0	1.4	2.2
PBT	172.7	218.6	421.2	38.0	39.7
Taxation	-41.1	-59.7	-94.0	469.7	484.1
Minority Interest	-2.4	3.1	23.5	-103.6	-106.7
Net profit	133.9	155.7	303.7	31.1	32.1
Core net profit	134.8	157.0	304.7	335.0	345.3
Balance Sheet (RM'm)	2021	2022	2023	2024F	2025F
Fixed Assets	37.2	41.6	44.5	47.0	49.1
Investments in associate	233.3	275.7	314.5	359.4	405.2
Others	139.1	163.2	177.4	177.4	177.4
Non-current assets	409.6	480.5	536.3	583.8	631.7
Inventories	277.8	230.4	498.3	529.4	524.6
Receivables	131.3	142.5	197.6	209.9	208.0
Others	19.8	(0.1)	7.1	7.1	7.1
Cash & equivalent	563.3	694.4	537.6	566.7	623.3
Current assets	992.2	1,067.2	1,240.6	1,313.0	1,363.0
Long-term borrowings	99.8	99.8	0.0	0.0	0.0
Others	238.8	297.2	343.9	343.9	343.9
Non-current liabilities	338.5	397.1	343.9	343.9	343.9
Short-term borrowings	105.7	100.0	100.0	100.0	100.0
Payables	247.6	253.0	351.1	373.0	369.6
Others	97.9	108.6	142.6	142.6	142.6
Current liabilities	451.1	461.6	593.7	615.5	612.2
Share capital	609.3	609.4	619.6	619.6	619.6
Minority Interest	46.7	54.8	76.6	107.7	139.8
Others	(43.9)	24.9	143.1	210.1	279.2
Total Equity	612.1	689.1	839.4	937.4	1,038.6

Cash Flow Statement (RM'm)	2021	2022	2023	2024F	2025F
PBT	172.7	218.6	421.2	469.7	484.1
Depreciation & Amortization	4.9	6.3	8.2	3.8	4.1
Chgs in working capital	281.1	41.6	(224.9)	(21.5)	3.3
Others	(3.7)	26.7	(89.6)	(142.8)	(146.5)
Operating cash flow	455.0	293.2	114.9	309.2	345.0
Capex	(6.0)	(37.5)	(12.2)	(12.2)	(12.2)
Others	5.2	8.7	13.2	0.0	0.0
Investing cash flow	(0.8)	(28.8)	1.0	(12.2)	(12.2)
Dividends paid	(37.2)	(78.4)	(154.0)	(268.0)	(276.2)
Net movement in borrowings	67.7	(31.5)	(99.8)	0.0	0.0
Others	(19.6)	(22.0)	(14.8)	0.0	0.0
Financing cash flow	10.9	(131.9)	(268.7)	(268.0)	(276.2)
Net cash flow	465.1	132.5	(152.8)	29.1	56.6
Beginning cash	100.2	563.4	694.4	537.6	566.7
<i>Forex adjustments</i>	(2.0)	(1.5)	(4.0)	0.0	0.0
Ending cash	563.3	694.4	537.6	566.7	623.3

Key Ratios	2021	2022	2023	2024F	2025F
Operating profit margin	7.0%	8.8%	10.6%	11.4%	11.8%
Core net profit margin	5.9%	6.7%	8.5%	8.9%	9.2%
ROE	22.0%	22.8%	36.3%	35.7%	33.2%
ROA	9.6%	10.1%	17.2%	17.7%	17.3%
Net gearing (%)	-58.5%	-71.8%	-52.1%	-49.8%	-50.4%
Book value/share (RM)	0.53	0.59	0.72	0.80	0.89
PBV (x)	4.4	3.9	3.2	2.9	2.6
PER (x)	19.9	17.1	8.8	8.0	7.8

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

★★★★	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
★★★	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
★★	Top 51% - 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
★	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology