

11 June 2019

## Bermaz Auto Bhd

Deceleration in 4Q19, New Launches Ahead

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Due to be released this week, we expect its 4Q19 PATAMI to chalk between RM45-50m, lower compared to RM81.0m in 3Q19 and RM58.2m in 4Q18. We attributed this to the weaker local Mazda sales at 3,008 units (-39% QoQ; -8% YoY) after fulfilling back-orders from zero-rated tax discount period in the previous quarter. Nevertheless, we expect sales volume to normalize in the upcoming quarters, especially with the incoming all-new Mazda CX-8 (CKD). Maintain OP with a TP of RM2.85.

**Expecting a weaker 4Q19.** We expect 4Q19 PATAMI to come in between RM45-50m, weaker compared to RM81.0m in 3Q19 (-38-44% QoQ) and RM58.2m in 4Q18 (-14-23% YoY), due to be released within this week. We attributed this to the weaker local Mazda sales at 3,008 units (-39% QoQ, -8% YoY), based on MAA data, after fulfilling back-orders from the zero-rated tax discount period, particularly for its all-new CX-5, in the previous quarter, as well as expected lower associates' contribution from the lower production volume of the all-new CX-5. Our assumption for the 4Q19 PATAMI is based on vehicles' average selling price for the past three quarters. Note that, c.65% of the 3Q19 unit sales was contributed by the all-new Mazda CX-5. This will bring FY19 PATAMI to RM250-255m (+79-82% YoY) which is within expectations at 100-102% of both our/consensus full-year estimates. The group's FY19 local Mazda sales is 16,085 units (+43% YoY), based on data from Malaysian Automotive Association (MAA). Nevertheless, we expect its sales volume to normalize (absence of one-off major event, such as zero-rated tax holiday) in the upcoming quarters, especially with the introduction of all-new Mazda CX-8 (CKD) for the Malaysian and Philippines markets.

**Challenging outlook in Philippines operation.** BAUTO's Philippines market will continue to be impacted by the Tax Reform for Acceleration and Inclusion (TRAIN) law, effective since January 2018. The TRAIN law has caused an increase in excise tax (up to 7%) and consequently, higher car prices, thus affecting the demand for motor vehicles in the Philippines. Nevertheless, BAUTO plans to preserve its sales volume by increasing its dealerships there to 21 from the current 18 dealerships by the end of FY19. Note that, 60.4%-owned BAUTO Philippines recorded recovery in sales volume in 3Q19 at 1,018 units (+46%), but we expect flattish growth for 4Q19. Total sales unit for 9M19 was 2,517 units (-40%).

**Exciting new launches.** In CY18, BAUTO launched the face-lifted Mazda CX-3 and face-lifted Mazda 6 (CBU). For CY19, BAUTO will introduce the all-new Mazda 3 SkyActivX (CBU) end-2QCY19, all-new Mazda CX-8 (CKD) and all-new Mazda CX-30 (CBU) in 2HCY19.

**Reiterate OUTPERFORM with a Target Price of RM2.85** based on 13x CY19E EPS, at -0.5SD of its 3-year forward historical mean PER. We like BAUTO for its: (i) solid earnings recovery buoyed by the all-new Mazda CX-5, (ii) superior margins, above industry peers (average profit margin of c.8% vs. peers at c.2%), and (iii) steady dividend yield at 7%.

**Risks to our call include:** (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

# OUTPERFORM ↔

**Price:** RM2.39  
**Target Price:** RM2.85 ↔

### Share Price Performance



KLCI	1,655.47
YTD KLCI chg	-2.1%
YTD stock price chg	11.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BAUTO MK Equity
Market Cap (RM m)	2,772.0
Shares Outstanding	1,159.8
52-week range (H)	2.48
52-week range (L)	1.80
3-mth avg daily vol:	3,063,597
Free Float	71%
Beta	0.6

### Major Shareholders

Dynamic Milestone Sdn Bhd	13.2%
Employees Provident Fund	11.0%
Skim Amanah Saham Bumiputera	4.8%

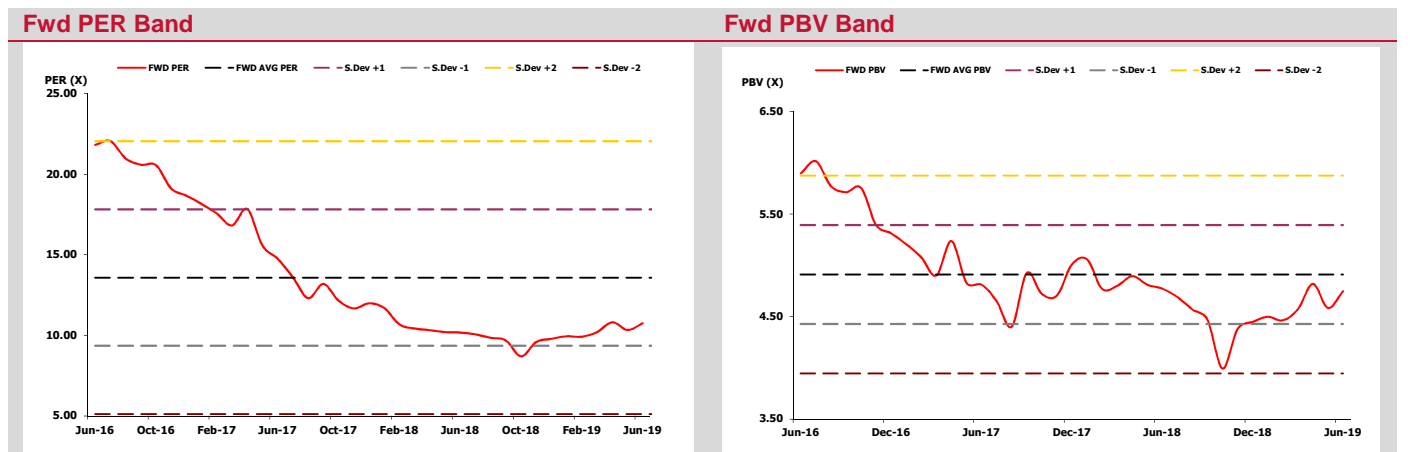
### Summary Earnings Table

FY Apr (RM m)	2018A	2019E	2020E
Turnover	1,992.9	2,402.3	2,487.7
EBIT	178.6	285.4	321.9
PBT	197.1	330.8	341.5
<b>PATAMI</b>	<b>140.0</b>	<b>249.9</b>	<b>258.0</b>
Consensus (NP)	-	253.7	249.3
Earnings Revision	-	-	-
Core EPS (sen)	12.1	21.5	22.2
Core EPS growth (%)	19.0	78.5	3.2
NDPS (sen)	10.3	17.2	17.8
BVPS (RM)	0.41	0.45	0.50
PER (x)	19.8	11.1	10.8
PBV (x)	5.8	5.3	4.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.3	7.2	7.4

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Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2016A	2017A	2018A	2019E	2020E	FY Apr (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	2,095.4	1,660.0	1,992.9	2,402.3	2,487.7	<b>Growth (%)</b>					
EBIT	261.6	159.8	178.6	285.4	321.9	Turnover	14.5	-20.8	20.1	20.5	3.6
Other Income	14.2	13.8	19.9	9.6	10.0	EBITDA	-2.7	-32.1	19.2	42.1	18.0
Interest Inc/(Exp)	5.2	0.8	-3.0	-3.8	-2.5	Op. Profit	-7.8	-38.9	11.8	59.8	12.8
Associate	11.4	14.0	21.4	49.2	22.2	PBT	-6.9	-37.3	12.9	67.9	3.2
PBT	278.3	174.6	197.1	330.8	341.5	PATAMI	-6.9	-40.5	19.0	78.5	3.2
Taxation	-67.9	-43.1	-46.1	-66.2	-68.3	<b>Profitability (%)</b>					
Minority Interest	-12.7	-13.8	-11.0	-14.8	-15.2	Op. Margin	12.5	9.6	9.0	11.9	12.9
<b>PATAMI</b>	<b>197.6</b>	<b>117.6</b>	<b>140.0</b>	<b>249.9</b>	<b>258.0</b>	PBT Margin	13.3	10.5	9.9	13.8	13.7
<b>Balance Sheet</b>						CNP Margin	9.4	7.1	7.0	10.4	10.4
FY Apr (RM m)	2016A	2017A	2018A	2019E	2020E	ROA	23.4	12.4	15.5	25.9	22.5
Fixed Assets	24.0	23.5	19.8	14.4	8.2	ROE	39.3	24.1	30.4	49.8	46.7
Int. Assets	0.5	0.5	0.5	0.5	0.5	<b>DuPont Analysis</b>					
Other F. Assets	143.3	155.9	176.5	176.5	176.5	Net Margin (%)	9.4	7.1	7.0	10.4	10.4
Inventories	312.3	434.7	247.4	321.9	337.5	Assets T/O(x)	2.2	1.7	2.3	2.2	2.0
Receivables	96.0	79.0	100.4	118.5	122.3	Lev. Factor (x)	1.8	2.2	1.8	2.0	2.1
Other CA	21.3	17.4	0.3	0.3	0.3	ROE (%)	39.3	24.1	30.4	49.8	46.7
Cash	366.6	244.8	306.8	446.7	571.4	<b>Leverage</b>					
<b>Total Assets</b>	<b>964.0</b>	<b>955.7</b>	<b>851.7</b>	<b>1,078.9</b>	<b>1,216.7</b>	Debt/Asset (x)	-	0.1	0.2	0.2	0.2
Payables	230.8	270.1	140.0	187.7	197.7	Debt/Equity (x)	-	0.1	0.4	0.4	0.3
ST Borrowings	0.0	58.9	46.1	46.1	46.1	Net (Cash)/Debt	(366.6)	(185.9)	(120.5)	(260.4)	(385.0)
Ot. ST Liabilities	71.2	67.4	76.0	76.0	76.0	Gearing (x)	(0.7)	(0.4)	(0.3)	(0.5)	(0.7)
LT Borrowings	0.0	0.0	140.2	140.2	140.2	<b>Valuations</b>					
Ot. LT Liabilities	83.9	66.9	-75.1	-75.1	-75.1	Core EPS(sen)	17.0	10.1	12.1	21.5	22.2
<b>Net Assets</b>	<b>578.1</b>	<b>492.4</b>	<b>524.5</b>	<b>703.9</b>	<b>831.8</b>	NDPS (sen)	16.9	11.7	10.3	17.2	17.8
S.Equity	531.2	443.4	476.8	526.7	578.3	BV/sh (RM)	0.5	0.4	0.4	0.5	0.5
Minority Interests	46.9	49.0	47.7	177.2	253.5	PER (x)	14.0	23.6	19.8	11.1	10.8
<b>Total Equity</b>	<b>578.1</b>	<b>492.4</b>	<b>524.5</b>	<b>703.9</b>	<b>831.8</b>	Div. Yield (%)	7.7	7.1	4.9	4.3	7.2
<b>Cashflow Statement</b>						PBV (x)	5.2	6.3	5.8	5.3	4.8
FY Apr (RM m)	2016A	2017A	2018A	2019E	2020E	EV/EBITDA (x)	11.4	14.0	14.5	12.5	11.6
Operating CF	242.5	22.0	200.2	297.5	314.5						
Investing CF	9.6	8.2	2.2	46.1	19.1						
Financing CF	-145.1	-151.3	-119.2	-203.8	-208.9						
Change In Cash	107.0	-121.1	83.3	139.9	124.7						
Free CF	238.0	17.4	195.6	293.0	309.9						

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>																	
BERMAZ AUTO BHD	2.39	2,772.0	Y	04/2019	20.5%	3.6%	78.5%	3.2%	19.8	11.1	10.8	5.8	5.3	49.8%	7.2%	2.85	OP
DRB-HICOM BHD	2.14	4,137.1	Y	03/2020	3.8%	3.8%	14.4%	19.8%	22.6	19.8	16.5	0.6	0.6	3.1%	1.4%	1.80	UP
MBM RESOURCES BERHAD	2.93	1,145.3	Y	12/2019	0.3%	1.0%	1.7%	2.1%	6.9	6.8	6.7	0.6	0.6	8.9%	2.0%	3.45	OP
SIME DARBY BERHAD	2.29	15,573.9	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	18.2	18.5	18.1	1.1	1.1	5.8%	3.3%	2.35	MP
TAN CHONG MOTOR HOLDINGS BHD	1.49	972.5	Y	12/2019	0.3%	1.8%	-3.8%	4.7%	9.2	9.6	9.2	0.4	0.3	3.6%	2.7%	2.15	OP
UMW HOLDINGS BHD	5.49	6,413.9	Y	12/2019	2.9%	6.1%	5.0%	18.7%	16.9	16.1	13.6	1.9	1.8	11.5%	1.4%	5.80	MP
<b>Simple Average</b>					<b>5.6%</b>	<b>2.6%</b>	<b>17.9%</b>	<b>6.4%</b>	<b>15.4</b>	<b>13.1</b>	<b>12.2</b>	<b>1.6</b>	<b>1.4</b>	<b>12.8%</b>	<b>3.3%</b>		
<b>CONSENSUS NUMBERS</b>																	
APM AUTOMOTIVE HOLDINGS BHD	2.82	551.4	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	14.3	14.5	13.9	0.4	0.5	3.2	0.1	2.65	SELL
PECCA GROUP BHD	1.06	194.4	Y	06/2019	13.2%	5.5%	77.6%	5.7%	19.0	10.7	10.1	1.1	1.2	11.1	0.1	1.40	BUY

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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