

MBM Resources Berhad

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

Solid Rebound

KEY INVESTMENT HIGHLIGHTS

- **Strong rebound in 3QFY23, 9MFY23 outperformed**
- **Special dividends a positive surprise**
- **Earnings to be anchored by Perodua backlog orders in near-term**
- **FY24F/25F earnings raised +10.5%/+0.9%**
- **Maintain BUY at higher TP of RM4.75**

Beats estimates. After a weak 2QFY23, MBMR's 3QFY23 rebounded strongly and outperformed expectations. MBMR reported 3QFY23 core net profit of RM76.4m (excluding RM28.4m one-off gain from sale of land), which brought 9MFY23 core earnings to RM208.3m, accounting for 85%/81% of our/consensus' full year estimates respectively.

Dividend surprise. MBMR declared a second interim dividend of 6sen and a special dividend of 7sen, bringing total 3QFY23 dividend to 13sen and 9MFY23 dividends to 39sen. This is a positive surprise as MBMR typically announces dividends in the 2Q and 4Q. We reckon the exceptional dividends are supported by sale of land announced in the 3QFY23.

Key Highlights. Group 3QFY23 core earnings was up +26.8%yoy mainly driven by higher contribution from associates (+49.3%yoy) amid a record quarter for Perodua. Perodua saw TIV rise +28.3%yoy to 88,541 units in 3QFY23 on the back of higher production and backlog order deliveries. However, this was partly offset by weaker earnings from motor trading (-13.1%yoy) given slowing sales volume of Volvo and VW models, as well as higher discounting which resulted in lower margins. We expect MBMR's earnings to be anchored mainly by Perodua over the next few quarters as it clears its backlog orders.

Earnings estimates. Given the outperformance, we raise FY23F net profit by +10.5% to factor in mainly higher Perodua TIV on the back of higher production to meet backlog orders. FY24F net profit is only raised marginally by +0.9% as we expect gradual normalization in TIV next year as the current backlog orders are cleared.

Recommendation. Maintain **BUY** on MBMR at higher **TP** of **RM4.75** to reflect the upward earnings revision and as we rollover to FY24F. Our valuation continues to peg MBMR at 7.5x PER, close to mean PER. MBMR remains a cheap proxy to Perodua trading at 6.7x FY24F PER. Dividend yield of 7.5% (DPR: 50%) is attractive. Net cash stands at RM185m (47sen/share), accounting for 11% of market cap. Key risk to our call is weaker than expected demand and a worse than expected component shortage impact on auto production.



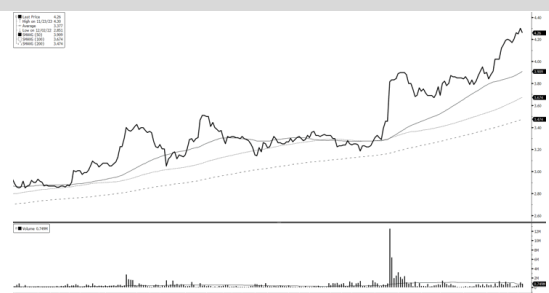
Maintain BUY

Revised Target Price: RM4.75
(Previously RM4.70)

RETURN STATISTICS

Price @ 24 th Nov 2023 (RM)	4.26
Expected share price return (%)	+11.5
Expected dividend yield (%)	7.4
Expected total return (%)	+18.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.8	7.0
3 months	15.4	8.8
12 months	41.3	44.4

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	2,308.1	2,555.8	2,337.0
Operating Profit	104.9	73.2	68.4
Profit Before Tax	325.3	327.2	303.6
Core PATAMI	234.2	269.7	247.1
Core EPS (sen/share)	60.0	69.1	63.3
PER (x)	7.1	6.2	6.7
DPS (sen/share)	43.0	55.3	31.7
Dividend Yield (%)	10.1	13.0	7.4

KEY STATISTICS

FBM KLCI	1453.92
Issue shares (m)	390.89
Estimated free float (%)	33.17
Market Capitalisation (RM'm)	1,665.18
52-wk price range	RM2.97-RM4.30
3-mth average daily volume (m)	0.98
3-mth average daily value (RM'm)	3.94
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.50
Employees Provident Fund Board	6.40
Lembaga Tabung Haji	4.81

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Table 1: MBBR 3QFY23 Result Summary

FYE Dec (RMm)	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Revenue	621.2	539.6	621.3	0.0%	15.1%	1656.7	1716.6	3.6%
Operating profit	20.8	10.6	47.0	125.6%	345.5%	84.5	74.4	-12.0%
Net finance cost	1.3	1.3	1.3	-1.9%	-2.1%	3.1	4.1	31.9%
JCE	5.1	4.7	5.4	5.7%	14.6%	11.8	17.4	47.7%
Associates	46.7	45.2	69.7	49.3%	54.3%	151.9	182.9	20.4%
Pretax income	74.0	61.8	123.4	66.9%	99.8%	251.4	278.8	10.9%
Tax	(5.8)	(3.3)	(8.4)	45.7%	154.3%	(17.8)	(16.5)	-7.4%
PAT	68.2	58.5	115.0	68.7%	96.7%	233.5	262.3	12.3%
MI/Discontinued Ops	7.9	6.5	10.2	28.9%	56.9%	22.1	25.6	16.2%
Net profit	60.2	51.9	104.8	73.9%	101.7%	211.5	236.7	11.9%
Core net profit	60.2	51.9	76.4	26.8%	47.0%	177.0	208.3	17.6%
GDPS (sen)	0.00	26.00	13.00	NA	-50%.	16.00	39.00	143.8%
Core EPS (sen)	15.44	13.31	19.57	26.8%	47.0%	45.37	53.37	17.6%
Operating margin	3.4%	2.0%	7.6%			5.1%	4.3%	
Pretax margin	11.9%	11.4%	19.9%			15.2%	16.2%	
Tax rate	-7.8%	-5.4%	-6.8%			-7.1%	-5.9%	
Core net profit margin	9.7%	9.6%	12.3%			10.7%	12.1%	
Revenue by division	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Motor trading	529.1	470.0	538.0	1.7%	14.5%	1,423.1	1,484.8	4.3%
Parts Manufacturing	91.5	68.9	82.6	-9.7%	19.9%	231.9	229.9	-0.9%
Others	0.6	0.7	0.6	9.1%	-6.3%	1.7	1.9	14.7%
Pretax by division (subsidiaries)								
Motor trading	16.8	10.3	14.6	-13.1%	42.2%	44.6	36.9	-17.3%
Parts Manufacturing	6.2	2.7	6.0	-3.2%	125.3%	16.0	16.3	1.4%
Others	(0.9)	(1.1)	27.6	>100%	>100%	27.0	25.3	-6.2%
Pretax margin (subsidiaries)								
Motor trading	3.2%	2.2%	2.7%			3.1%	2.5%	
Parts Manufacturing	6.8%	3.9%	7.3%			6.9%	7.1%	
Perodua TIV (units) - MAA	69,020	66,130	88,541	28.3%	33.9%	196,364	233,236	18.8%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RMm)	FY20	FY21	FY22	FY23F	FY24F
Revenue	1,793.5	1,531.9	2,308.1	2,555.8	2,337.0
Operating expenses	-1,749.5	-1,489.0	-2,203.2	-2,482.6	-2,268.7
EBIT	44.0	42.9	104.9	73.2	68.4
Net interest expense	3.0	3.0	4.1	4.0	4.0
Associates/JCE	159.5	161.6	216.3	250.0	231.2
PBT	206.5	207.5	325.3	327.2	303.6
Taxation	-16.3	-15.6	-27.0	-19.6	-22.2
Minority Interest	23.4	23.8	29.7	38.0	34.4
Net profit	166.8	168.1	268.6	269.7	247.1
Core net profit	166.8	145.6	234.2	269.7	247.1
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	1,595.7	1,658.0
Others	176.4	213.4	205.0	224.4	243.0
Non-current assets	1,726.1	1,809.8	1,907.0	1,998.1	2,082.3
Inventories	56.1	92.3	115.6	153.9	140.7
Receivables	157.9	164.6	199.2	250.5	229.0
Others	44.8	33.4	21.4	21.4	21.4
Cash & equivalent	271.0	260.9	282.7	239.0	328.8
Current assets	529.8	551.2	619.0	664.9	720.0
Share capital	391.7	391.7	391.7	392.7	393.7
Minority Interest	277.0	270.3	287.1	325.1	359.5
Reserves	1,434.1	1,526.3	1,664.0	1,717.1	1,839.7
Total Equity	2,102.7	2,188.3	2,342.8	2,434.8	2,592.8
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	214.5	195.8
Others	4.3	-0.5	2.2	2.2	2.2
Current liabilities	144.0	164.4	176.0	221.1	202.4

Cash Flow Statement (RMm)	FY20	FY21	FY22	FY23F	FY24F
PBT	206.5	207.5	325.3	327.2	303.6
Depreciation & Amortization	17.2	17.5	18.4	16.4	16.7
Chgs in working capital	33.6	-34.1	-30.0	-44.5	16.0
Others	-177.4	-181.5	-273.2	-269.6	-253.4
CF from Operations	79.9	9.3	40.4	29.5	82.9
Capex	-4.7	-9.0	-6.3	-20.0	-20.0
Others	54.9	85.1	172.2	162.5	150.3
CF from Investments	50.2	76.1	165.9	142.5	130.3
Dividends paid	-92.2	-109.2	-157.5	-215.6	-123.5
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	-215.6	-123.5
Net changes in cash	6.1	-8.4	26.1	-43.6	89.7
Beginning cash	258.8	265.0	256.6	282.7	239.0
Overdrafts & Deposits	6.1	4.3	0.0	0.0	0.0
Ending cash	271.0	260.9	282.7	239.0	328.8
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%	10.6%	10.6%
ROE	9.1%	7.6%	11.4%	12.8%	11.1%
ROA	7.4%	6.2%	9.3%	10.1%	8.8%
Net gearing (%)	-14.5%	-12.4%	-13.5%	-11.1%	-14.5%
Book value/share (RM)	4.68	4.92	5.27	5.41	5.72
PBV (x)	0.8	0.8	0.7	0.8	0.7
PER (x)	8.6	9.9	6.1	6.2	6.7

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