

12 September 2024

Bermaz Auto

Intensified Competition

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BAUTO's 1QFY25 net profit met expectations, despite plunging 30% YoY as the sales volumes of Mazda and Kia vehicles fell on intense competition from Chinese-made vehicles, and on rising costs of its imported units on MYR's weakening against the JPY. It has attractive new launches planned for FY25 to remain competitive. We maintain our forecasts, TP of RM2.45 and MARKET PERFORM call.

Its 1QFY25 core net profit came in within our forecast and the consensus estimate at 25% and 23%, respectively. It declared a first interim NDPS of 3.50 sen, as expected.

YoY, its 1QFY25 revenue plunged 22% dragged by weak demand for Mazda vehicles (-23% to 4,414 units) and Kia vehicles (-55% to 274 units), which faced intense competition from the influx of Chinese-made vehicles with low entry-level price points, partially offset by higher sales of Peugeot vehicles (+37% to 429 units). In terms of geographical breakdown, lower sales of 4,555 units (-23%) and 562 units (-23%) were recorded in both Malaysia and the Philippines, respectively, as competition intensified.

Its core net profit plunged by a steeper 30% due to: (i) lower margins from its Kia operations, and (ii) rising costs of imported units as the MYR weakened against the JPY. However, these was partially offset by higher contribution from its associates, represented largely by contract vehicle assembler Mazda Malaysia Sdn Bhd and Inokom Corporation Sdn. Bhd. which recorded stronger profits on higher production level.

QoQ, its 1QFY25 revenue fell 10% on weaker demand for Mazda vehicles (-9%) and Kia vehicles (-32%), partially offset by higher sales of Peugeot vehicles (+88%). Its core net profit fell by a steeper 22% due to reasons mentioned above, and worsened by lower contribution from its associates, contract vehicle assembler Mazda Malaysia Sdn Bhd, which recorded lower profits on reduced production level.

Forecasts. Maintained.

Valuations. We also maintain our TP at RM2.45 based on 10x CY25F PER, at a 1x multiple discounts 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).

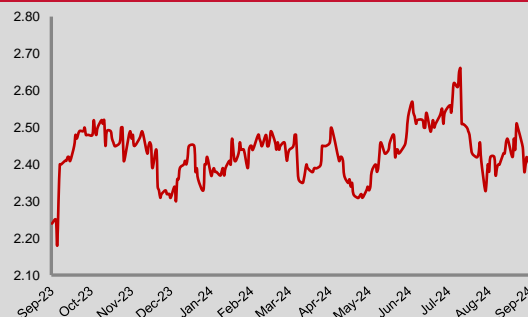
Investment case. We continue to like BAUTO for: (i) its strong near-term earnings visibility backed by an order backlog of 2k units for Mazda, and Kia vehicles, (ii) its premium mid-market Mazda brand that offers superior margins, and (iii) its attractive dividend yield of about 8%. However, we are concerned over subsidy rationalisation hurting its target customers, i.e. the middle-income group as well as intense competition from Chinese-made vehicles. 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: RM2.37
Target Price: RM2.45 ↔

Share Price Performance



KLCI 1,639.80
YTD KLCI chg 12.7%
YTD stock price chg 3.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker BAUTO MK Equity
Market Cap (RM m) 2,770.1
Shares Outstanding 1,168.8
52-week range (H) 2.60
52-week range (L) 2.11
3-mth avg. daily vol. 2,770,665
Free Float 64%
Beta 0.5

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
Net Profit	351.0	278.6	289.0
Consensus (NP)	-	306.4	319.9
Earnings Revision	-	-	-
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)	7.8	9.9	9.5
PBV (x)	3.3	3.2	3.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	11.0	8.5	8.8

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Results Highlight

	1Q	4Q	QoQ	1Q	YoY	1Q	1Q	YoY
FYE Apr (RM m)	FY25	FY24	Chg	FY24	Chg	FY25	FY24	Chg
Revenue	846.2	937.5	-10%	1,089.3	-22%	846.2	1,089.3	-22%
EBIT	87.3	110.7	-21%	130.7	-33%	87.3	130.7	-33%
Associates	10.7	19.6	-45%	8.6	25%	10.7	8.6	25%
PBT/(LBT)	97.8	130.6	-25%	140.7	-30%	97.8	140.7	-30%
Taxation	(22.4)	(31.0)	28%	(32.8)	32%	(22.4)	(32.8)	32%
Minority Interest	(5.2)	(9.4)		(7.7)		(5.2)	(7.7)	
Net profit	70.2	90.2	-22%	100.2	-30%	70.2	100.2	-30%
EPS (sen)	6.0	7.7	-22%	8.6	-30%	6.0	8.6	-30%
DPS (sen)	3.50	11.75		5.00		3.50	5.00	
EBIT margin	10.3%	11.8%		12.0%		10.3%	12.0%	
PBT margin	11.6%	13.9%		12.9%		11.6%	12.9%	
Net Profit margin	8.3%	9.6%		9.2%		8.3%	9.2%	
Effective tax rate	22.9%	23.7%		23.3%		22.9%	23.3%	










Source: Bursa Announcement, Kenanga Research

Unit Sales

	1Q	4Q	QoQ	1Q	YoY	1Q	1Q	YoY
	FY25	FY24	Chg	FY24	Chg	FY25	FY24	Chg
Mazda	4,414	4,847	-9%	5,729	-23%	4,414	5,729	-23%
Peugeot	429	228	88%	313	37%	429	313	37%
Kia	274	405	-32%	606	-55%	274	606	-55%
Total	5,117	5,480	-7%	6,648	-23%	5,117	6,648	-23%

Source: Company, Kenanga Research

BAUTO's Planned New Models in CY2024

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

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	2.37	2.45	3.4%	2,770.1	Y	04/2025	24.0	24.9	-20.6%	3.7%	9.9	9.5	3.2	32.8%	20.2	8.5%
DRB-HICOM BHD	MP	1.06	1.30	22.6%	2,049.2	Y	12/2024	12.5	16.8	-10.2%	34.9%	8.5	6.3	0.2	2.4%	2.0	1.9%
HIL INDUSTRIES BHD	OP	0.855	1.10	28.7%	283.8	Y	12/2024	13.7	15.6	12.4%	14.1%	6.3	5.5	0.6	9.8%	3.0	3.5%
HONG LEONG INDUSTRIES BHD	OP	12.60	13.50	7.1%	4,025.4	Y	06/2025	112.3	113.1	7.1%	0.7%	11.2	11.1	1.7	15.4%	60.0	4.8%
MBM RESOURCES BHD	OP	5.60	6.30	12.5%	2,189.0	Y	12/2024	75.9	78.7	-2.8%	3.7%	7.4	7.1	1.0	13.5%	40.0	7.1%
SIME DARBY BHD	OP	2.26	2.90	28.3%	15,403.3	Y	06/2025	20.1	20.8	7.5%	3.4%	11.2	10.9	0.8	7.0%	13.5	6.0%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.680	0.600	-11.8%	443.1	Y	12/2024	(15.3)	(11.5)	-179.4%	-175.1%	N.A.	N.A.	0.2	-3.8%	1.0	1.5%
SECTOR AGGREGATE					27,163.9					1.7%	7.5%	10.9	10.1	0.7	6.3%		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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