

14 March 2023

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (Maintained)

Blowing Past Expectations; Stay BUY

Target Price (Return): MYR3.45 (62.7%)
 Price (Market Cap): MYR2.12 (USD550m)
 ESG score: 3.20 (out of 4)
 Avg Daily Turnover (MYR/USD) 4.86m/1.11m

- **Maintain BUY with higher MYR3.45 TP from MYR2.90, 63% upside.** Bermaz Auto's 9MFY23 (Apr) earnings blew past our and Street's full-year estimates at 92% and 95%, mainly as revenue and associate contributions outperformed. Looking ahead, the volume growth from Mazda's newly launched CKD CX-30, and from Kia and Peugeot's new models should continue to drive earnings growth. The stock yields an attractive 9% FY24F and currently trades at 8.3x FY24F P/E.

- **Above expectations.** 3QFY23's MYR87m earnings brought the 9MFY23 figure to MYR203m, making up 92% of our full-year estimate and 95% of Street's – significantly above expectations. The deviation was mainly due to higher-than-expected revenue and associate contributions. Its third interim DPS of 4.5 sen brings YTD DPS to 11 sen, above our FY23F DPS of 13 sen.

- **Results highlights.** 3QFY23 revenue rose 25% QoQ, mainly driven by a 23% increase in volume. Despite EBIT rising by a slower 22%, its 60% jump in associate contributions – mainly driven by Mazda Malaysia (MMSB) – helped lift PBT by 26% QoQ. MMSB's strong performance was due to higher volumes, with economies of scale likely driving its margin improvement. Further boosted by a lower effective tax rate and minority interest, core earnings rose by 33%.

- **Outlook.** BAUTO's prospects remain exciting across all three brands. Its Mazda volumes should continue to increase in the coming quarters, with sales of the CKD CX-30 expected to contribute to 4QFY23, and with an expected gradual recovery in CBU allocations. Kia's volumes will likely steadily climb, aided by the launch of new models (eg Kia Sorento) and as Kia Carnival importation hiccups are resolved. The soon-to-be-launched Peugeot Landtrek could continue to boost Peugeot's volumes. Although we forecast Kia's volumes will grow 36% YoY in FY24F, we note that BAUTO's management is currently primarily focused on building Kia's brand equity – mainly by improving its after-sales experience.

- **We lift FY23F-25F forecasts** by 23-18%, as we lift volume and associate contribution assumptions. We lift our DPS assumption to 17-21 sen from 13-16 sen, conservatively assuming a payout ratio (DPR) of 73-75%. With little incremental capex requirements, and an average pre-pandemic DPR of 87%, there is further upside to our current DPS estimate.

- **BUY, new MYR3.45 TP**, based on an unchanged 13x FY24F P/E and 4% ESG premium. Currently, the stock is trading at an attractive 8.3x FY24F EPS – at a significant discount to its 5-year historical average P/E of 11.5x – which we think undervalues the stock. We still like BAUTO for its visible earnings growth and 9% FY24F yield. Key downside risks: Softer-than-expected orders and deliveries, and resurgent component shortages.

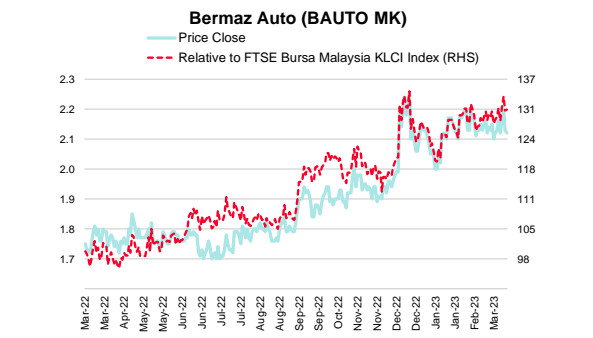
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.5)	(1.9)	(3.6)	14.0	21.8
Relative	4.4	1.7	(0.3)	18.4	31.1
52-wk Price low/high (MYR)	1.70 – 2.25				



Source: Bloomberg

Overall ESG Score: 3.20 (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-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Total turnover (MYRm)	2,288	2,325	3,404	3,694	4,103
Recurring net profit (MYRm)	134	156	272	295	329
Recurring net profit growth (%)	24.7	16.1	74.4	8.8	11.3
Recurring P/E (x)	18.37	15.82	9.07	8.34	7.49
P/B (x)	4.4	3.9	4.1	4.1	4.1
P/CF (x)	na	10.22	8.14	7.17	6.79
Dividend Yield (%)	3.1	4.1	8.0	9.0	9.9
EV/EBITDA (x)	14.48	10.10	6.28	5.78	5.05
Return on average equity (%)	25.9	26.0	43.9	48.9	54.4
Net debt to equity (%)	19.6	4.2	7.3	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

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

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Financial Exhibits

Asia	Financial summary (MYR)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Malaysia	Recurring EPS	0.12	0.13	0.23	0.25	0.28
Consumer Cyclical	DPS	0.07	0.09	0.17	0.19	0.21
Bermaz Auto	BVPS	0.49	0.54	0.52	0.52	0.52
BAUTO MK	Return on average equity (%)	25.9	26.0	43.9	48.9	54.4
Buy						
	Valuation metrics	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Valuation basis	Recurring P/E (x)	18.37	15.82	9.07	8.34	7.49
13x FY24F P/E	P/B (x)	4.4	3.9	4.1	4.1	4.1
	FCF Yield (%)	(1.5)	9.2	12.1	13.7	14.5
Key drivers	Dividend Yield (%)	3.1	4.1	8.0	9.0	9.9
i. Strong growth from the Philippines;	EV/EBITDA (x)	14.48	10.10	6.28	5.78	5.05
ii. Better-than-expected consumer spending;	EV/EBIT (x)	15.02	11.11	6.59	6.14	5.41
iii. New model launches.						
	Income statement (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Key risks	Total turnover	2,288	2,325	3,404	3,694	4,103
i. Unfavourable FX movements;	Gross profit	294	307	497	539	599
ii. Disruptions in product pipeline;	EBITDA	165	225	361	384	435
iii. Lacklustre consumer spending;	Depreciation and amortisation	(6)	(20)	(17)	(22)	(29)
iv. Resurgent supply disruptions.	Operating profit	160	204	344	362	406
	Net interest	(7)	(4)	4	4	4
	Pre-tax profit	173	219	381	410	458
Company Profile	Taxation	(41)	(60)	(89)	(90)	(101)
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 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.	Reported net profit	134	156	272	295	329
	Recurring net profit	134	156	272	295	329
	Cash flow (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Change in working capital	264	59	(32)	(39)	(21)
	Cash flow from operations	(34)	241	303	343	363
	Capex	(4)	(15)	(5)	(5)	(5)
	Cash flow from investing activities	(4)	(23)	4	4	4
	Dividends paid	(37)	(102)	(198)	(221)	(244)
	Cash flow from financing activities	10	(101)	(283)	(232)	(255)
	Cash at beginning of period	100	86	171	52	100
	Net change in cash	(28)	117	23	116	112
	Ending balance cash	72	203	194	167	211
	Balance sheet (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Total cash and equivalents	86	171	52	100	100
	Tangible fixed assets	37	42	44	50	55
	Total investments	233	276	303	276	276
	Total assets	1,402	1,547	1,509	1,436	1,451
	Short-term debt	106	100	100	75	50
	Total long-term debt	100	100	0	0	0
	Total liabilities	790	859	848	774	787
	Total equity	612	688	661	663	664
	Total liabilities & equity	1,402	1,547	1,509	1,436	1,451
	Key metrics	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Revenue growth (%)	30.1	1.6	46.4	8.5	11.1
	Recurrent EPS growth (%)	24.7	16.1	74.4	8.8	11.3
	Gross margin (%)	12.9	13.2	14.6	14.6	14.6
	Operating EBITDA margin (%)	7.2	9.7	10.6	10.4	10.6
	Net profit margin (%)	5.9	6.7	8.0	8.0	8.0
	Dividend payout ratio (%)	56.3	65.3	72.8	74.7	74.2
	Capex/sales (%)	0.2	0.6	0.1	0.1	0.1
	Interest cover (x)	12.5	19.3	34.4	36.9	40.6

Source: Company data, RHB

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Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	623.1	783.0	976.0	24.6	56.6	1,427.8	2,475.8	73.4	QoQ growth mainly driven by volume growth from Malaysia. YoY growth is due to SST-exemption-boosted orders and recovery in supply chain
- Malaysia	580.4	730.7	927.7	27.0	59.8	1,300.6	2,316.3	78.1	
- Philippines	42.8	52.3	48.3	(7.6)	13.0	127.1	159.5	25.4	
EBIT	49.6	81.2	99.0	21.9	99.4	97.6	250.4	156.5	Strong YoY improvement likely due to better product mix.
- Malaysia	47.8	76.8	94.0	22.4	96.6	94.2	233.7	148.0	
- Philippines	0.7	6.2	6.7	8.4	825.5	3.0	20.0	568.5	
Interest expense	(2.6)	(2.2)	(2.7)	23.1	2.8	(7.8)	(7.4)	(4.7)	
Interest income	1.5	3.3	4.5	35.0	191.5	4.7	10.6	125.6	
Associates	6.6	9.3	14.8	59.5	125.1	8.6	28.0	227.6	Strong QoQ growth largely driven by MMSB, which benefited from economies of scale.
Pre-tax profit	55.1	91.6	115.5	26.1	109.6	103.1	281.7	173.1	
Tax	(12.4)	(20.8)	(23.3)	12.3	88.3	(25.2)	(62.1)	146.7	
Minority interest	(2.0)	(5.1)	(4.9)	(4.7)	143.5	(1.0)	(16.5)	1,605.1	
Net profit	40.7	65.7	87.3	32.9	114.4	77.0	203.1	163.7	
Core profit	40.7	65.7	87.3	32.9	114.4	77.0	203.1	163.7	9MFY23 results are significantly above our and Street's estimates at 92% and 95% respectively.
EBIT margin (%)	8.0	10.4	10.1			6.8	10.1		
Pre-tax margin (%)	8.8	11.7	11.8			7.2	11.4		
Effective tax rate (%)	(22.5)	(22.7)	(20.2)			(24.4)	(22.0)		
Net margin (%)	6.5	8.4	8.9			5.4	8.2		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)
Mazda 2	79	102	56	(45.1)	(29.1)	144	238	65.3
Mazda 3	76	81	8	(90.1)	(89.5)	665	203	(69.5)
Mazda 6	29	76	65	(14.5)	124.1	70	162	131.4
CX-3	212	0	362	N.M.	70.8	540	560	3.7
CX-30	166	120	182	51.7	9.6	452	922	104.0
CX-5	2,074	2,212	2,763	24.9	33.2	4,474	6,486	45.0
MX-30	1	0	4	N.M.	300.0	1	4	300.0
CX-8	467	559	969	73.3	107.5	1,040	1,896	82.3
CX-9	17	13	11	(15.4)	(35.3)	33	30	(9.1)
MX-5	5	13	8	(38.5)	60.0	20	28	40.0
BT-50	43	156	25	(84.0)	(41.9)	48	242	404.2
	3,169	3,332	4,453	33.6	40.5	7,487	10,771	43.9

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)
Mazda 2	27	23	6	(73.9)	(77.8)	27	37	37.0
Mazda 3	18	21	0	N.M.	N.M.	68	52	(23.5)
Mazda 6	1	0	0	N.M.	N.M.	6	0	N.M.
CX-3	0	10	4	(60.0)	N.M.	8	14	75.0
CX-30	25	8	1	(87.5)	(96.0)	74	28	(62.2)
CX-5	55	109	137	25.7	149.1	182	322	76.9
CX-8	67	19	42	121.1	(37.3)	172	201	16.9
CX-9	0	57	20	(64.9)	N.M.	106	108	1.9
MX-5	11	58	51	(12.1)	363.6	54	122	125.9
BT-50	132	82	89	8.5	(32.6)	169	275	62.7
	336	387	350	(9.6)	4.2	866	1,159	33.8

Source: Company data

Figure 4: Key assumptions

Sales (Units)	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
Malaysia – Mazda	13,439	12,038	14,500	15,000	15,500
Philippines – Mazda	1,245	1,304	2,000	2,100	2,200
Peugeot		964	1,800	2,500	3,000
Kia		360	2,200	3,000	4,000

Source: RHB

Figure 5: Line-up of Mazda models

Mazda Model Lineup 2023



	2021	CX-9 IPM4 (Aug'21) 	Mazda2 IPM5 (Dec'21) 	All-New BT-50 (Dec'21) 	
	2022	CX-3 IPM4 (Jan'22) 	MX-5 IPM5 (Feb'22) 	Mazda3 IPM2 (Feb'22) 	CX-30 IPM2 (Feb'22) 
	2023	CX-8 IPM3 (June '22) 			New MX-30 EV (June'22) 
	2023	CX-30 CKD (Mar' 23) 			

Source: Company

Figure 6: Line-up of Peugeot models

Peugeot Product Map



	2021	New 3008 (Nov'21) 	New 5008 (Nov'21)
	2022	All-New 2008 (Jan'22) 	
	2023	New Landtrek (MAR'23) 	New e-2008 EV (Q1'23)

64

Source: Company

Figure 7: Line-up of Kia models

KIA Product Map




	2021	All-New Carnival (Dec'21) 	
	2022	Carnival CKD (July '22) 	New EV6 EV (June '22)
	2023	All-New Sorento (Mar'23) 	All-New Sportage (Q4'23)








70

Source: Company

Figure 8: BAUTO's EV model line-up

BAuto EV Model Line-up 2023



	Q3/Q4 2022	Q1 2023	TBA
	<p>New MX-30 EV (June'22)</p> 		
		<p>New e-2008 EV (Q1'23)</p> 	
	<p>New EV6 EV (June '22)</p> 		<p>New PBV1 EV (TBA)</p> 

Source: Company

Recommendation Chart

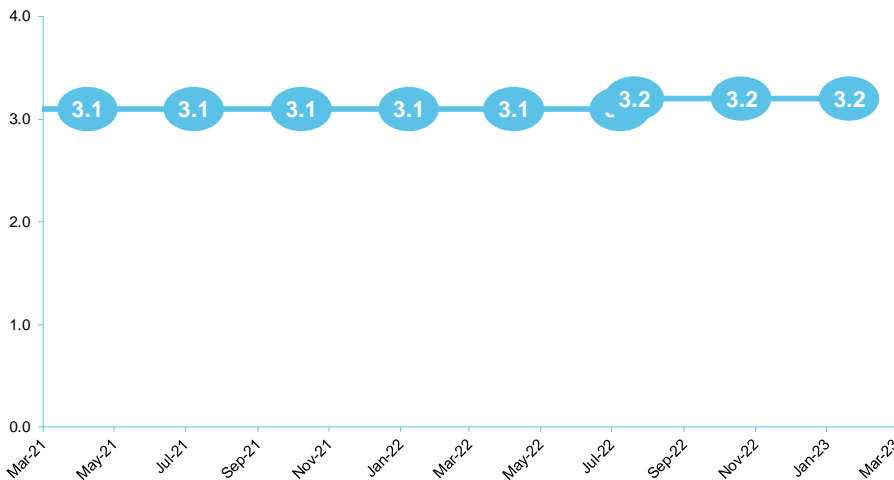


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-09-11	Buy	1.70	1.37

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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