

13 September 2023

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (Maintained)

Another Exceptional Quarter To Start FY24F; BUY

Target Price (Return): MYR3.45 (+58%)
 Price (Market Cap): MYR2.18 (USD543m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 7.84m/1.70m

- **Still BUY, with new MYR3.45 TP from MYR3.25, 58% upside and c.10% FY24F (Apr) yield.** 1QFY24 core earnings of MYR100m exceeded our and Street's expectations, mainly due to large deliveries of CBU units and strong sales in the Philippines. Despite Bermaz Auto's gradually easing order backlog, its Mazda CX-30 CKD should continue to support sales volume. We still like the stock for its attractive yield and relatively resilient car sales.
- **Above expectations.** 1QFY24 earnings beat our and Street's expectations, making up 32% and 38% of full-year forecasts. The strong results beat our expectations mainly due to stronger-than-expected revenue, which is a result of higher-than-expected sales volume. Its 1QFY24 DPS of 5 sen is also above our expectations.
- **Results highlights.** BAUTO had an unusually strong 1Q, which was largely due to high deliveries of the Mazda 3 and CX-3 in Malaysia, as BAUTO received large shipments of both of these models from Japan and Thailand during the quarter. As total sales volume was 2% higher QoQ (mainly lifted by a 45% QoQ increase in the Philippines), revenue also inched up 2%. However, due to lower associates' income and higher tax expense, core net profit softened by 0.4%.
- **Outlook.** Along with the easing order backlog of most marques in Malaysia, BAUTO's order backlog has also declined, albeit at a slower pace. Its current order backlog stands at around 4.5k units, slightly lower than the c.5k units at end-May. About half of the order backlog comes from the Mazda CX-30, as the CKD variant of the car remains popular. That said, we are expecting subsequent quarterly unit sales to be slightly softer than 1QFY24's, given the lumpy number of deliveries during the quarter. In the Philippines, we think the newly launched Mazda CX-60 and CX-90 should continue to drive BAUTO's sales volume there.
- **Forecast.** We lift FY24F-26F earnings by 6-8%, as we increase BAUTO's Mazda sales volume estimates in Malaysia and the Philippines. We also lift our DPS assumption to 21-23 sen from 20-22 sen, as we maintain our dividend payout ratio assumption of c.70%.
- **The higher FY24F EPS lifts our TP to MYR3.45** (from MYR3.25), based on our ascribed 11.5x to FY24F EPS. The 11.5x is at +0.5SD from its 5-year mean of 11x. Our TP includes a 4% ESG premium. We maintain our BUY call on BAUTO as we think its CX-30 CKD will continue to support sales volume, given its lower price vs the CBU variant. The continued new model launches from Kia and Peugeot should also help the two marques grow their sales volume, especially from a low base. BAUTO also yields an attractive FY24F of 9.6%.
- **Key downside risks** include softer-than-expected orders and deliveries, and resurgent supply chain constraints.

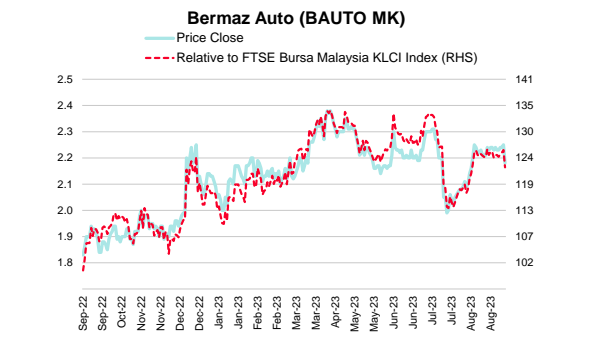
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.3	1.9	(2.3)	2.3	19.1
Relative	5.1	2.2	(7.1)	0.9	22.1
52-wk Price low/high (MYR)	1.84 – 2.38				



Source: Bloomberg

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.

Forecasts and Valuation	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Total turnover (MYRm)	2,324	3,548	3,828	3,968	4,144
Recurring net profit (MYRm)	155	304	336	355	369
Recurring net profit growth (%)	15.6	95.8	10.7	5.5	4.1
Recurring P/E (x)	16.33	8.34	7.54	7.14	6.86
P/B (x)	4.0	3.3	4.2	4.2	4.2
P/CF (x)	10.43	19.20	4.56	6.35	6.98
Dividend Yield (%)	4.0	10.1	9.6	10.1	10.6
EV/EBITDA (x)	10.44	7.02	5.02	4.64	4.47
Return on average equity (%)	25.9	33.2	49.0	58.4	60.8
Net debt to equity (%)	4.0	1.3	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Malaysia	Recurring EPS	0.13	0.26	0.29	0.31	0.32
Consumer Cyclical	DPS	0.09	0.22	0.21	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	33.2	49.0	58.4	60.8
Buy						
	Valuation metrics	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Valuation basis	Recurring P/E (x)	16.33	8.34	7.54	7.14	6.86
11.5x FY24F P/E	P/B (x)	4.0	3.3	4.2	4.2	4.2
	FCF Yield (%)	9.0	4.6	21.7	15.5	14.1
	Dividend Yield (%)	4.0	10.1	9.6	10.1	10.6
Key drivers	EV/EBITDA (x)	10.44	7.02	5.02	4.64	4.47
i. Strong growth from Philippines;	EV/EBIT (x)	11.49	7.56	5.29	4.93	4.74
ii. Better than expected consumer spending;						
iii. New model launches.						
	Income statement (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Key risks	Total turnover	2,324	3,548	3,828	3,968	4,144
i. Unfavourable FX movements;	Gross profit	375	568	612	635	663
ii. Disruption in product pipeline;	EBITDA	224	329	448	476	497
iii. Lacklustre consumer spending;	Depreciation and amortisation	(20)	(23)	(23)	(28)	(29)
iv. Slower-than-expected normalisation in demand post SST exemption at end 2021;	Operating profit	204	305	425	448	468
v. Sustained disruptions in semiconductor chip supply	Net interest	(4)	5	4	4	4
	Pre-tax profit	218	350	473	500	521
	Taxation	(60)	(94)	(114)	(120)	(125)
	Reported net profit	155	232	336	355	369
	Recurring net profit	155	304	336	355	369
Company Profile						
Bermaz Auto 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 of locally assembled Mazda vehicles and the export of the locally assembled Mazda vehicles. Its subsidiary Bermaz Auto Philippines distributes Mazda vehicles in the Philippines.						
	Cash flow (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
	Change in working capital	72	(238)	141	(7)	(9)
	Cash flow from operations	243	132	555	399	363
	Capex	(15)	(15)	(5)	(5)	(5)
	Cash flow from investing activities	(23)	(15)	4	4	4
	Dividends paid	(102)	(256)	(244)	(256)	(267)
	Cash flow from financing activities	(101)	(341)	(255)	(267)	(253)
	Cash at beginning of period	86	172	89	145	161
	Net change in cash	119	(224)	304	136	114
	Ending balance cash	205	(52)	394	281	274
	Balance sheet (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
	Total cash and equivalents	172	89	145	159	146
	Tangible fixed assets	43	45	50	55	58
	Total investments	276	314	276	276	276
	Total assets	1,560	1,777	1,501	1,490	1,506
	Short-term debt	100	100	75	50	50
	Total long-term debt	100	0	0	0	0
	Total liabilities	872	938	835	823	839
	Total equity	688	839	666	667	667
	Total liabilities & equity	1,560	1,777	1,501	1,490	1,506
	Key metrics	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
	Revenue growth (%)	1.6	52.7	7.9	3.7	4.5
	Recurrent EPS growth (%)	15.6	95.8	10.7	5.5	4.1
	Gross margin (%)	16.1	16.0	16.0	16.0	16.0
	Operating EBITDA margin (%)	9.6	9.3	11.7	12.0	12.0
	Net profit margin (%)	6.7	6.5	8.8	8.9	8.9
	Dividend payout ratio (%)	65.6	110.2	72.6	72.1	72.4
	Capex/sales (%)	0.6	0.4	0.1	0.1	0.1
	Interest cover (x)	19.1	32.9	43.3	44.8	46.8

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	Comments
Revenue	716.9	1,072.4	1,089.3	1.6	51.9	QoQ growth mainly driven by the Philippines as its car sales rose 45% QoQ.
- Malaysia	658.0	1,000.5	988.9	(1.2)	50.3	
- Philippines	58.9	71.9	100.3	39.6	70.4	
EBIT	70.2	126.5	130.7	3.4	86.2	QoQ and YoY improvement likely due to better product mix.
- Malaysia	63.5	120.1	117.5	(2.2)	85.1	
- Philippines	7.1	8.5	14.5	71.3	105.7	
Interest expense	(2.5)	(1.8)	(1.8)	(1.2)	(27.9)	
Interest income	2.9	4.0	3.2	(20.6)	10.5	
Associates	4.0	10.9	8.6	(21.1)	114.4	Strong YoY improvements largely driven by MMSB
Pre-tax profit	74.6	139.5	140.7	0.8	88.6	
Tax	(18.0)	(31.9)	(32.8)	2.7	82.5	
Minority interest	(6.5)	(7.0)	(7.7)	9.9	19.0	
Net profit	50.2	100.6	100.2	(0.4)	99.8	
Core profit	50.2	100.6	100.2	(0.4)	99.8	1QFY24 earnings beat our and consensus expectations at 32% and 38% of full year forecasts.
<i>EBIT margin (%)</i>	9.8	11.8	12.0			
<i>Pre-tax margin (%)</i>	10.4	13.0	12.9			
<i>Effective tax rate (%)</i>	(24.1)	(22.9)	(23.3)			
<i>Net margin (%)</i>	7.0	9.4	9.2			

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Mazda 2	80	46	45	(2.2)	(43.8)
Mazda 3	114	314	883	181.2	674.6
Mazda 6	21	11	51	363.6	142.9
CX-3	198	606	564	(6.9)	184.8
CX-30	620	1,567	1,033	(34.1)	66.6
CX-5	1,511	1,540	1,712	11.2	13.3
MX-30	0	0	1	N.A.	N.A.
CX-8	368	695	645	(7.2)	75.3
CX-9	6	13	4	(69.2)	(33.3)
MX-5	7	4	9	125.0	28.6
BT-50	61	31	52	67.7	(14.8)
	2,986	4,827	4,999	3.6	67.4

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE Apr (units)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Mazda 2	8	17	6	(64.7)	(25.0)
Mazda 3	31	50	111	122.0	258.1
Mazda 6	0	2	4	100.0	N.A.
CX-3	0	0	6	N.A.	N.A.
CX-30	19	11	35	218.2	84.2
CX-5	76	57	148	159.6	94.7
CX-8	140	58	135	132.8	(3.6)
CX-9	31	91	101	11.0	225.8
MX-5	13	121	60	(50.4)	361.5
BT-50	104	97	66	(32.0)	(36.5)
	422	504	672	33.3	59.2

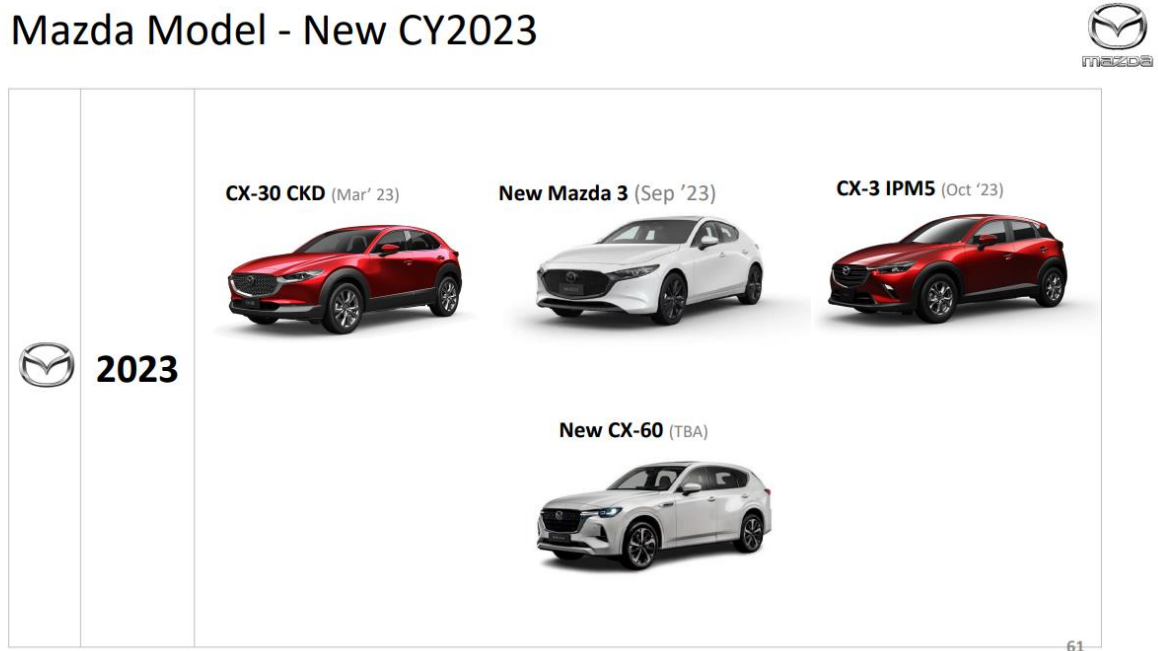
Source: Company data

Figure 4: Key assumptions

Sales (Units)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Malaysia – Mazda	13,439	12,038	15,598	15,700	15,800	15,900
Philippines – Mazda	1,254	1,304	1,663	2,300	2,400	2,500
Peugeot		964	1,896	2,500	2,700	2,900
Kia		360	2,194	3,000	3,300	3,800

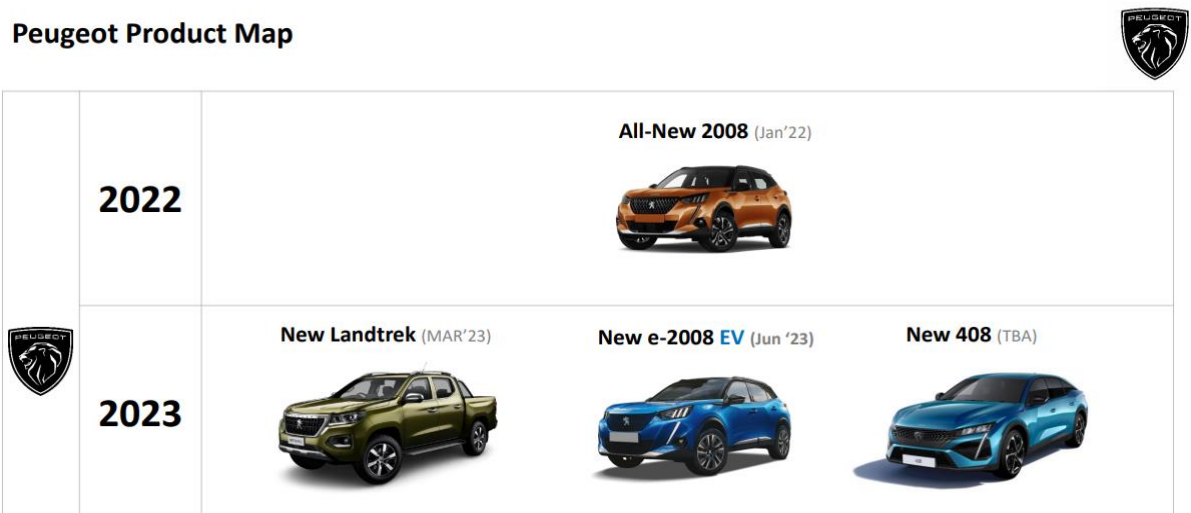
Source: RHB

Figure 5: Line-up of Mazda models



Source: Company data


Figure 6: Line-up of Peugeot models








Source: Company data

Figure 7: Line-up of Kia models

KIA Product Map




Movement that inspires








	2022	Carnival CKD (July '22) 	New EV6 EV (June '22) 
	2023	All-New Sorento (Mar'23) 	Niro EV (Jul'23) 

Source: Company data

Figure 8: BAUTO's EV model line-up

BAuto EV Model Line-up 2023



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

Source: Company data

Recommendation Chart

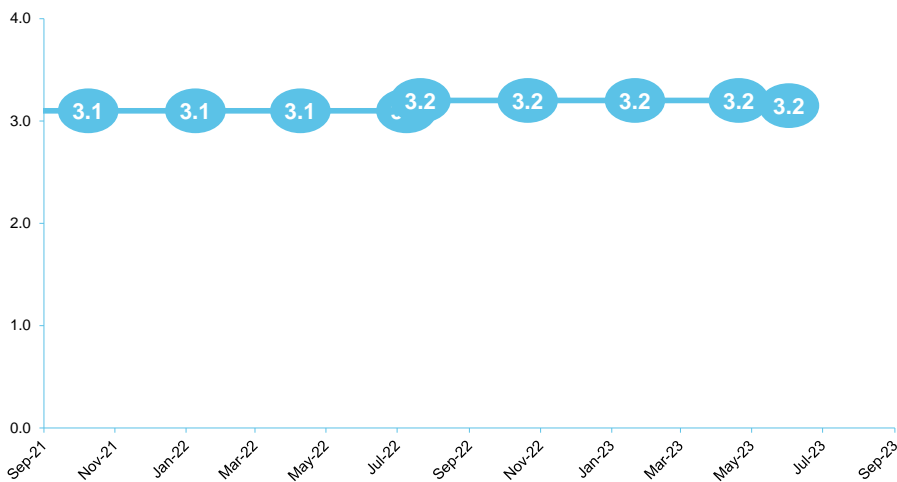


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-03-11	Buy	1.70	1.45

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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