Shariah Compliant

Malaysia Results Review

14 March 2024

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (Maintained)

Potentially Another Record-High Year ; Keep BUY

Target Price (Return):	MYR3.35 (35.2%)
Price (Market Cap):	MYR2.48 (USD607m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (MYR/USD)	7.15m/1.58m

- **Keep BUY, new MYR3.35 TP from MYR3.60, 35% upside.** 9MFY24 (Apr) earnings largely met our and Street's full-year estimates at 73% and 77%. We continue to favour Bermaz Auto, which is our sector Top Pick, due to its relatively resilient car sales – supported by consistent new model launches – while its 9% FY25F yield is the cherry on top.
- **In line.** 3QFY24 net profit of MYR70.6m brought the 9MFY24 figure to MYR260.8m, making up 73% and 77% of our and Street's full-year estimates – largely in line with expectations. BAUTO declared its third interim DPS of 4.25 sen, bringing YTD DPS to 14.25 sen. Given the potential of another record-high earnings, we believe a special dividend is likely. Hence, we maintain our FY24F DPS assumption of 25 sen, which translates to a FY24F core payout ratio of 85% and 10% yield.
- **Results highlights.** 3QFY24 revenue fell 11% QoQ, as sales volumes seasonally declined by 12% QoQ. Due to the less favourable sales mix, operating profit fell by a further 19% QoQ. As a result, core net profit slipped 21% QoQ, bringing 9MFY24 earnings to MYR260.8m (+28% YoY). While sales volumes in Malaysia were affected by seasonal factors, BAUTO's Philippines performance remained relatively robust – with a 2% QoQ rise in revenue – while volumes only slipped 0.7% QoQ. The latter was mainly supported by demand for the CX-60, which has more than tripled QoQ.
- **Outlook.** BAUTO's prospects remain exciting, as it is on track to achieve another year of record-high earnings. Though backlog has returned to pre-pandemic levels, ie 2,000 units, Mazda volumes should remain resilient in the coming quarters. This is supported by the recently launched new CX-3 and CX-5 models in January. Additionally, its CX-30 CKD remains popular, which makes up 40% of 3QFY24 volumes. In the Philippines, we think the newly launched Mazda CX-60 and CX-90 should continue to drive sales volumes.
- **We trim down our FY24F-26F earnings** by 3-9% as we cut volume and associate contribution assumptions, as well as interest expense and income, to better reflect the 9MFY24 performance.
- **BUY, new MYR3.35 TP, based on an unchanged 11.5x CY24F P/E and 4% ESG premium.** The stock is currently trading at an attractive 8.9x CY24F EPS, below its 5-year historical average P/E of 10x. BAUTO remains our sector Top Pick due to resilient car sales – supported by consistent model launches – and 9% FY25F yield.
- **Key downside risks** include softer-than-expected orders and deliveries, and resurgent supply chain constraints.

Forecasts and Valuation	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Total turnover (MYRm)	2,324	3,548	4,008	3,665	3,944
Recurring net profit (MYRm)	155	304	342	315	347
Recurring net profit growth (%)	15.6	95.8	12.6	(7.9)	10.1
Recurring P/E (x)	18.58	9.49	8.43	9.15	8.32
P/B (x)	4.5	3.8	4.7	4.7	4.7
P/CF (x)	9.83	25.09	5.22	7.83	9.06
Dividend Yield (%)	3.5	8.9	10.1	8.9	9.3
EV/EBITDA (x)	12.00	7.54	5.55	6.11	5.55
Return on average equity (%)	25.9	36.6	49.9	51.8	57.0
Net debt to equity (%)	4.0	1.3	net cash	net cash	net cash

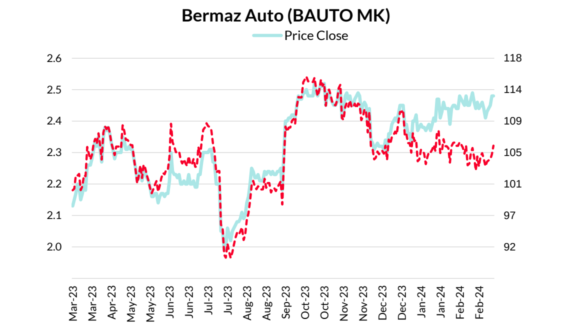
Source: Company data, RHB

Analyst

Syahril Hanafiah
+603 2302 8131
syahril.hanafiah@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	0.0	5.1	7.8	17.0
Relative	(0.6)	(0.4)	(1.1)	2.0	8.8
52-wk Price low/high (MYR)					1.99 –2.52



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.

Financial Exhibits

Asia
Malaysia
Consumer Cyclical
Bermaz Auto
BAUTO MK
Buy

Valuation basis

11.5x CY24F P/E

Key drivers

i. Strong growth from Philippines;
ii. Better than expected consumer spending;
iii. New model launches.

Key risks

i. Unfavourable FX movements;
ii. Disruption in product pipeline;
iii. Lacklustre consumer spending;
iv. Slower-than-expected normalisation in demand post Sales & Service Tax exemption at end 2021;
v. Sustained disruptions in semiconductor chip supply.

Company Profile

BAUTO is involved in the distribution, assembling, retailing and also the provision of after sales service of Mazda vehicles in Malaysia. The company is also involved in the domestic distribution of locally assembled Mazda vehicles and export of the locally assembled Mazda vehicles. Subsidiary Bermaz Auto Philippines distributes Mazda vehicles in the Philippines.

Financial summary (MYR)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Recurring EPS	0.13	0.26	0.29	0.27	0.30
DPS	0.09	0.22	0.25	0.22	0.23
BVPS	0.55	0.66	0.52	0.52	0.52
Return on average equity (%)	25.9	36.6	49.9	51.8	57.0

Valuation metrics	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Recurring P/E (x)	18.58	9.49	8.43	9.15	8.32
P/B (x)	4.5	3.8	4.7	4.7	4.7
FCF Yield (%)	9.7	3.5	19.0	12.6	10.9
Dividend Yield (%)	3.5	8.9	10.1	8.9	9.3
EV/EBITDA (x)	12.00	7.54	5.55	6.11	5.55
EV/EBIT (x)	13.20	8.08	5.91	6.51	5.90

Income statement (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Total turnover	2,324	3,548	4,008	3,665	3,944
Gross profit	375	591	641	586	631
EBITDA	224	352	470	416	461
Depreciation and amortisation	(20)	(23)	(29)	(26)	(28)
Operating profit	204	329	441	390	434
Net interest	(4)	5	4	9	9
Pre-tax profit	218	373	483	445	489
Taxation	(60)	(94)	(116)	(107)	(117)
Reported net profit	155	255	342	315	347
Recurring net profit	155	304	342	315	347

Cash flow (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Change in working capital	72	(238)	132	18	(15)
Cash flow from operations	293	115	552	368	318
Capex	(15)	(15)	(5)	(5)	(5)
Cash flow from investing activities	(29)	1	6	10	10
Dividends paid	(102)	(256)	(291)	(256)	(267)
Cash flow from financing activities	(132)	(269)	(304)	(266)	(252)
Cash at beginning of period	86	172	89	135	175
Net change in cash	133	(153)	254	112	76
Ending balance cash	218	20	343	247	250

Balance sheet (MYRm)	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Total cash and equivalents	172	89	135	175	157
Tangible fixed assets	43	45	50	55	58
Total investments	276	314	276	276	276
Total assets	1,560	1,777	1,517	1,462	1,488
Short-term debt	100	100	75	50	50
Total long-term debt	100	0	0	0	0
Total liabilities	872	938	851	795	820
Total equity	688	839	666	667	667
Total liabilities & equity	1,560	1,777	1,517	1,462	1,488

Key metrics	Apr-22	Apr-23	Apr-24F	Apr-25F	Apr-26F
Revenue growth (%)	1.6	52.7	13.0	(8.6)	7.6
Recurrent EPS growth (%)	15.6	95.8	12.6	(7.9)	10.1
Gross margin (%)	16.1	16.7	16.0	16.0	16.0
Operating EBITDA margin (%)	9.6	9.9	11.7	11.4	11.7
Net profit margin (%)	6.7	7.2	8.5	8.6	8.8
Dividend payout ratio (%)	65.6	100.1	85.0	81.2	77.1
Capex/sales (%)	0.6	0.4	0.1	0.1	0.1
Interest cover (x)	19.1	35.5	58.8	65.1	72.3

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments
Revenue	**976.0**	**1,007.0**	**896.5**	**(11.0)**	**(8.1)**	**2,475.8**	**2,992.7**	**20.9**	9MFY24 YoY growth was driven by both the Malaysia and Philippines segments.
- Malaysia	927.7	918.0	805.8	(12.2)	(13.1)	2,316.3	2,712.7	17.1	
- Philippines	48.3	88.9	90.7	2.0	87.8	159.5	280.0	75.6	
EBIT	**99.0**	**107.6**	**87.1**	**(19.1)**	**(12.0)**	**250.4**	**325.4**	**29.9**	Strong YoY improvement likely due to a better product mix.
- Malaysia	94.0	91.7	74.3	(19.0)	(21.0)	233.7	284.8	21.9	
- Philippines	6.7	16.1	13.3	(17.6)	97.3	20.0	44.0	119.6	
Interest expense	(2.7)	(2.1)	(1.8)	(12.6)	(33.1)	(7.4)	(5.7)	(23.3)	
Interest income	4.5	2.9	2.3	(19.6)	(47.7)	10.6	8.4	(21.0)	
Associates	14.8	14.4	7.5	(48.3)	(49.5)	28.0	30.5	8.6	Strong YoY improvements were largely driven by Mazda Malaysia.
Pre-tax profit	**115.5**	**122.8**	**95.1**	**(22.6)**	**(17.7)**	**281.7**	**358.6**	**27.3**	
Tax	(23.3)	(27.1)	(20.5)	(24.2)	(11.9)	(62.1)	(80.4)	29.6	
Minority interest	(4.9)	(5.6)	(4.0)	(28.5)	(17.9)	(16.5)	(17.3)	5.1	
Net profit	**87.3**	**90.1**	**70.5**	**(21.7)**	**(19.2)**	**203.1**	**260.8**	**28.4**	
Core profit	**87.3**	**89.0**	**70.6**	**(20.7)**	**(19.1)**	**203.1**	**260.8**	**28.4**	9MFY24 results are largely in line with our and Street's estimates at 73% and 77%.
EBIT margin (%)	*10.1*	*10.7*	*9.7*			*10.1*	*10.9*		
Pre-tax margin (%)	*11.8*	*12.2*	*10.6*			*11.4*	*12.0*		
Effective tax rate (%)	*(20.2)*	*(22.1)*	*(21.6)*			*(22.0)*	*(22.4)*		
Net margin (%)	*8.9*	*8.8*	*7.9*			*8.2*	*8.7*		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Mazda 2	56	29	49	69.0	(12.5)	238	123	(48.3)
Mazda 3	8	328	150	(54.3)	1,775.0	203	1,361	570.4
Mazda 6	65	28	16	(42.9)	(75.4)	162	95	(41.4)
CX-3	362	500	276	(44.8)	(23.8)	560	1,340	139.3
CX-30	182	1,837	1,691	(7.9)	829.1	922	4,561	394.7
CX-5	2,763	1,583	1,616	2.1	(41.5)	6,486	4,911	(24.3)
MX-30	4	4	0	(100.0)	(100.0)	4	5	25.0
CX-8	969	587	441	(24.9)	(54.5)	1,896	1,673	(11.8)
CX-9	11	3	2	(33.3)	(81.8)	30	9	(70.0)
MX-5	8	5	5	0.0	(37.5)	28	19	(32.1)
BT-50	25	14	21	50.0	(16.0)	242	87	(64.0)
	4,453	**4,918**	**4,267**	**(13.2)**	**(4.2)**	**10,771**	**14,184**	**31.7**

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Mazda 2	6	8	5	(37.5)	(16.7)	37	19	(48.6)
Mazda 3	0	99	57	(42.4)	n.m.	52	267	413.5
Mazda 6	0	6	6	0.0	n.m.	0	16	n.m.
CX-3	4	11	6	(45.5)	50.0	14	23	64.3
CX-30	1	29	9	(69.0)	800.0	28	73	160.7
CX-5	137	87	75	(13.8)	(45.3)	322	310	(3.7)
CX-8	42	97	57	(41.2)	35.7	201	289	43.8
CX-9	20	37	15	(59.5)	(25.0)	108	153	41.7
CX-60	0	32	130	306.3	n.m.	0	215	n.m.
CX-90	0	78	68	(12.8)	n.m.	0	151	n.m.
MX-5	51	54	25	(53.7)	(51.0)	122	139	13.9
BT-50	89	72	153	112.5	71.9	275	291	5.8
	350	**610**	**606**	**(0.7)**	**73.1**	**1,159**	**1,946**	**67.9**

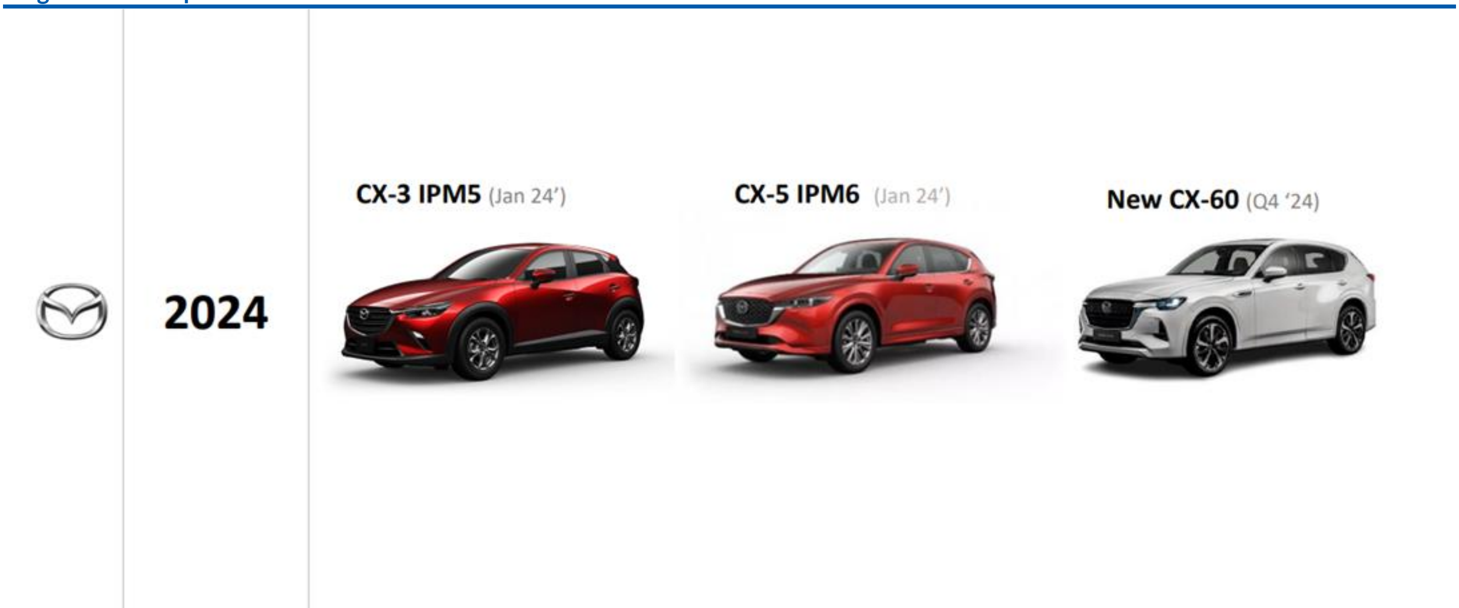
Source: Company data

Figure 4: Key assumptions

Sales (Units)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Malaysia – Mazda	13,439	12,038	15,598	18,600	16,000	16,100
Philippines – Mazda	1,254	1,304	1,663	2,500	2,400	2,500
Kia	-	360	2,194	1,900	2,400	2,800

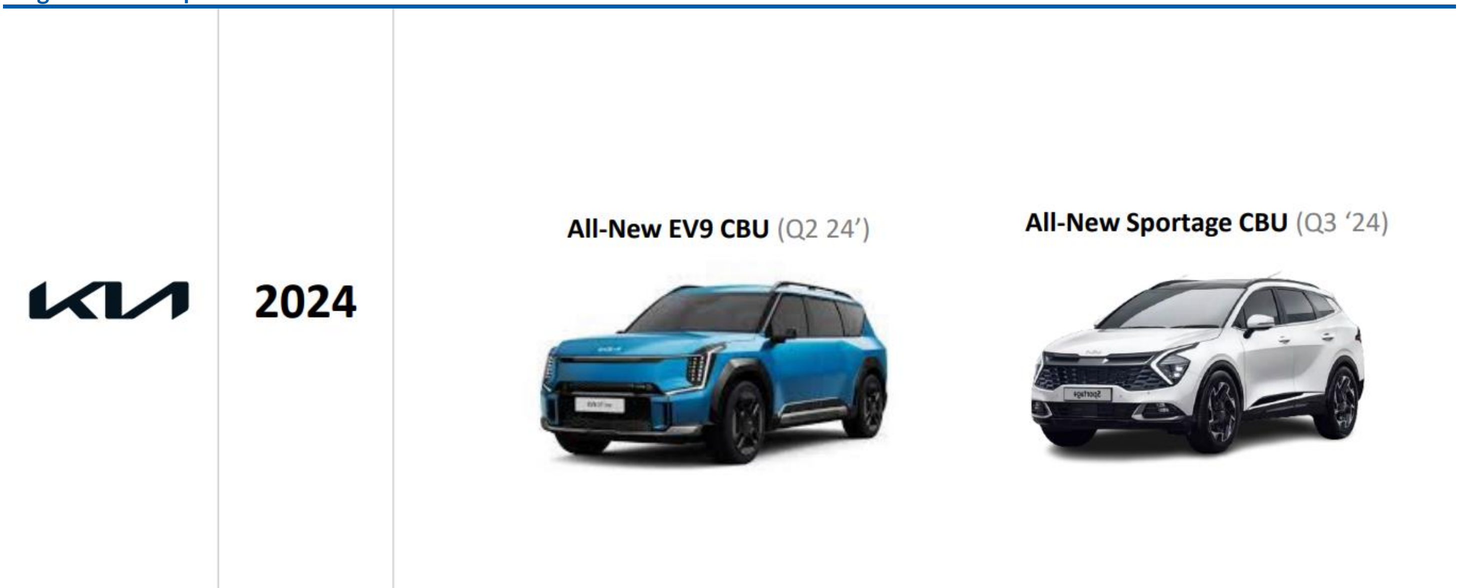
Source: RHB

Figure 5: Line-up of Mazda models



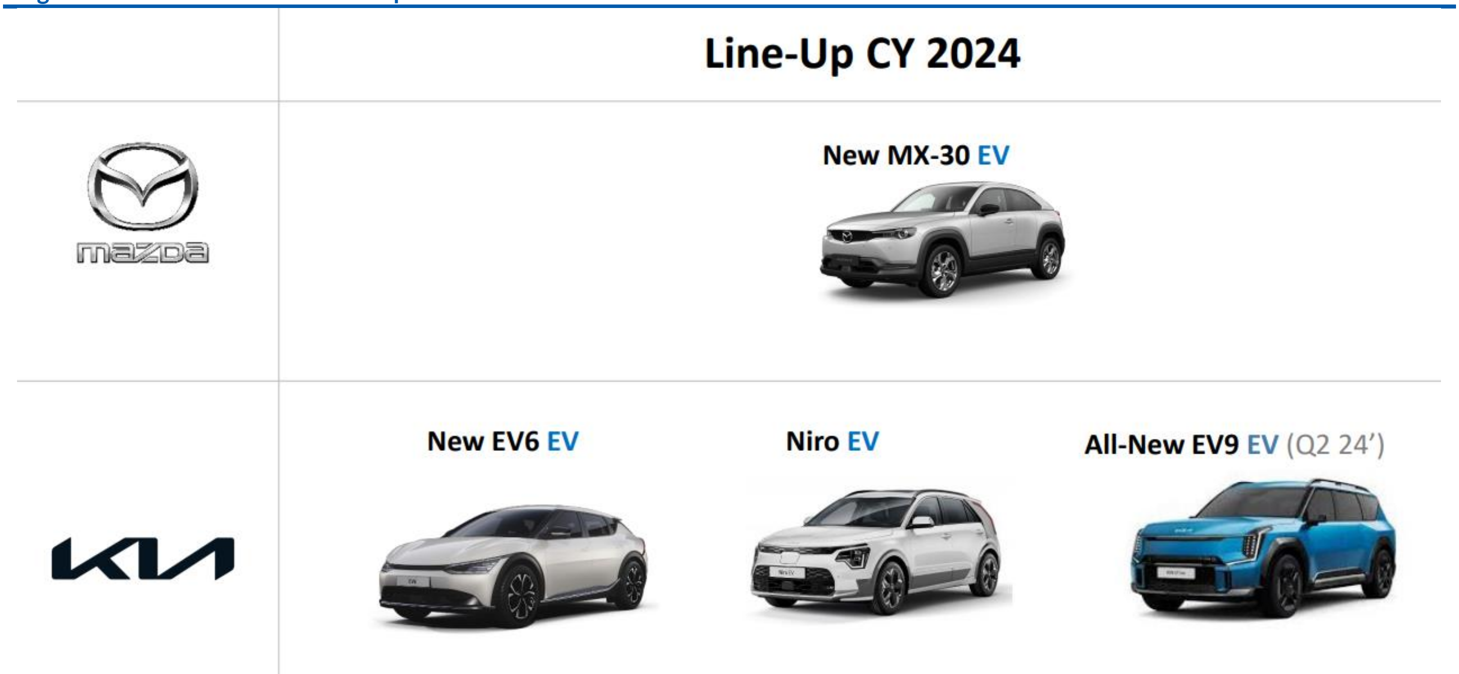
Source: Company data

Figure 6: Line-up of Kia models



Source: Company data

Figure 7: BAUTO's EV model line-up



Source: Company data

Emissions And ESG

Trend analysis

In FY23, 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).

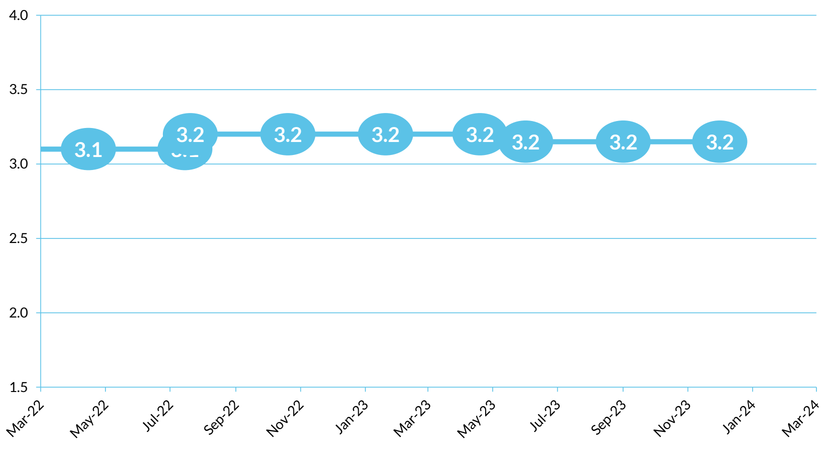
Emissions (tCO2e)	Apr-21	Apr-22	Apr-23
Scope 1	567	574	915
Scope 2	2,309	2,231	2,672
Scope 3	3	3	2,030
Total emissions	2,879	2,808	5,617

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 perform a climate change risk assessment.
- **Waste and pollution management:** BAUTO is committed to addressing pollution and waste issue by avoiding its 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
2023-12-13	Buy	3.60	2.36
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

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
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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
Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470