

12 September 2017 | 1QFY18 Result Review

## Bermaz Auto

**Weakest quarter in a backloaded FY18F**

**Maintain BUY**

**Unchanged Target Price (TP):RM2.55**

### INVESTMENT THESIS

- **1QFY18 earnings within expectations**
- **Operating earnings up 17%qoq given stronger Ringgit, associates impacted by run-out of old CX5**
- **Weakest quarter before gap-up in a backloaded FY18F**
- **Re-affirm BUY at unchanged TP of RM2.55**

**Weakest quarter in a backloaded FY18F.** BAUTO reported net profit of RM20m for its 1QFY18 (FYE April). While this accounts for 10%/11% of our/consensus FY18F, it is in-line with expectations as FY18F earnings is backloaded given launch of the new CX5 towards end 2QFY18. Any weakness in share price today is an opportunity to buy cheap after having seen share price rise ~15% in the past 3 trading days.

**Operating earnings rose by 2-digits.** Revenue and operating profit actually expanded by 11%qoq and 17%qoq respectively (Malaysia operations EBIT up 38%qoq given stronger Ringgit since Apr17, partly offset by 15%qoq decline in Phiippines due to weak Peso). The lower net profit was solely due to minimal earnings from associates as 30% owned Mazda Malaysia Sdn Bhd (MMSB) and 29% owned Inokom were impacted by lower volumes due to run-out of the old CX5 (i.e. produced less of the old CX5 while preparing for transition to new CX5 lines).

**Earnings gap-up** over the next few quarters will be 4-pronged: 1) Mazda TIV pick up from new CX5 in 2QFY18 2) Absence of old CX5 run-out discounts and price hike for new CX5 to boost margins mainly from 3QFY18 onwards 3) Export commencement of new CX5 to ASEAN ex-Vietnam from 2QFY18 4) Resumption in production given new CX5 launch in 2QFY18 to boost associate earnings from MMSB and Inokom.

**New CX5 alone to make up 40% FY18F Mazda TIV.** Based on our check with management, CX5 target volume for FY18F is 5K units which reflects 7 months contribution from Oct1-Apr18 (this alone will account for 40% of our FY18F Mazda TIV of ~13K), which is why we have been highlighting that FY18F earnings will be backloaded. Mass production expected 28th Sep and official launch 5<sup>th</sup> Oct. The new CX5 is already in production now and these few hundred units will be delivered by month end (prior to actual launch).

**Exports also kicking in 2H18.** Export volume target is 11K-12K for FY18F, also reflecting 7 months contribution from Oct17 till Apr18; this is slightly higher than our assumption of 10,840 units (FY18F). In the past year, including 1QFY18, there were negligible exports in anticipation of new CX5; we assumed zero exports for the first 5 months of FY18F and the ~11K export volume to kick in only from Oct17.

**Forex already falling into place.** Other than volume variables, forex is falling into place already; YTD average JPY stands at RM3.89:JPYx100, already exceeding our FY18F assumption of RM3.90.

RETURN STATS	
Price (11 Aug 2017)	RM2.13
Target Price	RM2.55
Expected Share Price Return	+19.7%
Expected Dividend Yield	+6.3%
<b>Expected Total Return</b>	<b>+26.0%</b>

STOCK INFO	
KLCI	1784.44
Bursa / Bloomberg	5248 / BAUTO MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,152.25
Market cap. (RM'm)	2,327.54
Price over NA	5.21
52-wk price Range	RM1.95 - RM2.44
Beta (against KLCI)	0.98
3-mth Avg Daily Vol	1.66m
3-mth Avg Daily Value	RM3.42m
Major Shareholders (%)	
Dynamic Milestone	13.1%
EPF	12.3%
Podium Success	6.3%

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**Kindly refer to the last page of this publication for important disclosures**

## INVESTMENT STATISTICS

FYE Apr	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,830	2,112	1,660	2,362	2,462
EBIT (RM'm)	286	262	162	248	287
Pre-tax Profit (RM'm)	301	279	177	271	325
Core net profit (RM'm)	215	202	119	194	237
FD EPS (sen)	18.6	17.5	10.3	16.8	20.5
EPS growth (%)	64.9	(7.8)	(41.1)	62.8	22.5
PER (x)	11.4	12.2	20.7	12.7	10.4
Net Dividend (sen)	14.6	16.9	11.7	13.4	16.4
Net Dividend Yield (%)	6.9	7.9	5.5	6.3	7.7

Source: Company, MIDFR

From a valuation standpoint, BAUTO is cheap at just 11x CY18F earnings, relative to historical sector PE of ~12x. Given a strong 41% earnings CAGR over the next 2 years, solid dividend yields and value unlocking from the listing of BAP, BAUTO should in fact trade at a premium to the sector. Reaffirm BUY at unchanged TP of RM2.55/share. Key share price catalysts in the next 12 months:

- (1) A 30%yoy growth in FY18F Mazda TIV** coupled with margin expansion driven by the new CX5 from Sep17
- (2) Strength of the Ringgit against the JPY**
- (3) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market.
- (4) Attractive dividend yield of 6.3%** underpinned by net cash which accounts for 12% of market cap and solid 7% FCFE yield (FY17F). Listing of Philippines unit will bump yields up further given potential one-off special dividends.
- (5) Value unlocking from the listing of BAUTO Philippines (BAP).** Current market cap attributes practically no value to BAUTO's stake in BAP relative to the 16x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAUTO trades at just 9x CY18F earnings. 

## EXHIBIT 1: MARKET ATTRIBUTING NO VALUE TO BAUTO'S STAKE IN BAP

BAUTO current market cap (RMm)	2,440
Value of domestic operations @ 12x CY18F PE (RMm)	2,391
Implied value of Bauto's 60% stake in BAP (RMm)	49.0
BAP contribution to BAUTO net profit (CY18F) (RMm)	23.6
Implied PE valuation of BAP at current market cap (x)	2.1
BAP IPO PER valuation (x)	15

Source: Company, MIDFR

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

	CY18F net profit (RMm)	PE (x)	Value (RMm)
Malaysia	199.2	12.7	2,530
Philippines	23.6	18.0	424
<b>Total value</b>			<b>2,954</b>
Shares out (m) (fully diluted)			1,157
<b>Value/share (RM)</b>			<b>2.55</b>

Source: Company, MIDFR

## EXHIBIT 3: BAUTO 1QFY18 RESULT REVIEW

FYE Apr (RMm)	1Q17	4Q17	1Q18	QoQ	YoY
Revenue	493.6	354.0	391.2	11%	-21%
<b>Operating profit</b>	<b>52.1</b>	<b>27.5</b>	<b>32.2</b>	<b>17%</b>	<b>-38%</b>
Interest income	1.7	0.7	0.6	-9%	-63%
Finance cost	(0.2)	(1.1)	(1.8)	64%	678%
Associates	5.0	5.6	0.7	-88%	-87%
Pretax profit	58.6	32.6	31.7	-3%	-46%
Tax	(14.3)	(7.0)	(8.6)	23%	-40%
PAT	44.25	25.65	23.16	-10%	-48%
MI	3.1	3.4	3.0	-14%	-6%
Net profit	41.1	22.2	20.2	-9%	-51%
<b>Core net profit</b>	<b>41.1</b>	<b>22.2</b>	<b>20.2</b>	<b>-9%</b>	<b>-51%</b>
EPS (sen)	3.6	1.92	1.75	-9.0%	-50.8%
GDPS (sen)	3.00	3.15	1.50	-52.4%	-50.0%
EBIT margin	10.6%	7.8%	8.2%		
Pretax margin	11.9%	9.2%	8.1%		
Core net profit margin	8.3%	6.3%	5.2%		
Tax rate	24.5%	21.4%	27.0%		
Mazda TIV (Malaysia, units)	3,371	2,203	2,362	7.2%	-29.9%
Avg revenue per car (RM)	120,001	114,837	120,116	4.6%	0.1%
Malaysia revenue (RMm)	404.5	253.0	283.7	12.1%	-29.9%
Philippines revenue (RMm)	89.1	101.0	107.5	6.4%	20.7%
Malaysia EBIT (RMm)	40.9	15.8	21.9	38.3%	-46.5%
Philippines EBIT (RMm)	11.5	12.3	10.5	-14.6%	-8.6%
Malaysia EBIT margin	10.1%	6.2%	7.7%		
Philippines EBIT margin	12.9%	12.2%	9.8%		
BAP (P'pines) volume (units)	1,001	1,009	1,075	6.5%	7.4%
MMSB volumes (units)	3,559	2,735	NA	NA	NA
Dividend Payout ratio	84%	164%	86%		
Spot JPY:MYR (x1000)	3.81	3.95	3.84	2.9%	-0.7%
P'pines EBIT contribution	22%	45%	33%		
CKD ratio	64%	56%	52%		

Source: Company, MIDFR

## DAILY PRICE CHART



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<b>Income Statement</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Revenue</b>	<b>1,451</b>	<b>1,830</b>	<b>2,112</b>	<b>1,660</b>	<b>2,362</b>	<b>2,462</b>
Operating expenses	(1,284)	(1,544)	(1,850)	(1,838)	(2,114)	(2,175)
<b>EBIT</b>	<b>167</b>	<b>286</b>	<b>262</b>	<b>162</b>	<b>248</b>	<b>287</b>
Net interest expense	2	6	5	1	-	-
Associates	11	9	11	14	23	38
<b>PBT</b>	<b>180</b>	<b>301</b>	<b>279</b>	<b>177</b>	<b>271</b>	<b>325</b>
Taxation	(46)	(78)	(68)	(43)	(62)	(72)
Minority Interest	(3)	(7)	(13)	(14)	(15)	(16)
<b>Net profit</b>	<b>131</b>	<b>215</b>	<b>198</b>	<b>119</b>	<b>194</b>	<b>237</b>
<b>Core net profit</b>	<b>131</b>	<b>215</b>	<b>202</b>	<b>119</b>	<b>194</b>	<b>237</b>
<i>Consensus net profit</i>	<i>131</i>	<i>215</i>	<i>198</i>	<i>128</i>	<i>183</i>	<i>215</i>
<b>Balance Sheet</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Non-current assets</b>	<b>86.1</b>	<b>130.8</b>	<b>163.5</b>	<b>181.0</b>	<b>194.0</b>	<b>231.3</b>
PPE	19.8	23.6	24.0	23.2	21.7	21.0
Investments in associate	39.8	79.3	98.2	112.2	131.0	169.1
Others	26.5	27.9	41.3	45.6	41.3	41.3
<b>Current assets</b>	<b>528.1</b>	<b>601.2</b>	<b>788.6</b>	<b>773.1</b>	<b>842.0</b>	<b>879.1</b>
Inventories	263.8	215.6	310.2	432.2	307.0	320.1
Receivables	42.8	103.5	105.7	84.5	94.5	98.5
Others	36.8	1.2	1.2	11.7	1.2	1.2
Cash & equivalent	184.7	280.8	371.6	244.8	439.3	459.4
<b>TOTAL ASSETS</b>	<b>614.2</b>	<b>732.0</b>	<b>952.1</b>	<b>954.2</b>	<b>1,036.0</b>	<b>1,110.5</b>
Share capital	403.6	406.8	403.6	403.6	403.6	403.6
Minority Interest	10.5	18.9	31.7	42.8	58.0	74.0
Reserves	(59.7)	69.9	128.0	47.9	167.0	214.7
<b>TOTAL EQUITY</b>	<b>354.4</b>	<b>495.6</b>	<b>563.4</b>	<b>494.4</b>	<b>628.6</b>	<b>692.3</b>
<b>Non-current liabilities</b>	<b>64.9</b>	<b>60.5</b>	<b>82.5</b>	<b>67.1</b>	<b>82.5</b>	<b>82.5</b>
Long-term borrowings	2.4	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Others	62.4	60.5	82.5	67.1	82.5	82.5
<b>Current liabilities</b>	<b>194.9</b>	<b>175.9</b>	<b>306.3</b>	<b>392.7</b>	<b>325.1</b>	<b>336.2</b>
Short-term borrowings	46.6	-	-	58.9	-	-
Payables	113.2	118.5	241.0	265.5	259.8	270.9
Others	35.2	57.4	65.3	68.4	65.3	65.3
<b>TOTAL LIABILITIES</b>	<b>259.8</b>	<b>236.4</b>	<b>388.8</b>	<b>459.8</b>	<b>407.6</b>	<b>418.7</b>

Cash Flow Statement	FY14	FY15	FY16	FY17	FY18F	FY19F
<b>Operating activities</b>						
PBT	179.8	300.9	278.7	176.6	271.0	325.0
Depreciation & Amortization	(5.5)	(6.4)	(1.9)	(0.2)	1.2	1.7
Chgs in working capital	(51.3)	(10.1)	28.6	55.0	(21.8)	(6.0)
Interest expense	(2.3)	(6.2)	-	-	-	-
Tax paid	-	-	-	-	-	-
Others	(35.6)	(56.1)	(61.0)	(204.3)	(78.7)	(104.4)
<b>CF from Operations</b>	<b>85.0</b>	<b>222.1</b>	<b>244.4</b>	<b>27.1</b>	<b>171.7</b>	<b>216.2</b>
<b>Investing activities</b>						
Capex	(5.5)	(44.7)	(13.9)	(13.9)	(6.4)	(6.4)
Others	11.3	6.5	5.3	17.8	-	-
<b>CF from Investments</b>	<b>5.7</b>	<b>(38.3)</b>	<b>(8.5)</b>	<b>3.9</b>	<b>(6.4)</b>	<b>(6.4)</b>
<b>Financing activities</b>						
Dividends paid	(32.1)	(98.1)	(147.2)	(119.0)	(155.0)	(189.8)
Net proceeds in borrowings	(80.0)	-	-	-	-	-
Others	25.6	4.5	2.2	(32.3)	-	-
<b>CF from Financing</b>	<b>(86.5)</b>	<b>(93.6)</b>	<b>(145.1)</b>	<b>(151.3)</b>	<b>(155.0)</b>	<b>(189.8)</b>
Net changes in cash	4.2	90.3	90.7	(120.3)	10.4	20.1
<b>Beginning cash</b>	<b>182.0</b>	<b>186.2</b>	<b>280.8</b>	<b>371.6</b>	<b>251.3</b>	<b>261.6</b>
Overdrafts & Deposits	(0.1)	4.4	-	-	-	-
<b>Ending cash</b>	<b>186.2</b>	<b>280.8</b>	<b>371.6</b>	<b>251.3</b>	<b>261.6</b>	<b>281.7</b>
<b>Ratios</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue growth	36.3%	26.1%	19.7%	-8.8%	18.2%	4.3%
EBITDA growth	110.6%	69.7%	-9.2%	-39.6%	54.2%	15.4%
Net profit growth	156.4%	64.9%	-7.8%	-40.1%	62.9%	22.5%
EBITDA margin	11.9%	16.0%	12.1%	8.0%	10.5%	11.6%
PATAMI margin	9.0%	11.8%	9.1%	6.0%	8.2%	9.6%
ROE	46.9%	52.5%	39.4%	22.4%	35.2%	39.9%
Operating ROA	28.8%	42.4%	31.3%	16.9%	25.1%	26.7%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
Book value/share (RM)	0.30	0.41	0.46	0.46	0.49	0.53
PBV (x)	7.2	5.2	4.6	4.6	4.3	4.0
EV/EBITDA (x)	9.5	5.1	5.3	8.4	5.4	4.6
FCF yield (%)	3.7	7.5	9.6	1.3	6.7	8.5

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.