

Bermaz Auto Berhad

(5248 | BAUTO MK) Main | Consumer Products & Services

Maintain BUY

Yet Another Record-Breaking Quarter

Revised Target Price: RM3.30
(previously RM3.20)

KEY INVESTMENT HIGHLIGHTS

- **4QFY23 result outperforms yet again**
- **Record-breaking quarter driven by stronger volumes and margin**
- **Booking momentum picking up, strong backlog orders**
- **FY24F earnings raised +7%**
- **Re-affirm BUY at higher TP of RM3.30**

Yet another beat. Bermaz Auto's (BAuto) 4QFY23 (FYE April) results beat expectations yet again. The group reported a record net profit of RM101m for its 4QFY23, which brought FY23 core earnings to a record high of RM305m (normalized for RM1m ESOS expense), accounting for 115%/114% of our and consensus estimates respectively, due mainly to stronger than expected topline.

Special dividends. In line with the strong earnings, a total 11sen dividend was declared for 4QFY23 (comprising 3.5sen 4th interim and 7.5sen special dividend). This brings FY23 dividends to 22sen representing a generous 84% DPR (vs. our forecasted 70% DPR) and 9.9% yield.

Key Highlights. 4QFY23 core earnings rose +29%yoy driven mainly by higher sales volume for Mazda (MY) (+6%yoy) and Kia (+266%yoy) given the rush to deliver Penjana tax holiday bookings by the 31st March deadline, while Mazda (PH) saw sales volume increase +19%yoy. The 4QFY23 also reflected maiden contribution of the CKD CX30 (launched March 2023), which now accounts for 32% of Mazda (MY) TIV, matching volume contribution of the CX5 which was previously the largest volume driver. The CKD CX30 registered 1561 sales volume in 4QFY23, just over a quarter of its annual sales target of 6K units. On full-year basis, BAuto's core earnings almost doubled (+94%yoy) on the back of +46%yoy groupwide sales volume increase as well as improved margins from a weak JPY and higher production.

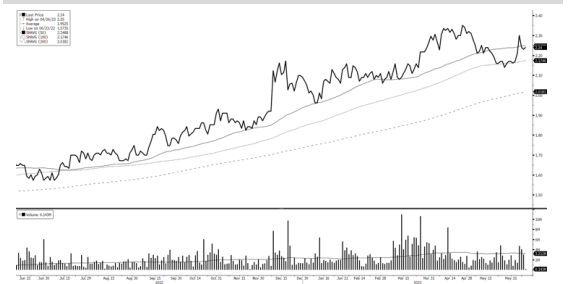
Price hike. Selling price of CBU Mazda models were raised between 1.5%-12.0% from 1st April 2023, while pricing for the CKD CX30 was raised 2.7%. New pricing for the CX8 and CX5 has yet to be announced, but we gather this is in the works. Given the current 4-5 months waiting list for Mazda, we expect margin impact from the price hikes to reflect towards end-2QFY24 onwards.

Strong momentum sustaining. We gather that new bookings (for Mazda) picked up to 1.8K in May, higher than pre-pandemic monthly bookings of 1.5K-1.6K, signaling resilient demand notwithstanding the price hikes and Penjana tax holiday expiry. Outstanding bookings now stand at 6K for Mazda and 500 for Kia/Peugeot. The outstanding Mazda bookings make up almost 40% of our FY24F Mazda (MY) TIV of 15.8K. Groupwide, upcoming launches which could serve as catalysts are the: (1) CKD Kia Sportage and Carens & CBU Niro EV, (2) Mazda CX-60 CBU, (3) Peugeot e-2008 EV and the new 408.

RETURN STATISTICS

Price @ 12 th June 2023 (RM)	2.23
Expected share price return (%)	+47.22
Expected dividend yield (%)	9.58
Expected total return (%)	+56.79

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.9	3.5
3 months	-3.5	7.3
12 months	25.7	32.7

INVESTMENT STATISTICS

FYE April (RMm)	2023A	2024F	2025F
Revenue	3,548	3,581	3,639
Operating Profit	377	391	406
Profit Before Tax	421	430	448
Core PATAMI	305	311	323
Core EPS (sen)	26.2	26.7	27.7
DPS (sen)	22.0	21.4	22.2
Dividend Yield (%)	9.9	9.6	10.0
PER (x)	8.5	8.4	8.0

KEY STATISTICS

FBM KLCI	1,386.77
Issue shares (m)	1162.20
Estimated free float (%)	52.47
Market Capitalisation (RM'm)	2,603.69
52-wk price range	RM1.65-RM2.39
3-mth average daily volume (m)	3.30
3-mth average daily value (RM'm)	7.39
Top Shareholders (%)	
Dynamic Milestone Sdn Bhd	14.69
Employees Provident Fund Board	10.83
Amanah Saham Nasional Bhd	7.17

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Earnings revision. We raise FY24F net profit by +7% to factor in the price hikes which will reflect mainly in 2HFY24. Our groupwide (MY) FY24F sales volume of 20.4K is slightly more conservative than BAUTO's low-range expectation of 21.3K (High-range: 21.8K) as we conservatively factor in some cannibalization of CX5 volumes by the CKD CX30 given selective overlapping price points. We also introduce FY25F net profit at RM323m (+4%yoy) driven by the full year impact of Mazda price hikes and potential introduction of new Kia CKDs in the line-up (Sportage). In line with the higher earnings and cash flow projections, we raise our DPR to 80% (from 70%), which implies attractive 9.6%/10% yields in FY24F/25F.
























Recommendation. Re-affirm **BUY** on BAUTO at higher **TP of RM3.30** (previously RM3.20) given the upward earnings revision. Our valuation pegs BAUTO at 12x FY24F earnings, at par with its 5-year historical mean. We like BAUTO for its above-industry earnings and volume growth (throughout our forecast horizon) driven by recent acquisitions of Kia/Peugeot brands and expansion in its Mazda/Kia CKD line-up. Coupled with an undemanding valuation of 8.4x FY24F PER and attractive dividend yield (9.6%-10.0%), BAUTO remains one of our top picks in the sector. Net cash now stands at RM438m (RM0.38/share). Key catalysts: (1) Sustained earnings improvement for underlying Mazda operations on improving margins and demand recovery, (2) A weak JPY, (3) Rollout of CKD Kia Sportage and Carens, (3) Budget 2023 BEV duty exemptions which may incentivize consumer take-up of EV models – BAUTO is well positioned to capitalize on this with ready EV models from Kia (EV6 & upcoming Niro EV), Peugeot (e-2008 EV) and Mazda (MX30 EV). 

Table 1: Key volume assumptions

Volume assumptions (units) (MY)	FY22	FY23	FY24F	FY25F
Mazda	12,038	15,598	15,757	15,892
Kia	360	2,194	2,500	2,625
Peugeot	964	1,896	2,100	2,205
Total	13,362	19,688	20,357	20,722
Growth	-2.3%	47.3%	3.4%	1.8%

Source: Company, MIDFR

Exhibit 1: BAUTO Product Map

	2022/2023				2023		
	Mazda3 IPM2 (Feb'22) 	CX-30 IPM2 (Feb'22) 	CX-8 IPM3 (June '22) 	New MX-30 EV (June '22) 	CX-30 CKD (Mar'23) 	New CX-60 (TBA) 	
	New 3008 (Nov'21) 	New 5008 (Nov'21) 	All-New 2008 (Jan'22) 		New Landtrek (Mar'23) 	New e-2008 EV (CYQ3'23) 	New 408 (TBA) 
	All-New Carnival (Dec'21) 	Carnival CKD (July '22) 	New EV6 EV (June '22) 	All-New Sorento (Mar'23) 	Niro EV (CYQ3 '23) 	All-New Sportage (TBA) 	Carens (KY) (TBA) 

Source: Company, MIDFR

Table 2: BAuto FY23 Result Summary

FYE Apr (RMm)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YTD
Revenue	897.4	976.0	1,072.4	9.9%	19.5%	2,325.1	3,548.2	52.6%
Operating profit	106.8	99.0	126.5	27.8%	18.4%	204.5	376.8	84.3%
Investment income	1.9	4.5	4.0	-10.5%	109%	6.6	14.6	121%
Finance cost	(2.8)	(2.7)	(1.8)	-31.6%	-33.8%	(10.6)	(9.3)	-12.3%
Associates	9.5	14.8	10.9	-26.0%	15.2%	18.1	39.0	116%
Pretax profit	115.4	115.5	139.5	20.8%	20.9%	218.6	421.2	92.7%
Tax	(34.6)	(23.3)	(31.9)			(59.7)	(94.0)	57.3%
PAT	80.8	92.2	107.6	16.7%	33.1%	158.8	327.2	106%
MI	2.1	4.9	7.0	42.8%	227%	3.1	23.5	656%
Net profit	78.7	87.3	100.6	15.3%	27.8%	155.7	303.7	95.1%
Core net profit	77.8	87.7	100.6	14.8%	29.3%	157.0	304.7	94.1%
Core EPS (sen)	6.68	7.53	8.64	14.8%	29.3%	13.48	26.16	94%
GDPS (sen)	4.50	4.50	11.00	144%	144%	8.75	22.00	151%
Operating margin	11.9%	10.1%	11.8%			8.8%	10.6%	
Pretax margin	12.9%	11.8%	13.0%			9.4%	11.9%	
Core net profit margin	8.7%	9.0%	9.4%			6.8%	8.6%	
Tax rate	30.0%	20.2%	22.9%			27.3%	22.3%	
Dividend Payout Ratio	67%	60%	127%			65%	84%	
Malaysia revenue (RMm)	840.1	927.7	1,000.5	7.9%	19.1%	2,140.7	3,316.8	54.9%
Philippines revenue (RMm)	57.3	48.3	71.9	48.8%	25.6%	184.4	231.4	25.5%
Malaysia EBIT (RMm)	105.4	92.3	117.9	27.7%	11.8%	200.6	348.6	73.8%
Philippines EBIT (RMm)	1.6	7.0	8.8	25.1%	461.1%	5.0	29.9	503.0%
Malaysia EBIT margin	12.6%	10.0%	11.8%			9.4%	10.5%	
Philippines EBIT margin	2.7%	14.6%	12.2%			2.7%	12.9%	
Sales volume (units) (subsidiaries)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YTD
Mazda (Malaysian operations)	4,551	4,453	4,827	8.4%	6.1%	12,038	15,598	29.6%
Peugeot (Malaysian operations)	548	371	422	13.7%	-23.0%	964	1,896	96.7%
Kia (Malaysian operations)	203	622	743	19.5%	266.0%	360	2,194	509.4%
Mazda (Philippines)	438	350	523	49.4%	19.4%	1,304	1,682	29.0%
Total volume	5,740	5,796	6,515	12.4%	13.5%	14,666	21,370	45.7%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021	2022	2023	2024F	2025F
Revenue	2,287.9	2,325.1	3,548.2	3,581.0	3,638.9
Operating profit	159.6	204.5	376.8	391.3	406.0
Net interest expense	-7.4	-3.9	5.4	1.4	2.4
Associates	20.5	18.1	39.0	37.6	39.4
PBT	172.7	218.6	421.2	430.3	447.8
Taxation	-41.1	-59.7	-94.0	-94.3	-98.0
Minority Interest	-2.4	3.1	23.5	25.2	26.6
Net profit	133.9	155.7	303.7	310.9	323.3
Core net profit	134.8	157.0	304.7	310.9	323.3
Balance Sheet (RM'm)	2021	2022	2023	2024F	2025F
Fixed Assets	37.2	41.6	44.5	47.0	49.1
Investments in associate	233.3	275.7	314.5	359.1	404.6
Others	139.1	163.2	177.4	177.4	177.4
Non-current assets	409.6	480.5	536.3	583.5	631.1
Inventories	277.8	230.4	498.3	502.9	511.1
Receivables	131.3	142.5	197.6	199.4	202.6
Others	19.8	(0.1)	7.1	7.1	7.1
Cash & equivalent	563.3	694.4	537.6	574.6	612.6
Current assets	992.2	1,067.2	1,240.6	1,284.0	1,333.4
Long-term borrowings	99.8	99.8	0.0	0.0	0.0
Others	238.8	297.2	343.9	343.9	343.9
Non-current liabilities	338.5	397.1	343.9	343.9	343.9
Short-term borrowings	105.7	100.0	100.0	100.0	100.0
Payables	247.6	253.0	351.1	354.3	360.1
Others	97.9	108.6	142.6	142.6	142.6
Current liabilities	451.1	461.6	593.7	596.9	602.6
Share capital	609.3	609.4	619.6	619.6	619.6
Minority Interest	46.7	54.8	76.6	101.8	128.3
Others	(43.9)	24.9	143.1	205.3	270.0
Total Equity	612.1	689.1	839.4	926.7	1,017.9

Cash Flow Statement (RM'm)	2021	2022	2023	2024F	2025F
PBT	172.7	218.6	421.2	430.3	447.8
Depreciation & Amortization	4.9	6.3	8.2	3.8	4.3
Chgs in working capital	281.1	41.6	(224.9)	(3.2)	(5.6)
Others	(3.7)	26.7	(89.6)	(133.1)	(137.7)
Operating cash flow	455.0	293.2	114.9	297.9	308.8
Capex	(6.0)	(37.5)	(12.2)	(12.2)	(12.2)
Others	5.2	8.7	13.2	0.0	0.0
Investing cash flow	(0.8)	(28.8)	1.0	(12.2)	(12.2)
Dividends paid	(37.2)	(78.4)	(154.0)	(248.7)	(258.6)
Net movement in borrowings	67.7	(31.5)	(99.8)	0.0	0.0
Others	(19.6)	(22.0)	(14.8)	0.0	0.0
Financing cash flow	10.9	(131.9)	(268.7)	(248.7)	(258.6)
Net cash flow	465.1	132.5	(152.8)	37.0	38.0
Beginning cash	100.2	563.4	694.4	537.6	574.6
<i>Forex adjustments</i>	<i>(2.0)</i>	<i>(1.5)</i>	<i>(4.0)</i>	<i>0.0</i>	<i>0.0</i>
Ending cash	563.3	694.4	537.6	574.6	612.6

Key Ratios	2021	2022	2023	2024F	2025F
Operating profit margin	7.0%	8.8%	10.6%	10.9%	11.2%
Core net profit margin	5.9%	6.7%	8.5%	8.7%	8.9%
ROE	22.0%	22.8%	36.3%	33.5%	31.8%
ROA	9.6%	10.1%	17.2%	16.6%	16.5%
Net gearing (%)	-58.5%	-71.8%	-52.1%	-51.2%	-50.4%
Book value/share (RM)	0.53	0.59	0.72	0.80	0.87
PBV (x)	4.2	3.8	3.1	2.8	2.6
PER (x)	19.3	16.5	8.5	8.4	8.0

Source: Company, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology