

Bermaz Auto Berhad

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

Reaffirm BUY

Another Record-Breaking Year?

Revised Target Price: RM3.36
(Previously RM3.30)

KEY INVESTMENT HIGHLIGHTS

- **BAuto's 1QFY24 result smashes estimates**
- **Earnings held up close to 4QFY23's record high**
- **Sales momentum still holding up with 4.5K outstanding bookings**
- **FY24F/25F earnings raised +4.2%/+3.3%**
- **Reaffirm BUY at higher TP of RM3.36**

Yet another beat. Bermaz Auto's (BAuto) 1QFY24 (FYE April) results beat expectations again. The group reported a net profit of RM100.2m for its 1QFY24, which remains close to its record high of RM100.6m in the prior quarter. The 1QFY24 earnings accounted for 32%/38% of our and consensus estimates respectively, due mainly to stronger than expected sales volume and margins.

Key Highlights. 1QFY24F earnings were up +98%yoy on the back of a +52% revenue growth, +114%yoy growth in associate earnings and improvement in operating margins. Topline growth was driven by stronger sales volume for Mazda (+67%yoy) post-introduction of the CKD CX30 in March and clearing of backlog for the Mazda 3. CBU proportion of sales rose to 32% from a typical ~20% given the latter. Operating margins improved on the weaker JPY and better sales mix during the period. Additionally, Kia and BAuto Philippines (BAP) performed well in 1QFY24 with sales volume rising +35% and +73%yoy. BAP is benefiting from auto demand recovery in PH, while a favourable model mix coupled with introduction of the CX60 and CX90 drove improved margins.

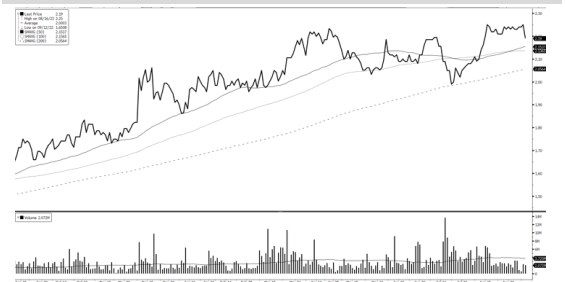
Momentum is still holding up. We gather that new booking momentum is still holding up at 1.7K-1.8K in August and is similarly sustaining into September. Group outstanding bookings however receded to around 4.5K units (from 6.5K in June) following a large backlog of deliveries of the Mazda 3 in 1QFY24. We also gather that the bulk of the current outstanding bookings are for CKD models, meaning a normalization in CKD proportion of sales to around 80%-90% levels from next quarter. Impact of the selling price hike in April (between 1.5%-12.0%) is expected to be reflected from 2QFY24. Groupwide, upcoming launches which could serve as catalysts are the: (1) CKD Kia Sportage and Carens, (2) Mazda CX-60 CBU, (3) the new Peugeot 408. The group is also exploring the introduction of a mild hybrid version of the CX30, we understand.

Earnings revision. We raised FY24F/25F net profit by +4.2%/+3.3% to reflect higher sales volume for Mazda MY & PH given stronger than expected demand. So far, there seems to be little cannibalization of the CX5 sales from the introduction of CKD CX30 despite some overlapping price points.

RETURN STATISTICS

| | |
|--|--------------|
| Price @ 12 th Sept. 2023 (RM) | 2.19 |
| Expected share price return (%) | +53.6 |
| Expected dividend yield (%) | 10.2 |
| Expected total return (%) | +63.8 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | 2.3 | 2.6 |
| 3 months | 1.7 | -2.9 |
| 12 months | 24.0 | 27.8 |

INVESTMENT STATISTICS

| FYE April (RMm) | 2023A | 2024F | 2025F |
|--------------------|-------|-------|-------|
| Revenue | 3,548 | 3,685 | 3,731 |
| Operating Profit | 377 | 417 | 429 |
| Profit Before Tax | 421 | 456 | 471 |
| Core PATAMI | 305 | 324 | 334 |
| Core EPS (sen) | 26.2 | 27.8 | 28.7 |
| PER (x) | 8.4 | 7.9 | 7.6 |
| DPS (sen) | 22.0 | 22.2 | 22.9 |
| Dividend Yield (%) | 10.0 | 10.2 | 10.5 |

KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1,453.39 |
| Issue shares (m) | 1165.93 |
| Estimated free float (%) | 52.51 |
| Market Capitalisation (RM'm) | 2,551.05 |
| 52-wk price range | RM1.73-RM2.30 |
| 3-mth average daily volume (m) | 3.76 |
| 3-mth average daily value (RM'm) | 8.17 |
| Top Shareholders (%) | |
| Dynamic Milestone Sdn Bhd | 14.86 |
| Employees Provident Fund Board | 10.57 |
| Amanah Saham Nasional Bhd | 7.19 |

Analyst:
Hafriz Hezry

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















Recommendation. Reaffirm **BUY** on BAUTO at a higher **TP of RM3.36** (from RM3.30 previously) following the upward earnings revision. Our valuation pegs BAUTO at 12x FY24F earnings, at par to 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 7.9x FY24F PER and attractive dividend yield of ~10%, BAUTO remains one of our top picks in the sector. Net cash now stands at RM477m (RM0.41/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) 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 & 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 | 15,902 | 15,926 |
| Kia | 360 | 2,194 | 2,500 | 2,625 |
| Peugeot | 964 | 1,896 | 2,100 | 2,205 |
| Total | 13,362 | 19,688 | 20,502 | 20,756 |
| Growth | -2.3% | 47.3% | 4.1% | 1.2% |

Source: Company, MIDFR

Exhibit 1: BAUTO Product Map

| | CY2023 | | | |
|---|--|--|---|--|
|  | CX-30 CKD (Mar'23)  | New Mazda 3 (Sep '23)  | CX-3 IPM5 (Oct '23)  | New CX-60 (TBA)  |
|  | New Landtrek (Mar'23)  | New e-2008 EV (Jun '23)  | New 408 (TBA)  | |
|  | Niro EV (Jul '23)  | All-New Sportage (TBA)  | Carens (KY) (TBA)  | |

Source: Company, MIDFR

Table 2: BAuto 1QFY24 Result Summary

| FYE Apr (RMm) | 1Q23 | 4Q23 | 1Q24 | QoQ | YoY |
|--|--------------|--------------|--------------|--------------|--------------|
| Revenue | 716.9 | 1,072.4 | 1,089.3 | 1.6% | 51.9% |
| Operating profit | 70.2 | 126.5 | 130.7 | 3.4% | 86.2% |
| Investment income | 2.9 | 4.0 | 3.2 | -20.6% | 10.5% |
| Finance cost | (2.5) | (1.8) | (1.8) | -1.2% | -27.9% |
| Associates | 4.0 | 10.9 | 8.6 | -21.1% | 114.4% |
| Pretax profit | 74.6 | 139.5 | 140.7 | 0.8% | 88.6% |
| Tax | (18.0) | (31.9) | (32.8) | | |
| PAT | 56.6 | 107.6 | 107.9 | 0.3% | 90.6% |
| MI | 6.5 | 7.0 | 7.7 | 9.9% | 19.0% |
| Net profit | 50.2 | 100.6 | 100.2 | -0.4% | 99.8% |
| Core net profit | 50.6 | 100.6 | 100.2 | -0.4% | 98.2% |
| Core EPS (sen) | 4.34 | 8.64 | 8.60 | -0.4% | 98.2% |
| GDPS (sen) | 3.00 | 11.00 | 5.00 | -54.5% | 66.7% |
| Operating margin | 9.8% | 11.8% | 12.0% | | |
| Pretax margin | 10.4% | 13.0% | 12.9% | | |
| Core net profit margin | 7.1% | 9.4% | 9.2% | | |
| Tax rate | 24.1% | 22.9% | 23.3% | | |
| Dividend Payout Ratio | 69% | 127% | 58% | | |
| Malaysia revenue (RMm) | 658.0 | 1,000.5 | 988.9 | -1.2% | 50.3% |
| Philippines revenue (RMm) | 58.9 | 71.9 | 100.3 | 39.6% | 70.4% |
| Malaysia EBIT (RMm) | 63.1 | 117.9 | 116.1 | -1.6% | 83.9% |
| Philippines EBIT (RMm) | 7.4 | 8.8 | 14.9 | 69.7% | 100.7% |
| Malaysia EBIT margin | 9.6% | 11.8% | 11.7% | | |
| Philippines EBIT margin | 12.6% | 12.2% | 14.9% | | |
| Sales volume (units) (subsidiaries) | 1Q23 | 4Q23 | 1Q24 | QoQ | YoY |
| Mazda (Malaysian operations) | 2,986 | 4,827 | 4,999 | 3.6% | 67.4% |
| Peugeot (Malaysian operations) | 474 | 422 | 313 | -25.8% | -34.0% |
| Kia (Malaysian operations) | 448 | 743 | 606 | -18.4% | 35.3% |
| Mazda (Philippines) | 422 | 523 | 730 | 39.6% | 73.0% |
| Total volume | 4,330 | 6,515 | 6,648 | 2.0% | 53.5% |

Source: Company, MIDFR

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021 | 2022 | 2023 | 2024F | 2025F |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 2,287.9 | 2,325.1 | 3,548.2 | 3,685.1 | 3,730.6 |
| Operating profit | 159.6 | 204.5 | 376.8 | 416.7 | 428.9 |
| Net interest expense | -7.4 | -3.9 | 5.4 | 1.4 | 2.3 |
| Associates | 20.5 | 18.1 | 39.0 | 37.7 | 39.4 |
| PBT | 172.7 | 218.6 | 421.2 | 455.9 | 470.6 |
| Taxation | -41.1 | -59.7 | -94.0 | -100.4 | -103.5 |
| Minority Interest | -2.4 | 3.1 | 23.5 | 31.6 | 33.1 |
| Net profit | 133.9 | 155.7 | 303.7 | 323.9 | 334.0 |
| Core net profit | 134.8 | 157.0 | 304.7 | 323.9 | 334.0 |
| 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 | 359.2 | 404.7 |
| Others | 139.1 | 163.2 | 177.4 | 177.4 | 177.4 |
| Non-current assets | 409.6 | 480.5 | 536.3 | 583.6 | 631.2 |
| Inventories | 277.8 | 230.4 | 498.3 | 517.5 | 523.9 |
| Receivables | 131.3 | 142.5 | 197.6 | 205.2 | 207.7 |
| Others | 19.8 | (0.1) | 7.1 | 7.1 | 7.1 |
| Cash & equivalent | 563.3 | 694.4 | 537.6 | 573.5 | 621.4 |
| Current assets | 992.2 | 1,067.2 | 1,240.6 | 1,303.3 | 1,360.1 |
| 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 | 364.6 | 369.1 |
| Others | 97.9 | 108.6 | 142.6 | 142.6 | 142.6 |
| Current liabilities | 451.1 | 461.6 | 593.7 | 607.2 | 611.7 |
| Share capital | 609.3 | 609.4 | 619.6 | 619.6 | 619.6 |
| Minority Interest | 46.7 | 54.8 | 76.6 | 108.2 | 141.3 |
| Others | (43.9) | 24.9 | 143.1 | 207.9 | 274.7 |
| Total Equity | 612.1 | 689.1 | 839.4 | 935.8 | 1,035.7 |

| Cash Flow Statement (RM'm) | 2021 | 2022 | 2023 | 2024F | 2025F |
|-----------------------------|--------------|----------------|----------------|----------------|----------------|
| PBT | 172.7 | 218.6 | 421.2 | 455.9 | 470.6 |
| Depreciation & Amortization | 4.9 | 6.3 | 8.2 | 3.8 | 4.3 |
| Chgs in working capital | 281.1 | 41.6 | (224.9) | (13.3) | (4.4) |
| Others | (3.7) | 26.7 | (89.6) | (139.3) | (143.2) |
| Operating cash flow | 455.0 | 293.2 | 114.9 | 307.1 | 327.3 |
| 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) | (259.1) | (267.2) |
| 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) | (259.1) | (267.2) |
| Net cash flow | 465.1 | 132.5 | (152.8) | 35.9 | 47.9 |
| Beginning cash | 100.2 | 563.4 | 694.4 | 537.6 | 573.5 |
| <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 | 573.5 | 621.4 |

| Key Ratios | 2021 | 2022 | 2023 | 2024F | 2025F |
|-------------------------|--------|--------|--------|--------|--------|
| Operating profit margin | 7.0% | 8.8% | 10.6% | 11.3% | 11.5% |
| Core net profit margin | 5.9% | 6.7% | 8.5% | 8.8% | 9.0% |
| ROE | 22.0% | 22.8% | 36.3% | 34.6% | 32.3% |
| ROA | 9.6% | 10.1% | 17.2% | 17.2% | 16.8% |
| Net gearing (%) | -58.5% | -71.8% | -52.1% | -50.6% | -50.3% |
| Book value/share (RM) | 0.53 | 0.59 | 0.72 | 0.80 | 0.89 |
| PBV (x) | 4.2 | 3.8 | 3.1 | 2.7 | 2.5 |
| PER (x) | 19.3 | 16.5 | 8.5 | 7.9 | 7.6 |

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