

13 June 2018 | 4QFY18 Results Review

Bermaz Auto

4Q18 earnings tests record high

Maintain BUY

Unchanged Target Price (TP):RM2.70

INVESTMENT THESIS

- **4Q18 beats estimates**
- **Achieves record quarterly earnings, on track to hit our 61% FY19F growth**
- **Special dividends declared**
- **Re-affirm BUY at unchanged TP of RM2.70, 7% yields attractive**

4Q18 beats estimates. BAuto reported net profit of RM57m for its 4Q18 which brought 9M18 earnings to RM140m. This is ahead of both our estimates and consensus accounting for 108% and 107% of forecasts respectively.

Special dividends declared. In line with the solid results, BAuto announced a special dividend of 2.7sen/share on top of a final dividend of 2.3sen/share, bringing FY18 dividends to 10.5sen/share giving a solid 4.5% yield. FY18 payout at 86% was at the mid-end of guidance of 80%-90% payout.

Quarterly earnings tests record high. 4Q18 earnings grew by a whopping 157%yoy and a further 41%qoq (this is after having seen 3Q18 earnings grow 82%qoq back in March18). Revenues grew 65%yoy driven by strong demand for the new CX5 coupled with significant margin expansion.

Associate earnings doubled and hits new high. Associate earnings hit a new record in 4Q18 on the back of record MMSB (Mazda Malaysia SB – 30% owned) assembly volumes (See Exhibit 4), underpinning our view of an export driven earnings growth. Production expanded from launch of the new CX5 and commencement of exports of the new CX5 to key ASEAN markets.

Margins improved further. BAuto registered 12% operating margins for the domestic operations (which accounts for xx% of earnings) and this should be sustainable given: (1) Higher mix of new CX5 which is a higher margin model – CKD models accounted for 77% of 4Q18 Mazda TIV (2) Premium pricing for the new CX5 which was hiked further by 2%-3% form Jan18 (3) A stronger RM – JPY:RM booked in was RM3.65/3.66 in 4Q18 (4) Absence of old CX5 sales in 4Q18, which dragged margins in prior quarters. The Philippines unit saw some weakness given the weaker Peso against the JPY while the hike in excise duties since early CY18 impacted Philippines TIV.

No changes to forecasts. While the 4Q18 outperformed our forecast, this is given that the stronger RM3.65:JPY levels were registered earlier than expected (vs. management's earlier guidance of RM3.85:JPY hedges up till Apr18). Our FY19F/20F already factors in ~RM3.70:JPY levels and we conservatively leave that unchanged for now. However, our FY19F earnings are already 10% higher than consensus currently. BAuto looks on track to hit our forecast 61% earnings growth in FY19F.

RETURN STATS	
Price (12 June 2018)	RM2.33
Target Price	RM2.70
Expected Share Price Return	+15.9%
Expected Dividend Yield	+6.7%
Expected Total Return	+22.6%

STOCK INFO	
KLCI	1764.16
Bursa / Bloomberg	5248 / BAUTO MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,158.77
Market cap. (RM'm)	2,699.93
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	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)	13.3	22.6	19.2	11.9	11.4
Net Dividend (sen)	16.9	11.7	10.4	15.6	16.3
Net Dividend Yield (%)	7.3	5.0	4.5	6.7	7.0

Source: Company, MIDF

Expect further improvements ahead: (1) Volume expansion in 1QFY19 driven by GST/SST-free period – waiting list for the new CX5 which has been shortened to 1 month in early-May has now expanded to 2-3 months within just 2 weeks into the tax holiday free period (which will last till end Aug18). BAUTO is negotiating with Mazda Japan to increase CKD kit supply, while the Inokom plant has ample capacity to ramp up production (34K/annum on 2-shift).

(2) Sustained earnings improvements at MMSB and Inokom which benefits from the higher throughput both domestically and from exports to Thailand, Indonesia, Philippines and Cambodia. BAUTO registered FY18F Mazda TIV of 11.3K for FY18F and this is expected to rise 17%-30% to 14.5K-15K in FY19F, mainly driven by full year contribution of the new CX5

(3) CKD CX8 which fills a gap in Mazda's model mix and slated to be MMSB's next export model from mid-CY19F onwards.

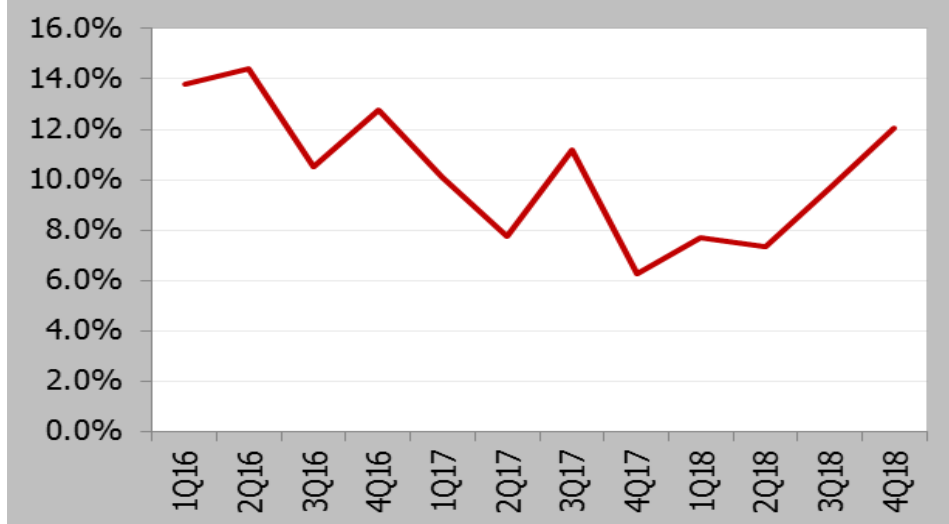
(4) New CBU Mazda 6 launch from 3QCY18.

Next volume catalyst. The next big volume kicker will come from the new CX8, slated for launch in CKD form mid-CY19. The model is important as it fills a gap in BAUTO's model mix and importantly, a vacuum in the industry's SUV segment. The only competing model in the price segment (sub-RM200K SUV) is the Toyota Fortuner. BAUTO is targeting annual volume of 1K-2K/annum for the domestic market. The CX8 will also be the next export model after the CX5 for MMSB, and is targeted to generate export volume of ~8K/annum

Recommendation. Re-affirm **BUY** on BAUTO 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:

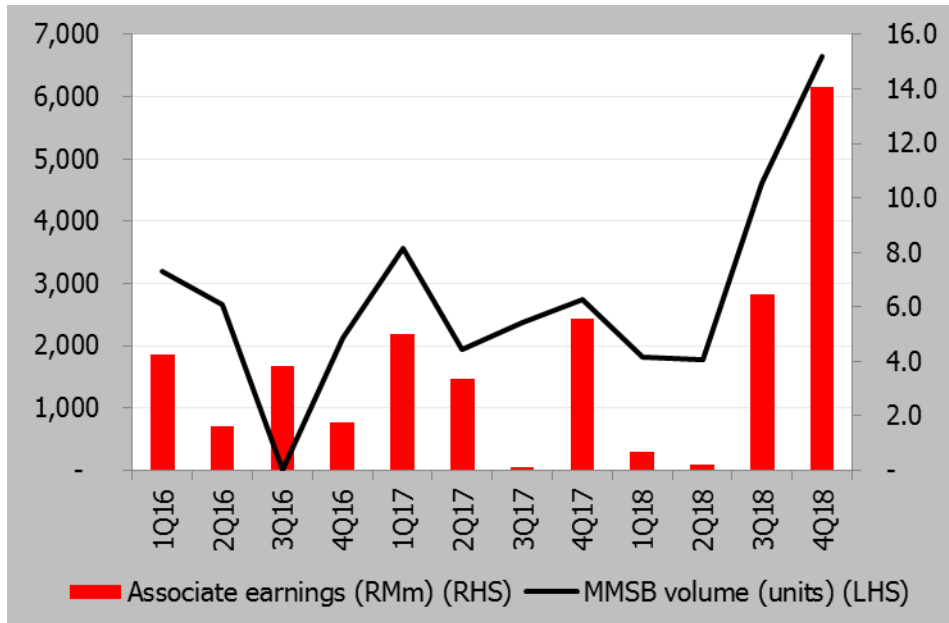
- (1) An 17%-30%yoy Mazda TIV growth (FY19F)** coupled with margin expansion driven by full year impact of new CX5
- (2) Ringgit strength** against the JPY
- (3) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given export market expansion to South East Asia (ex-Vietnam) and re-acceleration in production for the domestic market.
- (4) Launch of the CKD CX8** in mid-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 STRONGLY RECOVERING



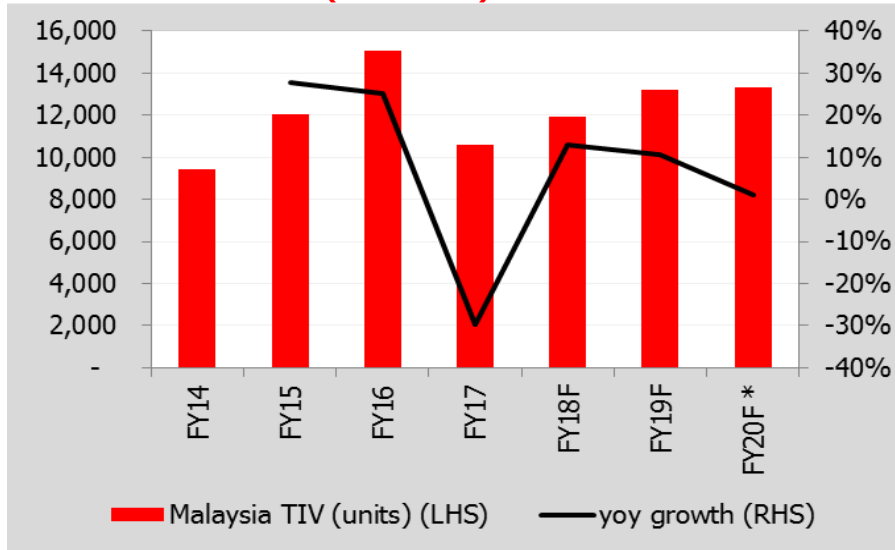
Source: Company, MIDF

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 4Q18 RESULT SUMMARY

FYE Apr (RMm)	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18	YTD
Revenue	354.0	559.4	570.6	2%	61%	1,659.5	1,992.9	20%
Operating profit	27.5	51.6	59.5	15%	116%	161.8	178.8	11%
Interest income	0.7	0.6	1.0	70%	47%	3.7	2.7	-29%
Finance cost	(1.1)	(1.5)	(0.9)	-40%	-20%	(3.0)	(5.6)	90%
Associates	5.6	6.5	14.1	117%	153%	14.0	21.4	53%
Pretax profit	32.6	57.2	73.7	29%	126%	176.6	197.2	12%
Tax	(7.0)	(12.9)	(15.5)	20%	122%	(43.1)	(46.1)	7%
PAT	25.65	44.30	58.16	31%	127%	133.5	151.1	13%
MI	3.4	3.8	1.0	-75%	-72%	14.4	11.1	-23%
Net profit	22.2	40.5	57.2	41%	157%	119.1	140.1	18%
Core net profit	22.2	40.5	57.2	41%	157%	119.1	140.1	18%
EPS (sen)	1.92	3.50	4.94	41.3%	157.5%	10.29	12.11	18%
GDPS (sen)	3.15	2.30	5.00	117.4%	58.7%	11.65	10.40	-11%
EBIT margin	7.8%	9.2%	10.4%			9.7%	9.0%	
Pretax margin	9.2%	10.2%	12.9%			10.6%	9.9%	
Core net profit margin	6.3%	7.2%	10.0%			7.2%	7.0%	
Tax rate	21.4%	22.6%	21.1%			24.4%	23.4%	
Mazda TIV (Malaysia, units)	2,203	2,888	3,526	22.1%	60.1%	10,569	11,315	7%
Avg revenue per car (RM)	114,837	131,955	136,031	3.1%	18.5%	119,835	129,956	8%
Malaysia revenue (RMm)	253.0	381.1	479.6	25.9%	89.6%	1,266.5	1,470.4	16%
Philippines revenue (RMm)	101.0	178.3	90.9	-49.0%	-10.0%	393.0	522.5	33%
Malaysia EBIT (RMm)	15.8	37.0	57.8	56.3%	265.6%	112.3	140.5	25%
Philippines EBIT (RMm)	12.3	14.8	2.1	-85.6%	-82.7%	50.9	39.3	-23%
Malaysia EBIT margin	6.2%	9.7%	12.0%			8.9%	9.6%	
Philippines EBIT margin	12.2%	8.3%	2.3%			13.0%	7.5%	
BAP (P'pines) volume (units)	1,009	1,691	1,010	-40.3%	0.1%	4,167	5,202	25%
MMSB volumes (units)	2,735	4,618	6,655	44.1%	143.3%	10,619	14,871	40%
Dividend Payout ratio	164%	66%	101%			113%	86%	

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
Total value			3,132
Shares out (m) (fully diluted)			1,157
Value/share (RM)			2.70

Source: Company, MIDF

DAILY PRICE CHART



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Source: Bloomberg, MIDF

Income Statement	FY15	FY16	FY17	FY18	FY19F	FY20F
Revenue	1,830	2,112	1,660	1,993	2,306	2,354
Operating expenses	(1,544)	(1,850)	(1,838)	(1,910)	(2,015)	(2,048)
EBIT	286	262	162	179	291	306
Net interest expense	6	5	1	(3)	-	-
Associates	9	11	14	21	29	29
PBT	301	279	177	197	320	335
Taxation	(78)	(68)	(43)	(46)	(73)	(76)
Minority Interest	(7)	(13)	(14)	11	(22)	(23)
Net profit	215	198	119	140	226	236
Core net profit	215	202	119	140	226	236
<i>Consensus net profit</i>	215	198	128	131	206	236
Balance Sheet	FY15	FY16	FY17	FY18	FY19F	FY20F
Non-current assets	130.8	163.5	181.0	189.0	217.5	246.2
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
Current assets	601.2	788.6	773.1	804.5	867.9	914.4
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
TOTAL ASSETS	732.0	952.1	954.2	993.5	1,085.3	1,160.6
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
TOTAL EQUITY	495.6	563.4	494.4	616.6	684.3	754.4
Non-current liabilities	60.5	82.5	67.1	82.5	82.5	82.5
Long-term borrowings	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Others	60.5	82.5	67.1	82.5	82.5	82.5
Current liabilities	175.9	306.3	392.7	294.2	319.0	324.2
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
TOTAL LIABILITIES	236.4	388.8	459.8	376.6	401.5	406.7

Cash Flow Statement	FY15	FY16	FY17	FY18	FY19F	FY20F
Operating activities						
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)
CF from Operations	222.1	244.4	27.1	130.5	211.9	233.5
Investing activities						
Capex	(44.7)	(13.9)	(13.9)	(6.4)	(6.4)	(6.4)
Others	6.5	5.3	17.8	-	-	-
CF from Investments	(38.3)	(8.5)	3.9	(6.4)	(6.4)	(6.4)
Financing activities						
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)	-	-	-
CF from Financing	(93.6)	(145.1)	(151.3)	(103.4)	(180.6)	(188.7)
Net changes in cash	90.3	90.7	(120.3)	20.8	25.0	38.5
Beginning cash	186.2	280.8	371.6	251.3	272.0	297.0
Overdrafts & Deposits	4.4	-	-	-	-	-
Ending cash	280.8	371.6	251.3	272.0	297.0	335.5
Ratios	FY15	FY16	FY17	FY18	FY19F	FY20F
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.