

12 June 2024

# Bermaz Auto

## Dialling Back Discounts

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**BAUTO's FY24 results beat expectations. Its 4QFY24 net profit rose 28% QoQ on stronger margins as it significantly dialled back discounts and a higher production volume at its manufacturing unit. We raise our FY25F net profit by 6%, lift our TP by 7% to RM2.45 (from RM2.30) but maintain our MARKET PERFORM call.**

Its FY24 core net profit beat our forecast and the consensus estimate by 16% and 7%, respectively. The key variance against our forecast came from stronger-than-expected margins as it significantly dialled back discounts. It declared a fourth interim NDPS of 4.75 sen and special NDPS of 7 sen in 4QFY24, bringing full-year NDPS to 26 sen, which beat our expectation as well.

**YoY**, its FY24 revenue rose 11% driven by robust demand for Mazda vehicles (+21% to 20,977 units), partially offset by lower sales of Kia vehicles (-16% to 1,851 units) and Peugeot vehicles (-50% to 947 units) as the Stellantis group assumed full control over the local Peugeot franchise. In terms of geographical breakdown, higher sales of 21,192 units (+8%) and 2,583 units (+54%) were recorded in both Malaysia and the Philippines, respectively, as economies reopened.

Its core net profit rose by a steeper 16% due to: (i) a higher blended margin with a product mix skewed towards more high-margin models, and (ii) cheaper costs of imported units on the MYR's strength against the JPY. Its associates, represented largely by contract vehicle assembler Mazda Malaysia Sdn Bhd, recorded higher profits driven by higher production as the economy reopened.

**QoQ**, its 4QFY24 revenue rose 5% as it dialled back on discounts coupled with strong Kia vehicle sales (+56%), partially offset by lower vehicle sales of Mazda (-1%) and Peugeot (-9%). Its core net profit rose by a steeper 28% on: (i) higher margins as it dialled back on discounts as mentioned, and (ii) stronger contribution from its associates, represented largely by contract vehicle assembler Mazda Malaysia Sdn Bhd, which recorded higher profits on higher production.

**Forecasts.** We raise our FY25F net profit forecast by 6% to account for stronger margins. We also introduce FY26F net profit forecast (+4% YoY).

**Valuations.** Correspondingly, we lift our TP by 7% to RM2.45 (from RM2.30) based on 10x CY25F PER (rolled forward from CY24F), at a 1x multiple discount to the sector's average forward PER of 11x to reflect higher earnings risk for mid-market auto players on subsidy rationalisation which will hurt their target customers, i.e. the middle-income group, the most. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

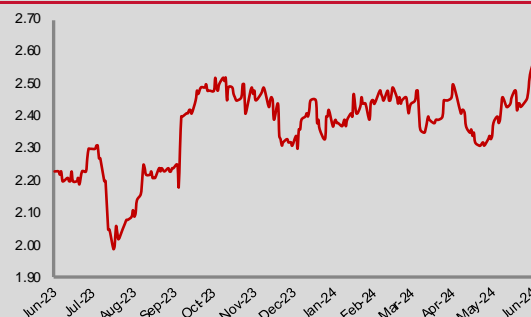
**Investment case.** We continue to like BAUTO for: (i) its strong near-term earnings visibility backed by an order backlog of 2k units for Mazda, Kia and Peugeot vehicles, (ii) its premium mid-market Mazda brand that offers superior margins, and (iii) its attractive dividend yield of about 8%. However, we are concerned over subsidy rationalisation hurting its target customers, i.e. the middle-income group. Maintain **MARKET PERFORM**.

**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) MYR weakens against JPY.

## MARKET PERFORM ↔

Price: **RM2.54**  
Target Price: **RM2.45** ↑

### Share Price Performance



KLCI	1,611.49
YTD KLCI chg	10.8%
YTD stock price chg	7.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BAUTO MK Equity
Market Cap (RM m)	2,965.9
Shares Outstanding	1,167.7
52-week range (H)	2.59
52-week range (L)	1.96
3-mth avg. daily vol.	2,879,555
Free Float	52%
Beta	0.4

### Major Shareholders

Dynamic Milestone Sdn Bhd	14.9%
Employees Provident Fund	13.4%
Amanah Saham Nasional	6.1%

### Summary Earnings Table

FY Apr (RM m)	2024A	2025F	2026F
Revenue	3,930.3	3,996.7	4,052.6
EBIT	489.1	319.2	323.2
PBT	489.1	382.7	397.0
<b>Net Profit</b>	<b>351.0</b>	<b>278.6</b>	<b>289.0</b>
Consensus (NP)	-	291.7	291.7
Earnings Revision	-	+6%	NEW
Core EPS (sen)	30.2	24.0	24.9
Core EPS Growth (%)	15.6	-20.6	3.7
NDPS (sen)	26.0	20.2	20.9
BVPS (RM)	0.71	0.75	0.79
PER (x)	8.4	10.6	10.2
PBV (x)	3.6	3.4	3.2
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	10.2	7.9	8.2

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Results Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Apr (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	937.5	896.5	5%	1,072.4	-13%	3,930.3	3,548.2	11%
EBIT	110.7	87.1	27%	126.5	-12%	436.1	376.8	16%
Associates	19.6	7.5	162%	10.9	79%	50.0	39.0	28%
PBT/(LBT)	130.6	95.1	37%	139.5	-6%	489.1	421.2	16%
Taxation	(31.0)	(20.5)	-51%	(31.9)	3%	(111.4)	(94.0)	-19%
Minority Interest	(9.4)	(4.0)		(7.0)		(26.9)	(23.5)	
<b>Net profit</b>	<b>90.2</b>	<b>70.5</b>	<b>28%</b>	<b>100.6</b>	<b>-10%</b>	<b>351.0</b>	<b>303.7</b>	<b>16%</b>
EPS (sen)	7.7	6.1	27%	7.5	3%	30.1	25.0	21%
DPS (sen)	11.75	4.25		11.00		26.00	22.00	
EBIT margin	11.8%	9.7%		11.8%		11.1%	10.6%	
PBT margin	13.9%	10.6%		13.0%		12.4%	11.9%	
Net Profit margin	9.6%	7.9%		9.4%		8.9%	8.6%	
Effective tax rate	23.7%	21.6%		22.9%		22.8%	22.3%	

Source: Bursa Announcement, Kenanga Research

Unit Sales

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Mazda	4,847	4,873	-1%	5,350	-9%	20,977	17,280	21%
Peugeot	228	146	56%	422	-46%	947	1,896	-50%
Kia	405	444	-9%	743	-45%	1,851	2,194	-16%
<b>Total</b>	<b>5,480</b>	<b>5,463</b>	<b>0%</b>	<b>6,515</b>	<b>-16%</b>	<b>23,775</b>	<b>21,370</b>	<b>11%</b>

Source: Company, Kenanga Research

BAUTO's Planned New Models in CY2025

	CY2025		
	<b>CX-3 IPM5</b> (Jan '24) 	<b>CX-5 IPM6</b> (Jan '24) 	<b>New CX-60</b> (Q4 '24) 
	<b>All-New EV9 CBU</b> (Jun 24') 	<b>All-New Sportage CBU</b> (Q4 24') 	
	<b>All-New G6 CBU</b> (Aug 24') 		

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.				
<b>Stocks Under Coverage</b>																	
BERMAZ AUTO BHD	MP	2.54	2.45	-3.5%	2,965.9	Y	04/2025	24.0	24.9	-20.6%	3.7%	10.6	10.2	3.4	32.8%	20.2	8.0%
DRB-HICOM BHD	MP	1.36	1.40	2.9%	2,629.2	Y	12/2024	15.9	18.6	14.2%	17.0%	8.6	7.3	0.2	3.1%	2.0	1.5%
HIL INDUSTRIES BHD	MP	1.18	1.10	-6.8%	391.7	Y	12/2024	13.7	15.6	12.4%	14.1%	8.6	7.6	0.8	9.8%	3.0	2.5%
HONG LEONG INDUSTRIES BHD	OP	11.54	12.60	9.2%	3,686.7	Y	06/2024	98.3	105.3	10.9%	7.2%	11.7	11.0	1.9	16.0%	107.0	9.3%
MBM RESOURCES BHD	OP	5.35	5.80	8.4%	2,091.2	Y	12/2024	72.5	73.3	-7.2%	1.1%	7.4	7.3	0.9	12.9%	40.0	7.5%
SIME DARBY BHD	MP	2.65	2.80	5.7%	18,061.3	Y	06/2024	17.7	19.3	4.4%	9.1%	15.0	13.7	1.1	7.4%	12.0	4.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.860	0.740	-14.0%	560.5	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.2%
<b>SECTOR AGGREGATE</b>					<b>30,386.6</b>					<b>3.6%</b>	<b>9.2%</b>	<b>12.9</b>	<b>11.8</b>	<b>0.9</b>	<b>6.6%</b>		<b>4.9%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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