

Bermaz Auto Berhad

(5248 | BAUTO MK) Automotive & Parts | Personal Goods

Maintain BUY

A strong comeback

Revised Target Price: RM2.20
(from RM1.98 previously)

KEY INVESTMENT HIGHLIGHTS

- **BAuto's FY22 earnings smashes estimates**
- **Special dividends declared, brings full year dividend yield to an attractive 4.9%**
- **Core 4QFY22 earnings up +19%yoy driven by strong volume recovery and underlying operating margin uplift**
- **Strong 5-months order backlog for Mazda**
- **Re-affirm BUY at higher TP of RM2.20**

Smashes estimates. BAuto reported core earnings of RM78m (+19%yoy) for its 4QFY22 (normalized for ESOS expense and reversal of provisions of RM0.4m and RM1.3m respectively), which brings FY22 core earnings to RM157m (+17%yoy). This is well ahead of expectations accounting for 144% and 119% of our and street estimates respectively, given better than expected margins.

Dividend surprise. A fourth interim dividend of 2sen/share and a special dividend of 2.5sen/share was declared, which brought full year dividends to 8.75sen/share (+35%yoy), representing a generous 65% payout and a 4.9% yield. The dividends well outperformed our earlier estimate of 6.6sen/share.

A comeback quarter... Group wide sales volume was up +40%yoy in 4Q22 driven by recovery in Mazda sales (+24%yoy) and contribution from Kia and Peugeot brands which were acquired in April 2021 and December 2020 respectively. The higher sales volume was reflected in the +40%yoy revenue increase in the period. Underlying margins were stronger driven by a weaker JPY and better CKD sales mix but these were partly offset by lower associate contribution and higher effective tax rates given provisions for Cukai Makmur. Earnings would have been stronger if not for a one-off RM6.2m provision to clear legacy issues related to free service and warranty at Kia during the quarter.

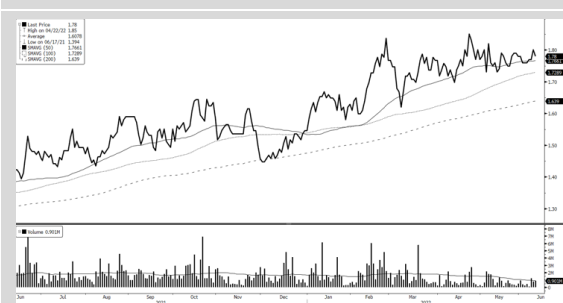
But stronger ones still in store... Order backlog for Mazda stretches up to an estimated 5 months for Mazda (at >8K units), while Kia and Peugeot order backlog stands at >600 and >500 units respectively. At this juncture, ASPs are maintained as the significant weakness in JPY buffers any cost increase. The group is also undertaking proactive measures to hedge the JPY to capitalize on the current weakness.

Aggressive new launches. For Mazda, the CX8-IPM3 is expected to be launched in June and the new MX30 in 3QCY22. For Kia, the locally assembled Carnival is slated for launch in 3QCY22 along with the EV6, while the new Sorento is due for launch in 4QCY22. Meanwhile for Peugeot, two models are slated for 2HCY22 launch i.e. the new Landtrek (3QCY22) and the new e-2008 EV (4QCY22).

RETURN STATISTICS

Price @ 13 th June 2022 (RM)	1.78
Expected share price return (%)	+23.3
Expected dividend yield (%)	+4.9
Expected total return (%)	+28.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.1	6.6
3 months	-0.6	9.5
12 months	20.1	29.1

KEY STATISTICS

FBM KLCI	1,464.83
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1162.19
Estimated free float (%)	51.66
Market Capitalisation (RM'm)	2,068.70
52-wk price range	RM1.42 - RM1.88
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	0.00
Monthly volatility (%)	19.10
3-mth average daily volume (m)	0.97
3-mth average daily value (RM'm)	1.71
Top Shareholders (%)	
Employees Provident Fund Board	18.20
Dynamic Milestone Sdn Bhd	14.38
Amanah Saham Nasional Bhd	7.89

Analyst:
 Hafriz Hezry
 hafriz.hezry@midf.com.my
 03-2173 8392























INVESTMENT STATISTICS

FYE Apr	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM'm)	1,759.0	2,287.9	2,325.1	2,924.7	3,090.4
Operating profit (RM'm)	108.1	159.6	204.5	235.1	252.4
Pre-tax Profit (RM'm)	131.8	172.7	218.6	257.3	285.7
Core net profit (RM'm)	100.5	134.8	157.0	177.1	196.0
FD EPS (sen)	8.6	11.6	13.5	15.2	16.8
EPS growth (%)	(62.1)	34.2	16.4	12.8	10.6
PER (x)	20.6	15.4	13.2	11.7	10.6
Net Dividend (sen)	7.5	6.5	8.8	7.6	8.4
Dividend Yield (%)	4.2	3.7	4.9	4.3	4.7

Source: Company, MIDFR

Earnings revision. Given the stronger than expected results, we revise up our FY23F earnings by 9.3% to factor in: (1) Higher CKD mix leading to higher margin assumptions, (2) Weaker JPY assumption of JPY(x100):RM3.8 from JPY(x100):RM4.0 previously. Our revised FY23F earnings imply a further +13%yoy growth (FY22: +16%yoy) to be driven by improved sales volume at Mazda assuming absence of further lockdown impact this year as well as further growth at the newly acquired Kia and Peugeot operations as new launches picks up pace. We also introduce our FY24F earnings at RM196m (+10.6%yoy).

Exhibit 1: Bermaz Auto product rollout

2022								
	CX-3 IPM4 (Jan'22) 	MX-5 IPM5 (Feb'22) 	Mazda3 IPM2 (Feb'22) 	CX-30 IPM2 (Feb'22) 	CX-8 IPM3 (June '22) 	New MX-30 EV (Q3'22) 		
	New 3008 (Nov'21) 	New 5008 (Nov'21) 	All-New 2008 (Jan'22) 	New Landtrek (Q3'22) 	New e-2008 EV (Q4'22) 			
	All-New Carnival (Dec'21) 	Carnival CKD (Q3'22) 	New EV6 EV (Q3'22) 	All-New Sorento (Q4'22) 	All-New Sportage InProgress (Q2'23) 	Carens (KY) InProgress (Q2'23) 	New PBV1 EV (Q4'22) 	All-New Niro (Q4'22) 

Source: Company, MIDFR

Recommendation. We re-affirm our **BUY** call on BAuto at a higher **TP** of **RM2.20** (from RM1.98 previously). Our valuation pegs BAuto at 15x CY22F earnings, at par to its 5-year historical mean. The group is morphing into a multi-brand auto conglomerate following its recent brand acquisitions, which is expected to drive above-industry earnings and volume growth throughout our forecast horizon. Coupled with reasonably undemanding valuation of 11.7x FY23F PER against an expected earnings CAGR of +12% over our forecast horizon, as well as attractive dividend yield (4.3%-4.7%), we continue to advocate BAuto as our top sector pick. Key catalysts: (1) Sustained earnings improvement for underlying Mazda operations on normalizing margins and demand recovery, (2) A weaker JPY, (3) Rollout of new Kia models - CKDs from CY22F onwards, (4) Rollout of new Peugeot models, (5) Budget 2022's EV duty exemptions which may incentivize consumer take-up of EV models – BAuto is well positioned to capitalize on this with ready EV models from Kia (EV6), Peugeot (2008 EV) and Mazda (MX30 EV).

BAUTO: 4QFY22 Result Summary

FYE Apr (RMm)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Revenue	641.2	623.1	897.4	44.0%	40.0%	2,287.9	2,325.1	1.6%
Operating profit	71.5	49.6	106.8	115.2%	49.4%	155.8	204.5	31.2%
Investment income	1.7	1.5	1.9	25.0%	14.4%	5.4	6.6	22.5%
Finance cost	(3.1)	(2.6)	(2.8)	6.2%	-9.3%	(12.8)	(10.6)	-17.5%
Associates	13.4	6.6	9.5	44.6%	-29.0%	20.5	18.1	-12.0%
Pretax profit	83.5	55.1	115.4	109.4%	38.3%	168.9	218.6	29.4%
Tax	(17.6)	(12.4)	(34.6)			(40.0)	(59.7)	49.5%
PAT	65.9	42.7	80.8	89.2%	22.7%	129.0	158.8	23.1%
MI	(1.0)	2.0	2.1	6.5%	323.7%	(4.9)	3.1	163.9%
Net profit	66.8	40.7	78.7	93.3%	17.8%	133.8	155.7	16.3%
Core net profit	65.6	41.1	77.8	89.3%	18.6%	134.7	157.0	16.5%
Core EPS (sen)	5.63	3.53	6.68	89.3%	18.6%	11.57	13.48	17%
GDPS (sen)	3.25	2.25	4.50	100.0%	38.5%	6.50	8.75	35%
Operating margin	11.2%	8.0%	11.9%			6.8%	8.8%	
Pretax margin	13.0%	8.8%	12.9%			7.4%	9.4%	
Core net profit margin	10.2%	6.6%	8.7%			5.9%	6.8%	
Tax rate	21.1%	22.5%	30.0%			23.7%	27.3%	
Mazda TIV (Malaysia, units)	3,660	3,169	4,551	43.6%	24.3%	13,439	12,038	-10.4%
Malaysia revenue (RMm)	588.0	580.4	840.1	44.8%	42.9%	2,118.0	2,140.7	1.1%
Philippines revenue (RMm)	53.2	42.8	57.3	33.9%	7.6%	169.9	184.4	8.5%
Malaysia EBIT (RMm)	75.1	48.7	105.4	116.5%	40.3%	162.1	200.6	23.8%
Philippines EBIT (RMm)	(4.3)	1.1	1.6	40.0%	136.7%	(2.3)	5.0	314.9%
Malaysia EBIT margin	12.8%	8.4%	12.6%			7.7%	9.4%	
Philippines EBIT margin	-8.0%	2.6%	2.7%			-1.4%	2.7%	
BAP (P'pines) volume (units)	434	336	438	30.4%	0.9%	1,245	1,304	4.7%
MMSB volume (units)	3,893	2,766	4,354	57.4%	11.8%	9,833	10,890	10.7%
Inokom volume (units)	5,071	8,380	7,202	-14.1%	42.0%	17,566	23,236	32.3%

Source: Company, MIDFR

BAUTO: 4QFY22 Result Summary (Pretax breakdown)

Pretax Profit (RMm)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Subsidiaries:								
Mazda (Malaysian operations)	72.3	41.6	99.6	139.6%	37.7%	158.2	189.6	19.8%
Peugeot (Malaysian operations)	0.0	0.9	6.6	653.8%	NA	0.0	4.0	NA
Kia (Malaysian operations)	-0.0	4.5	-3.0	-166.2%	-8647.1%	-0.0	0.4	1217.6%
Bermaz Auto Parts (Malaysian operations)	0.0	0.9	0.8	-5.3%	NA	0.0	2.3	NA
Mazda (Philippines)	-3.2	0.7	1.1	55.8%	135.8%	-10.4	3.3	131.6%
Investment holding	1.0	0.0	0.8	2814.8%	-20.3%	0.7	1.0	51.5%
Total operating profit	70.1	48.6	105.9	118.2%	51.1%	148.4	200.5	35.1%
Associates:								
Mazda Malaysia Sdn Bhd	12.7	5.0	7.9	59.2%	-37.7%	13.5	11.1	-17.8%
Inokom Corporation	0.4	2.2	2.0	-8.6%	378.7%	6.7	8.0	19.1%
Bermaz Auto Alliance	0.2	0.0	0.0	NA	-100.0%	0.2	0.1	-75.6%
Kia Malaysia Sdn Bhd	0.0	-0.7	-0.5	16.1%	NA	0.0	-1.2	NA
Others	0.0	-0.0	0.0	309.5%	NA	0.0	0.0	NA
Total associate earnings	13.4	6.6	9.5	44.6%	-29.0%	20.5	18.1	-12.0%
Total pretax profit	83.5	55.1	115.4	109.4%	38.3%	168.9	218.6	29.4%

Sales volume (units) (subsidiaries)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Mazda (Malaysian operations)	3,660	3,169	4,551	43.6%	24.3%	13,439	12,038	-10.4%
Peugeot (Malaysian operations)	0	283	548	93.6%	NA	0	964	NA
Kia (Malaysian operations)	0	157	203	29.3%	NA	0	360	NA
Mazda (Philippines)	434	336	438	30.4%	0.9%	1,245	1,304	4.7%
Total Group	4,094	3,945	5,740	45.5%	40.2%	14,684	14,666	-0.1%

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology