

22 November 2019

MBM Resources Bhd

9MFY19 Above Expectations

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OUTPERFORM ↑

Price: **RM3.70**
Target Price: **RM4.75** ↑

9MFY19 core PATAMI of RM152.4m (+25% YoY), came in above both our and consensus expectation at 81% each of full-year estimates due to higher-than-expected associates' contribution. We expect better sales in 4QFY19 from seasonally stronger year-end promotion. Note that, Perodua already recorded a huge jump of 34% MoM in October unit sales. We upgrade our FY19-20E CNP by 6-8%, on higher associates' contribution and call to OP from MP with a higher TP of RM4.75 from RM4.40, based on unchanged PER of 9x FY20E EPS.

9MFY19 above expectations. 9MFY19 core PATAMI of RM152.4m (+25% YoY), came in above both our and consensus expectation at 81% each of full-year estimates due to higher-than-expected associates' contribution. No dividend was declared for the quarter which is typically paid in 2Q and 4Q. Note that the 9MFY19 core PATAMI was adjusted to exclude: (i) RM24.8m gain on disposals of 22% stake in associate, Hino Motors (from 42% to 20%), and (ii) gain on disposal of assets classified held for sales of RM11.9m.

YoY, 9MFY19 core PATAMI rose 25% boosted by higher associates' contribution (+28%), and improved motor vehicles trading division's performance (higher segment margin by 1.0ppt to 2.5% from 1.5% in 9MFY18), as both benefited from Perodua's sales volume of 178,668 units (+6%) buoyed by the all-new Myvi, with further boost from the all-new Perodua ARUZ. Furthermore, its auto parts segment recorded higher PBT of RM8.6m (+9%) from the cessation of its loss-making alloy-wheels plant as well as from improved production efficiency. Note that, the top three selling models were Perodua's Myvi, Axia and Aruz. On the other hand, volume for Volvo also increased with the addition of the XC-40 (CKD) which catered to wider market segment. However, consumer interest for Volkswagen appeared to have tapered down after the high demand enjoyed during the GST tax holiday in 2018.

QoQ, 3QFY19 core PATAMI rose 6% mainly from the higher associates' contribution, Perodua (+7%) driven by better merchandise mix with the ramp-up in sales of Perodua ARUZ (25k bookings, 22.2k delivered) despite Perodua recording lower unit sales of 56,972 (-7% QoQ), which in turn also affected the group revenue (-8%) as well as its Auto parts manufacturing segment (-42%). 3QFY19's seasonally lower sales came from the absence of festivities and shorter working period.

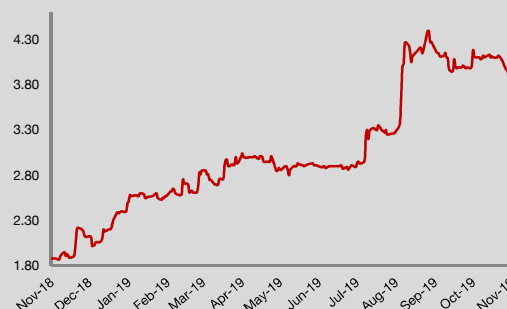
Outlook. We like MBMR for its: (i) its deep value stake in 22.58%-owned Perodua, and (ii) dual-income streams as the largest Perodua dealer and as parts supplier for most of the popular marques. Perodua continued to record stronger sales, with a market share of 41%, premised on higher delivery of all-new Myvi and all-new Perodua ARUZ (25k bookings, 22.2k delivered). Perodua is targeting a stronger year in 2019 with 235k unit sales (+3.5%) with reduction in waiting time for Aruz to c.1 month from c.2 months.

Increased FY19-20E CNP by 6-8%. We increased our FY19-20E CNP by 6-8% to reflect higher associate contributions.

Upgrade to OP from MP with a higher TP of RM4.75 from RM4.40, based on PER of 9x FY20E EPS (at 5-year Fwd. historical mean PER). Note that, **MBMR's share price has retraced by 13% since our last downgrade to MP call.**

Risks to our call include: (i) a sharp downturn in the economy leading to lower-than-expected car sales volume, and (ii) lower-than-expected associates' contribution.

Share Price Performance



KLCI	1,592.19
YTD KLCI chg	-5.8%
YTD stock price chg	68.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBM MK EQUITY
Market Cap (RM m)	1,446.3
Shares Outstanding	390.9
52-week range (H)	4.47
52-week range (L)	1.86
3-mth avg daily vol:	1,225,870
Free Float	37%
Beta	0.6

Major Shareholders

Med-Bumikar Mara Sdn Bhd	49.5%
Employees Provident Fund	8.9%
AIA Bhd	4.0%

Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	1,928.2	1,856.5	1,862.0
EBIT	12.5	39.7	40.3
PBT	200.7	239.8	250.1
PATAMI	165.5	198.0	206.3
Core PATAMI	165.5	198.0	206.3
Consensus (NP)	-	187.1	195.4
Earnings Revision	-	+5.8%	+7.5%
Core EPS (sen)	42.4	50.7	52.8
Core EPS growth(%)	59.4	19.6	4.2
NDPS (sen)	6.0	12.0	12.0
BVPS (RM)	4.04	4.42	4.83
PER (x)	8.7	7.3	7.0
PBV (x)	0.9	0.8	0.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.6	3.2	3.2

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Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	515.3	558.0	-7.7%	461.8	11.6%	1592.4	1397.2	14.0%
EBIT/ (LBIT)	11.6	37.3	-68.8%	8.5	37.3%	66.8	11.1	>100%
Associates	53.8	50.5	6.7%	39.2	37.4%	147.1	115.2	27.7%
Jointly controlled entity	2.3	2.4	-2.6%	1.9	18.2%	8.6	9.7	-11.8%
PBT/(LBT)	67.4	89.3	-24.6%	49.5	36.0%	221.0	144.6	52.8%
Taxation	-2.4	-3.2	25.0%	-2.2	-12.6%	-8.5	-7.1	-20.7%
PATAMI	57.5	79.0	-27.2%	42.5	35.3%	189.0	121.7	55.3%
Core PATAMI	57.5	54.3	6.0%	42.5	35.3%	152.4	121.7	25.2%
EPS (sen)	14.7	13.9	6.0%	10.9	35.3%	39.0	31.2	25.2%
DPS (sen)	0.0	6.0		3.0		6.0	3.0	
EBIT/(LBIT) margin	2.3%	6.7%		1.8%		4.2%	0.8%	
PBT/(LBT) margin	13.1%	16.0%		10.7%		13.9%	10.4%	
Core PATAMI margin	11.2%	9.7%		9.2%		9.6%	8.7%	
Effective tax rate	3.6%	3.6%		4.4%		3.9%	4.9%	

Note that the 9MFY19 core PATAMI has been adjusted by excluding non-core items of: (i) RM24.8m gain on disposals of 22% shareholding in its associates, Hino Motors Sales (Malaysia) SB and Hino Motors Manufacturing (Malaysia) SB, and (ii) gain on disposal of assets classified held for sales RM11.9m

Source: Company, Kenanga Research

Segmental breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	515.3	558.0	-7.7%	461.8	11.6%	1592.4	1397.2	14.0%
Motor Vehicles Trading	468.5	505.1	-7.2%	417.4	12.3%	1441.5	1256.6	14.7%
Auto Parts Manufacturing	46.4	52.6	-11.7%	44.1	5.3%	149.7	159.7	-6.2%
Others	0.4	0.4	2.1%	0.4	1.3%	1.2	19.8	-94.1%
Segment PBT	67.4	89.3	-24.6%	49.5	36.0%	221.0	144.6	52.8%
Motor Vehicles Trading	8.8	9.4	-6.8%	6.6	34.2%	35.7	18.3	95.1%
Auto Parts Manufacturing	2.3	4.0	-41.9%	3.1	-26.2%	8.6	7.9	8.6%
Others	0.1	23.1	-99.5%	-1.3	109.9%	20.9	-6.6	418.6%
Jointly-controlled Entity	2.3	2.4	-2.6%	1.9	18.2%	8.6	9.7	-11.8%
Associates	53.8	50.5	6.7%	39.2	37.4%	147.1	115.2	27.7%
Segment PBT margin (%)	13.1%	16.0%		10.7%		13.9%	10.3%	
Motor Vehicles Trading	1.9%	1.9%		1.6%		2.5%	1.5%	
Auto Parts Manufacturing	5.0%	7.5%		7.1%		5.8%	5.0%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	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.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	2.22	2,579.6	Y	04/2020	0.6%	0.5%	-16.3%	16.7%	9.7	11.6	10.0	4.2	3.7	34.0%	7.3%	2.75	OP	
DRB-HICOM BHD	2.46	4,755.8	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	26.0	27.3	15.4	0.7	0.7	2.6%	1.2%	2.60	MP	
MBM RESOURCES BERHAD	3.70	1,446.3	Y	12/2019	-3.7%	0.3%	19.6%	4.2%	8.7	7.3	7.0	0.9	0.8	12.0%	3.2%	4.75	OP	
SIME DARBY BERHAD	2.35	15,983.4	Y	06/2020	4.1%	4.4%	-9.4%	15.4%	16.8	18.6	16.1	1.1	1.1	5.8%	4.3%	2.20	MP	
TAN CHONG MOTOR HOLDINGS BHD	1.35	881.1	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	8.4	11.3	10.0	0.3	0.3	2.8%	3.0%	1.40	MP	
UMW HOLDINGS BHD	4.35	5,082.1	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	13.4	13.6	11.2	1.5	1.4	10.8%	1.7%	5.45	OP	
Simple Average					-9.1%	14.0%	-7.4%	25.4%	13.9	15.2	11.7	1.4	1.3	11.4%	3.8%			
CONSENSUS NUMBERS																		
APM AUTOMOTIVE HOLDINGS BHD	2.03	396.9	Y	12/2019	-0.3%	3.3%	2.5%	2.2%	10.3	10.1	9.9	0.3	0.3	3.0	0.1	2.45	SELL	
PECCA GROUP BHD	1.18	216.4	Y	06/2020	1.9%	3.6%	5.4%	3.2%	13.0	12.4	12.0	1.3	1.3	10.2	0.1	1.26	SELL	

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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