

MBM Resources Berhad

(5983 | MBM MK) Main | Consumer Products & Services

Still on Track for A Record Year

KEY INVESTMENT HIGHLIGHTS

- **Weaker 2QFY23 earnings well anticipated; 1HFY23 result within expectations**
- **Special dividends a positive surprise**
- **Shorter working quarter dragged earnings sequentially, but prospects underpinned by large order backlog**
- **Maintain BUY at unchanged TP of RM4.70**

Weakness well anticipated. MBM Resources' (MBMR) 2QFY23 net profit fell -33%qoq to RM52m mainly due to weaker associate and parts manufacturing earnings. However, the weakness was well anticipated with MBMR's 1HFY23 net profit of RM132m making up 54%/52% of our/consensus estimates.

Dividend surprise. A 1st interim dividend of 6sen and a special dividend of 20sen was declared, translating to a generous dividend yield of 7%. The 1HFY23 dividend of 26sen exceeded our FY23F of 25sen. There was surprisingly, a dividend receipt from associates (likely to be Perodua) amounting to RM79m (20sen/share) during the quarter, which we reckon supported MBMR's special dividend payout.

Sequential weakness. Associate earnings were down -33%qoq, which we believe was due to Perodua's plant maintenance during the Raya festivities. Additionally, 1QFY23 was an exceptionally high base due to the rush to deliver Penjana tax holiday bookings prior to the delivery deadline on 31st March 2023 and frontloaded production ahead of scheduled plant maintenance in 2QFY23. Similarly, the parts manufacturing division saw a steep decline in revenue (-12%qoq) and margins as a result of lower production due to a shorter working quarter from Aidilfitri and Aidiladha holidays where OEMs took the opportunity to shut down their plants for maintenance.

On a year-on year basis, group earnings were lower by -30%, due to lower associate earnings from higher operating cost, which we reckon partly reflected SST-compensation for Penjana tax holiday bookings that overshot the 31st March deadline. Additionally, 2QFY23 was a shorter working quarter given festivities in April and June, which impacted the parts manufacturing division. Motor trading division meanwhile, was negatively impacted by lower demand for VW and Volvo models, while Perodua dealerships were still constrained by stock availability despite still robust demand. Notwithstanding the weaker 2QFY23 showing, we expect Perodua TIV and production post-2QFY23 to recover, underpinned by a longer working quarter and a large order backlog stretching up to an estimated 6-7 months.

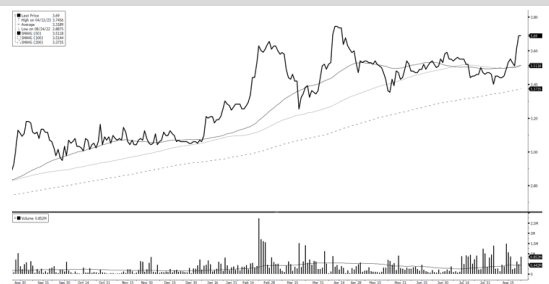
Earnings estimates. We make no changes to our projections as the 1HFY23 earnings were in-line with estimates. However, we raised DPR to 50% (from 40%), leading to higher dividend yield of 8.5%.

Maintain BUY
Unchanged Target Price: RM4.70

RETURN STATISTICS

Price @ 23 rd August 2023 (RM)	3.69
Expected share price return (%)	+27.4
Expected dividend yield (%)	8.5
Expected total return (%)	+35.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.9	-3.4
3 months	2.0	-2.8
12 months	17.2	28.3

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	2,308.1	2,389.9	2,337.6
Operating Profit	104.9	69.1	68.4
Profit Before Tax	325.3	300.8	301.0
Core PATAMI	234.2	244.0	244.8
Core EPS (sen/share)	60.0	62.5	62.7
PER (x)	6.1	5.9	5.9
DPS (sen/share)	43.0	31.3	31.4
Dividend Yield (%)	11.7	8.5	8.5

KEY STATISTICS

FBM KLCI	1,440.11
Issue shares (m)	390.9
Estimated free float (%)	31.5
Market Capitalisation (RM'm)	1,442.42
52-wk price range	RM2.88-RM3.88
3-mth average daily volume (m)	0.4
3-mth average daily value (RM'm)	1.5
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.5
Employees Provident Fund Board	5.1
Lembaga Tabung Haji	4.8

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Recommendation. We keep our **BUY** call on MBMR at unchanged **TP** of **RM4.70**. Our valuation continues to peg MBMR at 7.5x FY23F earnings, close to mean PER. MBMR is a cheap proxy to Perodua trading at 5.9x FY23F PER (18% discount to mean). Perodua in turn, is one of the prime beneficiaries of a cyclical recovery in the auto sector given its dominant ~40% market share, while MBMR's auto parts and dealership units are spillover beneficiaries of a recovery in TIV and TIP. Dividend yield is attractive at 8.5% (DPR: 50%). Net cash stands at RM195m (50sen/share), accounting for 14% of market cap. Key risk to our call is weaker than expected demand and a worse than expected component shortage impact on auto production.



Table 1: MBMR 2QFY23 Result Summary

FYE Dec (RMm)	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Revenue	557.0	555.8	539.6	-3.1%	-2.9%	1035.5	1095.4	5.8%
Operating profit	20.2	16.8	10.6	-47.8%	-37.3%	63.7	27.4	-57.0%
Net finance cost	0.8	1.5	1.3	71.1%	-10.2%	1.8	2.8	56.9%
JCE	3.6	7.3	4.7	29.8%	-36.3%	6.7	12.0	79.5%
Associates	54.3	68.0	45.2	-16.8%	-33.5%	105.2	113.2	7.6%
Pretax income	78.9	93.6	61.8	-21.8%	-34.0%	177.4	155.4	-12.4%
Tax	(5.5)	(4.8)	(3.3)	-39.5%	-30.8%	(12.1)	(8.1)	-32.9%
PAT	73.5	88.9	58.5	-20.4%	-34.2%	165.4	147.3	-10.9%
MI/Discontinued Ops	(0.6)	8.9	6.5	-1190.6%	-26.9%	2.0	15.4	663.7%
Net profit	74.1	80.0	51.9	-29.9%	-35.0%	163.3	131.9	-19.2%
Core net profit	74.1	78.1	51.9	-29.9%	-33.5%	*128.9	131.9	2.3%
GDPS (sen)	16.00	0.00	26.00			16.00	26.00	
Core EPS (sen)	18.98	20.00	13.31	-29.9%	-33.5%	33.04	33.80	2.3%
Operating margin	3.6%	3.0%	2.0%			6.2%	2.5%	
Pretax margin	14.2%	16.8%	11.4%			17.1%	14.2%	
Tax rate	-6.9%	-5.1%	-5.4%			-6.8%	-5.2%	
Core net profit margin	13.3%	14.0%	9.6%			12.4%	12.0%	
Revenue by division	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Motor trading	485.4	476.8	470.0	-3.2%	-1.4%	894.1	946.8	5.9%
Parts Manufacturing	71.1	78.4	68.9	-3.0%	-12.1%	140.4	147.3	4.9%
Others	0.6	0.6	0.7	17.6%	3.0%	1.1	1.3	17.6%
Pretax by division (subsidiaries)				-21.8%	-34.0%			
Motor trading	17.2	12.0	10.3	-40.1%	-14.1%	27.8	22.3	-19.8%
Parts Manufacturing	4.9	7.6	2.7	-45.9%	-64.7%	40.2	10.2	-74.6%
Others	(1.1)	(1.2)	(1.1)	-4.0%	-11.7%	(2.5)	(2.3)	-7.7%
Pretax margin (subsidiaries)				ppts	ppts			ppts
Motor trading	3.5%	2.5%	2.2%	(1.35)	(0.32)	3.1%	2.4%	-24.3%
Parts Manufacturing	7.0%	9.7%	3.9%	(3.07)	(5.77)	28.7%	7.0%	-75.7%
Others	-201.8%	-192.1%	-164.7%			-227.0%	-178.2%	
Perodua TIV (units) - MAA	65,719	78,565	66,130	0.6%	-15.8%	127,344	144,695	13.6%
JPY:MYR (spot rates)	3.35	3.32	3.35	-0.1%	1.0%	3.48	3.30	-5.0%

Source: Company, MIDFR *Includes a one-off RM30.4m gain on disposal of land and factory

FINANCIAL SUMMARY

Income Statement (RMm)	FY20	FY21	FY22	FY23F	FY24F
Revenue	1,793.5	1,531.9	2,308.1	2,389.9	2,337.6
Operating expenses	-1,749.5	-1,489.0	-2,203.2	-2,320.8	-2,269.2
EBIT	44.0	42.9	104.9	69.1	68.4
Net interest expense	3.0	3.0	4.1	4.0	5.5
Associates/JCE	159.5	161.6	216.3	227.7	227.1
PBT	206.5	207.5	325.3	300.8	301.0
Taxation	-16.3	-15.6	-27.0	-22.0	-22.0
Minority Interest	23.4	23.8	29.7	34.8	34.2
Net profit	166.8	168.1	268.6	244.0	244.8
Core net profit	166.8	145.6	234.2	244.0	244.8
Balance Sheet (RMm)	FY20	FY21	FY22	FY23F	FY24F
PPE	214.2	181.4	174.5	178.1	181.4
Investments in associate	1,335.6	1,415.1	1,527.6	1,592.1	1,655.5
Others	176.4	213.4	205.0	220.2	236.3
Non-current assets	1,726.1	1,809.8	1,907.0	1,990.3	2,073.1
Inventories	56.1	92.3	115.6	143.9	140.8
Receivables	157.9	164.6	199.2	234.2	229.1
Others	44.8	33.4	21.4	21.4	21.4
Cash & equivalent	271.0	260.9	282.7	324.0	401.6
Current assets	529.8	551.2	619.0	723.5	792.9
Share capital	391.7	391.7	391.7	392.7	393.7
Minority Interest	277.0	270.3	287.1	322.0	356.2
Reserves	1,434.1	1,526.3	1,664.0	1,785.1	1,906.5
Total Equity	2,102.7	2,188.3	2,342.8	2,499.7	2,656.4
Long-term borrowings	0.1	0.0	0.0	0.0	0.0
Deferred tax liabilities	4.6	5.1	4.3	4.3	4.3
Others	4.6	3.2	2.8	2.8	2.8
Non-current liabilities	9.3	8.4	7.1	7.1	7.1
Short-term borrowings	6.9	23.3	4.3	4.3	4.3
Payables	132.8	141.5	169.5	200.4	195.9
Others	4.3	-0.5	2.2	2.2	2.2
Current liabilities	144.0	164.4	176.0	207.0	202.5

Cash Flow Statement (RMm)	FY20	FY21	FY22	FY23F	FY24F
PBT	206.5	207.5	325.3	300.8	301.0
Depreciation & Amortization	17.2	17.5	18.4	16.4	16.7
Chgs in working capital	33.6	-34.1	-30.0	-32.3	3.8
Others	-177.4	-181.5	-273.2	-249.7	-249.1
CF from Operations	79.9	9.3	40.4	35.2	72.4
Capex	-4.7	-9.0	-6.3	-20.0	-20.0
Others	54.9	85.1	172.2	148.0	147.6
CF from Investments	50.2	76.1	165.9	128.0	127.6
Dividends paid	-92.2	-109.2	-157.5	-121.9	-122.3
Movement in borrowings	0.0	18.1	-19.0	0.0	0.0
Others	-31.8	-2.7	-3.8	0.0	0.0
CF from Financing	-124.0	-93.8	-180.3	-121.9	-122.3
Net changes in cash	6.1	-8.4	26.1	41.3	77.7
Beginning cash	258.8	265.0	256.6	282.7	324.0
Adjustment for Overdrafts & Deposits	6.1	4.3	0.0	0.0	0.0
Ending cash	271.0	260.9	282.7	324.0	401.6
Key Ratios	FY20	FY21	FY22	FY23F	FY24F
Operating margin	2.5%	2.8%	4.5%	2.9%	2.9%
Core net profit margin	9.3%	9.5%	10.1%	10.2%	10.5%
ROE	9.1%	7.6%	11.4%	11.2%	10.6%
ROA	7.4%	6.2%	9.3%	9.0%	8.5%
Net gearing (%)	-14.5%	-12.4%	-13.5%	-14.7%	-17.3%
Book value/share (RM)	4.68	4.92	5.27	5.58	5.89
PBV (x)	0.8	0.8	0.7	0.7	0.6
PER (x)	8.6	9.9	6.1	5.9	5.9

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