

13 December 2023

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (Maintained)

Another Decent Quarter; Keep BUY

Target Price (Return): MYR3.60 (+57%)
 Price (Market Cap): MYR2.30 (USD573m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 15.6m/3.31m

- **Keep BUY, new MYR3.60 TP from MYR3.45, 57% upside.** 1HFY24 (Apr) earnings beat our and Street expectations. Looking ahead, the cheaper CX-30 CKD should help support Mazda sales on top of consistent new model launches. Bermaz Auto is our sector Top Pick, due to its relative resilience and handsome 11% FY24F dividend yield.
- **Another solid quarter.** BAUTO's core profit of MYR89m brought 1HFY24 core earnings to MYR190.3m, exceeding our and Street estimates and making up 56% and 62% of FY24 forecasts. The earnings beat was mainly due to stronger-than-expected sales volumes in both Malaysia and the Philippines, as well higher-than-estimated ASPs in Malaysia. Its second interim DPS of 5 sen brought YTD DPS to 10 sen.
- **Results review.** 2QFY24 revenue fell 7.6% QoQ, as Malaysian unit sales were down 6% QoQ. Due to the less favourable sales mix, operating profit fell 18% QoQ, offset by a higher associate contributions (+67% QoQ) that, in turn, stemmed from stronger earnings from its Inokom plant and Kia Malaysia. As a result, core net profit slipped 11% QoQ. Notably, sales of the CX-30 grew 78% QoQ, ie the highest number of units sold in a quarter since the launch of the CKD model in March. The CX-30, alongside other CKD units, should continue to support Mazda's sales in Malaysia.
- **Outlook.** BAUTO's Mazda current order backlog in Malaysia stands at around 2.5k units vs 4.5k units at end September – we note that this is still above the pre-pandemic level of 2k units. We believe the order backlog is due to the CX-30, as the CKD variant of the car remains popular. Despite the backlog normalisation, orders remain resilient, with the current booking rate at 1.5-1.8k units per month vs pre-pandemic levels of 1.3-1.4k units. In the Philippines, we think the newly launched Mazda CX-60 and CX-90 should continue to drive sales volumes.
- **Forecast.** We tweak FY24F-26F earnings by -3% to +5% as we lift the ASP assumptions for the Malaysia segment, as well as Mazda sales volume estimates for FY24. We cut FY25F-26F sales volumes, however, to be conservative. We also lift our FY24F DPS assumption to 25 sen from 21 sen, assuming a payout ratio of 82%.
- **Our now-higher TP of MYR3.60** is based on ascribed target P/E of 11.5x to our rolled-forward CY24F EPS, which is +1.5SD above the 5-year mean of 9x. Our TP includes a 4% ESG premium. Maintain BUY, as the CX-30 CKD model should continue to support sales volumes (given the lower price) vs the CBU variant – this is on top of continued model launches across the Mazda, Peugeot, and Kia marques. We believe BAUTO is undervalued, as it is now trading at 7.6x vs its mean of 9x, while offering an attractive 11% FY24F yield.
- **Key downside risks** include softer-than-expected orders and deliveries, and resurgent supply chain constraints.

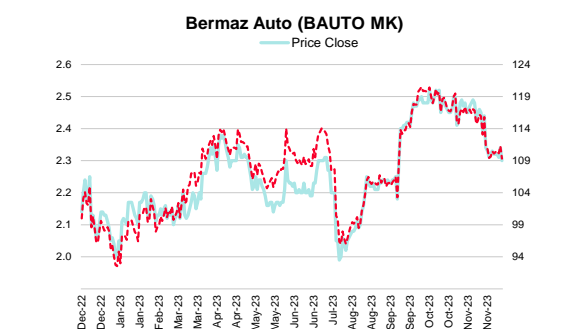
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.0	(6.1)	5.5	3.1	7.5
Relative	11.2	(6.2)	5.9	(1.3)	9.4
52-wk Price low/high (MYR)	1.99 – 2.52				



Source: Bloomberg

Forecasts and Valuation	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Total turnover (MYRm)	2,324	3,548	3,974	3,831	3,985
Recurring net profit (MYRm)	155	304	354	347	360
Recurring net profit growth (%)	15.6	95.8	16.5	(2.1)	3.7
Recurring P/E (x)	17.23	8.80	7.55	7.71	7.43
P/B (x)	4.2	3.5	4.4	4.4	4.4
P/CF (x)	9.12	23.27	4.84	6.96	8.07
Dividend Yield (%)	3.8	9.6	10.9	9.6	10.0
EV/EBITDA (x)	11.06	6.95	5.15	5.18	5.00
Return on average equity (%)	25.9	36.6	51.7	57.0	59.2
Net debt to equity (%)	4.0	1.3	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

BAUTO focuses on environmentally conscious manufacturing, production and assembly processes. Major suppliers are subjected to an environmental risk assessment to ensure their complete compliance with the group's environmental standards.

S: EXCELLENT

BAUTO upholds the highest environmental and social standards in the suppliers' code of conduct, and familiarises all suppliers with these guidelines.

G: EXCELLENT

BAUTO has applied and adopted the majority of best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that the board has two female directors out of a total of seven (<30%). The board also does not disclose on a named basis the top five senior management's remuneration components in bands of MYR50,000. The company practices a high level of transparency and actively engages with the investment community.

Financial Exhibits

Asia	Financial summary (MYR)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Malaysia	Recurring EPS	0.13	0.26	0.30	0.30	0.31
Consumer Cyclical	DPS	0.09	0.22	0.25	0.22	0.23
Bermaz Auto	BVPS	0.55	0.66	0.52	0.52	0.52
BAUTO MK	Return on average equity (%)	25.9	36.6	51.7	57.0	59.2
Buy						
	Valuation metrics	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Valuation basis	Recurring P/E (x)	17.23	8.80	7.55	7.71	7.43
11.5x CY24F P/E	P/B (x)	4.2	3.5	4.4	4.4	4.4
	FCF Yield (%)	10.4	3.7	20.5	14.2	12.2
Key drivers	Dividend Yield (%)	3.8	9.6	10.9	9.6	10.0
i. Strong growth from the Philippines business;	EV/EBITDA (x)	11.06	6.95	5.15	5.18	5.00
ii. Better-than-expected consumer spending;	EV/EBIT (x)	12.17	7.44	5.43	5.51	5.32
iii. New car model launches.						
	Income statement (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Key risks	Total turnover	2,324	3,548	3,974	3,831	3,985
Key downside risks include softer-than-expected orders and deliveries, and resurgent supply chain constraints.	Gross profit	375	591	636	613	638
	EBITDA	224	352	465	452	470
	Depreciation and amortisation	(20)	(23)	(24)	(27)	(28)
	Operating profit	204	329	441	425	442
	Net interest	(4)	5	4	9	9
	Pre-tax profit	218	373	489	479	498
	Taxation	(60)	(94)	(117)	(115)	(119)
	Reported net profit	155	255	354	347	360
	Recurring net profit	155	304	354	347	360
	Cash flow (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
	Change in working capital	72	(238)	134	8	(8)
	Cash flow from operations	293	115	553	384	331
	Capex	(15)	(15)	(5)	(5)	(5)
	Cash flow from investing activities	(29)	1	7	10	10
	Dividends paid	(102)	(256)	(291)	(256)	(267)
	Cash flow from financing activities	(132)	(269)	(303)	(266)	(252)
	Cash at beginning of period	86	172	89	137	166
	Net change in cash	133	(153)	256	128	89
	Ending balance cash	218	20	345	265	255
	Balance sheet (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
	Total cash and equivalents	172	89	137	166	155
	Tangible fixed assets	43	45	50	55	58
	Total investments	276	314	276	276	276
	Total assets	1,560	1,777	1,514	1,477	1,492
	Short-term debt	100	100	75	50	50
	Total long-term debt	100	0	0	0	0
	Total liabilities	872	938	848	810	824
	Total equity	688	839	666	667	667
	Total liabilities & equity	1,560	1,777	1,514	1,477	1,492
	Key metrics	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
	Revenue growth (%)	1.6	52.7	12.0	(3.6)	4.0
	Recurrent EPS growth (%)	15.6	95.8	16.5	(2.1)	3.7
	Gross margin (%)	16.1	16.7	16.0	16.0	16.0
	Operating EBITDA margin (%)	9.6	9.9	11.7	11.8	11.8
	Net profit margin (%)	6.7	7.2	8.9	9.0	9.0
	Dividend payout ratio (%)	65.6	100.1	82.1	73.8	74.3
	Capex/sales (%)	0.6	0.4	0.1	0.1	0.1
	Interest cover (x)	19.1	35.5	55.1	70.9	73.7

Source: Company data, RHB

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Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Revenue	783.0	1,089.3	1,007.0	(7.6)	28.6	1,499.8	2,096.2	39.8	1H24 YoY growth was driven by both Malaysia and the Philippines segments.
- Malaysia	730.7	988.9	918.0	(7.2)	25.6	1,388.7	1,906.9	37.3	
- Philippines	52.3	100.3	88.9	(11.4)	70.1	111.2	189.3	70.3	
EBIT	81.2	130.7	107.6	(17.7)	32.5	151.4	238.3	57.4	Strong YoY improvements likely due to an improved product mix.
- Malaysia	76.8	117.5	91.7	(22.0)	19.4	140.7	210.2	49.3	
- Philippines	6.2	14.5	16.1	11.2	159.7	13.3	30.7	131.0	
Interest expense	(2.2)	(1.8)	(2.1)	13.2	(5.8)	(4.7)	(3.9)	(17.6)	
Interest income	3.3	3.2	2.9	(8.4)	(12.2)	6.2	6.1	(1.6)	
Associates	9.3	8.6	14.4	66.9	55.5	13.3	23.0	73.3	Strong YoY improvements were largely driven by Mazda Malaysia.
Pre-tax profit	91.6	140.7	122.8	(12.7)	34.1	166.2	263.5	58.6	
Tax	(20.8)	(32.8)	(27.1)	(17.3)	30.5	(38.7)	(59.9)	54.6	
Minority interest	(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 profit	65.7	100.2	89.0	(11.2)	35.6	115.8	190.3	64.3	1HFY24 results are above our and Street expectations, at 56% and 62% of full-year estimates.
EBIT margin (%)	10.4	12.0	10.7			10.1	11.4		
Pre-tax margin (%)	11.7	12.9	12.2			11.1	12.6		
Effective tax rate (%)	(22.7)	(23.3)	(22.1)			(23.3)	(22.7)		
Net margin (%)	8.4	9.2	8.8			7.7	9.1		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1H23	1H24	YoY
Mazda 2	102	45	29	(35.6)	(71.6)	182	74	(59.3)
Mazda 3	81	883	328	(62.9)	304.9	195	1,211	521.0
Mazda 6	76	51	28	(45.1)	(63.2)	97	79	(18.6)
CX-3	0	564	500	(11.3)	n.m.	198	1,064	437.4
CX-30	120	1,033	1,837	77.8	1,430.8	740	2,870	287.8
CX-5	2,212	1,712	1,583	(7.5)	(28.4)	3,723	3,295	(11.5)
MX-30	0	1	4	300.0	n.m.	0	5	n.m.
CX-8	559	645	587	(9.0)	5.0	927	1,232	32.9
CX-9	13	4	3	(25.0)	(76.9)	19	7	(63.2)
MX-5	13	9	5	(44.4)	(61.5)	20	14	(30.0)
BT-50	156	52	14	(73.1)	(91.0)	217	66	(69.6)
	3,332	4,999	4,918	(1.6)	47.6	6,318	9,917	57.0

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1H23	1H24	YoY
Mazda 2	23	6	8	33.3	(65.2)	31	14	(54.8)
Mazda 3	21	111	99	(10.8)	371.4	52	210	303.8
Mazda 6	0	4	6	50.0	n.m.	0	10	n.m.
CX-3	10	6	11	83.3	10.0	10	17	70.0
CX-30	8	35	29	(17.1)	262.5	27	64	137.0
CX-5	109	148	87	(41.2)	(20.2)	185	235	27.0
CX-8	19	135	97	(28.1)	410.5	159	232	45.9
CX-9	57	101	37	(63.4)	(35.1)	88	138	56.8
CX-60	0	53	32	(39.6)	n.m.	0	0	n.m.
CX-90	0	5	78	1,460.0	n.m.	0	0	n.m.
MX-5	58	60	54	(10.0)	(6.9)	71	114	60.6
BT-50	82	66	72	9.1	(12.2)	186	138	(25.8)
	387	730	610	(16.4)	57.6	809	1,172	44.9






Source: Company data

Figure 4: Key assumptions

Sales (Units)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Malaysia – Mazda	13,439	12,038	15,598	16,800	15,500	15,600
Philippines – Mazda	1,254	1,304	1,663	2,500	2,400	2,500
Peugeot	-	964	1,896	1,000	1,080	1,160
Kia	-	360	2,194	3,000	3,300	3,800





Source: RHB

Figure 5: Line-up of Mazda models

	2023	CX-30 CKD (Mar '23) 	New Mazda 3 (Sep '23) 
	2024	CX-3 IPM5 (Jan 24') 	CX-5 IPM6 (Jan 24') 





Source: Company data

Figure 6: Line-up of Peugeot models

	2023	New Landtrek (MAR'23) 	New e-2008 EV (Jun '23) 
	2024	New 408 (TBA) 	








Source: Company data

Figure 7: Line-up of Kia models

	2023	All-New Sorento (Mar'23) 	Niro EV (Jul'23) 
	2024	All-New Sportage (TBA) 	

Source: Company data

Figure 8: BAUTO's EV model line-up

	2022	Line-Up CY 2023
	<p>New MX-30 EV (Jun'22)</p> 	
		<p>New e-2008 EV (Jun '23)</p> 
	<p>New EV6 EV (June '22)</p> 	<p>Niro EV (Jul '23)</p> 

Source: Company data

Emissions And ESG

Trend analysis

In FY23, BAUTO's Scope 1 emissions increased to 915 tonnes of CO2e (FY22: 574 tonnes of CO2e) while Scope 2 emissions increased to 2,672 tonnes of CO2e (FY22: 2,231 tonnes of CO2e).

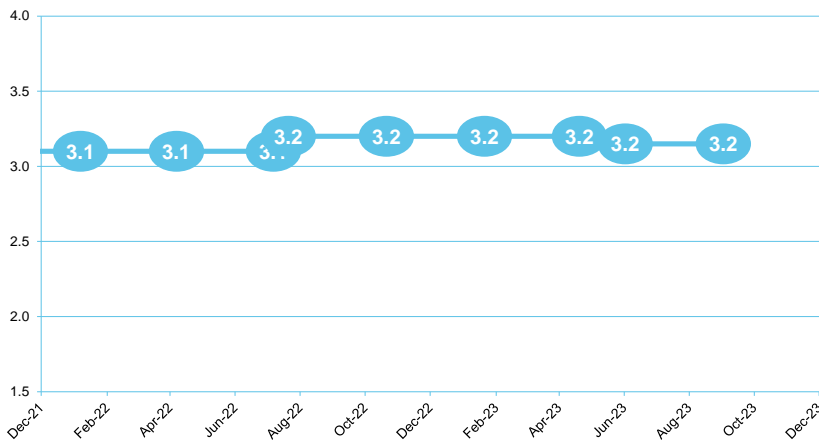
Emissions (tCO2e)	Apr-21	Apr-22	Apr-23
Scope 1	567	574	915
Scope 2	2,309	2,231	2,672
Scope 3	3	3	2,030
Total emissions	2,879	2,808	5,617

Source: Company data, RHB

Latest ESG-Related Developments

- Climate change management:** BAUTO's climate change strategy includes working with employees and supply chain partners to save energy through fuel efficiency, and performing climate change risk assessments.
- Waste and pollution management:** BAUTO is committed to addressing pollution and waste issues by avoiding such impact and improving efficiency. Its commitment to efficient resource use prioritises reducing, reusing and recycling over disposal to reduce environmental impact and operations costs and optimise efficiency.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-09-13	Buy	3.45	2.30
2023-06-13	Buy	3.25	2.22
2023-03-14	Buy	3.45	2.13
2023-01-13	Buy	2.90	2.02
2022-12-09	Buy	2.55	2.20
2022-09-13	Buy	2.35	1.86
2022-08-01	Buy	2.35	1.80
2022-07-04	Buy	2.30	1.72
2022-06-14	Buy	2.00	1.78
2022-03-11	Neutral	1.74	1.74
2021-12-14	Buy	1.71	1.52
2021-09-14	Neutral	1.77	1.57
2021-09-06	Neutral	1.77	1.61
2021-06-21	Buy	1.75	1.54
2021-06-09	Buy	1.75	1.43

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
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