

05 September 2019

Bermaz Auto Bhd

Bracing through a Weak Quarter

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Due to be released next week, we expect its 1Q20 CNP to chalk between RM45-50m, which we deemed as below our/consensus expectation at c.17-20% of full-year estimate, due to weaker-than-expected local unit sales. As such, we cut FY20E/FY21E CNP by 17%/5% and our TP to RM2.75 (from RM3.00). BAUTO will be launching the face-lifted/turbo CX-5 and all-new Mazda CX-8, which should drive the remaining quarters' sales. Coupled with above-industry profit margin and steady-dividend yield of 7%, we maintain our OP call.

Expecting a weaker 1Q20. Results due to be released within next week; we expect 1Q20 CNP to come in between RM45-50m, weaker compared to RM60.1m in 4Q19 (-25%/-17% QoQ), but comparable to RM50.3m in 1Q19 (-10%/-1% YoY). We attributed this to the weaker local Mazda sales at 2,880 units (-4% QoQ; -14% YoY), based on MAA data, after fulfilling back-orders from the zero-rated tax discount period, particularly for its outgoing CX-5, as well as expected lower associates' contribution from the lower production volume as Mazda Malaysia S/B (MMSB) has ceased outgoing CX-5 production since July 2019, but with sufficient supply to cater up to September 2019. Our assumption for the 1Q20 PATAMI is based on vehicles' average selling price for the past three quarters. Note that, c.60% of the 4Q19 unit sales was contributed by the all-new Mazda CX-5. Nevertheless, we expect its sales volume to recover with the incoming face-lifted and turbo variants of CX-5 (CKD-open for booking-launching on 30th Sept), and all-new Mazda CX-8 (CKD-launching on 1st Oct) which should drive the remaining quarters' sales. Note that last year, 1Q19 was affected by the supply constraint from 30%-owned associate, MMSB, due to the unexpected surges in demand for passenger cars during the zero-rated tax holiday.

Challenging outlook in Philippines operation. BAUTO's Philippines market will continue to be impacted by the Tax Reform for Acceleration and Inclusion (TRAIN) law, effective since January 2018. The TRAIN law has caused an increase in excise tax (up to 7%) and consequently, higher car prices, thus affecting the demand for motor vehicles in the Philippines. BAUTO plans to preserve its sales volume by increasing its dealerships there to 21 by the end of CY19 from the 18 dealerships in CY18. Note that its 60.4%-owned BAUTO Philippines is still experiencing volatile sales volume in 4Q19 at 643 units (-37% QoQ, -36% YoY).

Exciting new launches starting 2Q20. BAUTO has launched the all-new Mazda 3 Sedan and Hatchback (CBU) in July 2019. Looking forward, BAUTO will launch its popular face-lifted and turbo variants of CX-5 (CKD launching on 30th Sept, tentative pricing range at RM133k-180k), and all-new Mazda CX-8 (CKD launching on 1st Oct, tentative pricing range at RM180k-210k). BAUTO is also looking to bring in the all-new CX-30 (CBU from Thailand) and face-lifted CX-3 (CBU) in Dec 2019. BAUTO will introduce another new model (CKD) that will be introduced at the Tokyo Motor Show on 23rd October 2019 (estimated launch in CY2020/CY2021).

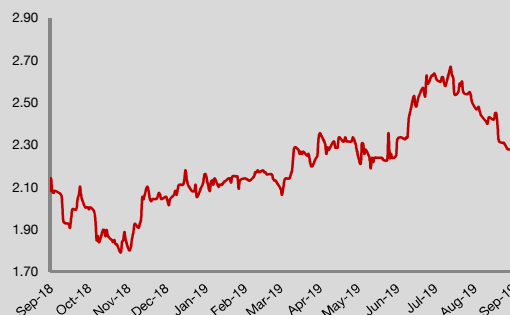
We cut FY20E/FY21E CNP by 17%/5% to reflect lower-than-expected unit sales. As such, we cut our TP to RM2.75 (from RM3.00) based on 13x CY20E EPS (at -0.5SD of its historical 3-year Fwd. PER mean. However, we still like BAUTO for its: (i) expected earnings recovery from the stream of all-new models, especially from its popular, face-lifted/turbo Mazda CX-5, (ii) superior margins, above industry peers (average profit margin of c.9% vs. peers of c.2%), and (iii) steady dividend yield at 7%. **Maintain OUTPERFORM.**

Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

OUTPERFORM ↔

Price: RM2.29
Target Price: RM2.75 ↓

Share Price Performance



KLCI	1,599.89
YTD KLCI chg	-5.4%
YTD stock price chg	9.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BAUTO MK EQUITY
Market Cap (RM m)	2,660.1
Shares Outstanding	1,161.6
52-week range (H)	2.78
52-week range (L)	1.75
3-mth avg daily vol:	3,507,860
Free Float	73%
Beta	0.6

Major Shareholders

Dynamic Milestone Sdn Bhd	13.2%
Employees Provident Fund	9.5%
Skim Amanah Saham Bumiputera	3.9%

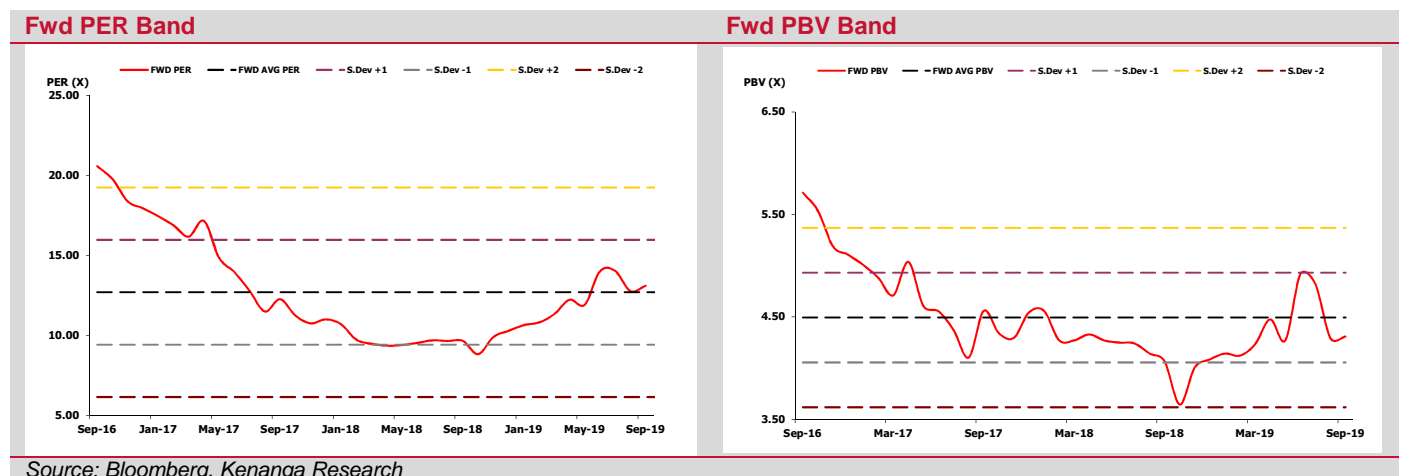
Summary Earnings Table

FYE Apr (RM m)	2019A	2020E	2021E
Turnover	2,492.1	2,506.5	2,519.7
EBIT	284.0	254.0	276.1
PBT	342.3	286.8	334.8
Core PATAMI (CNP)	265.3	221.9	259.0
Consensus (NP)	-	256.5	270.5
Earnings Revision	-	-17%	-5%
Core EPS (sen)	22.8	19.1	22.3
Core EPS growth (%)	89.5	-16.3	16.7
NDPS (sen)	21.3	16.2	19.0
BVPS (RM)	0.49	0.52	0.56
PER (x)	10.0	12.0	10.3
PBV (x)	4.6	4.4	4.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	9.3	7.1	8.3

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Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E	FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1,660.0	1,992.9	2,492.1	2,506.5	2,519.7	Growth (%)					
EBIT	159.8	178.6	284.0	254.0	276.1	Turnover	-20.8	20.1	25.1	0.6	0.5
Other Income	13.8	19.9	8.8	10.0	10.1	EBITDA	-32.1	19.2	147.7	-40.1	4.7
Interest Inc/(Exp)	0.8	-3.0	8.1	10.3	13.5	Op. Profit	-38.9	11.8	58.9	-10.6	8.7
Associate	14.0	21.4	50.2	22.6	45.2	PBT	-37.3	12.9	73.7	-16.2	16.7
PBT	174.6	197.1	342.3	286.8	334.8	PATAMI	-40.5	19.0	89.5	-16.3	16.7
Taxation	-43.1	-46.1	-74.2	-63.1	-73.7	Profitability (%)					
Minority Interest	-13.8	-11.0	-2.8	-1.8	-2.1	Op. Margin	9.6	9.0	11.4	10.1	11.0
PATAMI	117.6	140.0	265.3	221.9	259.0	PBT Margin	10.5	9.9	13.7	11.4	13.3
Balance Sheet						CNP Margin	7.1	7.0	10.6	8.9	10.3
FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E	ROA	12.4	15.5	29.3	22.1	23.3
Fixed Assets	23.5	19.8	31.2	24.2	16.8	ROE	24.1	30.4	50.6	37.7	41.4
Int. Assets	0.5	0.5	0.5	0.5	0.5	DuPont Analysis					
Other F. Assets	155.9	176.5	237.8	237.8	237.8	Net Margin (%)	7.1	7.0	10.6	8.9	10.3
Inventories	434.7	247.4	277.9	280.5	282.9	Assets T/O(x)	1.7	2.3	2.6	2.4	2.1
Receivables	79.0	100.4	92.6	93.3	93.9	Lev. Factor (x)	2.2	1.8	1.7	1.7	1.8
Other CA	17.4	0.3	0.1	0.1	0.1	ROE (%)	24.1	30.4	50.6	37.7	41.4
Cash	244.8	306.8	320.2	409.2	550.0	Leverage					
Total Assets	955.7	851.7	960.4	1,045.6	1,182.1	Debt/Asset (x)	0.1	0.2	-	-	-
Payables	270.1	140.0	161.0	162.6	164.2	Debt/Equity (x)	0.1	0.4	-	-	-
ST Borrowings	58.9	46.1	0.0	0.0	0.0	Net (Cash)/Debt	(185.9)	(120.5)	(320.2)	(409.2)	(550.0)
Ot. ST Liabilities	67.4	76.0	86.4	86.4	86.4	Gearing (x)	(0.4)	(0.3)	(0.6)	(0.7)	(0.9)
LT Borrowings	0.0	140.2	0.0	0.0	0.0	Valuations					
Ot. LT Liabilities	66.9	-75.1	101.7	101.7	101.7	Core EPS(sen)	10.1	12.1	22.8	19.1	22.3
Net Assets	492.4	524.5	611.3	694.9	829.8	NDPS (sen)	11.7	10.3	21.3	16.2	19.0
S.Equity	443.4	476.8	572.6	605.9	644.7	BV/sh (RM)	0.4	0.4	0.5	0.5	0.6
Minority Interests	49.0	47.7	38.7	89.0	185.0	PER (x)	22.7	19.1	10.1	12.0	10.3
Total Equity	492.4	524.5	611.3	694.9	829.8	Div. Yield (%)	5.1	4.5	9.2	7.1	8.2
Cashflow Statement						PBV (x)	6.0	5.6	4.7	4.4	4.1
FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E	EV/EBITDA (x)	14.0	14.5	13.0	13.2	13.1
Operating CF	22.0	200.2	249.5	247.9	305.4						
Investing CF	8.2	2.2	-6.9	19.5	42.1						
Financing CF	-151.3	-119.2	-236.9	-178.4	-206.7						
Change In Cash	-121.1	83.3	5.6	89.0	140.8						
Free CF	17.4	195.6	244.9	243.3	300.8						

Source: 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.		
STOCKS UNDER COVERAGE																	
BERMAZ AUTO BHD	2.29	2,660.1	Y	04/2020	0.6%	0.5%	-16.3%	16.7%	10.0	12.0	10.3	4.3	3.8	34.0%	7.1%	2.75	OP
DRB-HICOM BHD	2.54	4,910.4	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	26.8	28.2	15.9	0.7	0.7	2.6%	1.2%	2.60	UP
MBM RESOURCES BERHAD	4.21	1,645.6	Y	12/2019	-3.7%	0.3%	13.0%	2.5%	9.9	8.8	8.6	1.0	1.0	11.4%	2.9%	4.40	MP
SIME DARBY BERHAD	2.30	15,641.9	Y	06/2020	4.1%	4.4%	-9.4%	15.4%	16.5	18.2	15.7	1.1	1.1	5.8%	4.3%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.44	939.8	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	8.9	12.1	10.7	0.3	0.3	2.8%	2.8%	1.40	MP
UMW HOLDINGS BHD	5.01	5,853.2	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	15.4	15.6	12.9	1.8	1.6	10.8%	1.5%	5.45	MP
Simple Average					-9.1%	14.0%	-8.7%	25.0%	14.4	15.9	12.2	1.5	1.4	11.3%	3.7%		
CONSENSUS NUMBERS																	
APM AUTOMOTIVE HOLDINGS BHD	2.40	469.3	Y	12/2019	-0.3%	3.3%	2.5%	2.2%	12.2	11.9	11.7	0.4	0.4	3.1	0.1	2.45	SELL
PECCA GROUP BHD	1.07	196.2	Y	06/2020	1.5%	3.5%	4.4%	4.2%	11.8	11.3	10.9	1.1	1.2	10.2	0.1	1.26	SELL

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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