

## Bermaz Auto

*Strong comeback*

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

### INVESTMENT THESIS

- **3Q18 results in-line**
- **Earnings gapped up 82%qoq and 61%yoy**
- **MMSB volumes/earnings hit record high**
- **Re-affirm BUY at unchanged TP of RM2.70, 8% yields attractive**

**Results in-line.** BAuto reported net profit of RM41m for its 3Q18 which brought 9M18 earnings to RM83m. This is within estimates (at 64% of our FY18F and 58% of consensus) as earnings are backloaded into the 2H of FY18F. A dividend of 2.3sen/share representing payout of 66% was declared, bringing 9M18 dividends to 5.4sen/share.

**Earnings gapped up.** BAuto made a strong comeback registering a strong 82%qoq and 61%yoy growth. Volumes for both Malaysia (+14%yoy) and Philippines (+19%yoy) increased from launch of the new CX5 in both markets. For Malaysia, sales of the new CX5 almost doubled against 2Q18 – as the model was launched towards end 2Q18.

**Margin expansion.** Operating margins for domestic operations is showing solid recovery rising to 9.7% in 3Q18 from 7.3% in 2Q18 (See Exhibit 1). Management guided that operating margins can recover to >10% levels over the next few quarters, driven by the stronger Ringgit and higher margin sales of the new CX5. Half of the new CX5 bookings went towards special colour variants priced at RM2000 premium. Margins could have been even better if not for some sale of the old CX5 in 3Q18 of 229 units (vs. 457 units in 2Q18), but this should be the final batch.

**Associates returns to profits and hits a record!** After hardly seeing any earnings in 1H18 (as earnings from Inokom were offset by losses at MMSB), associates returned to profits and in fact hits a record high of RM6.5m in 3Q18 (See Exhibit 2). MMSB manufacturing volumes expanded 94%yoy and 158%qoq, also hitting record high volumes of 4618 units in 3Q18 driven by strong production for domestic sales and export expansion into South East Asia (ex-Vietnam) vs. just Thailand previously. Similarly, volumes at Inokom (which also reflects BMW/Hyundai production) were up 79%yoy and 74%qoq.

**Expect further improvements ahead. (1) Meaningfully stronger RM** from 1QFY19 at RM3.5-3.6 levels - currently rates have been locked in at RM3.85 up till end 4QFY18, **(2) Price hike** of RM1000/car from Jan18 (only 1 month impact captured in 3Q18) - we estimate this will impact annual earnings by ~2% based on our conservative FY19F CX5 volume of 6K units **(3) Further volume expansion** in 4Q18 as 3Q18 captures the seasonally weak year-end period. We expect Mazda TIV to expand by a further 20%qoq and >50%yoy in 4Q18, **(4) Sustained earnings improvements at MMSB and Inokom** which benefits from the higher throughout both domestically and in the export markets in Thailand, Indonesia, Philippines and Cambodia. BAuto is targeting FY18F Mazda TIV of 11.5K for FY18F and rising by 17%-30% to 14.5K-15K in FY19F, mainly driven by full year contribution of the new CX5 and in part, contribution by the CBU CX8 from 2HCY18.

RETURN STATS	
Price (12 Mar 2018)	RM2.02
Target Price	RM2.70
Expected Share Price Return	+33.7%
Expected Dividend Yield	+7.7%
<b>Expected Total Return</b>	<b>+41.4%</b>

STOCK INFO	
KLCI	1861.22
Bursa / Bloomberg	5248 / BAUTO MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,158.77
Market cap. (RM'm)	2,340.72
Price over NA	5.23
52-wk price Range	RM1.84 - RM2.47
Beta (against KLCI)	0.53
3-mth Avg Daily Vol	2.29m
3-mth Avg Daily Value	RM5.16m
Major Shareholders (%)	
Dynamic Milestone	15.0%
EPF	13.0%
KWAP	5.2%

## INVESTMENT STATISTICS

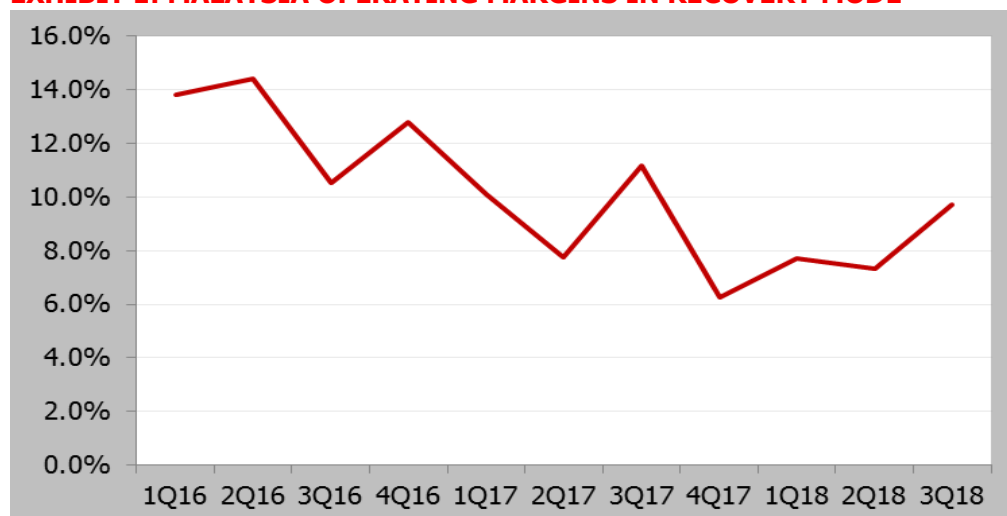
FYE Apr	FY16	FY17	FY18F	FY19F	FY20F
Revenue (RM'm)	2,112	1,660	2,080	2,306	2,354
EBIT (RM'm)	262	162	171	291	306
Pre-tax Profit (RM'm)	279	177	188	320	335
Core net profit (RM'm)	202	119	129	226	236
FD EPS (sen)	17.5	10.3	11.2	19.5	20.4
EPS growth (%)	(7.8)	(41.1)	8.5	74.7	4.5
PER (x)	11.6	19.6	18.1	10.4	9.9
Net Dividend (sen)	16.9	11.7	8.9	15.6	16.3
Net Dividend Yield (%)	8.4	5.8	4.4	7.7	8.1

Source: Company, MIDF

**Recommendation.** Re-affirm BUY on BAuto at unchanged TP of RM2.70. From a valuation standpoint, BAuto is cheap at just 10x CY19F earnings, relative to historical sector PE of ~12x, while dividend yield of 8% 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:

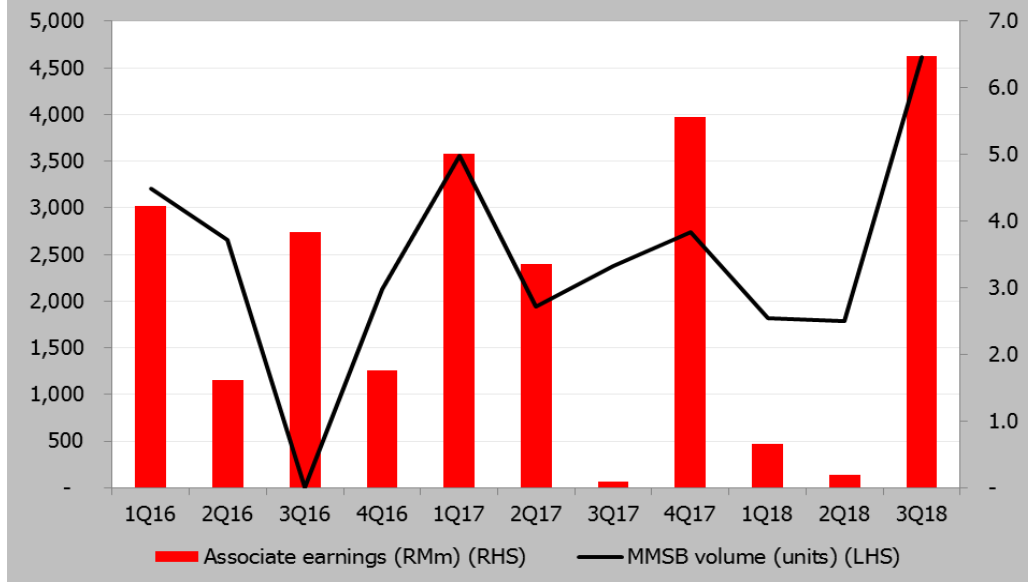
- (1) **An 11%yoy Mazda TIV growth** (FY19F) coupled with margin expansion driven by full year impact of new CX5 from 3QFY18 onwards
- (2) **Ringgit strength** against the JPY
- (3) **A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given export market expansion to South East Asia (ex-Vietnam) and re-acceleration in production for the domestic market.
- (4) **Launch of CBU CX8** in 2QCY18 and CKD variants in CY19F.
- (5) **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: MALAYSIA OPERATING MARGINS IN RECOVERY MODE



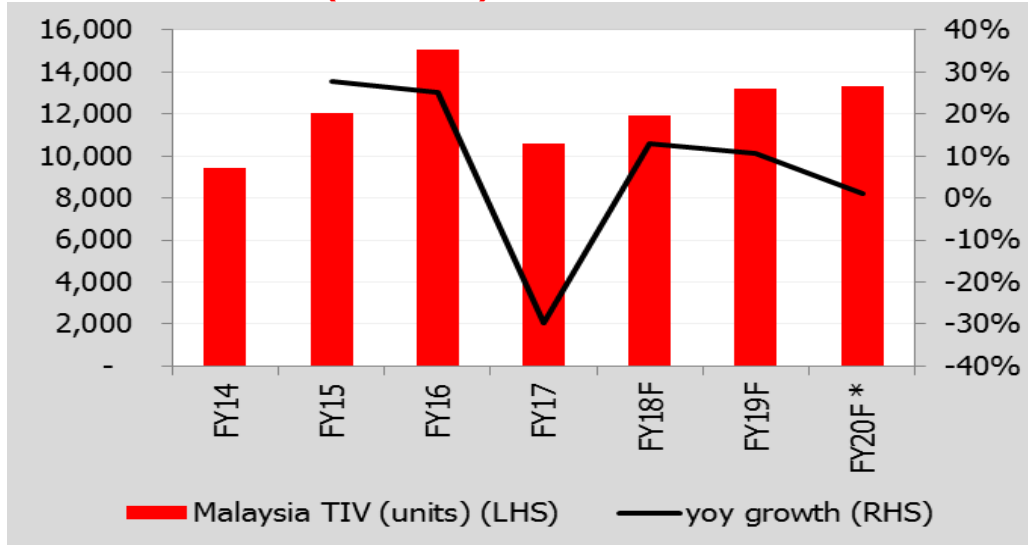
Source: Company, MIDF

## EXHIBIT 2: ASSOCIATE EARNINGS AND MMSB VOLUMES HIT RECORD HIGH



Source: Company, MIDF

## EXHIBIT 3: MAZDA TIV (MALAYSIA) SET FOR 2-DIGIT GROWTH IN FY19F



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

## EXHIBIT 4: BAUTO 3Q18 RESULT SUMMARY

FYE Apr (RMm)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YTD
Revenue	338.7	471.7	559.4	19%	65%	1,305.5	1,422.3	9%
<b>Operating profit</b>	<b>39.5</b>	<b>35.5</b>	<b>51.6</b>	<b>46%</b>	<b>31%</b>	<b>134.3</b>	<b>119.3</b>	<b>-11%</b>
Interest income	0.6	0.5	0.6	28%	3%	3.1	1.7	-46%
Finance cost	(1.2)	(1.5)	(1.5)	-4%	22%	(1.9)	(4.8)	155%
Associates	0.1	0.2	6.5	3256%	7431%	8.5	7.3	-13%
Pretax profit	39.0	34.6	57.2	65%	47%	143.9	123.6	-14%
Tax	(10.5)	(9.1)	(12.9)	42%	23%	(36.1)	(30.6)	-15%
PAT	28.43	25.50	44.30	74%	56%	107.8	93.0	-14%
MI	3.3	3.3	3.8	16%	15%	11.0	10.1	-8%
Net profit	25.1	22.2	40.5	82%	61%	96.8	82.9	-14%
<b>Core net profit</b>	<b>25.1</b>	<b>22.2</b>	<b>40.5</b>	<b>82%</b>	<b>61%</b>	<b>96.8</b>	<b>82.9</b>	<b>-14%</b>
EPS (sen)	2.17	1.92	3.50	82.3%	61.2%	8.4	7.16	-14%
GDPS (sen)	2.75	1.60	2.30	43.8%	-16.4%	8.50	5.40	-36%
EBIT margin	11.7%	7.5%	9.2%			10.3%	8.4%	
Pretax margin	11.5%	7.3%	10.2%			11.0%	8.7%	
Core net profit margin	7.4%	4.7%	7.2%			7.4%	5.8%	
Tax rate	27.1%	26.3%	22.6%			25.1%	24.8%	
Mazda TIV (Malaysia, units)	1,931	2,539	2,888	13.7%	49.6%	8,366	7,789	-7%
Avg revenue per car (RM)	128,842	128,398	131,955	2.8%	2.4%	121,151	127,206	5%
Malaysia revenue (RMm)	248.8	326.0	381.1	16.9%	53.2%	1,013.6	990.8	-2%
Philippines revenue (RMm)	89.9	145.7	178.3	22.4%	98.4%	291.9	431.5	48%
Malaysia EBIT (RMm)	27.8	23.9	37.0	54.6%	32.9%	96.5	82.7	-14%
Philippines EBIT (RMm)	11.9	11.9	14.8	24.6%	24.0%	38.6	37.1	-4%
Malaysia EBIT margin	11.2%	7.3%	9.7%			9.5%	8.3%	
Philippines EBIT margin	13.3%	8.1%	8.3%			13.2%	8.6%	
BAP (P'pines) volume (units)	1,001	1,426	1,691	18.6%	68.9%	3,158	4,192	33%
MMSB volumes (units)	2,380	1,785	4,618	158.7%	94.0%	7,884	8,216	4%
Dividend Payout ratio	127%	83%	66%			102%	75%	

Source: Company, MIDF

## 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



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Source: Bloomberg, MIDF

<b>Income Statement</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Revenue</b>	<b>1,830</b>	<b>2,112</b>	<b>1,660</b>	<b>2,080</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>171</b>	<b>291</b>	<b>306</b>
Net interest expense	6	5	1	-	-	-
Associates	9	11	14	18	29	29
<b>PBT</b>	<b>301</b>	<b>279</b>	<b>177</b>	<b>188</b>	<b>320</b>	<b>335</b>
Taxation	(78)	(68)	(43)	(43)	(73)	(76)
Minority Interest	(7)	(13)	(14)	(17)	(22)	(23)
<b>Net profit</b>	<b>215</b>	<b>198</b>	<b>119</b>	<b>129</b>	<b>226</b>	<b>236</b>
<b>Core net profit</b>	<b>215</b>	<b>202</b>	<b>119</b>	<b>129</b>	<b>226</b>	<b>236</b>
<i>Consensus net profit</i>	215	198	128	143	209	236
<b>Balance Sheet</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</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	FY18F	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>FY18F</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
FCF yield (%)	7.7	9.8	1.3	5.2	8.6	9.5

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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.