

**MBM Resources Berhad**

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

Balanced Risk-Reward**KEY INVESTMENT HIGHLIGHTS**


- **1QFY24 result within our expectation but ahead of consensus**
- **Topline growth commendable but bottomline growth slowing amid moderating associate earnings growth**
- **Earnings to continue to be anchored by Perodua backlog orders**
- **TP unchanged at RM4.92 but downgrade to NEUTRAL following strong share price performance, risk reward balanced at current levels**

Within our expectation. MBMR's 1QFY24 result came in broadly within our expectation but ahead of consensus. The group reported a net profit of RM80m which accounted for 29%/32% of our/consensus' full year estimates. No interim dividend was announced for the quarter but a final dividend of 15sen for FY23 was proposed in April 2024, subject to shareholder's approval at the upcoming AGM on 30th May. If approved, the final dividend brings FY23 total dividends to 54sen or a generous yield/DPR of 10.7%/69%.

Double-digit topline growth. Group revenue increased +11%yoy due to higher motor trading (dealership) revenue, which was primarily driven by higher Perodua vehicle sales. MBMR's Perodua dealership sales grew +38%yoy outperforming Perodua TIV which registered a +9%yoy increase in the quarter. Revenue was also supported by higher aftersales throughput, partly offset by lower sales volume for Volvo, VW and Daihatsu commercial vehicles. The auto parts division saw a -4%yoy revenue contraction, but this is mainly due to customer and model mix, whereas production demand from OEMs was still holding up.

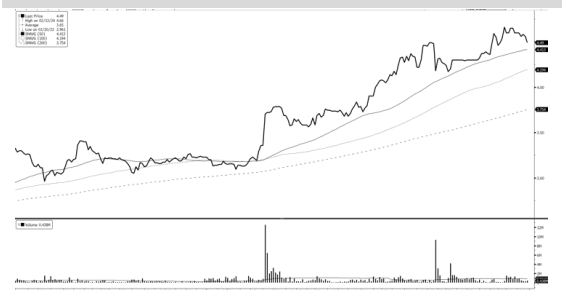
More moderate bottomline growth. Group bottomline grew by a more moderate +3%yoy due to moderating growth in associate contribution (+0.6%yoy, accounts for 72% of group pretax) and easing margins at the motor trading division. Going forward, we expect MBMR's earnings to continue to be anchored by Perodua as it clears its backlog orders, which we understand stood at 128K as at end-2023, equivalent to an estimated 4 months waiting list, albeit this backlog has shown a moderating trend in the past year.

Earnings estimates. We keep our earnings projections at this juncture.

Recommendation. Our **TP** remains unchanged at **RM4.92** pegging MBMR at 7x FY24F PER, which is close to historical mean. FY24F dividend yield of 7.2% (DPR: 50%) remains attractive but share price has appreciated meaningfully by +42% in the past 1 year and by +84% since the pandemic - the stock is now trading at 7.2x FY24F/25F PER, already at a slight premium to mean. We believe MBMR's risk-reward is fairly balanced at current share price levels amid peaking momentum and an expected normalization in TIV. As such, we downgraded MBMR to **NEUTRAL** from BUY. 

Downgrade to NEUTRAL*(Previously BUY)***Unchanged Target Price: RM4.92****RETURN STATISTICS**

Price @ 27 th May 2024 (RM)	5.05
Expected share price return (%)	-2.6
Expected dividend yield (%)	+7.0
Expected total return (%)	+4.4

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	2.7	0.0
3 months	5.9	-4.1
12 months	27.0	19.4

INVESTMENT STATISTICS

FYE Dec (RMm)	2023A	2024F	2025F
Revenue	2,592.9	2,344.6	2,334.0
Operating Profit	73.4	67.4	67.8
Profit Before Tax	368.5	336.5	334.4
Core PATAMI	304.6	274.2	272.5
Core EPS (sen/share)	78.1	70.3	69.8
PER (x)	5.7	6.4	6.4
DPS (sen/share)	39.0	35.1	34.9
Dividend Yield (%)	8.7	7.8	7.8

KEY STATISTICS

FBM KLCI	1618.27
Issue shares (m)	390.89
Estimated free float (%)	34.56
Market Capitalisation (RM'm)	1974.0
52-wk price range	RM3.03-RM4.66
3-mth average daily volume (m)	0.89
3-mth average daily value (RM'm)	3.85
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.50
Employees Provident Fund Board	5.01
Lembaga Tabung Haji	4.81

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Table 1: MBBR 1QFY24 Result Summary

FYE Dec (RMm)	1QFY23	4QFY23	1QFY24	YoY	QoQ
Revenue	555.8	700.2	617.1	11.0%	-11.9%
Operating profit	16.8	23.2	17.8	5.4%	-23.6%
Net finance cost	1.5	0.6	1.1	-27.1%	80.5%
JCE	7.3	6.9	7.8	6.7%	14.0%
Associates	68.0	85.2	68.4	0.6%	-19.8%
Pretax income	93.6	115.9	95.0	1.5%	-18.0%
Tax	(4.8)	(6.5)	(5.0)	5.3%	-22.3%
PAT	88.9	109.4	90.0	1.3%	-17.7%
MI/Discontinued Ops	8.9	11.6	9.8	9.6%	-15.9%
Net profit	80.0	97.8	80.2	0.4%	-18.0%
Core net profit	78.1	97.8	80.2	2.8%	-18.0%
GDPS (sen)	0.00	0.00	0.00	NA	NA!
Core EPS (sen)	20.00	25.07	20.56	2.8%	-18.0%
Operating margin	3.0%	3.3%	2.9%		
Pretax margin	16.8%	16.6%	15.4%		
Tax rate	-5.1%	-5.6%	-5.3%		
Core net profit margin	14.0%	14.0%	13.0%		
Revenue by division	1QFY23	4QFY23	1QFY24	YoY	QoQ
Motor trading	476.8	613.4	541.2	13.5%	-11.8%
Parts Manufacturing	78.4	86.2	75.3	-4.0%	-12.6%
<i>Others</i>	<i>0.6</i>	<i>0.6</i>	<i>0.6</i>	<i>0.2%</i>	<i>2.4%</i>
Pretax by division (excl. associate & JCE)					
Motor trading	12.0	17.9	13.2	10.5%	-26.2%
Parts Manufacturing	7.6	6.6	7.3	-3.9%	9.4%
<i>Others</i>	<i>(1.2)</i>	<i>(0.8)</i>	<i>(1.7)</i>	37.2%	120.2%
Pretax margin				ppts	ppts
Motor trading	2.5%	2.9%	2.4%	(0.07)	(0.48)
Parts Manufacturing	9.7%	7.7%	9.7%	0.01	1.95
<i>Others</i>	<i>-192.1%</i>	<i>-122.3%</i>	<i>-263.1%</i>		
P2 TIV (units) - MAA	78,565	97,100	85,896	9.3%	-11.5%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RMm)	FY21	FY22	FY23	FY24F	FY25F
Revenue	1,531.9	2,308.1	2,416.9	2,344.6	2,334.0
Operating expenses	-1,489.0	-2,203.2	-2,319.2	-2,277.2	-2,266.3
EBIT	42.9	104.9	97.6	67.4	67.8
Net interest expense	3.0	4.1	4.7	4.8	4.9
Associates/JCE	161.6	216.3	292.4	264.3	261.8
PBT	207.5	325.3	394.7	336.5	334.4
Taxation	-15.6	-27.0	-23.0	-24.6	-24.4
Minority Interest	23.8	29.7	37.2	37.7	37.5
Net profit	168.1	268.6	334.5	274.2	272.5
Core net profit	145.6	234.2	306.1	274.2	272.5
Balance Sheet (RMm)	FY21	FY22	FY23	FY24F	FY25F
PPE	181.4	174.5	186.7	189.3	191.6
Investments in associate	1,415.1	1,527.6	1,654.9	1,729.6	1,805.3
Others	213.4	205.0	211.8	229.6	245.6
Non-current assets	1,809.8	1,907.0	2,053.4	2,148.5	2,242.5
Inventories	92.3	115.6	162.1	141.2	140.6
Receivables	164.6	199.2	185.8	229.8	228.7
Others	33.4	21.4	1.7	1.7	1.7
Cash & equivalent	260.9	282.7	197.2	307.4	387.9
Current assets	551.2	619.0	546.8	680.0	758.9
Share capital	391.7	391.7	392.7	393.7	394.7
Minority Interest	270.3	287.1	298.1	335.8	373.3
Reserves	1,526.3	1,664.0	1,738.2	1,874.4	2,009.7
Total Equity	2,188.3	2,342.8	2,428.9	2,603.8	2,777.6
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities	5.1	4.3	4.3	4.3	4.3
Others	3.2	2.8	2.1	2.1	2.1
Non-current liabilities	8.4	7.1	6.4	6.4	6.4
Short-term borrowings	23.3	4.3	16.4	16.4	16.4
Payables	141.5	169.5	143.1	196.5	195.6
Others	-0.5	2.2	5.4	5.4	5.4
Current liabilities	164.4	176.0	164.9	218.3	217.3

Cash Flow Statement (RMm)	FY21	FY22	FY23	FY24F	FY25F
PBT	207.5	325.3	394.7	336.5	334.4
Depreciation & Amortization	17.5	18.4	16.4	17.4	17.6
Chgs in working capital	-34.1	-30.0	-59.4	30.3	0.7
Others	-181.5	-264.7	-353.0	-288.9	-286.2
CF from Operations	9.3	48.9	-1.3	95.4	66.5
Capex	-9.0	-6.3	-26.8	-20.0	-20.0
Others	85.1	166.1	213.0	171.8	170.2
CF from Investments	76.1	159.8	186.2	151.8	150.2
Dividends paid	-109.2	-157.5	-284.3	-137.0	-136.2
Movement in borrowings	18.1	-19.0	16.4	0.0	0.0
Others	-2.7	-4.2	-4.5	0.0	0.0
CF from Financing	-93.8	-180.6	-272.4	-137.0	-136.2
Net changes in cash	-8.4	28.2	-87.5	110.1	80.5
Beginning cash	265.0	256.6	284.8	197.2	307.4
Overdrafts & Deposits	4.3	0.0	0.0	0.0	0.0
Ending cash	256.6	284.8	197.2	307.4	387.9
Key Ratios	FY21	FY22	FY23	FY24F	FY25F
Operating margin	2.8%	4.5%	4.0%	2.9%	2.9%
Core net profit margin	9.5%	10.1%	12.7%	11.7%	11.7%
ROE	7.6%	11.4%	14.4%	12.1%	11.3%
ROA	6.2%	9.3%	11.8%	9.7%	9.1%
Net gearing (%)	-12.4%	-13.5%	-8.5%	-12.8%	-15.5%
Book value/share (RM)	4.92	5.27	5.46	5.81	6.16
PBV (x)	1.0	1.0	0.9	0.9	0.8
PER (x)	13.5	8.4	6.5	7.2	7.2

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