

29 August 2018 | 2Q18 Results Review

MBM Resources

Solid 2Q18

INVESTMENT HIGHLIGHT

- **2Q18 beat estimates**
- **Strong RM supported Perodua earnings but temporary production blip hit auto parts division**
- **New national SUVs potential near-term catalyst**
- **Maintain BUY at unchanged TP of RM3.20**

Results beat estimates. MBM's 2Q18 results beat estimates. The group reported net profit of RM35m for its 2Q18, which brought 1H18 earnings to RM67m. This accounted for 62% and 70% of ours and consensus' FY18F respectively. The stronger than expected earnings came mainly from Perodua given stronger than expected Perodua TIV and peak RM:JPY in the period. An interim dividend of 3sen/share was declared, double that of last year's 2Q18.

Tax-holiday driven strength. The 2Q18 captured the maiden month of the tax holiday period (running from June till end Aug18) and naturally saw auto dealership earnings expand 24%qoq. Improved volumes were seen across all brands carried by DMMS (Perodua dealerships) and Federal Auto (Volvo, VW, Mitsubishi) (See Exhibit 1).

Associate earnings (mainly captures MBM's 22.5% share of Perodua earnings) expanded by just 7%qoq and we think this mainly reflects a stronger RM against JPY in the period more than anything else. Perodua's invoiced sales actually came off 10%qoq given possible delay in purchases by dealers to avoid complications in the transition to a zero-rated GST from 1st June. Perodua earnings should improve in 3Q18 as sales ride on the short-term tax-holiday hype.

Cautious on post-SST weakness. Perodua maintained its 2018 forecast of 209K units in anticipation of weakness from September onward after SST is reintroduced. Whilst we acknowledge this, we think the weakness is temporary and beyond 2018, possibly improved consumer spending power could drive a structural improvement in demand. More importantly, Perodua is scheduled to launch its SUV model by year-end, which plugs an important gap in its model mix. Channel checks suggest pricing in the range of RM70K-80K and the model is likely to be timed close to Proton's SUV launch scheduled in 4Q18.

Expect TIP improvement in 3Q18. Revenue for auto parts manufacturing was lower by 14%qoq in 2Q18 given OEM plant closures in the period (typical 2 weeks closure during Raya holidays) which resulted in slightly higher losses at RM4m in 2Q18. Total Industry Production (TIP) reduced 20%qoq but is expected to bounce back strongly in 3Q18 as production resumed full scale in July to meet the strong short-term demand during the tax-holiday period. From a structural standpoint, we are still cautious on Proton's 30% vendor cost down plans which may hit vendors' margins negatively if implemented. That said, plans for a new national car, which may increase local part demand could turn out to be a positive catalyst, provided minimal cannibalisation of existing clients' volume.

Maintain BUY

Unchanged Target Price: RM3.20

RETURN STATS

Price (28 Aug 2018)	RM2.32
Target Price	RM3.20
Expected Share Price Return	+37.9%
Expected Dividend Yield	+3.5%
Expected Total Return	+41.4%

STOCK INFO

KLCI	1826.90
Bursa / Bloomberg	5983 / MBM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	380.89
Market cap. (RM'm)	906.86
Price over NA	0.62
52-wk price Range	RM2.01-2.68
Beta (against KLCI)	0.57x
3-mth Avg Daily Vol	0.15m
3-mth Avg Daily Value	RM0.36m
Major Shareholders (%)	
Med-Bumikar	49.5
EPF	15.2
AIA	4.2

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 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)	11.3	10.7	10.5	8.3	7.2
Net Dividend (sen)	10.0	6.0	3.0	7.0	8.1
Net Dividend Yield (%)	4.3	2.6	1.3	3.0	3.5

Source: Company, MIDF

Beneficiary of new national SUVs. MBM auto parts division, particularly OMI Alloy (OMIA) is also a beneficiary of Perodua's new SUV (See Exhibit 2) and OMIA is understood to be in talks to supply to Proton's SUV which is expected to be localised 2H next year (initial launch in 4Q18 expected to comprise CBUs).

Reaffirm BUY on MBM at unchanged TP of RM3.20. Our forecasts are under review pending a briefing this morning. MBM remains a cheap proxy to Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Attractive 27%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 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.

EXHIBIT 1: MBM 2Q18 RESULT SUMMARY

FYE Dec (RMm)	2Q17	1Q18	2Q18	YoY	QoQ	1H17	1H18	YTD
Revenue	403.9	463.5	493.3	22.1%	6.4%	822.0	956.8	16.4%
Operating profit	(1.7)	0.7	1.5	-193.0%	128.7%	(4.5)	2.2	-149.0%
Net finance cost	(3.0)	(1.6)	(2.0)	-35.1%	24.4%	(6.0)	(3.5)	-41.1%
JCE	1.3	3.4	4.4	236.9%	31.2%	3.7	7.8	110.9%
Associates	23.2	36.8	39.2	69.0%	6.6%	49.3	76.0	54.1%
Pretax income	19.8	39.2	43.2	118.0%	10.1%	42.4	82.5	94.3%
Tax	(1.7)	(2.2)	(2.7)	56.6%	24.4%	(3.3)	(4.9)	46.5%
PAT	18.1	37.1	40.5	123.9%	9.3%	39.1	77.6	98.4%
MI	1.9	4.3	5.9	207.4%	39.9%	3.5	10.2	189.5%
Net profit	16.2	32.8	34.5	113.9%	5.3%	35.6	67.4	89.3%
Core net profit	16.2	32.8	34.5	113.9%	5.3%	35.6	67.4	89.3%
GDPS (sen)	1.50	0.00	3.00	100.0%	NA	1.50	3.00	100.0%
Core EPS (sen)	4.14	8.41	8.85	113.9%	5.3%	9.12	17.26	89.3%
Operating margin	-0.4%	0.1%	0.3%			-0.6%	0.2%	
Pretax margin	4.9%	8.5%	8.8%			5.2%	8.6%	
Tax	-8.7%	-5.6%	-6.3%			-7.9%	-5.9%	
Core net profit margin	4.0%	7.1%	7.0%			4.3%	7.0%	
Revenue by division	2Q17	1Q18	2Q18	YoY	QoQ	1H17	1H18	YTD
Motor trading	351.1	399.7	439.6	25.2%	10.0%	721.2	839.3	16.4%
Parts Manufacturing	52.5	62.2	53.4	1.7%	-14.1%	100.4	115.6	15.1%
Pretax by division								
Motor trading	4.3	5.2	6.5	51.4%	24.4%	8.8	11.7	34.1%
Parts Manufacturing	(4.5)	(3.8)	(4.0)	-12.0%	4.6%	(10.8)	(7.8)	-28.0%
Pretax margin								
Motor trading	1.2%	1.3%	1.5%			1.2%	1.4%	15.2%
Parts Manufacturing	-8.6%	-6.1%	-7.4%			-10.8%	-6.7%	-37.5%
P2 TIV (units)- MAA	49,410	55,568	61,530	24.5%	10.7%	99,675	117,098	17.5%
JPY:MYR (spot rates)	3.90	3.64	3.62	-7.1%	-0.5%	3.91	3.63	-7.0%

Source: Company, MIDF

Performance of sales by operations

% Changes *	Q2'18	Q2'18	YTD Jun'18
	vs Q1'18	vs Q2'17	vs YTD Jun'17
Total Industry Volume (TIV) **	+ 14.4	+ 7.6	+ 1.8
Total Industry Production (TIP) **	-20.2	+ 6.3	+ 10.0
Total Group's Vehicles Sales	+ 15.7	+ 33.2	+ 20.9
Subsidiaries			
DMSB - Daihatsu & Hino trucks	+ 17.8	+ 52.4	+ 28.4
DMMS Perodua vehicles	+ 14.8	+ 32.2	+ 20.9
Federal Auto : Volvo, Volkswagen & Mitsubishi vehicles	+ 25.9	+ 36.0	+ 17.7
HASB	- 6.9	+ 8.9	+ 7.5
OMI	- 15.0	+ 0.7	+ 16.2
Service throughputs	- 6.0	+ 4.8	+ 6.4
Joint Venture			
AHSB	- 2.2	+ 28.5	+ 15.5
Associated companies			
Perodua vehicles	- 9.8	+ 9.6	+ 7.7
Hino trucks and buses	- 12.6	+ 1.8	- 0.6

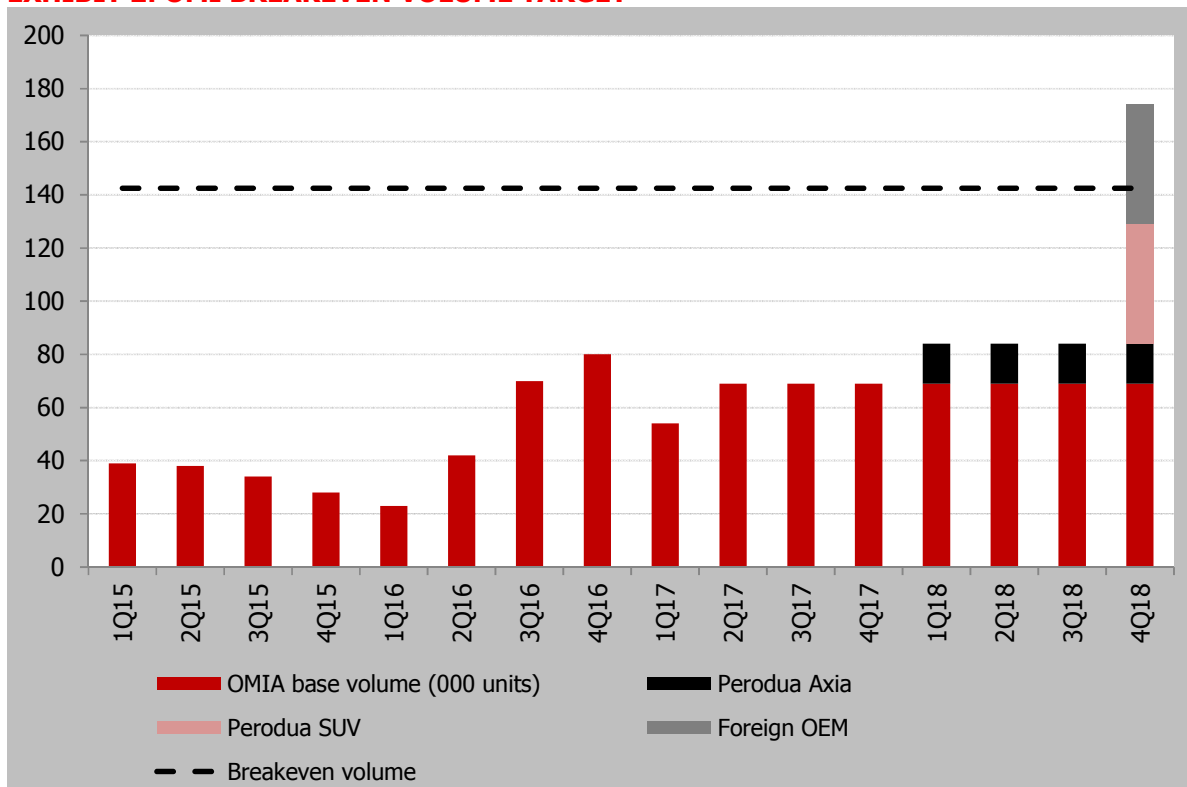
Legend

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

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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

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

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.