

13 December 2018 | 2QFY19 Results Review

## Bermaz Auto

*Record earnings in 2QFY19*

**Maintain BUY**

**Unchanged Target Price (TP):RM2.70**

### INVESTMENT THESIS

- **2QFY19 within our expectation but ahead of consensus, 3.75sen dividends declared**
- **Quarterly earnings hits record high**
- **Massive backlog orders and lower than expected SST compensation**
- **Re-affirm BUY at unchanged TP of RM2.70, 7.5% yields attractive**

**Results within expectation.** BAuto reported 2QFY19 earnings of RM74m, which brought 1HFY19 earnings to RM124m. This is within our expectations but ahead of consensus accounting for 55% of our FY19F and 60% of consensus. An interim dividend of 3.75sen/share was declared, 134%yoy higher and represents a 58% payout ratio.

**Quarterly earnings hits a record.** Earnings more than tripled year-on-year on the back of strong volumes (+79%yoy) which was driven by the June-August tax holiday period. Additionally, the strong earnings were supported by a strong Ringgit in the period. In-line with the strong Mazda TIV, earnings from associates (comprising 30%-owned Mazda Malaysia (MMSB) and 29%-owned Inokom) rose to RM18m from below RM1m in the 2Q18. Associate earnings more than tripled on sequential basis.

**Solid booking bank.** Given strong booking bank of >8K units, with over 6K comprising the CX5, TIV for the rest of the year could remain pretty strong. This is against pre-tax holiday monthly TIV of just 1K-1.3K and a normal production rate of just 1.5K/month. Even post-SST in Sept, there were still around 130 unit of additional bookings for the CX5.

**Localisation now factored into SST calculation.** Car prices were originally expected to increase 1%-3% post-SST, which is basically a reversal of the impact from transition to GST back in 2015. However, there was a change in the way the SST 2.0 is calculated - SST calculation now exempts localised components, essentially reducing the amount chargeable by the 10% SST - this is similar to the excise duty mechanism which rewards localisation. Unlike CKDs, CBU prices are still raised by 1%-3% post-SST 2.0 as the full amount of docket price, import duty and excise duty are chargeable by a 10% SST.

**Impact of SST compensation toned down.** Given the lower than earlier anticipated SST cost, implications from subsidising SST for bookings pre-Sept 1<sup>st</sup> are also toned down. BAuto has around 8K pre-Sept bookings to compensate, of which ~6K comprise the CX5 (CKD). Given the new mechanism, SST cost (for the CX5) is estimated to reduce from RM5.7K/car (under GST) to RM3.8K/car (under SST 2.0), or a reduction of 2.8% against the CX5's average price. Cost to compensate for SST (for the CX5) is expected to reduce from an earlier estimated RM34m to just RM22m. Earlier plan was to claw back margins by lowering dealer incentives as well as lower A&P and marketing expenses. However, since the cost for SST compensation is now lower, and given that the cost saving initiatives are still intact, margins next quarter may possibly be little affected, we think.

RETURN STATS	
Price (12 Dec 2018)	RM2.10
Target Price	RM2.70
Expected Share Price Return	+28.5%
Expected Dividend Yield	+7.5%
<b>Expected Total Return</b>	<b>+36.1%</b>

STOCK INFO	
KLCI	1792.60
Bursa / Bloomberg	5248 / BAUTO MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,162.10
Market cap. (RM'm)	2,405.55
Price over NA	5.01
52-wk price Range	RM1.84 - RM2.47
Beta (against KLCI)	0.56
3-mth Avg Daily Vol	2.77m
3-mth Avg Daily Value	RM6.22m
Major Shareholders (%)	
Dynamic Milestone	15.0%
EPF	13.0%
ASB	4.8%

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## INVESTMENT STATISTICS

FYE Apr	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,112	1,660	1,993	2,306	2,354
EBIT (RM'm)	262	162	179	291	306
Pre-tax Profit (RM'm)	279	177	197	320	335
Core net profit (RM'm)	202	119	140	226	236
FD EPS (sen)	17.5	10.3	12.1	19.5	20.4
EPS growth (%)	(7.8)	(41.1)	17.6	61.2	4.5
PER (x)	11.8	20.1	17.1	10.6	10.2
Net Dividend (sen)	16.9	11.7	10.4	15.6	16.3
Net Dividend Yield (%)	8.2	5.6	5.0	7.5	7.9

Source: Company, MIDF

**Recommendation.** Re-affirm BUY at unchanged TP of RM2.70. From a valuation standpoint, BAuto is cheap at just 12x CY19F earnings (against a 61%yoy FY19F earnings growth), while dividend yield of 7% is attractive. BAuto is an entrepreneur driven, highly cash generative asset-light business while the capex-intensive manufacturing unit is parked under 30%-owned MMSB and is kept off-balance sheet. MMSB itself is already self-funding. Manufacturing capex has peaked having built up production capacity to 34K units/annum (on 2-shift) – FY19F-20F is mostly about monetising this incremental capacity via new models i.e. CX5 and CX8 and export expansion to South East Asia ex-Vietnam.

Key share price catalysts in the next 12 months:

- (1) An 17%-30%yoy Mazda TIV growth (FY19F)** coupled with margin expansion driven by full year impact of new CX5
- (2) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given export market expansion to South East Asia (ex-Vietnam) and re-acceleration in production for the domestic market.
- (3) Launch of locally assembled CX8** 2QFY20F, which fills a gap in Mazda's model mix
- (4) Attractive dividend yield of 7%** - net cash accounts for 10% of market cap coupled with solid 9% FCFE yield (FY19F). Our payout assumption is capped at 80% vs. historical 80%-113% payout.

## EXHIBIT 1: BAUTO 2QFY19 RESULT SUMMARY

FYE Apr (RMm)	2Q18	1Q19	2Q19	QoQ	YoY	1H17	1H18	YTD
Revenue	471.7	485.4	690.3	42%	46%	966.8	1,175.7	22%
<b>Operating profit</b>	<b>35.5</b>	<b>61.3</b>	<b>74.1</b>	<b>21%</b>	<b>109%</b>	<b>94.8</b>	<b>135.4</b>	<b>43%</b>
Interest income	0.5	1.4	2.3	63%	392%	2.5	3.6	46%
Finance cost	(1.5)	(0.3)	0.0	-112%	-102%	(0.7)	(0.3)	-61%
Associates	0.2	4.9	18.2	270%	9322%	8.4	23.1	176%
Pretax profit	34.6	67.2	94.6	41%	173%	105.0	161.8	54%
Tax	(9.1)	(15.7)	(20.0)	28%	119%	(25.6)	(35.6)	39%
PAT	25.50	51.6	74.6	45%	193%	79.4	126.2	59%
MI	3.3	1.3	0.7	-47%	-79%	7.6	2.0	-74%
Net profit	22.2	50.3	73.9	47%	233%	71.7	124.2	73%
<b>Core net profit</b>	<b>22.2</b>	<b>50.3</b>	<b>73.9</b>	<b>47%</b>	<b>233%</b>	<b>71.7</b>	<b>124.2</b>	<b>73%</b>
EPS (sen)	1.92	4.35	6.39	47.0%	232.9%	6.20	10.74	73%
GDPS (sen)	1.60	2.50	3.75	50.0%	134.4%	3.10	6.25	102%
EBIT margin	7.5%	12.6%	10.7%			9.8%	11.5%	
Pretax margin	7.3%	13.9%	13.7%			10.9%	13.8%	
Core net profit margin	4.7%	10.4%	10.7%			7.4%	10.6%	
Tax rate	26.3%	23.3%	21.1%			24.4%	22.0%	
Mazda TIV (Malaysia, units)	2,539	2,983	4,535	52.0%	78.6%	4,901	7,518	53%
Avg revenue per car (RM)	128,398	136,187	135,067	-0.8%	5.2%	156,041	135,511	-13%
Malaysia revenue (RMm)	326.0	406.2	612.5	50.8%	87.9%	764.8	1,018.8	33%
Philippines revenue (RMm)	145.7	79.2	77.8	-1.7%	-46.6%	202.0	156.9	-22%
Malaysia EBIT (RMm)	23.9	56.7	73.2	29.0%	206.0%	68.7	129.9	89%
Philippines EBIT (RMm)	11.9	4.6	2.9	-36.6%	-75.2%	26.7	7.6	-72%
Malaysia EBIT margin	7.3%	14.0%	11.9%			9.0%	12.8%	
Philippines EBIT margin	8.1%	5.9%	3.8%			13.2%	4.8%	
BAP (P'pines) volume (units)	1,426	800	699	-12.6%	-51.0%	2,157	1,499	-31%
MMSB volumes (units)	1,785	3,647	6,696	83.6%	275.1%	5,504	10,343	88%
Dividend Payout ratio	83%	58%	59%			50%	58%	

Source: Company, MIDF

## EXHIBIT 2: BAUTO SUM-OF-PARTS VALUATION

	CY19F net profit (RMm)	PE (x)	Value (RMm)
Malaysia	198.6	13	2,522
Philippines	33.8	18	609
<b>Total value</b>			<b>3,132</b>
Shares out (m) (fully diluted)			1,157
<b>Value/share (RM)</b>			<b>2.70</b>

Source: Company, MIDF

## DAILY PRICE CHART



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<b>Income Statement</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Revenue</b>	<b>1,830</b>	<b>2,112</b>	<b>1,660</b>	<b>1,993</b>	<b>2,306</b>	<b>2,354</b>
Operating expenses	(1,544)	(1,850)	(1,838)	(1,910)	(2,015)	(2,048)
<b>EBIT</b>	<b>286</b>	<b>262</b>	<b>162</b>	<b>179</b>	<b>291</b>	<b>306</b>
Net interest expense	6	5	1	(3)	-	-
Associates	9	11	14	21	29	29
<b>PBT</b>	<b>301</b>	<b>279</b>	<b>177</b>	<b>197</b>	<b>320</b>	<b>335</b>
Taxation	(78)	(68)	(43)	(46)	(73)	(76)
Minority Interest	(7)	(13)	(14)	11	(22)	(23)
<b>Net profit</b>	<b>215</b>	<b>198</b>	<b>119</b>	<b>140</b>	<b>226</b>	<b>236</b>
<b>Core net profit</b>	<b>215</b>	<b>202</b>	<b>119</b>	<b>140</b>	<b>226</b>	<b>236</b>
<i>Consensus net profit</i>	215	198	128	131	206	236
<b>Balance Sheet</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Non-current assets</b>	<b>130.8</b>	<b>163.5</b>	<b>181.0</b>	<b>189.0</b>	<b>217.5</b>	<b>246.2</b>
PPE	23.6	24.0	23.2	21.7	21.0	20.4
Investments in associate	79.3	98.2	112.2	126.0	155.2	184.5
Others	27.9	41.3	45.6	41.3	41.3	41.3
<b>Current assets</b>	<b>601.2</b>	<b>788.6</b>	<b>773.1</b>	<b>804.5</b>	<b>867.9</b>	<b>914.4</b>
Inventories	215.6	310.2	432.2	270.4	299.8	306.0
Receivables	103.5	105.7	84.5	83.2	92.2	94.1
Others	1.2	1.2	11.7	1.2	1.2	1.2
Cash & equivalent	280.8	371.6	244.8	449.7	474.7	513.2
<b>TOTAL ASSETS</b>	<b>732.0</b>	<b>952.1</b>	<b>954.2</b>	<b>993.5</b>	<b>1,085.3</b>	<b>1,160.6</b>
Share capital	406.8	403.6	403.6	403.6	403.6	403.6
Minority Interest	18.9	31.7	42.8	59.4	81.2	104.2
Reserves	69.9	128.0	47.9	153.6	199.4	246.7
<b>TOTAL EQUITY</b>	<b>495.6</b>	<b>563.4</b>	<b>494.4</b>	<b>616.6</b>	<b>684.3</b>	<b>754.4</b>
<b>Non-current liabilities</b>	<b>60.5</b>	<b>82.5</b>	<b>67.1</b>	<b>82.5</b>	<b>82.5</b>	<b>82.5</b>
Long-term borrowings	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Others	60.5	82.5	67.1	82.5	82.5	82.5
<b>Current liabilities</b>	<b>175.9</b>	<b>306.3</b>	<b>392.7</b>	<b>294.2</b>	<b>319.0</b>	<b>324.2</b>
Short-term borrowings	-	-	58.9	-	-	-
Payables	118.5	241.0	265.5	228.9	253.7	258.9
Others	57.4	65.3	68.4	65.3	65.3	65.3
<b>TOTAL LIABILITIES</b>	<b>236.4</b>	<b>388.8</b>	<b>459.8</b>	<b>376.6</b>	<b>401.5</b>	<b>406.7</b>

Cash Flow Statement	FY15	FY16	FY17	FY18	FY19F	FY20F
<b>Operating activities</b>						
PBT	300.9	278.7	176.6	188.5	320.3	335.2
Depreciation & Amortization	(6.4)	(1.9)	(0.2)	1.2	1.9	2.6
Chgs in working capital	(10.1)	28.6	55.0	(4.9)	(13.5)	(2.8)
Interest expense	(6.2)	-	-	-	-	-
Tax paid	-	-	-	-	-	-
Others	(56.1)	(61.0)	(204.3)	(54.3)	(96.8)	(101.5)
<b>CF from Operations</b>	<b>222.1</b>	<b>244.4</b>	<b>27.1</b>	<b>130.5</b>	<b>211.9</b>	<b>233.5</b>
<b>Investing activities</b>						
Capex	(44.7)	(13.9)	(13.9)	(6.4)	(6.4)	(6.4)
Others	6.5	5.3	17.8	-	-	-
<b>CF from Investments</b>	<b>(38.3)</b>	<b>(8.5)</b>	<b>3.9</b>	<b>(6.4)</b>	<b>(6.4)</b>	<b>(6.4)</b>
<b>Financing activities</b>						
Dividends paid	(98.1)	(147.2)	(119.0)	(103.4)	(180.6)	(188.7)
Net proceeds in borrowings	-	-	-	-	-	-
Others	4.5	2.2	(32.3)	-	-	-
<b>CF from Financing</b>	<b>(93.6)</b>	<b>(145.1)</b>	<b>(151.3)</b>	<b>(103.4)</b>	<b>(180.6)</b>	<b>(188.7)</b>
Net changes in cash	90.3	90.7	(120.3)	20.8	25.0	38.5
<b>Beginning cash</b>	<b>186.2</b>	<b>280.8</b>	<b>371.6</b>	<b>251.3</b>	<b>272.0</b>	<b>297.0</b>
Overdrafts & Deposits	4.4	-	-	-	-	-
<b>Ending cash</b>	<b>280.8</b>	<b>371.6</b>	<b>251.3</b>	<b>272.0</b>	<b>297.0</b>	<b>335.5</b>
<b>Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue growth	26.1%	19.7%	-8.8%	4.1%	10.9%	2.1%
EBITDA growth	69.7%	-9.2%	-39.6%	5.8%	70.6%	4.9%
Net profit growth	64.9%	-7.8%	-40.1%	8.6%	74.7%	4.5%
EBITDA margin	16.0%	12.1%	8.0%	8.1%	12.5%	12.9%
PATAMI margin	11.8%	9.1%	6.0%	6.2%	9.8%	10.0%
ROE	52.5%	39.4%	22.4%	23.7%	38.9%	37.6%
Operating ROA	42.4%	31.3%	16.9%	17.6%	28.0%	27.2%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
Book value/share (RM)	0.41	0.46	0.46	0.48	0.52	0.56
PBV (x)	5.0	4.5	4.5	4.3	4.0	3.7
EV/EBITDA (x)	4.9	5.1	8.1	7.5	4.3	4.0

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.