

09 December 2022

Bermaz Auto

Convergence of Positive Factors

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BAUTO's 1HFY23 results met expectations. Its core net profit more than tripled YoY driven by robust demand for Mazda, Peugeot and Kia vehicles, and a higher blended margin with a product mix that was skewed towards the high-margin models, and cheaper costs of imported inputs with the strengthening of the MYR against JPY. We like BAUTO for its premium mid-market Mazda brand. We maintain our forecasts, TP of RM2.65 and OUTPERFORM call.

Within expectations. 1HFY23 a core profit of RM115.8m made up 60% and 62% of our FY23 forecast and the market's, respectively. However, we consider the results within expectation as we expect a soft 3QFY23 due to lower deliveries due to the transition of the popular Mazda CX-30 (backlog orders up to 800 units) from CBU to CKD. We understand that the approval on pricing from the authorities will only come about in Jan 2023.

It declared first interim NDPS of 3.5 sen (ex-date: 22 Dec; payment date: 6 Jan 2023) in 2QFY23 vs. 1.5 sen paid in 2QFY22 bringing 1HFY23 NDPS to 6.5sen (1HFY22: 2.0 sen).

YoY, 1HFY23 revenue rose 86% driven by robust demand for Mazda (+47% to 7,127 units), Peugeot (1,103 units) and Kia (829 units) vehicles.

In terms of geographical breakdown, higher sales of 5,297 units (+19%) and 533 units (+1%) were recorded in both Malaysia and the Philippines, respectively, as economies reopened.

1HFY23 core net profit more than tripled due to: (i) a higher blended margin with product mix skewed towards the high-margin models, (ii) cheaper costs of imported inputs with the strengthening of the MYR against JPY, and (iii) a lower effective tax rate. Its associates represented largely by contract vehicle assembler Mazda Malaysia Sdn Bhd turned profitable with a contribution of RM11m driven by higher vehicles production as the economy reopened.

QoQ, 2QFY23 revenue rose 9% driven by Mazda (+9% to 3,719 units), Peugeot (+33% to 629 units) and Kia (-15% to 381 units) vehicles. 2QFY23 core net profit rose by a larger 31% with a higher blended margin thanks to a product mix that was skewed towards the high-margin models and as it front-loaded the delivery of Mazda CX-30 CBU models (which benefited from strengthening of the MYR against JPY) ahead of the transition period as mentioned above which started from Dec 2022.

Forecasts. We maintain our forecasts and TP of RM2.65 based on ascribed CY23F PER of 15x, which is at a premium to the auto sector's average forward PER of 11x given its niche in the premium mid-market segment and ability to consistently pay out good dividends.

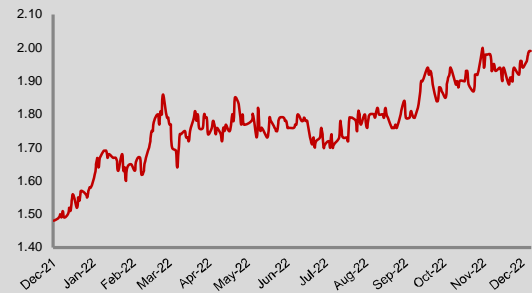
We like BAUTO for: (i) its premium mid-market Mazda brand that offers the best of both worlds, i.e. products appeal to the middle-income group and yet command superior margins than its peers in the mid-market segment, and (ii) its attractive dividend yield of about 6%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation, (ii) supply chain disruptions, (iii) escalating input costs, and (iv) weakening of MYR against JPY.

OUTPERFORM ↔

Price: **RM1.99**
Target Price: **RM2.65** ↔

Share Price Performance



KLCI	1,465.93
YTD KLCI chg	-6.5%
YTD stock price chg	27.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BAUTO MK EQUITY
Market Cap (RM m)	2,314.1
Shares Outstanding	1,162.9
52-week range (H)	2.01
52-week range (L)	1.47
3-mth avg daily vol:	2,113,001
Free Float	46%
Beta	0.6

Major Shareholders

Employees Provident Fund	16.7%
Dynamic Milestone Sdn Bhd	14.6%
Amanah Saham Nasional	7.2%

Summary Earnings Table

FY Apr (RM m)	2022A	2023F	2024F
Revenue	2,325.1	2,945.5	3,128.2
EBIT	204.5	239.2	260.8
PBT	218.6	259.2	283.7
Core net profit	155.7	194.2	212.5
Consensus (NP)	-	185.4	203.1
Earnings Revision	-	-	-
Core EPS (sen)	13.4	16.7	18.3
Core EPS growth (%)	16.3	24.7	9.4
NDPS (sen)	8.8	11.7	12.8
BVPS (RM)	0.55	0.60	0.65
PER (x)	14.8	11.9	10.9
PBV (x)	3.6	3.3	3.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.4	5.9	6.4

Results Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Apr (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	783.0	716.9	9%	483.8	62%	1,499.8	804.6	86%
EBIT	81.2	70.2	16%	31.7	156%	151.4	48.0	215%
Associates	9.3	4.0	130%	2.9	217%	13.3	2.0	564%
PBT/(LBT)	91.6	74.6	23%	33.5	173%	166.2	48.0	246%
Taxation	(20.8)	(18.0)	-16%	(8.6)	-141%	(38.7)	(12.8)	-203%
Core net profit	65.7	50.2	31%	26.0	152%	115.8	36.3	219%
EPS (sen)	5.7	4.3	31%	2.2	152%	10.0	3.1	220%
DPS (sen)	3.50	3.00		1.50		6.50	2.00	
EBIT margin	10.4%	9.8%		6.5%		10.1%	6.0%	
PBT margin	11.7%	10.4%		6.9%		11.1%	6.0%	
PATAMI margin	8.4%	7.0%		5.4%		7.7%	4.5%	
Effective tax rate	22.7%	24.1%		25.7%		23.3%	26.6%	




















Source: Bursa Announcement, Kenanga Research

Unit Sales

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Mazda	3,719	3,408	9%	2,914	28%	7,127	4,848	47%
Peugeot	629	474	33%	133	373%	1,103	133	729%
Kia	381	448	-15%	0	N/A	829	0	N/A
Total	4,729	4,330	9%	3,047	55%	9,059	4,981	82%

Source: Company, Kenanga Research

BAUTO PRODUCT MAP 2022/2023

	2022				2023			
	Mazda3 IPM2 (Feb'22) 	CX-30 IPM2 (Feb'22) 	CX-8 IPM3 (June '22) 	New MX-30 EV (June '22) 	CX-30 CKD (Q1'23) 			
	New 3008 (Nov'21) 	New 5008 (Nov'21) 	All-New 2008 (Jan'22) 	New Landtrek (Q3'22) 	New e-2008 EV (Q1'23) 			
	All-New Carnival (Dec'21) 	Carnival CKD (July '22) 	New EV6 EV (June '22) 	All-New Sorento (Q1'23) 			All-New Sportage InProgress (Q2'23) 	Carens (KY) InProgress (Q2'23) 

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	1.99	2.65	33.17%	2,310.4	Y	04/2023	16.7	18.3	24.7%	9.4%	11.9	10.9	2.9	26.2%	11.7	5.9%
DRB-HICOM BHD	OP	1.46	1.70	16.44%	2,822.2	Y	12/2022	15.7	20.6	44.4%	30.9%	9.3	7.1	0.3	3.3%	2.0	1.4%
MBM RESOURCES BHD	OP	3.29	4.45	35.26%	1,286.1	Y	12/2022	58.7	63.8	36.7%	8.6%	5.6	5.2	0.6	10.2%	22.0	6.7%
SIME DARBY BHD	OP	2.19	2.60	18.72%	14,894.2	Y	06/2023	17.3	19.0	-1.8%	10.1%	12.7	11.5	0.9	7.3%	12.0	5.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.10	0.850	-22.73%	739.2	Y	12/2022	(3.6)	(1.0)	-233.0%	-128.1%	N.A.	N.A.	0.3	-0.9%	3.0	2.7%
UMW HOLDINGS BHD	OP	3.34	4.80	43.71%	3,902.1	Y	12/2022	36.4	37.1	90.6%	1.9%	9.2	9.0	0.5	5.8%	6.0	1.8%
Simple Average								23.5	26.3	-6.4%	-11.2%	9.7	8.7	0.9	8.6%		4.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Electric Vehicles Initiatives	★	★	★		
	Energy Efficient Vehicles Initiatives	★	★	★	★	
	Renewable Energy	★	★	★		
	Occupational Health and Safety	★	★	★	★	
	Waste Management /Recycling	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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