

24 May 2018 | 1Q18 Results Review

MBM Resources

The tide turns

INVESTMENT HIGHLIGHT

- **1Q18 beat estimates**
- **Riding on new Myvi launch, spillover benefit to dealerships and parts manufacturing**
- **FY18F/19F earnings tweaked up 8%/3%**
- **Maintain BUY at higher TP of RM3.20**


Results beat estimates. MBM's 1Q18 beat estimates. The group reported net profit of RM33m for its 1Q18. This accounted for 32% and 34% of our and consensus' FY18F respectively. However, the stronger than expected result was mainly due to lower than expected effective tax rate.

Solid earnings growth. MBM registered 69%yoy earnings growth driven by improvements across the board. The motor division saw earnings rose 17%yoy, parts division saw losses narrowing by 40%yoy while associate earnings rose by 41%yoy. Perodua (captured in associate line) benefited from launch of the new Myvi and the weaker JPY. Perodua invoiced volume grew 6%yoy while the Autoliv-Hirota (AHSB) JCE saw a 5%yoy increase in revenues as a result of higher supply to OEMs, in line with higher TIP (total industry production) which rose 13%yoy in 1Q18.

Improved motor division. MBM's auto dealerships saw strong throughput as it is a spillover beneficiary from launch of the new MyVi late FY17 and launch of the new VW Tiguan. This is on top of higher after sales service throughput (+8%yoy) which carries higher margins.

Lower manufacturing losses. Parts manufacturing losses shrunk in 1Q18. Similar to the AHSB JCE, the unit benefited from higher TIP. OMI (wheel manufacturing) saw revenue increase 34%yoy due to higher OEM take-up. There were also indications previously of OMI commencing new supplies to the Axia from 1Q18, which is likely to have driven the strong revenue growth. At thus juncture however, we are still cautious on Proton's 30% vendor cost down initiative which may hit margins negatively if implemented.

Housekeeping tweaks. The results were higher than expected mainly due to lower than expected effective tax rates, whereas other variables were largely in line. We tweak our effective tax rates lower to 6% resulting in our FY18F/19F earnings rising by 8%/3%.

Reaffirm BUY on MBM at a higher TP of RM3.20 (from RM3.10) following the earnings revisions. MBM is a cheap proxy to Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Attractive 39%yoy earnings growth (FY18F) for less than half FY18F BV and on the back of a lean balance sheet (8% net gearing). Key catalysts: (1) Strong growth in Perodua TIV on the back of the new MyVi and potentially a new SUV to fill up a vacuum in its model mix (2) A stronger Ringgit (3) A recovery in industry production driven by new national car launches. 

Maintain BUY
Revised Target Price: RM3.20
(from RM3.10)

RETURN STATS

Price (23 May 2018)	RM2.35
Target Price	RM3.20
Expected Share Price Return	+36.2%
Expected Dividend Yield	+3.4%
Expected Total Return	+39.6%

STOCK INFO

KLCI	1804.25
Bursa / Bloomberg	5983 / MBM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	380.89
Market cap. (RM'm)	895.09
Price over NA	0.55
52-wk price Range	RM2.01-2.60
Beta (against KLCI)	0.7x
3-mth Avg Daily Vol	0.15m
3-mth Avg Daily Value	RM0.35m
Major Shareholders (%)	
Med-Bumikar	49.5
EPF	15.8
AIA	4.2

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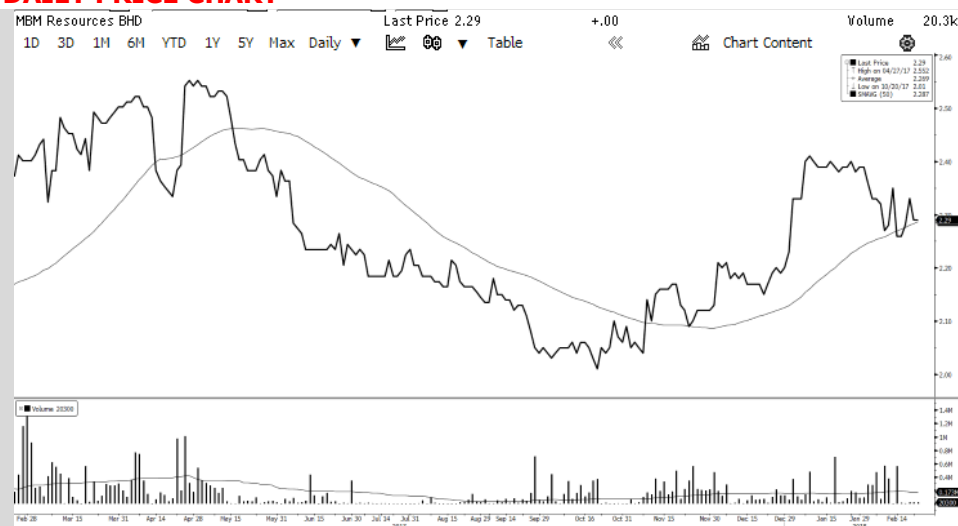
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INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,816.7	1,680.7	1,732.6	1,654.8	1,709.3
EBIT (RM'm)	21.3	(48.5)	(257.6)	8.8	17.1
Pre-tax Profit (RM'm)	123.0	79.4	(148.5)	138.8	168.8
Normalised PATAMI (RM'm)	80.4	84.8	86.1	109.3	126.5
FD EPS (sen)	20.6	21.7	22.1	28.0	32.4
EPS growth (%)	(29.6)	5.4	1.6	27.0	15.7
PER (x)	11.4	10.8	10.7	8.4	7.3
Net Dividend (sen)	10.0	6.0	3.0	7.0	8.1
Net Dividend Yield (%)	4.3	2.6	1.3	3.0	3.4

Source: Company, MIDF

DAILY PRICE CHART



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EXHIBIT 1: MBM 1Q18 RESULT SUMMARY

FYE Dec (RMm)	1Q17	4Q17	1Q18	YoY	QoQ
Revenue	418.1	443.8	463.5	10.9%	4.4%
Operating profit	(2.9)	(241.0)	0.7	-123.5%	-100.3%
Net finance cost	(3.0)	(2.6)	(1.6)	-47.2%	-38.7%
JCE	2.4	3.6	3.4	41.5%	-7.2%
Associates	26.1	37.4	36.8	40.9%	-1.6%
Pretax income	22.6	(202.6)	39.2	NA	NA
Tax	(1.6)	(1.7)	(2.2)	35.6%	32.0%
PAT	21.0	(204.3)	37.1	76.4%	-118.1%
MI	1.6	(12.5)	4.3	167.8%	-133.9%
Net profit	19.4	(191.7)	32.8	68.9%	-117.1%
Core net profit	19.4	29.7	32.8	68.9%	10.6%
GDPS (sen)	0.00	1.50	0.00	#DIV/0!	NA
Core EPS (sen)	4.98	7.60	8.41	68.9%	10.6%
Operating margin	-0.7%	-54.3%	0.1%		
Pretax margin	5.4%	-45.7%	8.5%		
Tax	-7.1%	0.8%	-5.6%		
Core net profit margin	4.6%	6.7%	7.1%		
Revenue by division	1Q17	4Q17	1Q18	YoY	QoQ
Motor trading	370.1	380.8	399.7	8.0%	5.0%
Parts Manufacturing	47.9	62.7	62.2	29.8%	-0.8%
Pretax by division					
Motor trading	4.5	(5.2)	5.2	17.4%	-201.6%
Parts Manufacturing *	(6.3)	(96.3)	(3.8)	-39.6%	-96.1%
Pretax margin					
Motor trading	1.2%	-1.4%	1.3%		
Parts Manufacturing	-13.1%	-153.5%	-6.1%		
P2 TIV (units)- MAA	50,265	53,307	55,568	10.6%	4.2%

Source: Company, MIDF

Performance of sales by operations

% Changes *	Q1'18 vs Q4'17	Q1'18 vs Q1'17	YTD Mar'18 vs YTD Mar'17
Total Industry Volume (TIV) **	- 10.5	- 4.0	- 4.0
Total Industry Production (TIP) **	+ 31.8	+ 13.2	+ 13.2
Total Group's Vehicles Sales	+ 1.0	+ 9.3	+ 9.3
Subsidiaries			
DMSB - Daihatsu & Hino trucks	- 31.4	+ 8.3	+ 8.3
DMMS Perodua vehicles	+ 3.6	+ 10.1	+ 10.1
Federal Auto : Volvo, Volkswagen & Mitsubishi vehicles	- 4.8	+ 0.7	+ 0.7
HASB	- 6.7	+ 6.1	+ 6.1
OMI	-	+ 33.6	+ 33.6
Service throughputs	+ 10.0	+ 7.9	+ 7.9
Joint Venture			
AHSB	- 2.8	+ 5.1	+ 5.1
Associated companies			
Perodua vehicles	+ 30.8	+ 6.1	+ 6.1
Hino trucks and buses	- 1.5	- 2.6	- 2.6

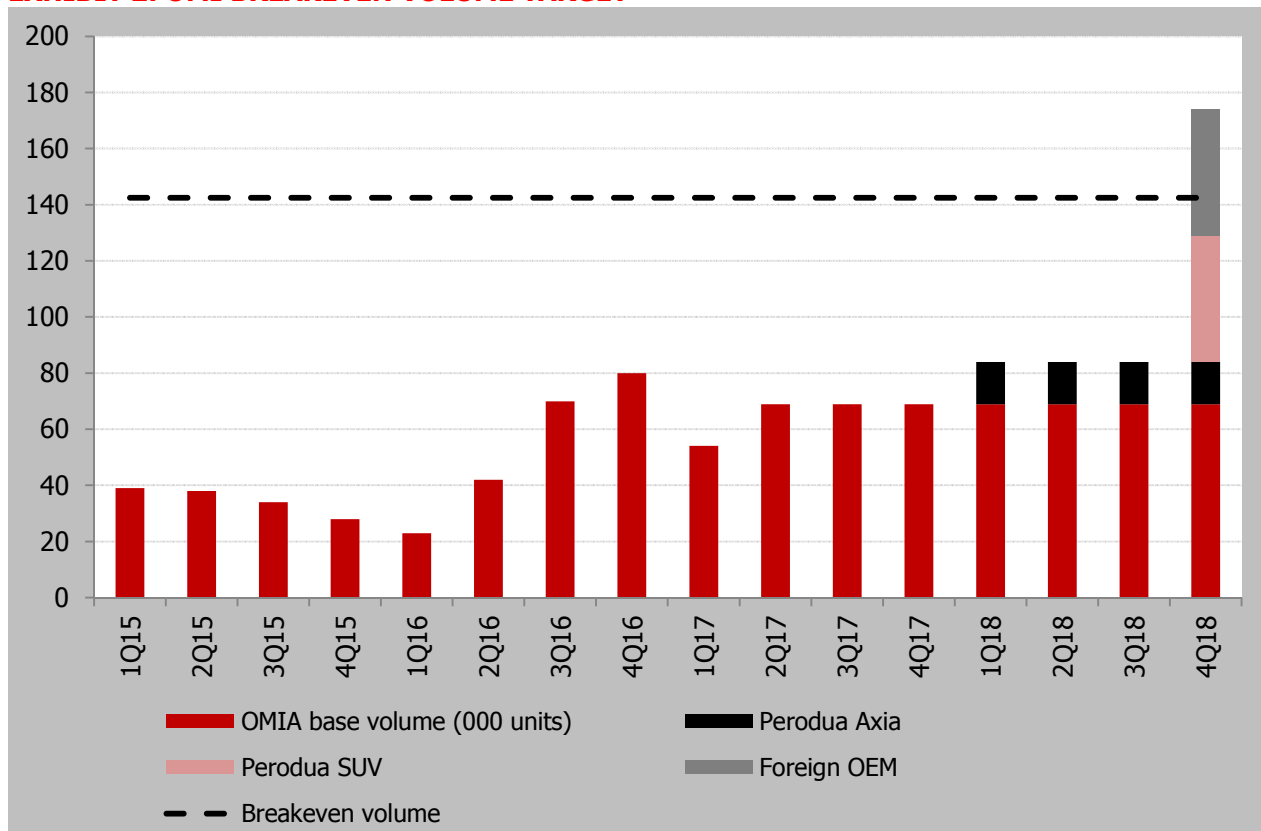
Legend

DMSB : Daihatsu (Malaysia) Sdn Bhd
 DMMS : DMM Sales Sdn Bhd
 HASB : Hirotako Acoustics Sdn Bhd
 OMI : Oriental Metal Industries (M) Sdn Bhd
 AHSB : Autoliv Hirotako Sdn Bhd

* All changes based on vehicle unit sales, except for HASB, OMI and AHSB which are based on sales values

** Source : Malaysian Automotive Association (MAA) 2018 and 2017

EXHIBIT 2: OMI BREAK EVEN VOLUME TARGET



Source: Company, MIDF

Income Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	1,816.7	1,680.7	1,732.6	1,654.8	1,709.3
Operating expenses	(1,795.4)	(1,729.3)	(1,990.1)	(1,646.0)	(1,692.2)
EBIT	21.3	(48.5)	(257.6)	8.8	17.1
Net interest expense	(14.2)	(12.2)	(11.3)	(10.0)	(7.4)
Associates/JCE	115.9	140.2	120.4	140.0	159.2
PBT	123.0	79.4	(148.5)	138.8	168.8
Taxation	(19.7)	(7.7)	(7.5)	(8.3)	(16.9)
Minority Interest	22.9	9.7	(7.2)	21.1	25.5
Net profit	80.4	62.0	(148.8)	109.3	126.5
Core net profit	80.4	84.75	86.1	109.3	126.5
<i>Consensus net profit</i>			<i>79.0</i>	<i>96.9</i>	<i>97.9</i>
<i>MIDF / Consensus</i>			<i>9.0%</i>	<i>12.8%</i>	<i>29.2%</i>
Balance Sheet (RMm)	FY15	FY16	FY17	FY18F	FY19F
Non-current assets	1,808.5	1,824.7	1,567.9	1,914.2	1,975.2
PPE	347.4	354.3	334.7	335.2	327.7
Investments in associate	983.4	1,057.2	1,105.0	1,144.5	1,191.8
Others	477.7	413.2	128.2	434.6	455.6
Current assets	581.4	538.3	506.6	456.1	458.8
Inventories	182.2	191.9	148.2	188.9	195.1
Receivables	174.4	148.3	150.5	146.0	150.8
Others	12.5	31.1	14.5	31.1	31.1
Cash & equivalent	212.3	167.0	193.3	90.1	81.8
TOTAL ASSETS	2,389.9	2,362.9	2,074.5	2,370.3	2,434.0
Share capital	390.7	390.7	390.7	390.7	390.7
Minority Interest	267.8	266.9	215.7	302.6	328.1
Reserves	1,207.3	1,210.6	1,048.9	1,350.5	1,445.4
TOTAL EQUITY	1,865.8	1,868.2	1,655.3	2,043.8	2,164.2
Non-current liabilities	273.6	212.9	116.6	133.9	94.9
Long-term borrowings	266.8	201.3	108.2	122.3	83.3
Deferred tax liabilities	3.7	3.7	4.4	3.7	3.7
Others	3.2	7.9	3.9	7.9	7.9
Current liabilities	250.4	281.8	302.6	192.6	174.9
Short-term borrowings	107.3	170.0	168.5	110.0	90.0
Payables	142.2	109.6	131.6	80.3	82.7
Others	0.9	2.2	2.5	2.2	2.2
TOTAL LIABILITIES	524.1	494.7	419.2	326.5	269.8

Cash Flow Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Operating activities					
PBT	103.3	82.8	83.5	130.4	151.9
Depreciation & Amortization	22.6	25.7	29.9	29.1	28.5
Chgs in working capital	(16.9)	(16.2)	(2.4)	(21.6)	(8.7)
Others	(79.8)	(138.1)	(35.2)	(140.0)	(159.2)
CF from Operations	29.3	(45.9)	75.8	(2.0)	12.6
Investing activities					
Capex	(18.2)	(25.5)	(20.0)	(20.0)	(21.0)
Others	90.8	71.3	135.6	79.8	90.7
CF from Investments	72.6	45.8	115.6	59.8	69.7
Financing activities					
Dividends paid	(51.3)	(32.2)	(11.0)	(27.3)	(31.6)
Net proceeds in borrowings	(35.7)	(40.7)	(102.1)	(59.0)	(59.0)
Others	(20.5)	26.7	(67.6)	-	-
CF from Financing	(107.5)	(46.2)	(180.7)	(86.3)	(90.6)
Net changes in cash	(5.6)	(46.3)	10.8	(28.5)	(8.3)
Beginning cash	214.2	224.2	209.1	219.8	191.3
Overdrafts & Deposits	15.6	31.2			
Ending cash	224.2	209.1	219.8	191.3	183.0
Ratios	FY15	FY16	FY17	FY18F	FY19F
Revenue growth	2.0%	-7.5%	3.1%	-4.5%	3.3%
EBIT growth	NA	NA	NA	-103.4%	94.8%
Core net profit growth	-33.9%	5.4%	1.6%	27.0%	15.7%
PBT margin	6.8%	4.7%	-8.6%	8.4%	9.9%
Core net profit margin	4.4%	5.0%	5.0%	6.6%	7.4%
ROE	5.0%	5.3%	6.0%	6.3%	6.9%
ROA	3.4%	3.6%	4.1%	4.6%	5.2%
Net gearing (%)	10.1%	12.8%	5.8%	8.2%	5.0%
Book value/share (RM)	4.10	4.10	3.69	4.46	4.71
PBV (x)	0.57	0.57	0.64	0.53	0.50

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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.