

MBM Resources

Bookings Top Pre-Pandemic Levels

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MBMR is optimistic that Perodua will end 2023 with another sales record, i.e. 314k units (+11.3%). Easing input costs and supply constraints, and efficiency gains from high production volumes of new models, will boost manufacturing margins. Meanwhile, the current new bookings of 35k-40k per month have already surpassed pre-pandemic levels. We maintain our forecasts, TP of RM4.70 and OUTPERFORM call. The stock also offers an attractive dividend yield of >7%.

We came away from MBMR's 1QFY23 results briefing last Friday feeling upbeat. The key takeaways are as follows:

1. MBMR believes the worst of margin squeeze at both of its manufacturing segment and associate, Perusahaan Otomobil Kedua Sdn Bhd is over. Recall, despite recording QoQ decrease in Perodua unit sales to 78,564 units (-8% QoQ), its manufacturing segment profit more than doubled, while, the 22.58%-owned manufacturing associate delivered a significant jump in share of profit by 40%. MBMR indicated that metal prices, freight cost, USD/MYR exchange rate, and supply constraints at key local part suppliers have since stabilised to a more favourable level, with further boost from the ending of prosperity tax. Additionally, higher production level from all-new Perodua Axia helps to run down the high-cost inventories at a much faster rate. Moreover, in 1QFY23, MBMR received RM5m in one-off costs recovery from its OEM customers (i.e. Daihatsu, Perodua & Proton) as part of cost sharing arrangements from sudden jump in materials costs in 4QFY22.
2. MBMR echoed the record sales guidance for 2023 by Perodua of 314k units (+11.3%) and shared that the production target of 330k units (+14.1%) set by Perodua is achievable. Perodua has the highest localisation rate of 95% in the automotive industry and its production is running smoothly at maximum capacity, with minimal supply-chain interruptions. Perodua Manufacturing (PMSB) and Perodua Global Manufacturing (PGMSB)'s plants combined capacity is 320,000 units. Running a two-shift cycle, further volume expansion is in the pipeline, riding on improved productivity and higher overtime. We are keeping our Perodua's TIV assumption of 314,000 units and 320,000 units for FY23 and FY24, respectively.
3. MBMR shared that the all-new Axia is still receiving overwhelming reception and the Perodua production line is not affected by the recent news on Daihatsu's crash test issue in Japan. On average, Perodua received 35k-40k new bookings per month, exceeding the pre-pandemic levels. Perodua will release two more face-lifted models this year and is committed to one new model each year which could be officially launch in early 2024 (B-segment model).

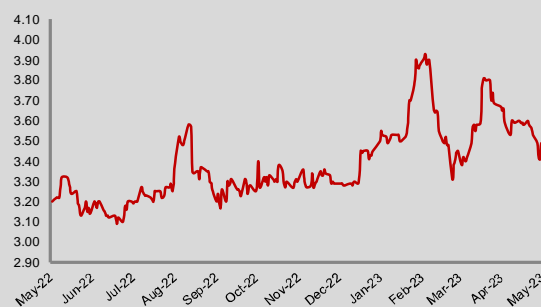
Forecasts. Maintained.

We also maintain our TP of RM4.70 based on PER of 8x on FY24F EPS which is at a discount to the auto sector's average forward PER of 11x given its smaller scale, and business model which is skewed toward auto dealerships compared to other players which are more into auto manufacturing. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

OUTPERFORM ↔

Price : RM3.45
Target Price : RM4.70 ↔

Share Price Performance



KLCI 1,402.98
YTD KLCI chg -6.2%
YTD stock price chg 9.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBM MK Equity
Market Cap (RM m)	1,348.6
Shares outstanding	390.9
52-week range (H)	3.88
52-week range (L)	2.89
3-mth avg daily vol:	400,829
Free Float	31%
Beta	0.7

Major Shareholders

Med-Bumikar Mara Sdn Bhd	49.5%
Employees Provident Fund	8.1%
Lembaga Tabung Haji	4.8%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Revenue	2,308.1	2,452.1	2,576.3
EBIT	104.9	62.6	65.6
PBT	325.3	306.2	315.9
Net Profit	268.6	256.3	264.5
Core Net Profit	223.8	256.3	264.5
Consensus (NP)	-	257.1	240.0
Earnings Revision	-	-	-
Core EPS (sen)	57.1	65.4	67.5
Core EPS growth (%)	30.3	14.5	3.2
NDPS (sen)	37.0	26.0	26.0
BVPS (RM)	5.25	5.64	6.05
PER (x)	6.0	5.3	5.1
PBV (x)	0.7	0.6	0.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	10.7	7.5	7.5

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We continue to like MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 190k units, (ii) it being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia as well as its 22.58% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its Tier-1 OEM auto parts manufacturing certification. The stock also offers an attractive dividend yield of >7%. 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) persistent disruptions (including chip shortages) in the global automotive supply chain, and (iii) persistently high cost for materials in auto parts manufacturing.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	1,793.5	1,531.9	2,308.1	2,452.1	2,576.3	Growth (%)					
Op. Profit	44.0	42.9	104.9	62.6	65.6	Turnover	-14.1	-14.6	50.7	6.2	5.1
Depreciation	-17.2	-17.7	-18.4	-18.9	-20.7	EBITDA	-14.1	-14.6	50.7	6.2	5.1
Int. Inc/(Exp)	3.0	3.0	4.1	3.5	5.6	Op Profit	-27.9	-2.4	144.5	-40.3	4.7
Joint Venture	12.7	11.1	16.0	0.0	0.0	PBT	-21.5	0.5	56.8	-5.9	3.2
Associate	146.9	150.5	200.4	240.1	244.7	CNP	-17.2	7.8	30.6	14.5	3.2
Pre-tax Profit	206.5	207.5	325.3	306.2	315.9						
Taxation	-18.1	-17.1	-17.1	-17.1	-17.1	Profitability (%)					
MI	23.4	24.3	29.7	25.4	26.2	Op. Margin	2.5	2.8	4.5	2.6	2.5
Core net profit	159.0	171.4	223.8	256.3	264.5	PBT Margin	11.5	13.5	14.1	12.5	12.3
						CNP Margin	8.9	11.2	9.7	10.5	10.3
						ROA	7.2	7.4	11.0	9.9	9.6
						ROE	8.9	9.2	13.5	12.0	11.5
Balance Sheet											
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
F. Assets	214.2	181.4	174.5	195.5	214.8	DuPont Analysis					
Intangible Assets	1.1	1.1	1.1	1.1	1.1	Net Margin (%)	8.9	11.2	9.7	10.5	10.3
Other F. Assets	1,510.8	1,625.8	1,731.4	1,731.4	1,731.4	Assets T/O (x)	0.8	0.6	0.9	0.9	0.9
Inventories	56.1	92.3	115.6	275.4	289.4	Lev. Factor (x)	1.2	1.2	1.2	1.2	1.2
Receivables	157.9	164.6	199.2	241.9	254.1	ROE (%)	8.9	9.2	13.5	12.0	11.5
Other C. Assets	44.8	35.8	21.4	21.4	21.4						
Cash	271.0	260.7	282.7	205.4	330.7	Leverage					
Total Assets	2,255.9	2,361.6	2,526.0	2,672.2	2,842.9	Debt/Asset (x)	0.0	0.0	-	-	-
						Debt/Equity (x)	0.0	0.0	-	-	-
Payables	132.8	141.5	169.5	161.2	169.4	N. (Cash)/Debt	(264.0)	(237.4)	(282.7)	(205.4)	(330.7)
ST Borrowings	6.9	23.3	0.0	0.0	0.0	N. Debt/Eqty (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Other ST Liability	4.3	3.1	6.6	6.6	6.6						
LT Borrowings	0.1	0.0	0.0	0.0	0.0	Valuations					
Other LT Liability	9.1	8.4	7.1	7.1	7.1	Core EPS (sen)	40.7	43.8	57.1	65.4	67.5
Net Assets	2,102.7	2,185.3	2,342.8	2,497.3	2,659.8	NDPS (sen)	20.0	26.0	37.0	26.0	26.0
						BV/sh (RM)	4.7	4.9	5.2	5.6	6.1
S. Equity	1,825.7	1,915.5	2,055.7	2,210.1	2,372.7	PER (x)	8.5	7.9	6.0	5.3	5.1
Minority Interests	277.0	269.8	287.1	287.1	287.1	Div. Yield (%)	5.8	7.5	10.7	7.5	7.5
Total Equity	2,102.7	2,185.3	2,342.8	2,497.3	2,659.8	PBV (x)	0.7	0.7	0.7	0.6	0.6
						EV/EBITDA (x)	22.5	22.2	14.6	21.5	22.0
Cashflow Statement											
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
Operating CF	79.9	9.3	40.4	-179.0	16.8						
Investing CF	50.2	75.9	165.9	200.1	204.7						
Financing CF	-124.0	4.4	-180.3	-98.4	-96.3						
Change In Cash	6.1	-8.6	26.1	-77.3	125.3						
Free CF	49.3	-21.3	10.8	-219.0	-23.2						

Source: 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	2.14	2.90	35.51%	2,542.6	Y	04/2023	21.6	22.8	61.1%	5.6%	9.9	9.4	3.5	37.2%	15.1	7.1%
DRB-HICOM BHD	MP	1.35	1.45	7.41%	2,609.6	Y	12/2023	16.5	17.7	4.9%	7.2%	8.2	7.6	0.3	3.6%	2.0	1.5%
MBM RESOURCES BHD	OP	3.45	4.70	36.23%	1,379.9	Y	12/2023	65.6	67.7	14.5%	3.2%	5.3	5.1	0.6	12.0%	26.0	7.5%
SIME DARBY BHD	OP	2.06	2.40	16.50%	14,418.1	Y	06/2023	15.0	17.2	-14.6%	14.9%	13.7	11.9	0.9	6.3%	12.0	5.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.09	0.800	-26.61%	759.4	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.8%
UMW HOLDINGS BHD	OP	3.66	4.80	31.15%	4,416.2	Y	12/2023	35.5	37.9	5.3%	6.7%	10.3	9.7	0.9	9.3%	15.0	4.1%
SECTOR AGGREGATE					26,125.7					-1.0%	11.0%	11.8	10.6	0.7	6.1%		4.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Electric & Hybrid Vehicles Availability	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★		
	Effluent & Water Management	★	★	★		
	Training & Education	★	★	★	★	
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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