

12 September 2024

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (Maintained)

Solid Dividend Play; Keep BUY

Target Price (Return): MYR3.05 (28.5%)
 Price (Market Cap): MYR2.37 (USD640m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 6.58m/1.44m

- **Still BUY, with new MYR3.05 TP from MYR3.25, 29% upside and c.10% FY25F (Apr) yield.** Bermaz Auto's 1QFY25 core earnings of MYR68m largely met ours and Street's expectations. We think BAUTO is undervalued, trading at 8x CY25 P/E, below its historical mean of 9x. Not only that, its higher-than-sector average c.10% yield remains as its plus point.
- **In line.** We deem 1QFY25 earnings to be in line with ours and Street's expectations, making up 22% of full-year forecasts considering the seasonally weak quarter. BAUTO declared a 1QFY25 DPS of 3.5 sen, largely in line with our FY25 DPS forecast of 23 sen.
- **Results highlights.** BAUTO's 1QFY25 revenue fell 22% YoY (-10% QoQ), as sales volumes fell 23% YoY. Besides the seasonally weak 1QFY25, the drop in sales was mainly due to high base effect as BAUTO received large shipments of Mazda 3, Mazda 6, and CX-3 CBU in 1QFY24 to fulfil backlogged orders during the COVID-19 pandemic. Its CKD sales volumes also dropped 6% YoY amidst stiff competition in the mid-market segment due to influx of Chinese carmakers. However, the total 1QFY25 Mazda volume in Malaysia was better-than-expected, making up 28% of our FY25 forecasts.
- **BAUTO signed an agreement to acquire 15% of EP Manufacturing's (EPMB) existing share capital** for MYR19.8m via private placement. EPMB supplies Mazda Malaysia (which BAUTO has a 30% equity interest) automotive metal parts and components to assemble its CKD models at Inokom plant. We are positive on this development as it shows support for EPMB's expansion and ensures stability of components supply to Mazda Malaysia in the future.
- **Outlook.** We think BAUTO's volumes will still be mainly supported by its volume-heavy CKD models, ie CX5, CX30, and CX8 while the anticipated launch of the all-new Kia Sportage in 4QCY24 will contribute to Kia's volume growth in FY25. Additionally, the new Xpeng brand under its umbrella is expected to help the group establish a stronger presence in the local EV market with the newly-launched Xpeng G7. While BAUTO benefits from MYR strengthening as it imports its CBU units in JPY, CBU units only make up roughly 15% of its total sales volume in Malaysia.
- **Forecast.** We cut FY25F-27F earnings by 1-2% as we cut our KIA volume forecasts while increasing Mazda volume estimates to better reflect its current sales performance.
- **Our new MYR3.05 TP is based on a rolled forward 10x CY25F P/E, which is 1SD above its historical mean with a 4% ESG premium.** The stock is currently trading at 8x CY25F EPS, below its 9x historical mean. We believe BAUTO deserves a higher PE considering its robust car sales due to consistent new model launches as well as attractive c.10% dividend yield.
- **Key downside risks** include softer-than-expected orders and deliveries, and resurgent supply chain constraints.

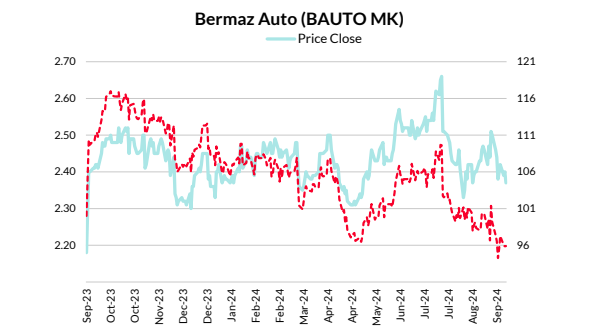
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.4	(2.1)	(6.7)	(3.3)	5.3
Relative	(12.3)	(4.8)	(8.5)	(9.5)	(7.4)
52-wk Price low/high (MYR)				2.30	-2.66



Source: Bloomberg

Forecasts and Valuation	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
Total turnover (MYRm)	3,548	3,930	3,695	4,162	4,152
Recurring net profit (MYRm)	304	353	310	357	357
Recurring net profit growth (%)	95.8	16.3	(12.2)	15.2	(0.0)
Recurring P/E (x)	9.07	7.80	8.89	7.71	7.71
P/B (x)	3.6	3.4	3.2	3.0	2.8
P/CF (x)	23.98	14.09	6.93	8.92	7.53
Dividend Yield (%)	9.3	10.9	9.7	11.0	11.0
EV/EBITDA (x)	6.31	5.37	5.63	4.87	4.78
Return on average equity (%)	43.5	44.3	36.8	40.1	37.7
Net debt to equity (%)	1.3	0.4	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.2 (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: EXCELLENT

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 seven (<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.

Financial Exhibits

Asia	Financial summary (MYR)	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
Malaysia	Recurring EPS	0.26	0.30	0.27	0.31	0.31
Consumer Cyclical	DPS	0.22	0.26	0.23	0.26	0.26
Bermaz Auto	BVPS	0.66	0.71	0.74	0.79	0.84
BAUTO MK	Return on average equity (%)	43.5	44.3	36.8	40.1	37.7
Buy						
	Valuation metrics	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
Valuation basis	Recurring P/E (x)	9.07	7.80	8.89	7.71	7.71
10x CY25F P/E	P/B (x)	3.6	3.4	3.2	3.0	2.8
	FCF Yield (%)	3.6	6.6	13.3	9.9	12.0
Key drivers	Dividend Yield (%)	9.3	10.9	9.7	11.0	11.0
i. Strong growth from Philippines;	EV/EBITDA (x)	6.31	5.37	5.63	4.87	4.78
ii. Better-than-expected consumer spending;	EV/EBIT (x)	6.71	5.70	6.00	5.18	5.08
iii. New model launches.						
	Income statement (MYRm)	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
Key risks	Total turnover	3,548	3,930	3,695	4,162	4,152
i. Unfavourable FX movements;	Gross profit	591	679	591	666	664
ii. Disruption in product pipeline;	EBITDA	400	463	419	487	486
iii. Lacklustre consumer spending;	Depreciation and amortisation	(23)	(27)	(26)	(29)	(29)
	Operating profit	377	436	394	458	457
	Net interest	5	3	0	0	0
Company Profile	Pre-tax profit	421	489	439	505	505
BAUTO is involved in the distribution, assembling, retailing and also the provision of after sales service of Mazda vehicles in Malaysia. The group is also involved in the domestic distribution of locally assembled Mazda vehicles and the export of the locally assembled Mazda vehicles. Its subsidiary Bermaz Auto Philippines distributes Mazda vehicles in the Philippines.	Taxation	(94)	(111)	(105)	(121)	(121)
	Reported net profit	304	351	310	357	357
	Recurring net profit	304	353	310	357	357
	Cash flow (MYRm)	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
	Change in working capital	(238)	(188)	83	(57)	1
	Cash flow from operations	115	196	397	309	366
	Capex	(15)	(15)	(30)	(35)	(35)
	Cash flow from investing activities	1	(8)	(22)	(27)	(27)
	Dividends paid	(256)	(300)	(267)	(302)	(302)
	Cash flow from financing activities	(269)	(361)	(288)	(310)	(310)
	Cash at beginning of period	172	89	59	147	118
	Net change in cash	(153)	(174)	88	(28)	29
	Ending balance cash	20	(85)	147	118	147
	Balance sheet (MYRm)	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
	Total cash and equivalents	89	59	147	118	147
	Tangible fixed assets	45	41	45	51	57
	Total investments	314	366	411	459	507
	Total assets	1,777	1,862	1,904	2,029	2,110
	Short-term debt	100	63	50	50	50
	Total liabilities	938	948	924	967	967
	Total equity	839	914	980	1,062	1,144
	Total liabilities & equity	1,777	1,862	1,904	2,029	2,110
	Key metrics	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
	Revenue growth (%)	52.7	10.8	(6.0)	12.6	(0.2)
	Recurrent EPS growth (%)	95.8	16.3	(12.2)	15.2	(0.0)
	Gross margin (%)	16.7	17.3	16.0	16.0	16.0
	Operating EBITDA margin (%)	11.3	11.8	11.4	11.7	11.7
	Net profit margin (%)	8.6	8.9	8.4	8.6	8.6
	Dividend payout ratio (%)	84.2	85.6	86.2	84.6	84.6
	Capex/sales (%)	0.4	0.4	0.8	0.8	0.8
	Interest cover (x)	40.7	58.8	49.2	57.2	57.1

Source: Company data, RHB

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Figure 1: Results review

FYE Apr (MYRm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
Revenue	1,089.3	937.5	846.2	(9.7)	(22.3)	YoY decline mainly driven by the lower car sales volumes (-23% YoY).
- Malaysia	988.9	841.7	760.8	(9.6)	(23.1)	
- Philippines	100.3	95.9	91.2	(4.9)	(9.1)	
EBIT	130.7	110.7	87.5	(20.9)	(33.0)	Lower YoY due to lower sales
- Malaysia	117.5	101.3	69.3	(31.5)	(41.0)	
- Philippines	14.5	13.4	18.1	35.1	24.9	
Interest expense	(1.8)	(1.7)	(2.2)	25.3	18.5	
Interest income	3.2	2.1	1.9	(6.5)	(39.3)	
Associates	8.6	19.6	10.5	(46.4)	21.5	Strong YoY improvements largely driven by Inokom plant and KIA Malaysia
Pre-tax profit	140.7	130.6	97.8	(25.1)	(30.5)	
Tax	(32.8)	(31.0)	(22.4)	(27.7)	(31.7)	
Minority interest	(7.7)	(9.4)	(5.2)	(44.9)	(32.8)	
Net profit	100.2	90.2	70.2	(22.2)	(29.9)	
Core profit	100.2	91.4	68.4	(25.2)	(31.7)	1QFY25 earnings largely met ours and consensus expectations at 22% of full-year forecasts.
EBIT margin (%)	12.0	11.8	10.3			
Pre-tax margin (%)	12.9	13.9	11.6			
Effective tax rate (%)	(23.3)	(23.7)	(22.9)			
Net margin (%)	9.2	9.7	8.1			

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)
Mazda 2	45	27	33	22.2	(26.7)
Mazda 3	883	274	339	23.7	(61.6)
Mazda 6	51	17	10	(41.2)	(80.4)
CX-3	564	254	241	(5.1)	(57.3)
CX-30	1,033	1,274	1,140	(10.5)	10.4
CX-5	1,712	1,878	1,698	(9.6)	(0.8)
MX-30	1	0	0	-	-
CX-8	645	466	353	(24.2)	(45.3)
CX-9	4	4	7	75.0	75.0
MX-5	9	6	5	(16.7)	(44.4)
BT-50	52	10	25	150.0	(51.9)
	4,999	4,210	3,851	(8.5)	(23.0)

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE Apr (units)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)
Mazda 2	6	7	6	(14.3)	0.0
Mazda 3	111	66	39	(40.9)	(64.9)
Mazda 6	4	5	6	20.0	50.0
CX-3	6	5	6	20.0	0.0
CX-30	35	28	9	(67.9)	(74.3)
CX-5	148	92	79	(14.1)	(46.6)
CX-8	135	61	72	18.0	(46.7)
CX-9	101	30	29	(3.3)	(71.3)
CX-60	53	106	169	59.4	218.9
CX-90	5	51	86	68.6	1,620.0
MX-5	60	52	30	(42.3)	(50.0)
BT-50	66	134	31	(76.9)	(53.0)
	730	637	562	(11.8)	(23.0)

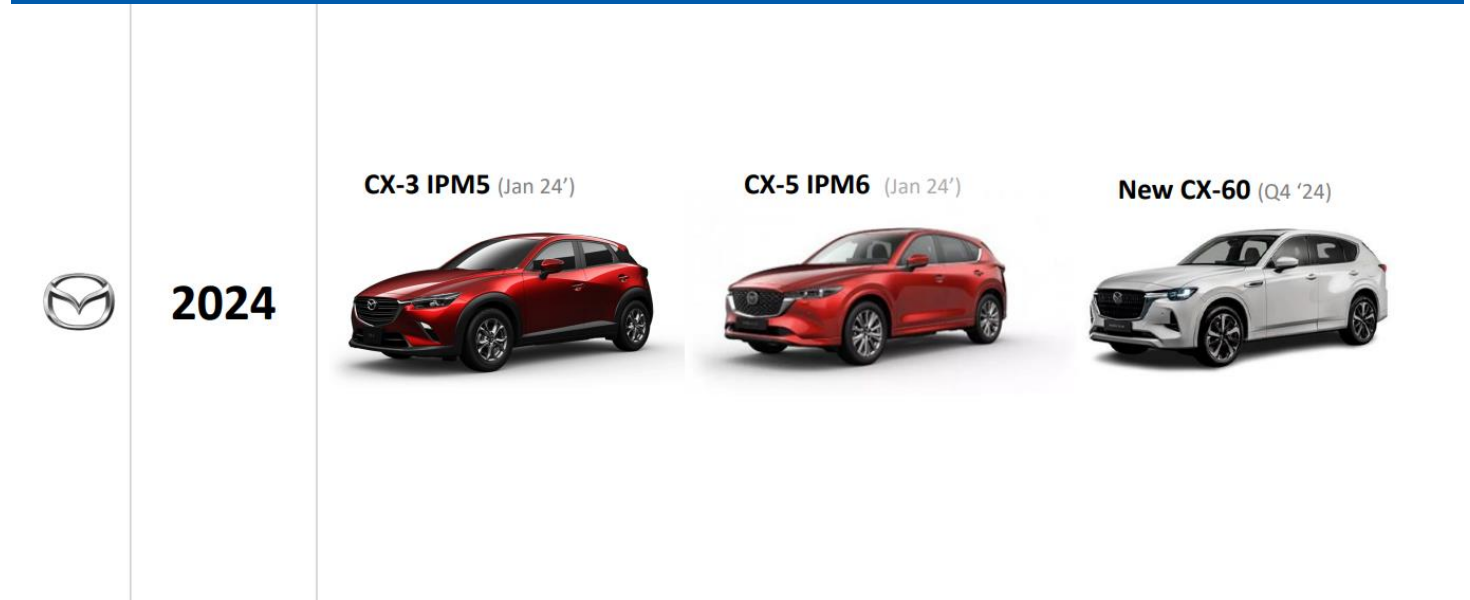
Source: Company data

Figure 4: Key assumptions

Sales (Units)	FY22	FY23	FY24	FY25F	FY26F	FY27F
Malaysia - Mazda	12,038	15,598	18,600	16,500	16,600	16,600
Philippines - Mazda	1,304	1,663	2,500	2,400	2,500	2,500
Kia	360	2,194	1,851	2,225	4,250	4,200
XPeng	-	-	-	450	600	600

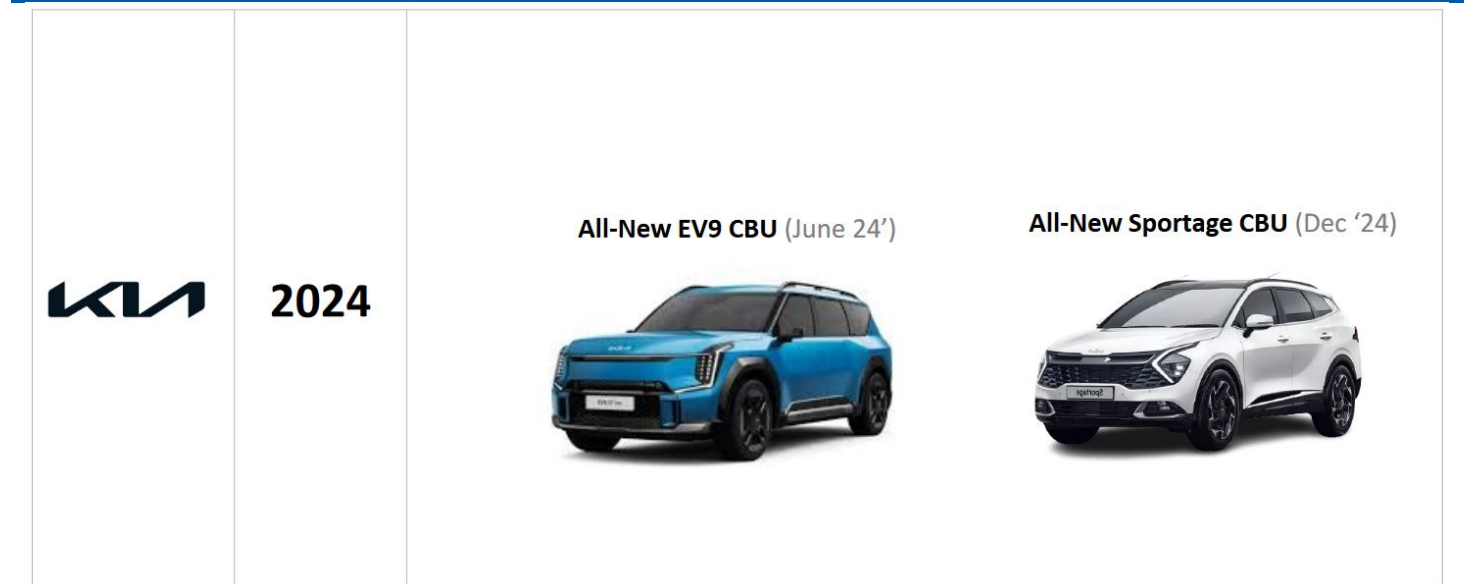
Source: RHB

Figure 5: Line-up of Mazda models










Source: Company data

Figure 6: Line-up of Kia models



Source: Company data

Figure 7: BAUTO's EV model line-up

Line-Up CY 2024	
	<p>New MX-30 EV</p> 
	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>New EV6 EV</p>  </div> <div style="text-align: center;"> <p>All-New EV9 EV (Jun 24')</p>  </div> </div>
	<p>All-New G6 CBU (Aug 24')</p> 

Source: Company data

Emissions And ESG

Trend analysis

In FY24, Scope 1 emissions increased to 1,001 tonnes of CO2 equivalents (FY23: 913 tonnes of CO2 equivalents) while Scope 2 emissions increased to 3,790 tonnes of CO2 equivalents (FY23: 3,444 tonnes of CO2 equivalents).

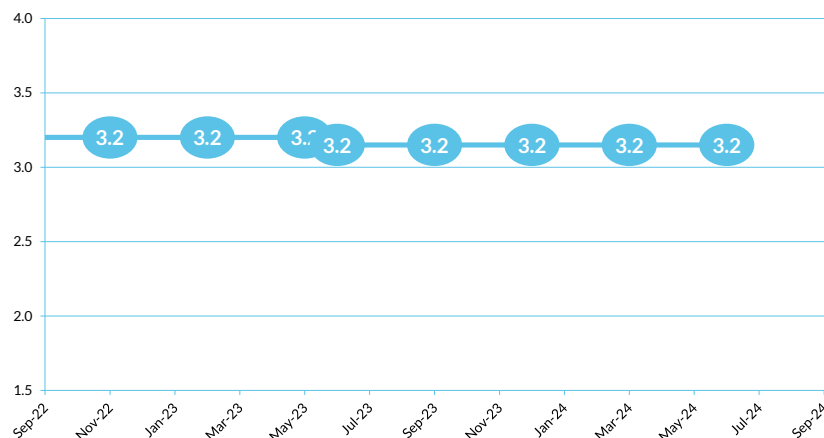
Emissions (tCO2e)	Apr-22	Apr-23	Apr-24
Scope 1	573	913	1,001
Scope 2	2,878	3,444	3,790
Scope 3	3	2,030	1,944
Total emissions	3,454	6,387	6,735

Source: Company data, RHB

Latest ESG-Related Developments

- **Climate change management:** BAUTO's climate change strategy includes working with employees and supply chain partners to save energy through fuel efficiency and perform a climate change risk assessment.
- **Waste and pollution management:** BAUTO is committed to addressing pollution and waste issue by avoiding its impact and improving efficiency. Its commitment to efficient resource use prioritises reducing, reusing and recycling over disposal to reduce environmental impact and operations costs and optimise efficiency.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-06-12	Buy	3.25	2.53
2024-03-14	Buy	3.35	2.41
2023-12-13	Buy	3.60	2.36
2023-09-13	Buy	3.45	2.30
2023-06-13	Buy	3.25	2.22
2023-03-14	Buy	3.45	2.13
2023-01-13	Buy	2.90	2.02
2022-12-09	Buy	2.55	2.20
2022-09-13	Buy	2.35	1.86
2022-08-01	Buy	2.35	1.80
2022-07-04	Buy	2.30	1.72
2022-06-14	Buy	2.00	1.78
2022-03-11	Neutral	1.74	1.74
2021-12-14	Buy	1.71	1.52
2021-09-14	Neutral	1.77	1.57

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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