

13 June 2023

Consumer Cyclical | Auto & Autoparts

## Bermaz Auto (BAUTO MK)

**Buy** (Maintained)

### Exceeding Expectations Again; Stay BUY

Target Price (Return): MYR3.25 (+46%)  
 Price (Market Cap): MYR2.23 (USD564m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (MYR/USD) 6.76m/1.51m

- **Stay BUY, new MYR3.25 TP from MYR3.45, 46% upside.** FY23 (Apr) earnings and DPS beat our and Street's expectations. Looking ahead, the cheaper CX-30 CKD should help support Mazda sales when other brands are lifting car prices. Kia and Peugeot should continue to see marginal volume growth from a low base, driven by new model launches. Despite great FY23 earnings, we trim our TP based on a lower valuation multiple to reflect a more cautious sentiment towards the sector. We favour Bermaz Auto for its relative resilience and 9% FY24F yield.
- **Another exceptional quarter.** 4QFY23's core profit of MYR101m brought FY23 core earnings to MYR304m, exceeding our and Street's projections by 12% and 14%. BAUTO's earnings beat mainly due to stronger-than-expected margins. Its 4QFY23 and special DPS of 3.5 sen and 7.5 sen brought FY23 DPS to 22 sen – above our forecast of 17 sen.
- **BAUTO closed FY23 on a strong note,** with Malaysia and Philippines sales volumes rising 10% and 44% QoQ, which drove revenue growth of 8% and 49%. The 10% growth in Malaysia's auto volumes was partially driven by the 761% increase in CX-30 CKD sales volumes. Meanwhile, both Kia and Peugeot continued to grow QoQ, rising by 19% and 14%. This was partially supported by the newly launched Kia Sorento and Peugeot Landtrek CKDs. BAUTO's margins improved across the board due to product mix and seasonality, as 4Q tends to see higher margins.
- **Outlook.** Despite expectations of softer TIV in 2024, we think BAUTO's car sales will remain resilient. This is mainly supported by Kia and Peugeot, which should both continue to see marginal volume growth from a low base, driven by new model launches. While we expect softer Mazda sales, we think the cheaper CX-30 CKD (previously CBU) should help support Mazda's sales volumes, especially as other brands lift car prices.
- **Forecast.** We lift our FY24F earnings by 7% as we lift margins assumptions to reflect BAUTO's more favourable product mix. We also lift our FY24F DPS assumption to 20 sen from 19 sen, assuming a payout ratio of 73%, ie conservative relative to FY23's 84% and pre-pandemic's 80-100%.
- **Despite earnings beat, we lower TP** to reflect a more cautious sentiment towards the sector. We cut our TP to MYR3.25 as we now ascribe 11.5x P/E to FY24F EPS (previously 13x FY24F EPS). The 11.5x is at +0.5SD of its 5-year mean of c.11x. The slight valuation premium is to reflect BAUTO's relative resilience and attractive yields. Our TP includes a 4% ESG premium, based on an unchanged ESG score of 3.2.
- **Maintain BUY, currently the only BUY in the sector.** Though we turn less bullish on the auto sector, we continue to prefer BAUTO as our Top Pick, as we think its aforesaid brand-specific factors make it relatively less susceptible to a potential industry-wide slowdown. We also like its attractive 9% FY24F yield. Key downside risks include softer-than-expected orders and deliveries, and resurgent component shortages.

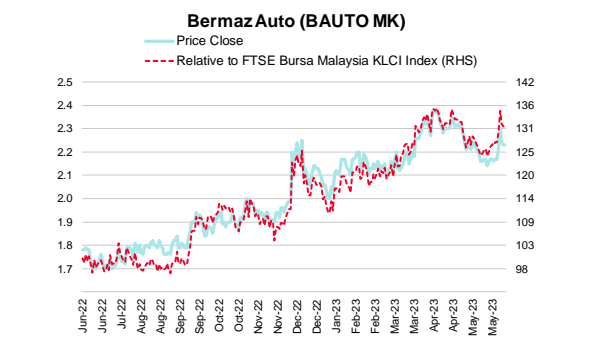
#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.7	0.9	4.7	4.2	23.9
Relative	12.0	3.5	7.9	10.2	31.1
52-wk Price low/high (MYR)	1.70 – 2.38				



Source: Bloomberg

Forecasts and Valuation	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Total turnover (MYRm)	2,324	3,548	3,694	3,833	3,995
Recurring net profit (MYRm)	155	304	317	330	343
Recurring net profit growth (%)	15.6	95.8	4.5	3.9	4.0
Recurring P/E (x)	16.71	8.53	8.16	7.86	7.56
P/B (x)	4.1	3.4	4.3	4.3	4.3
P/CF (x)	10.67	19.65	4.77	6.95	7.74
Dividend Yield (%)	3.9	9.9	9.0	9.4	9.9
EV/EBITDA (x)	10.70	7.20	5.45	5.12	4.94
Return on average equity (%)	25.9	33.2	46.3	54.2	56.4
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	0.27	0.28	0.30
Consumer Cyclical	DPS	0.09	0.22	0.20	0.21	0.22
<b>Bermaz Auto</b>	BVPS	0.55	0.66	0.52	0.52	0.52
BAUTO MK	Return on average equity (%)	25.9	33.2	46.3	54.2	56.4
Buy						
	<b>Valuation metrics</b>	<b>Apr-22</b>	<b>Apr-23</b>	<b>Apr-24F</b>	<b>Apr-25F</b>	<b>Apr-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	16.71	8.53	8.16	7.86	7.56
11.5x FY24F P/E	P/B (x)	4.1	3.4	4.3	4.3	4.3
	FCF Yield (%)	8.8	4.5	20.8	14.2	12.7
<b>Key drivers</b>	Dividend Yield (%)	3.9	9.9	9.0	9.4	9.9
i. Strong growth from Philippines;	EV/EBITDA (x)	10.70	7.20	5.45	5.12	4.94
ii. Better than expected consumer spending;	EV/EBIT (x)	11.78	7.75	5.76	5.45	5.26
iii. New model launches.						
	<b>Income statement (MYRm)</b>	<b>Apr-22</b>	<b>Apr-23</b>	<b>Apr-24F</b>	<b>Apr-25F</b>	<b>Apr-26F</b>
<b>Key risks</b>	Total turnover	2,324	3,548	3,694	3,833	3,995
i. Unfavourable FX movements;	Gross profit	375	568	580	594	619
ii. Disruption in product pipeline;	EBITDA	224	329	421	441	459
iii. Lacklustre consumer spending;	Depreciation and amortisation	(20)	(23)	(22)	(27)	(28)
iv. Slower-than-expected normalisation in demand post Sales & Service Tax exemption at end 2021;	Operating profit	204	305	399	414	432
v. Sustained disruptions in semiconductor chip supply.	Net interest	(4)	5	4	4	4
	Pre-tax profit	218	350	447	465	484
	Taxation	(60)	(94)	(107)	(112)	(116)
	Reported net profit	155	232	317	330	343
	Recurring net profit	155	304	317	330	343
<b>Company Profile</b>						
BAUTO is involved in the distribution, assembling, retailing and also the provision of after sales service of Mazda vehicles in Malaysia. The group is also involved in the domestic distribution and export of locally assembled Mazda vehicles. Its subsidiary Bermaz Auto Philippines distributes Mazda vehicles in the Philippines.	<b>Cash flow (MYRm)</b>	<b>Apr-22</b>	<b>Apr-23</b>	<b>Apr-24F</b>	<b>Apr-25F</b>	<b>Apr-26F</b>
	Change in working capital	72	(238)	150	(7)	(9)
	Cash flow from operations	243	132	543	373	335
	Capex	(15)	(15)	(5)	(5)	(5)
	Cash flow from investing activities	(23)	(15)	4	4	4
	Dividends paid	(102)	(256)	(232)	(244)	(256)
	Cash flow from financing activities	(101)	(341)	(243)	(255)	(242)
	Cash at beginning of period	86	172	89	153	168
	Net change in cash	119	(224)	304	122	97
	Ending balance cash	205	(52)	393	275	265
	<b>Balance sheet (MYRm)</b>	<b>Apr-22</b>	<b>Apr-23</b>	<b>Apr-24F</b>	<b>Apr-25F</b>	<b>Apr-26F</b>
	Total cash and equivalents	172	89	153	168	156
	Tangible fixed assets	43	45	50	55	58
	Total investments	276	314	276	276	276
	Total assets	1,560	1,777	1,490	1,480	1,495
	Short-term debt	100	100	75	50	50
	Total long-term debt	100	0	0	0	0
	Total liabilities	872	938	824	812	827
	Total equity	688	839	666	667	667
	Total liabilities & equity	1,560	1,777	1,490	1,480	1,495
	<b>Key metrics</b>	<b>Apr-22</b>	<b>Apr-23</b>	<b>Apr-24F</b>	<b>Apr-25F</b>	<b>Apr-26F</b>
	Revenue growth (%)	1.6	52.7	4.1	3.8	4.2
	Recurrent EPS growth (%)	15.6	95.8	4.5	3.9	4.0
	Gross margin (%)	16.1	16.0	15.7	15.5	15.5
	Operating EBITDA margin (%)	9.6	9.3	11.4	11.5	11.5
	Net profit margin (%)	6.7	6.5	8.6	8.6	8.6
	Dividend payout ratio (%)	65.6	110.2	73.2	74.0	74.6
	Capex/sales (%)	0.6	0.4	0.1	0.1	0.1
	Interest cover (x)	19.1	32.9	40.6	41.4	43.2

Source: Company data, RHB

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## Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
<b>Revenue</b>	<b>897.4</b>	<b>976.0</b>	<b>1,072.4</b>	<b>9.9</b>	<b>19.5</b>	<b>2,325.1</b>	<b>3,548.2</b>	<b>52.6</b>	QoQ growth driven by both Malaysia and the Philippines.
- Malaysia	840.1	927.7	1,000.5	7.9	19.1	2,140.7	3,316.8	54.9	
- Philippines	57.3	48.3	71.9	48.8	25.6	184.4	231.4	25.5	
<b>EBIT</b>	<b>106.8</b>	<b>99.0</b>	<b>126.5</b>	<b>27.8</b>	<b>18.4</b>	<b>204.5</b>	<b>376.8</b>	<b>84.3</b>	Strong YoY improvements likely due to an improved product mix. QoQ improvements due to seasonality.
- Malaysia	104.8	94.0	120.1	27.8	14.6	198.2	354.3	78.7	
- Philippines	1.1	6.7	8.5	25.8	647.7	4.1	28.5	590.2	
Interest expense	(2.8)	(2.7)	(1.8)	(31.6)	(33.8)	(10.6)	(9.3)	(12.3)	
Interest income	1.9	4.5	4.0	(10.5)	108.6	6.6	14.6	120.7	
Associates	9.5	14.8	10.9	(26.0)	15.2	18.1	39.0	115.9	Strong YoY improvements largely driven by MMSB.
<b>Pre-tax profit</b>	<b>115.4</b>	<b>115.5</b>	<b>139.5</b>	<b>20.8</b>	<b>20.9</b>	<b>218.6</b>	<b>421.2</b>	<b>92.7</b>	
Tax	(34.6)	(23.3)	(31.9)	36.8	(7.7)	(59.7)	(94.0)	57.3	
Minority interest	(2.1)	(4.9)	(7.0)	42.8	226.6	(3.1)	(23.5)	655.5	
<b>Net profit</b>	<b>78.7</b>	<b>87.3</b>	<b>100.6</b>	<b>15.3</b>	<b>27.8</b>	<b>155.7</b>	<b>303.7</b>	<b>95.1</b>	
<b>Core profit</b>	<b>78.7</b>	<b>87.3</b>	<b>100.6</b>	<b>15.3</b>	<b>27.8</b>	<b>155.7</b>	<b>303.7</b>	<b>95.1</b>	FY23 results above our and Street's expectations at 112% and 114% of full-year estimates.
EBIT margin (%)	11.9	10.1	11.8			8.8	10.6		
Pre-tax margin (%)	12.9	11.8	13.0			9.4	11.9		
Effective tax rate (%)	(30.0)	(20.2)	(22.9)			(27.3)	(22.3)		
Net margin (%)	8.8	8.9	9.4			6.7	8.6		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY
Mazda 2	38	56	46	(17.9)	21.1	182	284	56.0
Mazda 3	152	8	314	3,825.0	106.6	817	517	(36.7)
Mazda 6	26	65	11	(83.1)	(57.7)	96	173	80.2
CX-3	117	362	606	67.4	417.9	657	1,166	77.5
CX-30	214	182	1,567	761.0	632.2	666	2,489	273.7
CX-5	3,455	2,763	1,540	(44.3)	(55.4)	7,929	8,026	1.2
MX-30	0	4	0	N.M.	N.M.	1	4	300.0
CX-8	446	969	695	(28.3)	55.8	1,486	2,591	74.4
CX-9	9	11	13	18.2	44.4	42	43	2.4
MX-5	4	8	4	(50.0)	0.0	24	32	33.3
BT-50	90	25	31	24.0	(65.6)	138	273	97.8
	<b>4,551</b>	<b>4,453</b>	<b>4,827</b>	<b>8.4</b>	<b>6.1</b>	<b>12,038</b>	<b>15,598</b>	<b>29.6</b>

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY
Mazda 2	15	6	17	183.3	13.3	42	54	28.6
Mazda 3	42	0	50	N.M.	19.0	110	102	(7.3)
Mazda 6	2	0	2	N.M.	0.0	8	2	(75.0)
CX-3	0	4	0	N.M.	N.M.	8	14	75.0
CX-30	17	1	11	1,000.0	(35.3)	91	39	(57.1)
CX-5	124	137	57	(58.4)	(54.0)	306	379	23.9
CX-8	102	42	58	38.1	(43.1)	274	259	(5.5)
CX-9	15	20	91	355.0	506.7	121	199	64.5
MX-5	27	51	121	137.3	348.1	81	243	200.0
BT-50	94	89	97	9.0	3.2	263	372	41.4
	<b>438</b>	<b>350</b>	<b>504</b>	<b>44.0</b>	<b>15.1</b>	<b>1,304</b>	<b>1,663</b>	<b>27.5</b>

Source: Company data

Figure 4: Key assumptions

Sales (Units)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Malaysia – Mazda	13,439	12,038	15,598	15,000	15,100	15,200
Philippines – Mazda	1,254	1,304	1,663	2,100	2,200	2,200
Peugeot		964	1,896	2,500	2,700	2,900
Kia		360	2,194	3,000	3,300	3,800

Source: RHB

Figure 5: Line-up of Mazda models

## Mazda Model Lineup 2023








	<b>2022</b>	<b>CX-3 IPM4</b> (Jan'22) 	<b>MX-5 IPM5</b> (Feb'22) 	<b>Mazda3 IPM2</b> (Feb'22) 	<b>CX-30 IPM2</b> (Feb'22) 
	<b>2023</b>	<b>CX-8 IPM3</b> (June '22) 	<b>New MX-30 EV</b> (June'22) 	<b>CX-30 CKD</b> (Mar' 23) 	<b>New CX-60</b> (TBA) 

Source: Company data

Figure 6: Line-up of Peugeot models

Peugeot Product Map









	<b>2022</b>	<b>All-New 2008</b> (Jan'22) 		
	<b>2023</b>	<b>New Landtrek</b> (MAR'23) 	<b>New e-2008 EV</b> (CYQ3 2023) 	<b>New 408</b> (TBA) 

Source: Company data

Figure 7: Line-up of Kia models

KIA Product Map










	<b>2022</b>	<b>Carnival CKD</b> (July '22) 	<b>New EV6 EV</b> (June '22) 	
	<b>2023</b>	<b>All-New Sorento</b> (Mar'23) 	<b>All-New Sportage</b> (TBA) 	<b>Niro EV</b> (CYQ3'23) 

Source: Company data

Figure 8: BAUTO's EV model line-up

## BAuto EV Model Line-up 2023



	2022	Line-Up CY 2023
	<p><b>New MX-30 EV</b> (June'22)</p> 	
		<p><b>New e-2008 EV</b> (CYQ3 2023)</p> 
	<p><b>New EV6 EV</b> (June '22)</p> 	<p><b>Niro EV</b> (CYQ3 2023)</p> 

Source: Company data

## Recommendation Chart

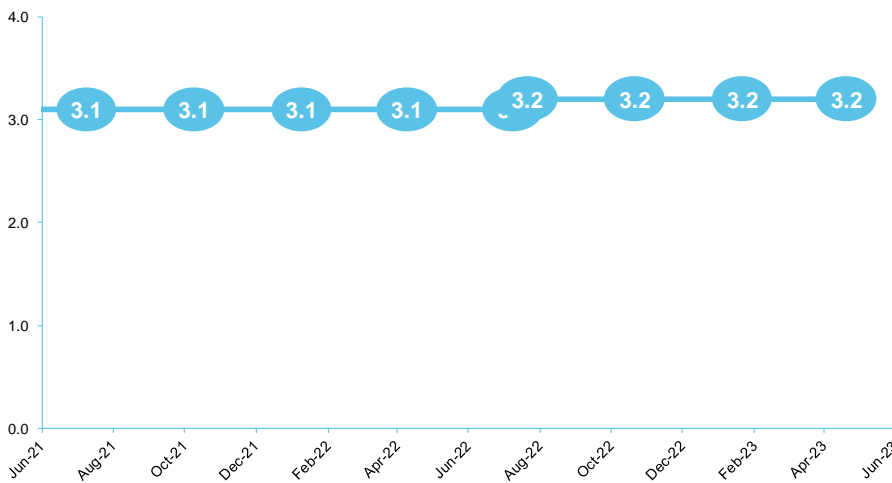


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-03-11	Buy	1.70	1.45
2020-12-11	Buy	1.70	1.47

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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