

23 February 2018 | 4Q17 Result Review

MBM Resources

Underlying earnings picking up steam

INVESTMENT HIGHLIGHT

- **FY17 core earnings ahead of expectations**
- **Took heavy impairments for alloy wheel plant and Hirotako**
- **Forecasts under review with upward bias**
- **Maintain BUY at unchanged TP of RM2.45**

Earnings ahead of expectations MBM's core net profit for FY17 was ahead of both our and consensus expectations. The group reported core net profit of RM30m for its 4Q17, excluding several large one-offs: (1) RM177m impairment of goodwill and JV investment in Hirotako (2) RM62m impairment of assets related to its alloy wheel plant. FY17F core earnings stood at RM86m accounting for 124% of our forecast and 109% of consensus.

Core earnings improvements. MBM's 4Q17 core earnings of RM30m was up by a whopping 42%qoq as earnings from associates (comprising 22.5% stake in Perodua and 42% in Hino) improved 57%qoq. The new Myvi was launched in mid-November and the quarter only captured partial contribution. On top of this core pretax loss for the auto parts unit also narrowed to just RM3.5m from RM8.4m in 3Q17 and RM12m in 4Q16, while JV earnings from Hirotako-Autoliv registered a 38%qoq increase possibly due to initial supplies to the new Myvi. Bookings (since launch) for the new Myvi has been reported at 36K with >80% of bookings going towards the higher variants.

Perodua dealerships took a hit. On MBM's dealerships, the Perodua dealership unit under DMMS (DMM Sales Sdn Bhd) - sales volume down 15%qoq - suffered a temporary setback from supply shortage ahead of launch of the new Myvi model. DMMS is the largest Perodua dealer with ~10% share of Perodua TIV. Positively, Federal Auto saw a 7%qoq rise in volumes driven by VW models while DMSB (Daihatsu Malaysia Sdn Bhd) saw a 12%qoq rise from higher Daihatsu Commercial Vehicle sales.

Recommendation. Our forecast is under review with upside bias pending a briefing this morning. The decision to take a huge impairment on assets at the alloy wheel plant was a surprise, but we note that this came ahead of a recent announcement to take full control of OMI (unit housing loss making alloy wheel unit and steel wheel operations). This could also mean lower depreciation cost going forward and possible acceleration in turnaround of the units. Maintain BUY at unchanged TP of **RM2.45**.

Maintain BUY

Unchanged Target Price: RM2.45

RETURN STATS

Price (22 Feb 2018)	RM2.29
Target Price	RM2.45
Expected Share Price Return	+7.0%
Expected Dividend Yield	+3.3%
Expected Total Return	+10.3%

STOCK INFO

KLCI	1,855.07
Bursa / Bloomberg	5983 / MBM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	380.89
Market cap. (RM'm)	895.13
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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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)	132.0	162.5
Normalised PATAMI (RM'm)	80.4	84.8	86.1	95.7	118.1
FD EPS (sen)	20.6	21.7	22.1	24.5	30.3
EPS growth (%)	(29.6)	5.4	1.6	11.1	23.4
PER (x)	11.1	10.5	10.4	9.3	7.6
Net Dividend (sen)	10.0	6.0	2.8	6.1	7.6
Net Dividend Yield (%)	4.4	2.6	1.2	2.7	3.3

Source: MIDFR, Bloomberg Consensus

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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EXHIBIT 1: MBM 4Q17 RESULT SUMMARY

FYE Dec (RMm)	4Q16	3Q17	4Q17	YoY	QoQ	FY16	FY17	YTD
Revenue	447.7	466.8	443.8	-0.9%	-4.9%	1,680.7	1732.6	3.1%
Operating profit	(38.0)	(12.0)	(241.0)	NA	NA	(48.5)	(257.6)	NA
Net finance cost	(5.8)	(2.7)	(2.6)	-55.7%	-4.9%	(12.2)	(11.3)	-7.3%
JCE	5.5	2.6	3.6	-34.4%	38.3%	11.7	9.9	-15.1%
Associates	46.1	23.8	37.4	-19.0%	57.4%	128.5	110.4	-14.0%
Pretax income	7.8	11.7	(202.6)	NA	NA	79.4	(148.5)	NA
Tax	(2.6)	(2.5)	(1.7)	-35.5%	-34.7%	(7.7)	(7.5)	-2.4%
PAT	5.3	9.2	(204.3)	NA	NA	71.7	(156.0)	NA
MI	1.7	1.8	(12.5)	NA	NA	9.7	(7.2)	NA
Net profit	3.5	7.3	(191.7)	NA	NA	62.0	(148.8)	NA
Core net profit	26.2	20.8	29.7	13.0%	42.4%	84.8	86.1	1.6%
GDPS (sen)	3.00	0.00	1.50	-50.0%	NA	6.00	3.00	-50.0%
Core EPS (sen)	0.9	5.34	7.60	741.9%	42.4%	21.7	22.1	1.6%
Operating margin	-8.5%	-2.6%	-54.3%			-2.9%	-14.9%	
Pretax margin	1.7%	2.5%	-45.7%			4.7%	-8.6%	
Tax	-32.8%	-21.6%	0.8%			-9.7%	5.1%	
Core net profit margin	5.9%	4.5%	6.7%			5.0%	5.0%	
Revenue by division	4Q16	3Q17	4Q17	YoY	QoQ	FY16	FY17	YTD
Motor trading	378.2	410.4	380.8	0.7%	-7.2%	1,472.9	1,512.5	2.7%
Parts Manufacturing	59.0	53.2	62.7	6.3%	17.8%	191.8	216.3	12.7%
Pretax by division								
Motor trading	(0.4)	7.2	(5.2)	1326.9%	-171.6%	19.4	10.8	-44.0%
Parts Manufacturing *	(12.3)	(8.4)	(96.3)	685.5%	1045.6%	(20.8)	(115.5)	455.0%
Pretax margin								
Motor trading	-0.1%	1.8%	-1.4%			1.3%	0.7%	-45.5%
Parts Manufacturing	-20.8%	-15.8%	-154%			-10.8%	-53.4%	392.3%
P2 TIV (units)- MAA	53,519	51,905	53,307	-0.4%	2.7%	150,889	151,580	0.5%
JPY:MYR (spot rates)	3.96	3.84	3.80	-4.0%	-1.0%	3.77	3.88	2.9%

Source: Company, MIDF * Core pretax loss is RM3.5m

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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.