

16 January 2015 | Corporate Update

MBM Resources Berhad

Myvi facelift to boost sales

Maintain BUY

Unchanged Target Price (TP): RM4.80

INVESTMENT HIGHLIGHTS


- Perodua launched the Myvi facelift yesterday. The brand expects to sell 6k units/month while it guided for its overall FY15 sales target to be at 208k units.
- The recent weakening of Ringgit has resulted in MBM's share price to ease 5%. We remain positive on the stock and retain our assumption of RM2.95/¥100 as we expect the Ringgit to stabilise. We estimate that every 1% change in the RM/¥100 rate would result in ±1.6% change to MBM's earnings.
- Reiterate BUY on MBM as we see ample upside to its current value at deep discount to the sector.

Myvi facelift launched. Perodua launched the Myvi facelift yesterday (15 Jan) with 6 variants offered, retailing at RM42k-59k – a RM400 jump from previous prices. The facelift model retains the same engine options while changes were mainly on aesthetics and other features as well as structural enhancements, boosting Myvi's ASEAN NCAP safety rating to 4 stars (from 3). The automatic variants adopt a new 4-speed gearbox which we believe is the same locally-assembled unit found in the Perodua Axia.

Aiming for over 200k units. Perodua expects to sell 6k units/month of the Myvi facelift while the company expects overall sales for the brand to hit 208k units in 2015. Should this materialises, it would be the first for Perodua's sales volume to exceed the 200k threshold. The highest sales volume recorded was at 196k in 2013.

Ringgit's weakness in recent weeks. The Ringgit has weakened to over RM3.05/¥100 against the Yen with year-to-date average of RM2.99/¥100. The movement was largely due to concerns over the country's fiscal health following the collapse in crude oil prices. Concurrently, MBM's share price has retraced by 5% to RM2.84 from RM3 in early January.

Our thoughts. Despite Perodua's strong sales volume projection, we retain our FY15 forecast for the brand at 197k as we expect demand to remain soft, mitigated by softening consumer sentiment ahead of the GST imposition and the economic uncertainty. Meanwhile, we make no changes to our RM2.95/¥100 rate assumption for now as we expect the Ringgit to stabilise at current levels.

Maintain Buy at RM4.80. We reiterate our Buy call on MBM with RM4.80 price target. The stock is also our top pick for the sector and the broader market as we expect performance of its subsidiaries and Perodua contribution to rebound in FY15. MBM continues to trade at undemanding valuations of only 6x FY15 PER while dividend yield is fairly attractive at 4.2% based on a 26% payout ratio. 

| RETURN STATS | |
|------------------------------|---------------|
| Price (15 Jan '15) | RM2.84 |
| Target Price | RM4.80 |
| Expected Share Price Return | +69.0% |
| Expected Dividend Yield | +4.2% |
| Expected Total Return | +73.8% |

| STOCK INFO | |
|--------------------------|-----------------|
| KLCI | 1,745.0 |
| Bursa / Bloomberg | 5983 / MBM MK |
| Board / Sector | Main / Consumer |
| Syariah Compliant | Yes |
| Issued shares (mil) | 390.7 |
| Par Value (RM) | 1.00 |
| Market cap. (RM'm) | 1,109.6 |
| Price over NA | 0.87x |
| 52-wk price Range | RM2.60-RM3.47 |
| Beta (against KLCI) | 0.71 |
| 3-mth Avg Daily Vol | 0.35m |
| 3-mth Avg Daily Value | RM0.99m |
| Major Shareholders (%)* | |
| Med-Bumikar Mara Sdn Bhd | 49.53 |
| EPF | 16.15 |
| LTH | 0.30 |

*as of Annual Report 2013

PROFIT & LOSS STATEMENT

| FYE Dec (RM m) | 2012 | 2013 | 2014F | 2015F | 2016F |
|------------------------------|------------|------------|------------|------------|------------|
| Turnover | 2,268 | 2,234 | 2,237 | 2,375 | 2,533 |
| Operating costs | (2,157) | (2,138) | (2,144) | (2,259) | (2,397) |
| EBITDA | 111 | 96 | 93 | 116 | 136 |
| Depreciation | (21) | (26) | (38) | (37) | (36) |
| EBIT | 90 | 71 | 55 | 79 | 100 |
| Interest income | (20) | (14) | (13) | (12) | (10) |
| Interest expense | 2 | (1) | - | - | - |
| Associates | 125 | 139 | 159 | 187 | 195 |
| Pretax profit | 197 | 194 | 201 | 254 | 285 |
| Taxation | (22) | (18) | (19) | (30) | (40) |
| Minority interest | (39) | (39) | (37) | (42) | (48) |
| Net profit | 136 | 138 | 145 | 181 | 196 |
| Normalised net profit | 134 | 139 | 145 | 181 | 196 |

Source: Company, Forecasts by MIDFR

BALANCE SHEET

| FYE Dec (RMm) | 2012 | 2013 | 2014F | 2015F | 2016F |
|---|--------------|--------------|--------------|--------------|--------------|
| Non-current assets | | | | | |
| Property, plant and equipment | 384 | 462 | 448 | 436 | 425 |
| Associates | 818 | 892 | 982 | 1,086 | 1,196 |
| Deferred tax assets | 2 | 3 | 3 | 3 | 3 |
| Other non-current assets | 229 | 228 | 228 | 228 | 228 |
| Total non-current assets | 1,434 | 1,585 | 1,661 | 1,754 | 1,852 |
| Current assets | | | | | |
| Inventories | 394 | 282 | 283 | 300 | 320 |
| Property development costs | 44 | 85 | 85 | 85 | 85 |
| Trade & other receivables | 280 | 258 | 258 | 272 | 287 |
| Other current assets | 10 | 20 | 20 | 20 | 20 |
| Cash and bank balances | 291 | 325 | 393 | 462 | 544 |
| Total current assets | 1,020 | 969 | 1,038 | 1,138 | 1,256 |
| Total assets | 2,454 | 2,554 | 2,699 | 2,892 | 3,108 |
| Current liabilities | | | | | |
| Trade and other payables | 331 | 296 | 296 | 310 | 327 |
| Short term borrowings | 236 | 157 | 147 | 137 | 127 |
| Provision for liabilities | 6 | 5 | 5 | 5 | 5 |
| Other current liabilities | 1 | 4 | 4 | 4 | 4 |
| Total current liabilities | 573 | 462 | 452 | 456 | 463 |
| Non-current liabilities | | | | | |
| Long term borrowings | 317 | 321 | 321 | 321 | 321 |
| Deferred taxation | 2 | 3 | 3 | 3 | 3 |
| Other long term liabilities | 2 | 2 | 2 | 2 | 2 |
| Total non-current liabilities | 321 | 327 | 327 | 327 | 327 |
| Financed by: | | | | | |
| Share capital | 391 | 391 | 391 | 391 | 391 |
| Reserves | 45 | 45 | 45 | 45 | 45 |
| Retained profit | 904 | 1,006 | 1,124 | 1,270 | 1,431 |
| Shareholders' equity | 1,339 | 1,442 | 1,560 | 1,706 | 1,867 |
| Minority interest | 221 | 323 | 360 | 403 | 450 |
| Total liabilities and shareholders' equity | 2,454 | 2,554 | 2,699 | 2,892 | 3,108 |

Source: Company, Forecasts by MIDFR

CASH FLOW STATEMENT

| FYE Dec (RM m) | 2012 | 2013 | 2014F | 2015F | 2016F |
|--|-------------|--------------|-------------|-------------|-------------|
| Cashflow from operations (CFO) | | | | | |
| Pretax profit | 197 | 194 | 201 | 254 | 285 |
| Depreciation | 21 | 26 | 38 | 37 | 36 |
| Share of profit of associates | (125) | (139) | (159) | (187) | (195) |
| Net interest income | 20 | 14 | 13 | 12 | 10 |
| Net change in working capital | (136) | 94 | (0) | (17) | (19) |
| Tax paid | (28) | (24) | (19) | (30) | (40) |
| Interest paid | - | - | (22) | (22) | (23) |
| Others | (23) | (34) | - | - | - |
| CFO | (74) | 131 | 52 | 47 | 54 |
| Cashflow from investing (CFI) | | | | | |
| Purchase of fixed assets | (103) | (103) | (25) | (25) | (25) |
| Dividends received from associates | 54 | 66 | 69 | 82 | 85 |
| Interest received | 5 | 8 | 9 | 11 | 13 |
| Others | 8 | 86 | - | - | - |
| CFI | (35) | 58 | 53 | 68 | 73 |
| Cashflow from financing (CFF) | | | | | |
| Dividends paid | (12) | (35) | (27) | (35) | (35) |
| Dividends paid to minority interest | (19) | (21) | - | - | - |
| Changes in borrowings | 124 | (74) | (10) | (10) | (10) |
| Net proceeds from issue of capital | 3 | - | - | - | - |
| CFF | 173 | (153) | (37) | (45) | (45) |
| Change in cash and cash equivalents | 64 | 36 | 68 | 70 | 82 |

Source: Company, Forecasts by MIDFR

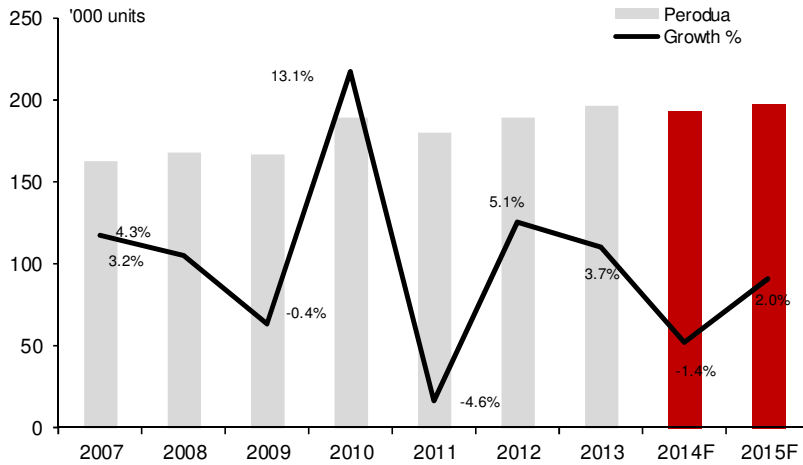
INVESTMENT STATISTICS

| FYE Dec | 2012 | 2013 | 2014F | 2015F | 2016F |
|------------------------|------|------|-------|-------|-------|
| Headline EPS (sen) | 34.9 | 35.2 | 37.2 | 46.4 | 50.3 |
| Normalised EPS (sen) | 34.4 | 35.6 | 37.2 | 46.4 | 50.3 |
| PER (x) @ RM2.84 | 8.3 | 8.0 | 7.6 | 6.1 | 5.6 |
| Net DPS (sen) | 8.0 | 8.0 | 10.7 | 12.0 | 12.0 |
| Net yield (%) @ RM2.84 | 2.1 | 2.1 | 2.8 | 4.2 | 4.2 |

Source: Company, Forecasts by MIDFR

APPENDIX

Appendix 1: Perodua sales volume trend 2006-2015F



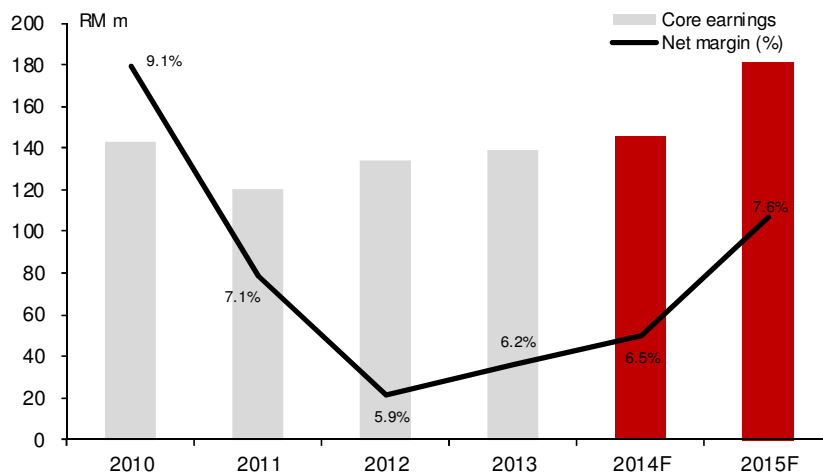
Source: MAA, MIDFR

Appendix 2: RM/¥100 trend 2010-current



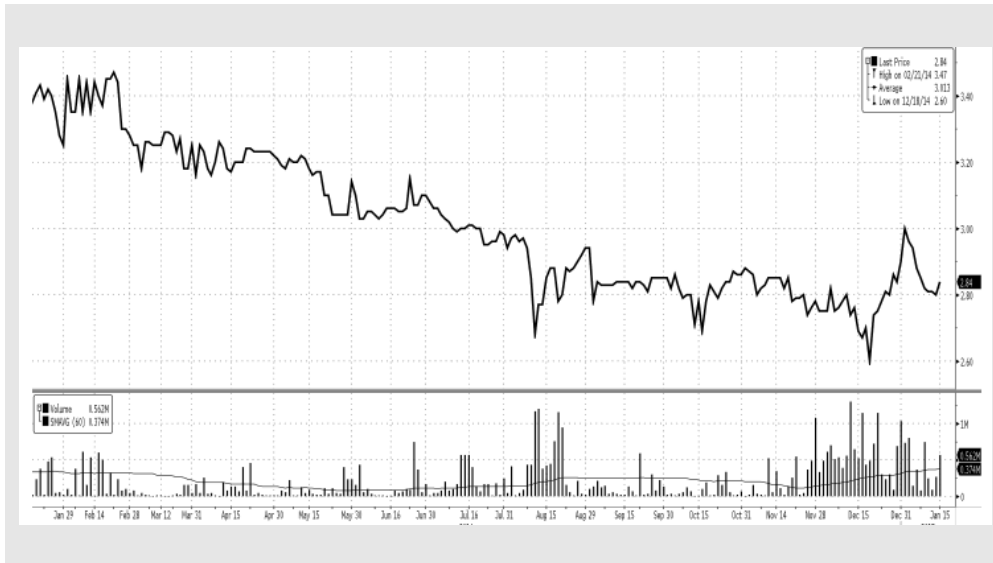
Source: Bloomberg

Appendix 3: MBM's earnings and net margins trajectory



Source: Company, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >15% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -15% and +15% over the next 12 months. |
| SELL | Total return is expected to be <15% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >15% 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. |