

17 September 2019

Bermaz Auto Bhd

1Q20 Within Our Expectation

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1Q20 PATAMI of RM50.5m (-16% QoQ, 0% YoY) came in within our expectation at 23%, but below consensus' at 20%, of full-year estimate. 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 and TP of RM2.75 which is based on 13x CY20E EPS (at -0.5SD of its historical 3-year Fwd. PER mean).

1Q20 within our expectation. 1Q20 PATAMI of RM50.5m (-16% QoQ, 0% YoY) came in within our expectation at 23%, but below consensus' at 20%, of full-year estimate. A 1st interim DPS of 3.25 sen (1Q18: 2.50 sen) was declared for the quarter, within our expectation.

Results Highlights, 1Q20 PATAMI plunged 16% QoQ and recorded marginal growth YoY, despite sales decreasing at a lower rate of -1% QoQ and stronger sales at +10% YoY, largely due to contraction in EBIT margin by 2.0-2.1ppt to 10.5% from 12.5% and 12.6% in 4Q19 and 1Q19, respectively. This was attributed to the reduction in gross profit margin following the outgoing Mazda CX-5 run-out promotion as more sales incentives were given to clear inventories of this model. The strengthening of the Japanese Yen against the Malaysian Ringgit and Philippine Peso also offset gross profit margin. This was, however cushioned by lower effective tax rate of 20.9% from 22.4% and 23.3% in 4Q19 and 1Q19, respectively as well as stronger associates' (+3% QoQ, +76% YoY) contribution due to the ramp-up production in outgoing Mazda CX-5 volume up to September 2019 after ceasing outgoing CX-5 production since July 2019. On the other hand, after applying MFRS 16, net impact was fairly minimal at -RM0.6m as the group recognised RM2.81m of depreciation charges for right-of-use assets and RM0.96m of interest cost for the lease liability instead of RM3.18m as rental expenses.

Weak Philippines car sales. BAUTO recorded total car sales at 3,787 units (-4% QoQ, 0% YoY). Specifically, local car sales volume is at 3,260 units (-1% QoQ, +9% YoY) with the outgoing Mazda CX-5 contributing 67% to total unit sales, while last year's lower base was due to the supply constraint during tax-holiday promotion. On the other hand, the Philippines operation continued to record weak unit sales at 527 units (-18% QoQ, -34% YoY) subsequent to the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) as well as cessation in delivery of Mazda 3 and Mazda CX-3 in preparation for upcoming all-new models launching. Upcoming all-new Mazda CX-8 is highly anticipated in the Philippines market which is expected to sell c.100 units/month and should be able to support Philippines sales and mitigate TRAIN impact as well as driving up the Mazda Malaysia S/B (MMSB)'s export sales contribution.

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 ranges at RM133-180k), and all-new Mazda CX-8 (CKD launching on 1st Oct, tentative pricing range at RM180-210k). 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).

Maintain OUTPERFORM with unchanged TP of RM2.75 based on 13x CY20E EPS (at -0.5SD of its historical 3-year Fwd. PER mean. 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 of 7%.

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

OUTPERFORM ↔

Price: RM2.39
Target Price: RM2.75 ↔

Share Price Performance



KLCI	1,601.25
YTD KLCI chg	-5.3%
YTD stock price chg	14.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BAUTO MK EQUITY
Market Cap (RM m)	2,776.2
Shares Outstanding	1,161.6
52-week range (H)	2.78
52-week range (L)	1.75
3-mth avg daily vol:	3,749,859
Free Float	62%
Beta	0.6

Major Shareholders

Dynamic Milestone Sdn Bhd	13.2%
Employees Provident Fund	9.7%
Skim Amanah Saham Bumiputera	3.9%

Summary Earnings Table

FY 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
PATAMI	265.3	221.9	259.0
Consensus (NP)	-	249.1	268.1
Earnings Revision	-	-	-
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)	10.5	12.5	10.7
PBV (x)	4.8	4.6	4.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	8.9	6.8	7.9

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Result Highlight

	1Q	4Q	QoQ	1Q	YoY
FYE Apr (RM'm)	FY20	FY19	Chg	FY19	Chg
Turnover	535.0	538.3	-1%	485.4	10%
EBIT	56.1	67.1	-16%	61.3	-8%
Associates	8.6	8.4	3%	4.9	76%
PBT/(LBT)	65.0	77.6	-16%	67.2	-3%
Taxation	(13.6)	(17.4)	22%	(15.7)	13%
PATAMI	50.5	60.1	-16%	50.3	0%
EPS (sen)	4.4	5.2	-16%	4.3	0%
DPS (sen)	3.25	10.50		2.5	
EBIT margin	10.5%	12.5%		12.6%	
PBT margin	12.2%	14.4%		13.9%	
PATAMI margin	9.4%	11.2%		10.4%	
Effective tax rate	20.9%	22.4%		23.3%	

Source: Bursa Announcement, Kenanga Research

Unit Sales

	1Q	4Q	QoQ	1Q	YoY
	FY20	FY19	Chg	FY19	Chg
Malaysia	3,260	3,283	-1%	2,983	9%
Philippines	527	643	-18%	800	-34%
Total	3,787	3,926	-4%	3,783	0%

Source: Company, 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	2.39	2,776.2	Y	04/2020	0.6%	0.5%	-16.3%	16.7%	10.5	12.5	10.7	4.5	4.0	34.0%	6.8%	2.75	OP
DRB-HICOM BHD	2.49	4,813.8	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	26.3	27.7	15.6	0.7	0.7	2.6%	1.2%	2.60	UP
MBM RESOURCES BERHAD	4.27	1,669.1	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	2.34	15,914.0	Y	06/2020	4.1%	4.4%	-9.4%	15.4%	16.8	18.5	16.0	1.1	1.1	5.8%	4.3%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.38	900.7	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	8.6	11.6	10.2	0.3	0.3	2.8%	2.9%	1.40	MP
UMW HOLDINGS BHD	5.00	5,841.5	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	15.4	15.6	12.8	1.8	1.6	10.8%	1.5%	5.45	MP
Simple Average					-9.1%	14.0%	-8.7%	25.0%	14.4	15.8	12.3	1.5	1.4	11.3%	3.6%		
CONSENSUS ESTIMATES																	
APM AUTOMOTIVE HOLDINGS BHD	2.41	471.2	Y	12/2019	-0.3%	3.3%	2.5%	2.2%	12.3	12.0	11.7	0.4	0.4	3.1	0.1	2.45	SELL
PECCA GROUP BHD	1.13	207.2	Y	06/2020	1.5%	3.5%	5.4%	3.2%	12.5	11.8	11.5	1.2	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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