

08 October 2019

## Bermaz Auto Bhd

Expecting Better Scenery in 2HFY20

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We came away from a meeting with CEO Dato' Francis Lee, feeling positive on its 2HFY20 prospect which could be better than the first half, riding on the recently launched face-lifted/turbo Mazda CX-5 and the all-new Mazda CX-8 which are expected to drive 55-60% of total local sales and also generate better export sales to the Philippines. We reiterate our OP call with a TP of RM2.75 on above-industry profit margin and steady-dividend yield of 7.4%.

**Mazda CX-5 and CX-8 to drive local sales.** BAUTO recently launched its popular face-lifted and turbo variants of Mazda CX-5 on 30<sup>th</sup> September 2019 (CKD), and all-new Mazda CX-8 on 1<sup>st</sup> October 2019 (CKD) which are expected to drive 55-60% of the total local sales and also generate better export sales to Philippines. The CX-5 is targeted to register c.7k units/year (current booking at c.500 unit), while the CX-8 at c.2.5k/year (current booking at c.200 unit). Both models are locally assembled at the Inokom plant in Kulim, Kedah with tentative pricing of c.RM137-180k for the face-lifted/turbo CX-5 (previously, no turbo variant at RM133k-RM174k), while the CX-8 will cost 15% to 20% more than the CX-5 CKD at c.RM175-205k. On the other hand, BAUTO and its partners are looking to invest up to RM200m to expand 29%-owned, Inokom's plant production capacity from 50k to 80k units per annum by 2021/2022 to cater for the growing production demand for the all-new models.

**Delay in invoiced sales to 2HFY20, as expected.** The final pricing for the 2019 CX-5 and all-new CX-8 is expected to be unveiled within 3 weeks from the launching date pending pricing approval from the government agencies, which could drive most of the invoiced sales to 2H of the financial year, hence, its 2QFY20 (August-October quarter) sales could post weaker/flat sales. Nevertheless, overall results are expected to be cushioned by stronger associates as BAUTO switched production to the all-new CX-5 and all-new CX-8. The Inokom plant has started production of its latest Mazda model in August 2019. Note that, the recent 1QFY20 results was affected by the weaker gross profit margin following the outgoing Mazda CX-5 run-out promotion as more sales incentives were given to clear inventories of this model. However, this was cushioned by stronger associates' contribution due to the ramp-up in production for the outgoing Mazda CX-5 volume (ready stock up to September 2019) after ceasing the outgoing CX-5 production in July 2019.

**Dividend pay-out of at least 80% of PATAMI.** BAUTO is committed to delivering dividend pay-out of at least 80% of PATAMI which translates into dividend yield of c.7-8%. BAUTO has been paying an average dividend pay-out of c.90% of PATAMI for the last five years.

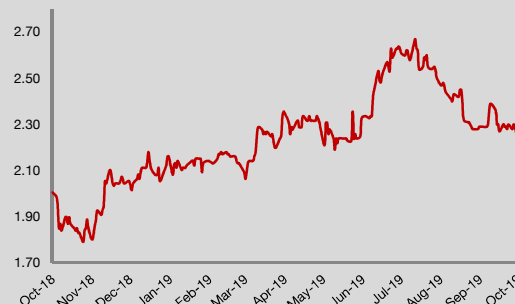
**Exciting new launches starting 2QFY20.** BAUTO has launched the all-new Mazda 3 Sedan and Hatchback (CBU) in July 2019, its popular face-lifted and turbo variants of CX-5 (CKD, 30<sup>th</sup> Sept), and all-new Mazda CX-8 (7-seater SUV, CKD, 1<sup>st</sup> Oct). BAUTO is also looking to bring in the all-new CX-30 (CBU from Thailand) and face-lifted CX-3 (CBU) in Dec 2019. BAUTO will introduce another new model (CKD based on demand) that will be introduced at the Tokyo Motor Show on 23<sup>rd</sup> October 2019 (estimated launch in CY2020/CY2021) which could be an electric vehicle (EV), tentatively in two formats; (i) full EV, and (ii) range extender powered by a small rotary engine (necessary for other markets where daily commutes are longer or Malaysia which lacks EV infrastructure).

**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 like BAUTO for its: (i) expected earnings recovery from the stream of all-new models, (ii) superior margins, above industry peers (average profit margin of c.9% vs. peers of c.2%), and (iii) steady dividend yield of 7.4%. **Risks to our call include:** (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

**OUTPERFORM** ↔

**Price:** RM2.21  
**Target Price:** RM2.75 ↔

### Share Price Performance



KLCI 1,559.00  
YTD KLCI chg -7.8%  
YTD stock price chg 5.6%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker BAUTO MK Equity  
Market Cap (RM m) 2,567.2  
Shares Outstanding 1,161.6  
52-week range (H) 2.78  
52-week range (L) 1.75  
3-mth avg daily vol: 3,313,378  
Free Float 61%  
Beta 0.6

### Major Shareholders

Dynamic Milestone Sdn Bhd 13.2%  
Employees Provident Fund 10.4%  
Permodalan Nasional Berhad 3.9%

### Summary Earnings Table

FY Apr (RM m)	2019A	2020E	2021E
Turnover	2,492.1	2,506.5	2,639.3
EBIT	284.0	254.0	276.3
PBT	342.3	286.8	334.8
<b>Core PATAMI (CNP)</b>	<b>265.3</b>	<b>221.9</b>	<b>259.0</b>
Consensus (NP)	-	241.5	262.4
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)	9.7	11.6	9.9
PBV (x)	4.5	4.2	4.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	9.6	7.4	8.6

**Income Statement**

FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1,660.0	1,992.9	2,492.1	2,506.5	2,639.3
EBIT	159.8	178.6	284.0	254.0	276.3
Other Income	13.8	19.9	8.8	10.0	10.6
Interest Inc/(Exp)	0.8	-3.0	8.1	10.3	13.3
Associate	14.0	21.4	50.2	22.6	45.2
PBT	174.6	197.1	342.3	286.8	334.8
Taxation	-43.1	-46.1	-74.2	-63.1	-73.6
Minority Interest	-13.8	-11.0	-2.8	-1.8	-2.1
<b>PATAMI</b>	<b>117.6</b>	<b>140.0</b>	<b>265.3</b>	<b>221.9</b>	<b>259.0</b>

**Balance Sheet**

FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	23.5	19.8	31.2	24.2	16.8
Int. Assets	0.5	0.5	0.5	0.5	0.5
Other F. Assets	155.9	176.5	237.8	237.8	237.8
Inventories	434.7	247.4	277.9	280.5	304.7
Receivables	79.0	100.4	92.6	93.3	99.2
Other CA	17.4	0.3	0.1	0.1	0.1
Cash	244.8	306.8	320.2	409.2	536.9
<b>Total Assets</b>	<b>955.7</b>	<b>851.7</b>	<b>960.4</b>	<b>1,045.6</b>	<b>1,196.0</b>
Payables	270.1	140.0	161.0	162.6	178.1
ST Borrowings	58.9	46.1	0.0	0.0	0.0
Ot. ST Liabilities	67.4	76.0	86.4	86.4	86.4
LT Borrowings	0.0	140.2	0.0	0.0	0.0
Ot. LT Liabilities	66.9	-75.1	101.7	101.7	101.7
<b>Net Assets</b>	<b>492.4</b>	<b>524.5</b>	<b>611.3</b>	<b>694.9</b>	<b>829.8</b>
S.Equity	443.4	476.8	572.6	605.9	644.7
Minority Interests	49.0	47.7	38.7	89.0	185.0
<b>Total Equity</b>	<b>492.4</b>	<b>524.5</b>	<b>611.3</b>	<b>694.9</b>	<b>829.8</b>

**Cashflow Statement**

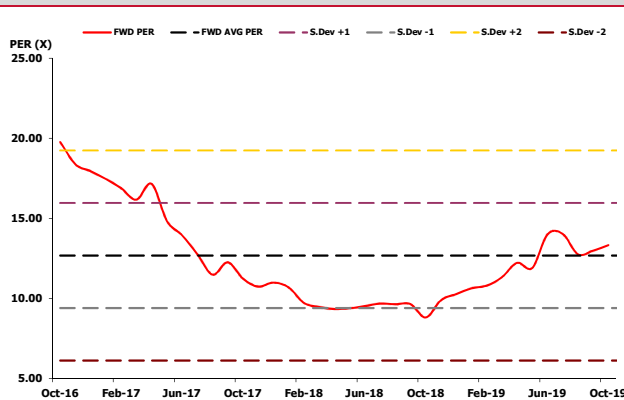
FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	22.0	200.2	249.5	247.9	292.5
Investing CF	8.2	2.2	-6.9	19.5	42.1
Financing CF	-151.3	-119.2	-236.9	-178.4	-206.9
Change In Cash	-121.1	83.3	5.6	89.0	127.7
Free CF	17.4	195.6	244.9	243.3	287.9

**Financial Data & Ratios**

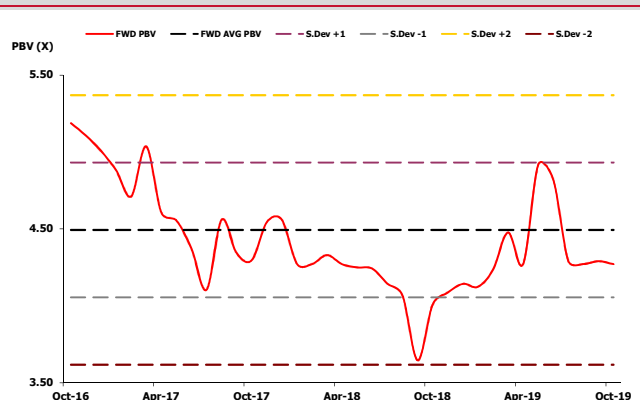
FY Apr (RM m)	2017A	2018A	2019A	2020E	2021E
<b>Growth (%)</b>					
Turnover	-20.8	20.1	25.1	0.6	5.3
EBITDA	-32.1	19.2	147.7	-40.1	7.0
Op. Profit	-38.9	11.8	58.9	-10.6	8.8
PBT	-37.3	12.9	73.7	-16.2	16.7
PATAMI	-40.5	19.0	89.5	-16.3	16.7
<b>Profitability (%)</b>					
Op. Margin	9.6	9.0	11.4	10.1	10.5
PBT Margin	10.5	9.9	13.7	11.4	12.7
CNP Margin	7.1	7.0	10.6	8.9	9.8
ROA	12.4	15.5	29.3	22.1	23.1
ROE	24.1	30.4	50.6	37.7	41.4
<b>DuPont Analysis</b>					
Net Margin (%)	7.1	7.0	10.6	8.9	9.8
Assets T/O(x)	1.7	2.3	2.6	2.4	2.2
Lev. Factor (x)	2.2	1.8	1.7	1.7	1.9
ROE (%)	24.1	30.4	50.6	37.7	41.4
<b>Leverage</b>					
Debt/Asset (x)	0.1	0.2	-	-	-
Debt/Equity (x)	0.1	0.4	-	-	-
Net (Cash)/Debt	(185.9)	(120.5)	(320.2)	(409.2)	(536.9)
Gearing (x)	(0.4)	(0.3)	(0.6)	(0.7)	(0.8)
<b>Valuations</b>					
Core EPS(sen)	10.1	12.1	22.8	19.1	22.3
NDPS (sen)	11.7	10.3	21.3	16.2	19.0
BV/sh (RM)	0.4	0.4	0.5	0.5	0.6
PER (x)	21.8	18.3	9.7	11.6	9.9
Div. Yield (%)	5.1	5.3	4.7	9.6	7.4
PBV (x)	5.8	5.4	4.5	4.2	4.0
EV/EBITDA (x)	14.0	14.5	13.0	13.2	13.2

Source: Kenanga Research

**Fwd PER Band**



**Fwd 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.			
<b>STOCKS UNDER COVERAGE</b>																	
BERMAZ AUTO BHD	2.21	2,567.2	Y	04/2020	0.6%	0.5%	-16.3%	16.7%	9.7	11.6	9.9	4.2	3.7	34.0%	7.4%	2.75	OP
DRB-HICOM BHD	2.34	4,523.8	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	24.7	26.0	14.7	0.7	0.7	2.6%	1.3%	2.60	MP
MBM RESOURCES BERHAD	3.99	1,559.6	Y	12/2019	-3.7%	0.3%	13.0%	2.5%	9.4	8.3	8.1	1.0	0.9	11.4%	3.0%	4.40	MP
SIME DARBY BERHAD	2.25	15,301.9	Y	06/2020	4.1%	4.4%	-9.4%	15.4%	16.1	17.8	15.4	1.0	1.0	5.8%	4.4%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.33	868.0	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	8.3	11.2	9.8	0.3	0.3	2.8%	3.0%	1.40	MP
UMW HOLDINGS BHD	4.84	5,654.5	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	14.9	15.1	12.4	1.7	1.6	10.8%	1.5%	5.45	MP
<b>Simple Average</b>					<b>-9.1%</b>	<b>14.0%</b>	<b>-8.7%</b>	<b>25.0%</b>	<b>13.6</b>	<b>15.0</b>	<b>11.6</b>	<b>1.4</b>	<b>1.3</b>	<b>11.3%</b>	<b>3.8%</b>		
<b>CONSENSUS NUMBERS</b>																	
APM AUTOMOTIVE HOLDINGS BHD	2.30	449.7	Y	12/2019	-0.3%	3.3%	2.5%	2.2%	11.7	11.4	11.2	0.4	0.4	3.0	0.1	2.45	SELL
PECCA GROUP BHD	1.13	207.2	Y	06/2020	1.9%	3.6%	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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