

28 May 2024

MBM Resources

Lumpy Staff Bonuses in 1QFY24

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MBMR's 1QFY24 results met our forecast but beat market expectations. Its 1QFY24 core net profit was flattish as strong vehicle sales were offset by higher cost (including staff annual increment and bonuses). We maintain our forecasts, TP of RM5.80 and OUTPERFORM call. The stock offers attractive dividend yield of about 8%.

MBMR's 1QFY24 core net profit met our expectation at 28% of full-year forecast, but beat market expectations at 32% of the full-year consensus estimate.

YoY, its 1QFY24 revenue rose 11% driven by strong sales from vehicle distribution (+14%) due to robust demand for Perodua, Volvo and Volkswagen vehicles, as well as Daihatsu commercial vehicles on the introduction of new models, partially negated by auto parts manufacturing division (-4%). However, its core net profit was flattish due to higher operating expenses from staff annual increment and performance bonuses. Similarly, despite a strong sales volume at 23%-owned Perusahaan Otomobil Kedua Sdn Bhd (+9% to 85,896 units), its contribution was flattish, similarly, due to staff annual increment and performance bonuses

QoQ, MBMR's 1QFY24 revenue eased 12% due the low season as well as the closure of auto parts manufacturing plant on extended festive holidays. Its core net profit fell by a steeper 18% driven by a lower share on lower associate contributions (-20%) on a weaker sales volume at 23%-owned Perusahaan Otomobil Kedua Sdn Bhd (-12%), similarly, due to plant closure during festive holidays.

Forecasts. Maintained.

Valuation. We also maintain our TP of RM5.80 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).

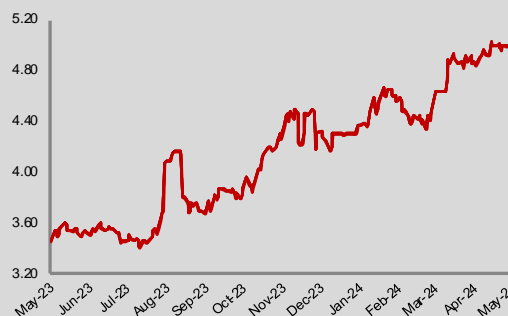
Investment case. We continue to like MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of over 100k units (almost half of its CY24 target sales of 340k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 8%. Maintain **OUTPERFORM**.

Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation and subsidy rationalisation, (ii) persistent disruptions (including chip shortages) in the global automotive supply chain, and (iii) persistent high cost for materials in auto parts manufacturing.

OUTPERFORM ↔

Price: RM5.05
Target Price: RM5.80 ↔

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	19.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBM MK Equity
Market Cap (RM m)	1,974.0
Shares Outstanding	390.9
52-week range (H)	5.07
52-week range (L)	3.17
3-mth avg daily vol:	533,698
Free Float	38%
Beta	0.7

Major Shareholders

Med-Bumikar Mara Sdn Bhd	49.5%
Lembaga Tabung Haji	4.6%
Norges Bank	2.9%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Revenue	2,416.9	2,688.8	2,803.2
EBIT	97.6	70.4	73.2
PBT	394.7	338.4	342.9
Net Profit	334.5	283.3	287.0
Core Net Profit	305.2	283.3	287.0
Consensus (NP)	-	251.5	253.0
Earnings Revision	-	-	-
Core EPS (sen)	77.9	72.3	73.2
Core EPS growth (%)	36.3	-7.2	1.3
NDPS (sen)	39.0	40.0	40.0
BVPS (RM)	5.44	5.76	6.09
PER (x)	6.5	7.0	6.9
PBV (x)	0.9	0.9	0.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	7.7	7.9	7.9

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Result Highlights								
	1Q	4Q	QoQ	1Q	YoY	1Q	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	617.1	700.2	-11.9%	555.8	11.0%	617.1	555.8	11.0%
EBIT	19.9	24.4	-18.4%	19.7	1.3%	19.9	19.7	1.3%
Net Interest Income/ (Exp)	1.1	0.6		1.5		1.1	1.5	
Associates	68.4	85.2	-19.8%	68.0	0.6%	68.4	68.0	0.6%
Jointly controlled entity	7.8	6.9	14.0%	7.3	6.7%	7.8	7.3	6.7%
EI	0.0	0.0		0.1		0.0	0.1	
PBT/(LBT)	95.0	115.9	-18.0%	93.6	1.5%	95.0	93.6	1.5%
Taxation	-5.0	-6.5	22.3%	-4.8	-5.3%	-5.0	-4.8	-5.3%
Minority Interest	-9.8	0.0		-8.9		-9.8	-8.9	
Net Profit	80.2	97.8	-18.0%	80.0	0.4%	80.2	80.0	0.4%
Core Net Profit	80.2	97.8	-18.0%	79.8	0.5%	80.2	79.8	0.5%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT/(LBIT) margin	3.2%	3.5%		3.5%		3.2%	3.5%	
PBT/(LBT) margin	15.4%	16.6%		16.8%		15.4%	16.8%	
Core PATAMI margin	13.0%	14.0%		14.4%		13.0%	14.4%	
Effective tax rate	5.3%	5.6%		5.1%		5.3%	5.1%	

Source: Company, Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	1Q	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	617.1	700.2	-11.9%	555.8	11.0%	617.1	555.8	11.0%
Vehicles Distribution	541.2	613.4	-11.8%	476.8	13.5%	541.2	476.8	13.5%
Auto Parts Manufacturing	75.3	86.2	-12.6%	78.4	-4.0%	75.3	78.4	-4.0%
Others	0.6	0.6	2.4%	0.6	0.2%	0.6	0.6	0.2%
Segment PBT	95.0	115.9	-18.0%	93.6	1.5%	95.0	93.6	1.5%
Vehicles Distribution	13.2	17.9	-26.2%	12.0	10.5%	13.2	12.0	10.5%
Auto Parts Manufacturing	7.3	6.6	9.4%	7.6	-3.9%	7.3	7.6	-3.9%
Others	-1.7	-0.8	-120.2%	-1.2	-37.2%	-1.7	-1.2	-37.2%
Jointly-controlled Entity	7.8	6.9	14.0%	7.3	6.7%	7.8	7.3	6.7%
Associates	68.4	85.2	-19.8%	68.0	0.6%	68.4	68.0	0.6%
Segment PBT margin (%)	15.4%	16.6%		16.8%		15.4%	16.8%	
Vehicles Distribution	2.4%	2.9%		2.5%		2.4%	2.5%	
Auto Parts Manufacturing	9.7%	7.7%		9.7%		9.7%	9.7%	

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.				
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.48	2.30	-7.3%	2,879.3	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.5	10.9	3.5	37.9%	20.1	8.1%
DRB-HICOM BHD	MP	1.35	1.40	3.7%	2,609.6	Y	12/2024	15.9	18.6	14.2%	17.0%	8.5	7.3	0.2	3.1%	2.0	1.5%
HIL INDUSTRIES BHD	MP	1.15	0.940	-18.3%	381.7	Y	12/2024	13.6	14.3	11.9%	4.6%	8.4	8.1	0.8	9.7%	2.0	1.7%
HONG LEONG INDUSTRIES BHD	OP	12.00	12.60	5.0%	3,934.8	Y	06/2024	98.3	105.3	10.9%	7.2%	12.2	11.4	2.0	16.0%	107.0	8.9%
MBM RESOURCES BHD	OP	5.05	5.80	14.9%	1,974.0	Y	12/2024	72.5	73.3	-7.2%	1.1%	7.0	6.9	0.9	12.9%	40.0	7.9%
SIME DARBY BHD	MP	2.83	2.80	-1.1%	19,246.8	Y	06/2024	17.7	19.3	4.4%	9.1%	16.0	14.6	1.2	7.4%	12.0	4.2%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.855	0.740	-13.5%	574.6	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.2%
SECTOR AGGREGATE					31,600.8					6.9%	6.9%	13.2	12.4	0.9	6.7%		4.8%

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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