

26 August 2019

MBM Resources Bhd

Gear Downshifting

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MARKET PERFORM

Price : **RM4.26** ↓
Target Price : **RM4.40** ↔

1H19 results briefing was presented by Ms Annie Chin (CFO) and well attended by c.40 analysts/fund managers. Despite the keenly awaited launch of the 2019 face-lifted Axia in early-Sep to meet its year-end sales target of 235k units, the best of earnings growth appears to be in the rear-view mirror. With a 2-year CAGR of merely 7.7%, on a 1-year Fwd. PER of 9x, we rate this stock as Fairly Valued and having risen an impressive 93% YTD, we believe the positives are priced in at the current level. As such, we downgrade it to MP from OP with a TP of RM4.40.

1H19 results were excellent. 1H19 core PATAMI rose to RM94.8m (+20%) boosted by higher associates' contribution (+23%), and improved motor vehicles trading division's performance, as both benefited from Perodua's sales volume of 121,743 units (+4%) buoyed by the all-new Myvi, with further boost from the all-new ARUZ. Furthermore, auto parts segment recorded higher PBT of RM6.3m (+31%) from the cessation of its loss-making alloy-wheels plant as well as from improved production efficiency. MBMR is still negotiating with the potential buyer for its alloy-wheels plant (under Oriental Metal Industries (M) S/B) in which it initially invested RM103m. The plant value has since been impaired down to RM46.7m as at 31 Dec 2017. MBMR is expected to record one-off gain from this plant disposal and have separately recognized OMI contribution under discontinued business. MBMR also guided that the growing aftersales throughput (+3.5% YoY) is one of the drivers for the improved Automotive segment margin (+1.4ppt) and will continue to improve this segment with service center renovations and improved customer service.

2019 face-lifted Perodua Axia to lift 2H19 sales. 2019 face-lifted Axia (SUV-inspired looks with updated technological variants, i.e. ASA 2.0 and a touchscreen head unit with reverse camera) is now open for pre-launch booking ahead of early-September launch and to be priced at RM24k to RM43k. Axia is the number one volume contributor to Perodua, contributing c.40% of total Perodua sales based on c.49k units sold in 1H19 of total 121,743 units (+4%). Other the hand, other new models from MBMR dealerships stable would be Volkswagen Arteon, Volkswagen Passat (facelift), Volvo V60 (CBU) and Volvo S60 (CBU).

Dividend policy at 60% of holding company. MBMR is an investment holding company which income dependent on the dividend received from its subsidiaries and associates. Given the large earnings contribution from associates and Perodua, the dividend policy would be based on the holding company level income. Thus, MBMR intends to maintain a dividend payout policy of a minimum of 60% at the holding company level. Nonetheless, we maintain our full-year DPS assumption at 12.0 sen (c.25% dividend pay-out, on the group level) as MBMR typically pay DPS in the 2H at a same level of DPS pay-out as in the 1H.

Outlook. MBMR is a proxy to Perodua from its deep value stake in 22.58%-owned Perodua and dual-income streams as the largest Perodua dealer and as a parts supplier for most of the popular marques. Perodua has continued to record stronger sales, with a market share of 41%, premised on the higher delivery of all-new Myvi and all-new Perodua ARUZ (25k bookings, 17.9k delivered). Perodua is targeting a stronger year in 2019 with 235k unit sales (+3.5%) with reduction in waiting time for ARUZ to c.1 month from c.2 months.

MBMR share price has risen an impressive 93% YTD and we believe that much of the positives could have been priced in at this juncture. Downgrade to MP from OP with unchanged TP of RM4.40, based on PER of 9x FY20E EPS (at 5-year Fwd. historical mean PER). In our opinion, a premium to mean valuation is difficult to justify given (i) the slowing earnings growth momentum and (ii) that a significant portion of earnings are derived from the associate level.

Risks to our call include: (i) a sharp downturn in the economy leading to lower-than-expected car sales volume, and (ii) lower-than-expected associates' contribution.

Share Price Performance



KLCI	1,609.33
YTD KLCI chg	-4.8%
YTD stock price chg	93.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBM MK EQUITY
Market Cap (RM m)	1,665.2
Issued shares	390.9
52-week range (H)	4.28
52-week range (L)	1.86
3-mth avg daily vol:	1,053,326
Free Float	36%
Beta	0.6

Major Shareholders

Med-Bumikar Mara Sdn Bhd	49.5%
Employees Provident Fund	10.9%
AIA Bhd	4.0%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	1,928.2	1,856.5	1,862.0
EBIT	12.5	39.7	40.3
PBT	200.7	226.6	232.6
Net Profit	165.5	187.1	191.8
Core Net Profit	165.5	187.1	191.8
Consensus (NP)	-	178.5	186.9
Earnings Revision	-	-	-
Core EPS (sen)	42.4	47.9	49.1
Core EPS growth	59.4	13.0	2.5
NDPS (sen)	6.0	12.0	12.0
BVPS (RM)	4.04	4.40	4.77
PER (x)	10.1	8.9	8.7
PBV (x)	1.1	1.0	0.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.4	2.8	2.8

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New Model Launches



Volkswagen Arteon



Volkswagen Passat (Facelift)



Volvo V60 (CBU)



Volvo S60 (CBU)

Source: Company, Kenanga Research

2019 Perodua Axia pricing

2019 Perodua Axia						
Variants	Trans	Available colours				Est OTR prices w/o insurance for PMsia
E	MT	Ivory White				RM24,090
G	AT	Ivory White	Glittering Silver	Midnight Blue	Lava Red	RM33,490
GXtra		Ivory White	Glittering Silver	Midnight Blue	Lava Red	RM34,990
STYLE		Ivory White	Glittering Silver	Midnight Blue	Sunrise Orange	RM38,890
SE		Ivory White	Glittering Silver	Midnight Blue	Lava Red	RM38,890
AV		Ivory White	Glittering Silver	Midnight Blue	Lava Red	RM43,190

Source: Paultan.org, Kenanga Research

Aftersales throughput

- Group – Service Throughput in units, 2017 to 2019



Source: Company, Kenanga Research

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Income Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	1,670.2	1,721.6	1,928.2	1,856.5	1,862.0
Op. Profit	-49.2	-250.7	12.5	39.7	40.3
Depreciation	-23.3	-21.5	-18.1	-18.7	-20.1
Int. Inc/(Exp)	-12.0	-11.1	-5.9	-3.0	0.2
Joint Venture	11.7	9.9	14.3	10.7	11.1
Associate	131.2	119.1	179.8	179.1	180.9
PBT	81.6	-132.7	200.7	226.6	232.6
Taxation	-6.9	-12.4	-11.7	-16.7	-17.1
MI	9.7	-6.4	23.5	26.7	27.4
CNP	95.4	103.9	165.5	187.1	191.8

Balance Sheet

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
F. Assets	353.6	270.7	271.3	292.6	312.5
Intangible Assets	157.5	1.1	1.1	1.1	1.1
Other F. Assets	1,316.8	1,306.5	1,372.6	1,372.6	1,372.6
Inventories	191.9	149.1	104.8	208.5	209.2
Receivables	177.5	147.9	138.1	183.1	183.6
Other C. Assets	11.1	15.0	26.7	26.7	26.7
Cash	173.0	201.1	194.7	160.8	285.0
Total Assets	2,381.4	2,091.4	2,109.3	2,245.5	2,390.8
Payables	126.1	132.1	126.1	122.1	122.4
ST Borrowings	166.3	175.6	58.2	58.2	58.2
Other ST Liability	2.3	4.2	3.8	3.8	3.8
LT Borrowings	203.4	104.0	85.5	85.5	85.5
Other LT Liability	11.0	9.3	7.2	7.2	7.2
Net Assets	1,872.4	1,666.2	1,828.6	1,968.9	2,113.8
S.Equity	1,605.8	1,449.7	1,578.1	1,718.3	1,863.2
Minority Interests	266.6	216.5	250.6	250.6	250.6
Total Equity	1,872.4	1,666.2	1,828.6	1,968.9	2,113.8

Cashflow Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	-37.0	81.9	64.4	-123.1	30.0
Investing CF	52.8	114.7	102.9	139.1	140.9
Financing CF	-43.4	-183.2	-169.0	-49.9	-46.7
Change In Cash	-27.7	13.5	-1.7	-33.9	124.2
Free CF	-67.6	51.3	33.8	-163.1	-10.0

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Growth (%)					
Turnover	-8.0	3.1	12.0	-3.7	0.3
EBITDA	-8.0	3.1	12.0	-3.7	0.3
Op Profit	N.M	N.M	N.M	218.8	1.5
PBT	N.M	N.M	N.M	12.9	2.6
CNP	13.5	8.9	59.4	13.0	2.5
Profitability (%)					
Op. Margin	-2.9	-14.6	0.6	2.1	2.2
PBT Margin	4.9	-7.7	10.4	12.2	12.5
CNP Margin	5.7	6.0	8.6	10.1	10.3
ROA	2.8	-6.2	7.9	8.6	8.3
ROE	4.1	-9.1	10.9	11.4	10.7

DuPont Analysis

Net Margin (%)	5.7	6.0	8.6	10.1	10.3
Assets T/O (x)	0.7	0.8	0.9	0.8	0.8
Lev. Factor (x)	1.5	1.4	1.3	1.3	1.3
ROE (%)	4.1	-9.1	10.9	11.4	10.7

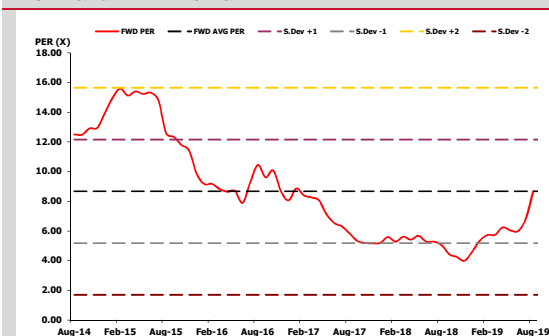
Leverage

Debt/Asset (x)	0.2	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
N. (Cash)/Debt	196.7	78.5	(51.0)	(17.1)	(141.4)
N. Debt/Equity (x)	0.1	0.1	(0.0)	(0.0)	(0.1)

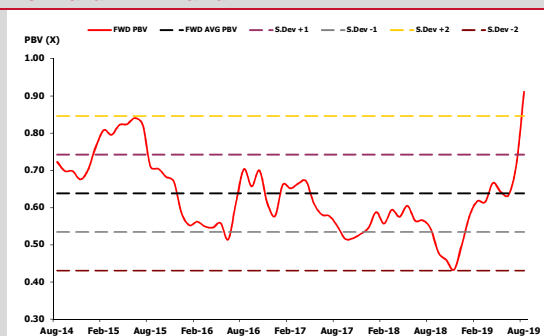
Valuations

Core EPS (sen)	24.4	26.6	42.4	47.9	49.1
NDPS (sen)	6.0	3.0	6.0	12.0	12.0
BV/sh (RM)	4.1	3.7	4.0	4.4	4.8
PER (x)	17.5	16.0	10.1	8.9	8.7
Div. Yield (%)	1.4	0.7	1.4	2.8	2.8
PBV (x)	1.0	1.1	1.1	1.0	0.9
EV/EBITDA (x)	(35.0)	(4.3)	37.2	26.9	28.3

Forward PER Band



Forward PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
AUTOMOTIVE																	
BERMAZ AUTO BHD	2.32	2,694.9	Y	04/2020	2.9%	0.5%	0.7%	2.0%	10.2	10.1	9.9	4.7	4.4	45.1%	8.4%	3.00	OP
DRB-HICOM BHD	2.95	5,703.0	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	31.2	32.8	18.5	0.8	0.8	2.6%	1.0%	2.60	UP
MBM RESOURCES BERHAD	4.26	1,665.2	Y	12/2019	-3.7%	0.3%	13.0%	2.5%	10.1	8.9	8.7	1.1	1.0	11.4%	2.8%	4.40	MP
SIME DARBY BERHAD	2.14	14,553.8	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	17.0	17.2	16.9	1.0	1.0	5.8%	3.5%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.51	985.5	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	9.4	12.7	11.2	0.4	0.4	2.8%	2.6%	1.40	MP
UMW HOLDINGS BHD	5.19	6,063.4	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	16.0	16.2	13.3	1.8	1.7	10.8%	1.4%	5.45	MP
Simple Average					-8.9%	13.7%	-3.7%	19.4%	15.6	16.3	13.0	1.6	1.5	13.5%	3.7%		
CONSENSUS ESTIMATES																	
APM AUTOMOTIVE HOLDINGS BHD	2.42	473.2	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	12.3	12.4	11.9	0.4	0.4	3.0	0.1	2.63	SELL
PECCA GROUP BHD	1.27	232.9	Y	06/2020	2.4%	5.1%	15.4%	7.6%	14.0	12.1	11.3	1.4	1.3	11.2	0.1	1.40	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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