

14 September 2018 | 1QFY19 Result Review

## Bermaz Auto

*Massive backlog could drive record 2QFY19*

**Maintain BUY**

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

### INVESTMENT THESIS

- **1QFY19 within expectation, 2.5sen dividends declared**
- **Earnings would have been stronger if not for MMSB supply disruption**
- **Massive backlog orders and lower than expected SST compensation – expect new record earnings in 2QFY19**
- **Re-affirm BUY at unchanged TP of RM2.70, 7.5% yields attractive**

**Results within expectation.** BAuto reported 1QFY19 earnings of RM50m. This is within expectations accounting for 22% of our FY19F and 24% of consensus. An interim dividend of 2.5sen was declared, 67%yoy higher and represents a 58% payout ratio.

**Revenues delayed due to production calibration.** Earnings increased 149%yoy but on sequential basis (against a record 4QFY18) saw a 12%qoq drop in line with a drop in revenue. However, the massive tax-holiday driven volumes are only delayed, given supply constraint from MMSB - in June, MMSB's production was disrupted as it recalibrated production rate higher to accommodate for temporarily higher volumes. Production rate has now increased to 2.2K/month (only up till Nov18) from 1.5K/month previously.

**Solid booking bank.** As highlighted above, BAuto has a booking bank of >8K units, with over 6K comprising the CX5. This is against pre-tax-holiday monthly TIV of just 1K-1.3K and a normal production rate of just 1.5K/month. We expect revenues to recover strongly next quarter. Even post-SST in Sept, there were still around 130 unit bookings for the CX5.

**Localisation now factored into SST calculation.** We (and consensus) originally expected car prices to increase 1%-3% post-SST, which is basically a reversal of the impact from transition to GST back in 2015. However, there is 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 of 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 lower now, and given the cost saving initiatives are still intact, margins next quarter may even remain intact, we think.

RETURN STATS	
Price (13 Sep 2018)	RM2.07
Target Price	RM2.70
Expected Share Price Return	+30.4%
Expected Dividend Yield	+7.5%
<b>Expected Total Return</b>	<b>+37.9%</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%

**MIDF RESEARCH is a unit of MIDF AMANAH INVESTMENT BANK**

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

## 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:

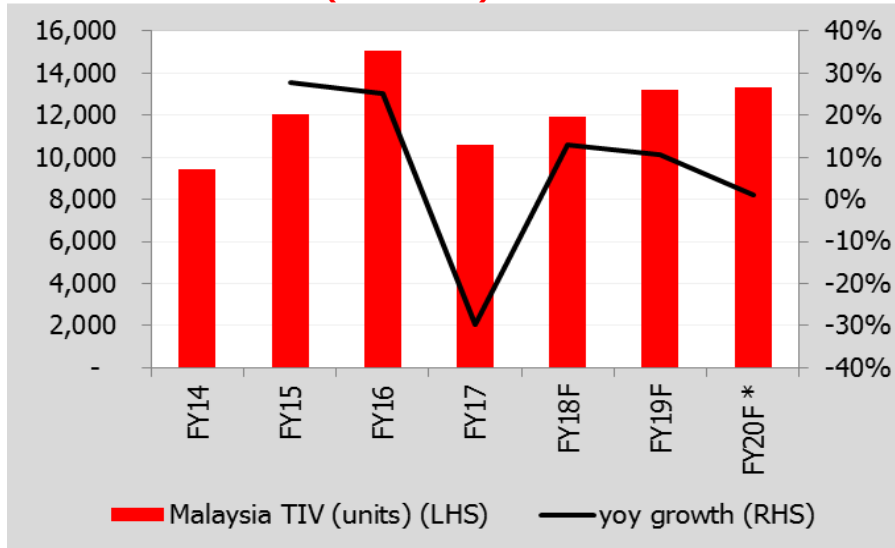
- (1) An 17%-30%yoy Mazda TIV growth (FY19F)** coupled with margin expansion driven by full year impact of new CX5
- (2) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given export market expansion to South East Asia (ex-Vietnam) 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 1QFY19 RESULT SUMMARY

FYE Apr (RMm)	1Q18	4Q18	1Q19	QoQ	YoY
Revenue	391.2	570.6	485.4	-15%	24%
<b>Operating profit</b>	<b>32.2</b>	<b>59.5</b>	<b>61.3</b>	<b>3%</b>	<b>90%</b>
Interest income	0.6	1.0	1.4	39%	124%
Finance cost	(1.8)	(0.9)	(0.3)	-66%	-83%
Associates	0.7	14.1	4.9	-65%	653%
Pretax profit	31.7	73.7	67.2	-9%	112%
Tax	(8.6)	(15.5)	(15.7)	1%	83%
PAT	23.2	58.2	51.6	-11%	123%
MI	3.0	1.0	1.3	35%	-55%
Net profit	20.2	57.2	50.3	-12%	149%
<b>Core net profit</b>	<b>20.2</b>	<b>57.2</b>	<b>50.3</b>	<b>-12%</b>	<b>149%</b>
EPS (sen)	1.75	4.94	4.35	-12.1%	148.8%
GDPS (sen)	1.50	5.00	2.50	-50.0%	66.7%
EBIT margin	8.2%	10.4%	12.6%		
Pretax margin	8.1%	12.9%	13.9%		
Core net profit margin	5.2%	10.0%	10.4%		
Tax rate	27.0%	21.1%	23.3%		
Mazda TIV (Malaysia, units)	2,362	3,526	2,983	-15.4%	26.3%
Avg revenue per car (RM)	120,116	136,031	136,187	0.1%	13.4%
Malaysia revenue (RMm)	283.7	479.6	406.2	-15.3%	43.2%
Philippines revenue (RMm)	107.5	90.9	79.2	-13.0%	-26.4%
Malaysia EBIT (RMm)	21.9	57.8	56.7	-1.8%	159.6%
Philippines EBIT (RMm)	10.5	2.1	4.6	117.9%	-55.9%
Malaysia EBIT margin	7.7%	12.0%	14.0%		
Philippines EBIT margin	9.8%	2.3%	5.9%		
BAP (P'pines) volume (units)	1,075	1,010	800	-20.8%	-25.6%
MMSB volumes (units)	1,813	6,655	3,647	-45.2%	101.2%
Dividend Payout ratio	86%	101%	58%		
Spot JPY:MYR (x1000) - 3-mth delay	3.84	3.64	3.62	0.5%	5.7%
Inokom volumes (units)	4,734	7,780	8,170	5.0%	72.6%

Source: Company, MIDF

## EXHIBIT 2: MAZDA TIV (MALAYSIA) SET FOR 2-DIGIT GROWTH IN FY19F



Source: Company, MIDF \*Our FY20F has not factored in the CKD CX8

## EXHIBIT 5: 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



Source: Bloomberg, MIDF

**Hafriz Hezry**  
 hafriz.hezry@midf.com.my  
 03-2173 8392

<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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.