

14 December 2021

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (from Neutral)

Our Favourite In The Mix; Upgrade To BUY

Target Price (Return): MYR1.71 (14.0%)
 Price (Market Cap): MYR1.50 (USD412m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.44m/0.58m

- **U/G BUY from Neutral, new MYR1.71 TP from MYR1.77, 14% upside with 5% yield.** Results were broadly in line with expectations. We expect a robust 2HFY22 (Apr) PATAMI driven by the Sales & Service Tax (SST) extension to Jun 2022 but lower FY23F sales volume assumptions to factor in the delayed soft demand period post SST resumption. We continue to like Bermaz Auto – its niche asset light business model and non-volume products should steer the company comparatively better in a challenging CY22 outlook. BAUTO is our sector Top Pick.

- **Broadly in line with expectations.** BAUTO posted a 2QFY22 core PATAMI of MYR26m (+5% YoY, +154% QoQ), bringing 1HFY22 numbers to MYR36m (+7% YoY), ie 26% and 28% of our and Street's estimates. We deem this broadly in line with expectations, as we are expecting a stronger 2HFY22 underpinned by the recovery in economic activities. A second interim dividend of 1.5 sen/share was declared (2QFY21 DPS: 1.25 sen), bringing 1HFY22 DPS to 2 sen (1HFY21: 1.75 sen).

- **Results review.** 2QFY22 revenue improved QoQ on higher vehicle sales following the relaxation of containment measures – despite only operating for 1.5 months. Consequently, EBIT margin improved to 6.5%. BAUTO's contributions from associates returned to the black at MYR2.9m (1QFY22: -MYR0.9m), supported by higher contributions from Inokom Corp of MYR2.8m (+194% QoQ).

- **Sufficient chips till Jun 2022.** Our channel check suggests that the waiting list for Mazda vehicles is c.1.5 months, with inventory level low at c.600 units. Positively, the chip shortages issue remains limited to certain CBU models – there are sufficient chips on hand to continue CKD production up to Jun 2022. Additionally, Mazda Malaysia is looking to launch five facelifted models and one electric vehicle in CY22 (Figure 4).

- **FY23F earnings lowered by 6%.** The extension of the SST to Jun 2022 will delay the period of crippling demand post SST exemption to FY23. Despite that, we kept our FY22F Malaysia sales volumes of 12,140 units for Mazda, as we believe this remains achievable. However, we lower FY23F volumes to 12,770 units from 13,370 previously. Consequently, our TP is lowered to MYR1.71, pegged to an unchanged 12x P/E, which is approximately +0.5SD from its 5-year mean. We also incorporated an ESG premium of 2% on the intrinsic value.

- **Downside risks** include a softer MYR vs the JPY and weak consumer sentiment. Slower-than-expected normalisation in demand post SST exemption at end 2021 and sustained disruptions in semiconductor chip supplies are other key risks.

Analyst

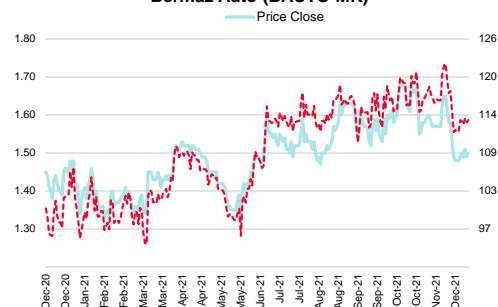
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.4	(4.5)	(5.1)	0.0	2.0
Relative	11.5	(2.1)	(0.3)	5.1	13.3
52-wk Price low/high (MYR)				1.32 – 1.68	

Bermaz Auto (BAUTO MK)



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: GOOD

BAUTO focuses on environmentally conscious manufacturing, production and assembly processes. Major suppliers are subjected to an environmental risk assessment to ensure their complete compliance with the group's environmental standards.

S: GOOD

BAUTO upholds the highest environmental and social standards in the suppliers' code of conduct, and familiarises all suppliers with these guidelines.

G: EXCELLENT

BAUTO has applied and adopted the majority of best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that the board has two female directors out of a total of eight (<30%). The board also does not disclose on a named basis the top five senior management's remuneration components in bands of MYR50,000. The company practices a high level of transparency and actively engages with the investment community.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Total turnover (MYRm)	1,759	2,288	2,397	2,668	3,047
Recurring net profit (MYRm)	108	134	142	156	194
Recurring net profit growth (%)	(59.5)	24.7	5.5	10.5	24.4
Recurring P/E (x)	16.21	12.99	12.31	11.14	8.96
P/B (x)	3.7	3.1	2.9	2.7	2.4
P/CF (x)	na	3.99	na	9.62	15.29
Dividend Yield (%)	5.0	4.3	5.1	5.8	7.3
EV/EBITDA (x)	14.27	7.39	7.87	6.58	5.30
Return on average equity (%)	19.4	25.3	24.4	25.1	28.4
Net debt to equity (%)	7.2	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Financial Exhibits

Asia	Financial summary (MYR)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Malaysia	Recurring EPS	0.09	0.12	0.12	0.13	0.17
Consumer Cyclical	DPS	0.07	0.07	0.08	0.09	0.11
Bermaz Auto	BVPS	0.40	0.49	0.51	0.56	0.62
BAUTO MK	Return on average equity (%)	19.4	25.3	24.4	25.1	28.4
Buy						
	Valuation metrics	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Recurring P/E (x)	16.21	12.99	12.31	11.14	8.96
	P/B (x)	3.7	3.1	2.9	2.7	2.4
	FCF Yield (%)	(7.1)	24.8	(5.2)	9.5	5.7
	Dividend Yield (%)	5.0	4.3	5.1	5.8	7.3
	EV/EBITDA (x)	14.27	7.39	7.87	6.58	5.30
	EV/EBIT (x)	14.98	7.67	8.15	6.81	5.46
	Income statement (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Total turnover	1,759	2,288	2,397	2,668	3,047
	Gross profit	216	294	327	357	418
	EBITDA	113	162	184	209	263
	Depreciation and amortisation	(5)	(6)	(6)	(7)	(8)
	Operating profit	108	157	178	202	256
	Net interest	(3)	(7)	(6)	(5)	(4)
	Pre-tax profit	132	170	197	224	283
	Taxation	(28)	(41)	(47)	(54)	(68)
	Reported net profit	101	131	142	156	194
	Recurring net profit	108	134	142	156	194
	Cash flow (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Change in working capital	(233)	255	(150)	26	(82)
	Cash flow from operations	(109)	436	(76)	181	114
	Capex	(15)	(4)	(15)	(15)	(15)
	Cash flow from investing activities	(28)	(4)	(25)	(25)	(25)
	Dividends paid	(192)	(37)	(89)	(101)	(128)
	Cash flow from financing activities	(65)	10	(89)	(146)	(122)
	Cash at beginning of period	320	100	561	313	352
	Net change in cash	(202)	442	(189)	11	(33)
	Ending balance cash	118	542	372	324	318
	Balance sheet (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Total cash and equivalents	100	561	313	352	351
	Tangible fixed assets	39	37	102	109	115
	Total investments	213	236	237	237	237
	Total assets	1,288	1,343	1,470	1,529	1,669
	Short-term debt	138	106	100	50	50
	Total long-term debt	0	100	100	100	100
	Total liabilities	767	726	816	806	859
	Total equity	521	617	654	723	810
	Total liabilities & equity	1,288	1,343	1,470	1,529	1,669
	Key metrics	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Revenue growth (%)	(29.4)	30.1	4.8	11.3	14.2
	Recurrent EPS growth (%)	(59.5)	24.8	5.5	10.5	24.4
	Gross margin (%)	12.3	12.9	13.7	13.4	13.7
	Operating EBITDA margin (%)	6.5	7.1	7.7	7.8	8.6
	Net profit margin (%)	5.7	5.7	5.9	5.9	6.4
	Dividend payout ratio (%)	86.1	57.6	62.9	64.6	65.8
	Capex/sales (%)	0.9	0.2	0.6	0.6	0.5
	Interest cover (x)	16.2	12.2	15.1	18.7	26.1

Source: Company data, RHB

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Results At a Glance

Figure 1: Results review

FYE April (MYRm)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)	Comments
Revenue	599.8	320.8	483.8	50.8	(19.3)	1,048.7	804.6	(23.3)	QoQ improvements were due to higher domestic vehicle sales.
- Malaysia	558.4	270.6	449.6	66.2	(19.5)	980.1	720.3	(26.5)	
- Philippines	41.4	50.2	34.2	(31.9)	(17.5)	68.6	84.4	22.9	
EBIT	34.0	16.3	31.7	94.1	(6.8)	52.5	48.0	(8.5)	
- Malaysia	31.9	15.2	30.5	100.7	(4.4)	50.5	45.7	(9.5)	
- Philippines	2.1	1.1	1.2	3.6	(43.8)	1.9	2.3	17.0	The Philippines remained profitable in the quarter despite lower sales volumes recorded.
<i>EBIT margin (%)</i>	<i>5.7</i>	<i>5.1</i>	<i>6.5</i>			<i>5.0</i>	<i>6.0</i>		
Interest expense	(3.2)	(2.8)	(2.4)	(15.0)	(26.7)	(7.3)	(5.2)	(29.3)	
Interest income	1.4	1.9	1.3	(28.8)	(4.9)	2.0	3.2	57.3	
Associates	1.8	(0.9)	2.9	(418.1)	66.6	(0.2)	2.0	(1,130.9)	Contributions from associate turned profitable, driven by higher contributions from Inokom Corp.
Pre-tax profit	33.9	14.5	33.5	131.7	(1.0)	47.0	48.0	2.2	
<i>Pre-tax margin (%)</i>	<i>5.7</i>	<i>4.5</i>	<i>6.9</i>			<i>4.5</i>	<i>6.0</i>		
Tax	(9.4)	(4.1)	(8.6)	108.5	(7.9)	(13.9)	(12.8)	(8.1)	
<i>Effective tax rate (%)</i>	<i>(27.6)</i>	<i>(28.6)</i>	<i>(25.7)</i>			<i>(29.6)</i>	<i>(26.6)</i>		
Minority interest	0.3	(0.1)	1.1	(1,630.1)	334.6	0.9	1.0	14.1	
Net profit	24.8	10.3	26.0	153.6	5.0	34.0	36.3	6.7	
Core profit	24.8	10.3	26.0	153.6	5.0	34.0	36.3	6.7	Broadly in line with expectations.
<i>Net margin (%)</i>	<i>4.1</i>	<i>3.2</i>	<i>5.4</i>			<i>3.2</i>	<i>4.5</i>		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE April (units)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Mazda 2	95	26	39	50.0	(58.9)	189	65	(65.6)
Mazda 3	352	218	371	70.2	5.4	579	589	1.7
Mazda 5	0	0	0	n.m.	n.m.	1	0	n.m.
Mazda 6	25	4	37	825.0	48.0	48	41	(14.6)
Biante	0	0	0	n.m.	n.m.	2	0	n.m.
CX-3	53	0	328	n.m.	518.9	233	328	40.8
CX-30	495	160	126	(21.3)	(74.5)	767	286	(62.7)
CX-5	1,827	963	1,437	49.2	(21.3)	3,313	2,400	(27.6)
CX-8	612	239	334	39.7	(45.4)	945	573	(39.4)
CX-9	48	3	13	333.3	(72.9)	75	16	(78.7)
MX-5	7	3	12	300.0	71.4	11	15	36.4
BT-50	6	3	2	(33.3)	(66.7)	20	5	(75.0)
	3,520	1,619	2,699	66.7	(23.3)	6,183	4,318	(30.2)

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY
Mazda 2	15	0	0	n.m.	n.m.	25	0	n.m.
Mazda 3	91	32	18	(43.8)	(80.2)	155	50	(67.7)
Mazda 6	3	3	2	(33.3)	(33.3)	3	5	66.7
CX-3	4	8	0	n.m.	n.m.	7	8	14.3
CX-30	10	36	13	(63.9)	30.0	27	49	81.5
CX-5	36	62	65	4.8	80.6	67	127	89.6
CX-8	19	53	52	(1.9)	173.7	24	105	337.5
CX-9	27	72	34	(52.8)	25.9	42	106	152.4
MX-5	35	17	26	52.9	(25.7)	51	43	(15.7)
BT-50	42	32	5	(84.4)	(88.1)	58	37	(36.2)
	282	315	215	(31.7)	(23.8)	459	530	15.5

Source: Company data

Figure 4: Products pipeline

2022								
	CX-3 IPM4 (Jan'22) 	MX-5 IPM5 (Feb'22) 	Mazda3 IPM2 (Feb'22) 	CX-30 IPM2 (Feb'22) 	CX-8 IPM3 (May'22) 	New MX-30 EV (Q3/Q4'22) 		
	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 (Apr'22) 	All-New Sportage (Q3/Q4'22) 	All-New Sorento (Q3/Q4'22) 	New EV6 EV (Q3/Q4'22) 	New PBV1 EV (Q3/Q4'22) 	All-New Niro (Q4'22) 	All-New Seltos (Q4'22) 

Source: Company, RHB

Figure 5: Key assumptions

Sales (units)	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
Malaysia - Current	9,484	13,439	12,140	12,770	14,220
Malaysia - Previous			12,140	13,370	14,220
The Philippines	2,227	1,245	1,500	2,000	2,400
Peugeot			1,500	2,000	2,500
Kia			300	2,000	3,000
MYR/JPY100	3.86	3.91	3.69	3.74	3.74

Source: RHB

Recommendation Chart

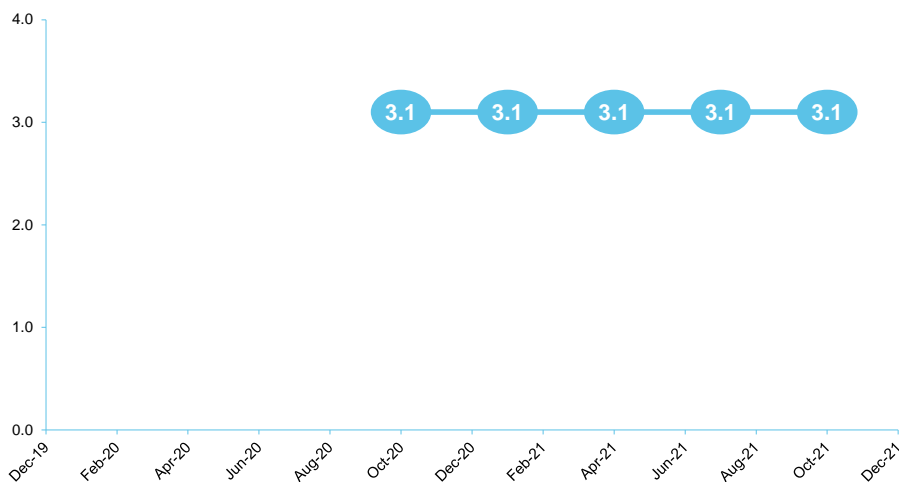


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-09-06	Neutral	1.77	1.61
2021-06-09	Buy	1.75	1.43
2020-09-11	Buy	1.70	1.37
2020-06-08	Buy	1.80	1.48
2020-06-04	Neutral	1.30	1.32
2020-03-27	Buy	1.50	1.13
2020-03-17	Buy	1.70	1.23
2020-01-24	Buy	2.70	1.93
2019-09-11	Buy	2.75	2.30

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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