

13 December 2024

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (Maintained)

Cheap Valuation Despite Earnings Miss; BUY

Target Price (Return): MYR2.65 (30%)
 Price (Market Cap): MYR2.04 (USD538m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 5.74m/1.33m

- **Keep BUY with new MYR2.65 TP (from MYR3.05), 30% upside and c.10% FY25F (Apr) yield.** Bermaz Auto's 1HFY25 core earnings of MYR110m missed our and Street's expectations. Regardless, we think valuations remain attractive, with the stock trading at 8x CY25 P/E, below its historical mean of 9.1x. Its above-sector-average yield of c.10% also remains a plus point.
- **Disappointing quarter.** 1HFY25 results missed our and Street's forecasts, making up 36% of full-year estimates. The deviation was mainly due to weaker-than-expected volumes sold. BAUTO declared a 2QFY25 DPS of 10 sen (including special DPS of 7 sen), bringing YTD DPS to 13.5 sen.
- **Results highlights.** 2QFY25 revenue fell 36% YoY (-24% QoQ) as sales volumes fell 41% YoY. The drop in sales was mainly due increased competition in the local auto market, especially among non-national marques, due to the influx of Chinese carmakers. Due to the less favourable sales mix, operating profit fell 49% YoY. As a result, 2QFY25 core net profit slipped 54% YoY, bringing 1HFY25 earnings to MYR110m (-42% YoY).
- **Outlook.** Management is cognisant of the challenging auto market due to the influx of Chinese carmakers. As heavy price discounting seems to be a popular strategy among the new entrants, we believe some consumers may postpone their purchases in anticipation of lower prices, and this would further destabilise the non-national marque segment. Regardless, we think BAUTO's volumes will still be mainly supported by its volume-heavy CKD models (CX5, CX30, and CX8), as well as the newly launched Kia Sportage. BAUTO's EV brands Xpeng and Deepal should also establish a stronger presence in the local EV market. However, we do not expect these EV marques to contribute significantly to BAUTO's overall sales volumes.
- **Forecasts.** We cut FY25, FY26, and FY27 earnings forecasts by 14%, 12%, and 10% as we lower our Mazda and KIA volume forecasts to better reflect its current sales performance in view of the intense competition, while we add Deepal's volume assumptions for FY26-27F. We also cut our FY25F DPS assumption to 20 sen from 23 sen, assuming a payout ratio of 88%.
- **Our new TP** is based on an unchanged 10x CY25F P/E with a 4% ESG premium. Given the share price correction (-13% YTD), we believe BAUTO is undervalued, as it is currently trading at 8x CY25F EPS, below its 9.1x historical mean. We believe BAUTO deserves a higher P/E considering the consistent new model launches in the pipeline, in addition to its above-sector-average dividend yield of c.10%.
- **Key downside risks** include softer-than-expected orders and deliveries, and resurgent supply chain constraints.

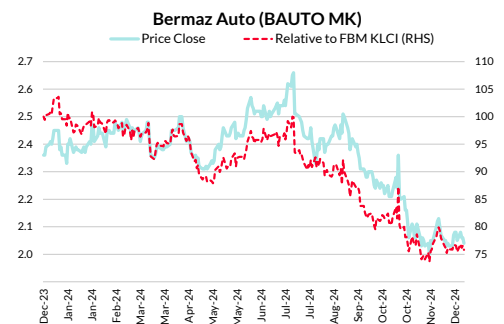
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.6)	2.0	(13.2)	(19.4)	(11.3)
Relative	(23.7)	2.4	(11.0)	(19.0)	(22.0)
52-wk Price low/high (MYR)				2.00	-2.66



Source: Bloomberg

Forecasts and Valuation	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
Total turnover (MYRm)	3,548	3,930	3,233	3,840	3,926
Recurring net profit (MYRm)	304	353	264	315	325
Recurring net profit growth (%)	95.8	16.3	(25.1)	19.0	3.3
Recurring P/E (x)	7.81	6.71	8.96	7.53	7.29
P/B (x)	3.1	2.9	2.8	2.7	2.6
P/CF (x)	20.64	12.12	5.79	9.47	7.32
Dividend Yield (%)	10.8	12.7	9.8	11.8	12.3
EV/EBITDA (x)	5.36	4.54	5.40	4.61	4.43
Return on average equity (%)	43.5	44.3	31.6	36.1	35.9
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	0.23	0.27	0.28
Consumer Cyclical	DPS	0.22	0.26	0.20	0.24	0.25
Bermaz Auto	BVPS	0.66	0.71	0.73	0.77	0.79
BAUTO MK	Return on average equity (%)	43.5	44.3	31.6	36.1	35.9
Buy						
	Valuation metrics	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
Valuation basis	Recurring P/E (x)	7.81	6.71	8.96	7.53	7.29
10x CY25F P/E	P/B (x)	3.1	2.9	2.8	2.7	2.6
	FCF Yield (%)	4.2	7.6	16.0	9.1	12.2
Key drivers	Dividend Yield (%)	10.8	12.7	9.8	11.8	12.3
i. Strong growth from Philippines;	EV/EBITDA (x)	5.36	4.54	5.40	4.61	4.43
ii. Better than expected consumer spending;	EV/EBIT (x)	5.69	4.82	5.76	4.92	4.73
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	3,233	3,840	3,926
i. Unfavourable FX movements;	Gross profit	591	679	517	614	628
ii. Disruption in product pipeline;	EBITDA	400	463	359	430	444
iii. Lacklustre consumer spending;	Depreciation and amortisation	(23)	(27)	(23)	(27)	(27)
iv. Slower-than-expected normalisation in demand post SST exemption at end 2021;	Operating profit	377	436	336	403	416
v. Sustained disruptions in semiconductor chip supply	Net interest	5	3	0	0	0
	Pre-tax profit	421	489	370	441	455
	Taxation	(94)	(111)	(89)	(106)	(109)
	Reported net profit	304	351	264	315	325
	Recurring net profit	304	353	264	315	325
Company Profile	Cash flow (MYRm)	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
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 distributes Mazda vehicles in the Philippines.	Change in working capital	(238)	(188)	139	(74)	(10)
	Cash flow from operations	115	196	409	250	324
	Capex	(15)	(15)	(30)	(35)	(35)
	Cash flow from investing activities	1	(8)	(22)	(27)	(27)
	Dividends paid	(256)	(300)	(232)	(279)	(291)
	Cash flow from financing activities	(269)	(361)	(253)	(287)	(299)
	Cash at beginning of period	172	89	59	194	130
	Net change in cash	(153)	(174)	134	(63)	(2)
	Ending balance cash	20	(85)	194	130	129
	Balance sheet (MYRm)	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
	Total cash and equivalents	89	59	194	130	129
	Tangible fixed assets	45	41	49	57	64
	Total investments	314	366	400	438	477
	Total assets	1,777	1,862	1,845	1,957	2,020
	Short-term debt	100	63	50	50	50
	Total liabilities	938	948	882	938	946
	Total equity	839	914	963	1,019	1,074
	Total liabilities & equity	1,777	1,862	1,845	1,957	2,020
	Key metrics	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
	Revenue growth (%)	52.7	10.8	(17.8)	18.8	2.2
	Recurrent EPS growth (%)	95.8	16.3	(25.1)	19.0	3.3
	Gross margin (%)	16.7	17.3	16.0	16.0	16.0
	Operating EBITDA margin (%)	11.3	11.8	11.1	11.2	11.3
	Net profit margin (%)	8.6	8.9	8.2	8.2	8.3
	Dividend payout ratio (%)	84.2	85.6	87.9	88.6	89.3
	Capex/sales (%)	0.4	0.4	0.9	0.9	0.9
	Interest cover (x)	40.7	58.8	42.0	50.4	52.0

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1H24	1H25	YoY (%)	Comments
Revenue	1,007.0	846.2	646.9	(23.6)	(35.8)	2,096.2	1,493.0	(28.8)	1HFY25 YoY decline was due to both Malaysia and the Philippines segments.
- Malaysia	918.0	760.8	575.8	(24.3)	(37.3)	1,906.9	1,336.6	(29.9)	
- Philippines	88.9	91.2	65.2	(28.5)	(26.7)	189.3	156.4	(17.4)	
EBIT	107.6	87.5	54.9	(37.3)	(49.0)	238.3	142.4	(40.2)	Weaker YoY likely due to less favourable product mix.
- Malaysia	91.7	68.9	45.6	(33.8)	(50.3)	210.2	115.7	(45.0)	
- Philippines	16.1	18.1	9.5	(47.6)	(41.1)	30.7	27.6	(9.9)	
Interest expense	(2.1)	(2.2)	(3.7)	68.9	76.9	(3.9)	(5.8)	49.5	
Interest income	2.9	1.9	2.4	26.0	(16.5)	6.1	4.4	(28.4)	
Associates	14.4	10.5	3.4	(67.6)	(76.4)	23.0	13.9	(39.7)	Largely driven by the decline in contributions from Mazda Malaysia.
Pre-tax profit	122.8	97.8	57.1	(41.6)	(53.6)	263.5	154.8	(41.2)	
Tax	(27.1)	(22.4)	(14.3)	(36.0)	(47.1)	(59.9)	(36.7)	(38.7)	
Minority interest	(5.6)	(5.2)	(2.4)	(54.2)	(58.0)	(13.3)	(7.5)	(43.5)	
Net profit	90.1	70.2	40.3	(42.5)	(55.2)	190.3	110.6	(41.9)	
Core profit	91.2	68.4	41.9	(38.7)	(54.0)	191.4	110.3	(42.4)	1HFY25 results missed our and Street expectations, at 36% of full-year estimates.
EBIT margin (%)	10.7	10.3	8.5			11.4	9.5		
Pre-tax margin (%)	12.2	11.6	8.8			12.6	10.4		
Effective tax rate (%)	(22.1)	(22.9)	(25.1)			(22.7)	(23.7)		
Net margin (%)	9.1	8.1	6.5			9.1	7.4		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1H24	1H25	YoY
Mazda 2	29	33	53	60.6	82.8	74	86	16.2
Mazda 3	328	339	255	(24.8)	(22.3)	1,211	594	(50.9)
Mazda 6	28	10	15	50.0	(46.4)	79	25	(68.4)
CX-3	500	241	66	(72.6)	(86.8)	1,064	307	(71.1)
CX-30	1,837	1,140	1,019	(10.6)	(44.5)	2,870	2,159	(24.8)
CX-5	1,583	1,698	1,270	(25.2)	(19.8)	3,295	2,968	(9.9)
MX-30	4	0	0	n.m.	n.m.	5	0	n.m.
CX-8	587	353	318	(9.9)	(45.8)	1,232	671	(45.5)
CX-9	3	7	7	0.0	133.3	7	14	100.0
MX-5	5	5	4	(20.0)	(20.0)	14	9	(35.7)
BT-50	14	25	0	n.m.	n.m.	66	25	n.m.
	4,918	3,851	3,007	(21.9)	(38.9)	9,917	6,858	(30.8)

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1H24	1H25	YoY
Mazda 2	8	6	14	133.3	75.0	14	20	42.9
Mazda 3	99	39	94	141.0	(5.1)	210	133	(36.7)
Mazda 6	6	6	6	0.0	0.0	10	12	20.0
CX-3	11	6	1	(83.3)	(90.9)	17	7	(58.8)
CX-30	29	9	17	88.9	(41.4)	64	26	(59.4)
CX-5	87	79	59	(25.3)	(32.2)	235	138	(41.3)
CX-8	97	72	81	12.5	(16.5)	232	153	(34.1)
CX-9	37	29	37	27.6	0.0	138	66	(52.2)
CX-60	32	169	72	(57.4)	125.0	85	241	183.5
CX-90	78	86	39	(54.7)	(50.0)	83	125	50.6
MX-5	54	30	27	(10.0)	(50.0)	114	57	(50.0)
BT-50	72	31	14	(54.8)	(80.6)	138	45	(67.4)
	610	562	461	(18.0)	(24.4)	1,340	1,023	(23.7)

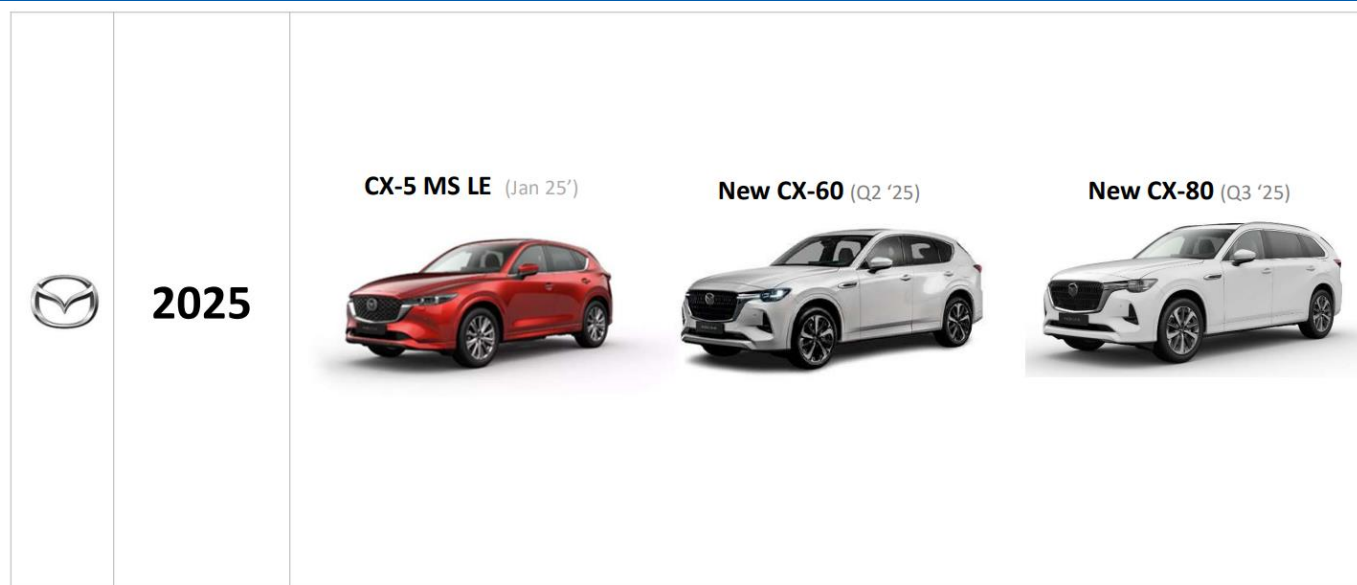
Source: Company data

Figure 4: Key assumptions

Sales (units)	FY22	FY23	FY24	FY25F	FY26F	FY27F
Malaysia – Mazda	12,038	15,598	18,600	13,100	13,500	14,000
Philippines – Mazda	1,304	1,663	2,500	2,000	2,100	2,100
Kia	360	2,194	1,851	1,825	4,050	4,000
XPeng	-	-	-	450	600	600
Deepal	-	-	-	-	600	600




Source: RHB

Figure 5: Line-up of Mazda models















Source: Company data

Figure 6: Line-up of Kia models

	<p>2025</p>	<p>All-New EV9 CBU (June 24')</p> 	<p>All-New Sportage CBU (Dec '24)</p> 
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Source: Company data

Figure 7: BAUTO's EV model line-up

	<p>New MX-30 EV</p> 		
	<p>New EV6 EV</p> 	<p>All-New EV9 EV (Jun 24')</p> 	
	<p>All-New G6 CBU (Aug 24')</p> 		<p>All-New G9 CBU (Q3 25')</p> 
	<p>Deepal S07 EV (Q3 25')</p> 	<p>Deepal S05 EV (Q4 25')</p> 	<p>Deepal E07 EV (Q4 25')</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).

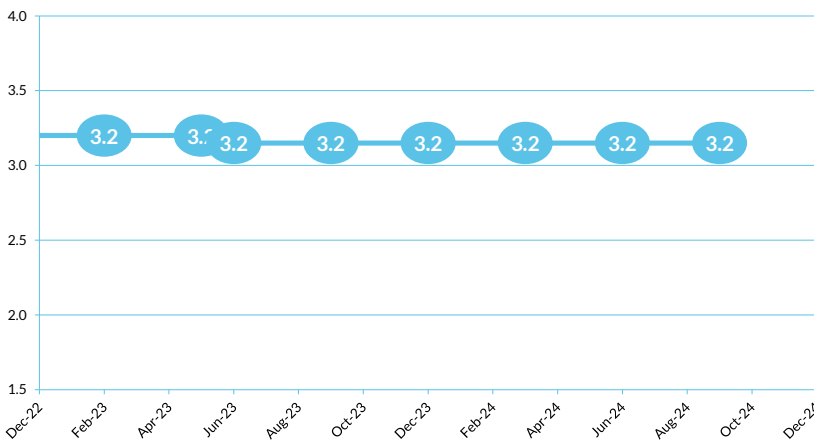
Emissions (tCO2e)	Apr-22	Apr-23	Apr-24
Scope 1	573	913	1,001
Scope 2	2,878	3,444	3,790
Scope 3	3	2,030	1,944
Total emissions	3,454	6,387	6,735

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
2024-09-12	Buy	3.05	2.35
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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