

14 June 2022

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (from Neutral)

Robust Demand Still Fuel Orders; U/G To BUY

Target Price (Return): MYR2.00 (12.4%)
 Price (Market Cap): MYR1.78 (USD468m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.46m/0.34m

- **U/G BUY from Neutral, new MYR2 TP from MYR1.74, 12% upside, 5.6% yield.** FY22 (Apr) results beat our and Street's expectations, mainly on stronger-than-expected margins and partially lifted by a higher CKD:CBU mix. Backlog orders remain very strong, with further upside from a potential extension of the Sales & Service Tax (SST)-holiday. We upgrade our call on Bermaz Auto's robust orders, growth in Peugeot and Kia, and attractive valuations. This report marks the transfer of coverage to Jim Lim.
- **FY22 earnings of MYR156m beat** our and Street's estimates by 20% and 18%. As revenue was in line, the deviation came from stronger-than-expected margins – lifted by seasonally strong 4Q margins. Its fourth interim DPS of 2 sen and special DPS of 2.5 sen brought FY22 DPS to 8.75 sen, above our 7 sen estimate.
- **Results review.** Core earnings rose 16% YoY, mainly lifted by the strong operating profit in Malaysia – lifted by a 1.5ppts expansion in PBT margins and partially fuelled by a higher proportion of CKD sales (86% of total Mazda sales vs the 3-year mean of 73%). QoQ, its strong car sales (+44%) in Malaysia lifted local revenues by 45% while the aforesaid seasonally stronger 4Q margins lifted EBIT by 120%. Peugeot and Kia continue to grow steadily, lifted by the Peugeot 2008, 3008, and 5008, and Kia Carnival.
- **Outlook.** We gathered that BAUTO will absorb the SST for orders placed before end June, fuelling an estimated 5-6 months of backlogs. Recall: 3QFY19 partially outperformed on a similar strategy. With such a strong backlog, management is not concerned over any cancellations post the SST exemption. As CBU supply remains tight, we expect the CKD:CBU ratio to remain at similar levels in the coming quarter or two. Although a higher CKD sales mix may marginally enhance margins, it reduces BAUTO's ability to reap the benefits from a weakening JPY/MYR, given that Mazda CBUs are purchased in JPY.
- **Forecast.** We lift FY23F-24F core earnings by 15-7% and introduce an FY25F core profit of MYR250m with an 18% YoY growth fuelled by the continued growth of Peugeot and Kia. The elevated earnings, coupled with a higher ascribed P/E of 13x from 12x, lifts our TP to MYR2. The higher valuation accounts for BAUTO's improving prospects and resilience against any softening demand/rising costs. Our TP includes an ESG premium of 2% for its above-median ESG score of 3.1 based on our proprietary in-house methodology. We raise FY23-24 DPS to 10-12 sen from 9-11 sen.
- **We like BAUTO** for its: i) Resiliency against any softening of demand post the SST exemption, ii) continued growth in Kia and Peugeot from new models/facelifts and EVs, and iii) attractive valuation of 11.2x FY23 P/E, which is at an unjustified 18% discount to the 5-year mean of 13.7x given its favourable prospects. Further upside could come from a potential SST exemption extension. Key risks include a strengthening JPY/MYR, softer-than-expected demand post SST exemption, and worse-than-expected component shortages.

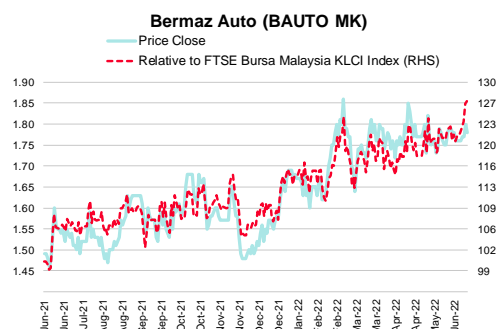
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.7	1.1	2.3	18.7	18.7
Relative	19.3	6.3	8.9	20.7	25.7
52-wk Price low/high (MYR)	1.46 – 1.86				



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-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Total turnover (MYRm)	2,288	2,325	2,828	3,209	3,640
Recurring net profit (MYRm)	134	156	181	212	250
Recurring net profit growth (%)	24.7	16.1	16.4	17.2	17.6
Recurring P/E (x)	15.41	13.28	11.41	9.73	8.27
P/B (x)	3.7	3.3	3.4	3.4	3.4
P/CF (x)	na	7.83	10.08	8.05	8.59
Dividend Yield (%)	3.7	4.9	5.6	6.7	7.3
EV/EBITDA (x)	12.43	7.56	7.70	6.31	5.39
Return on average equity (%)	25.0	31.3	29.3	35.2	41.3
Net debt to equity (%)	19.6	4.2	5.5	0.3	3.7

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-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Malaysia	Recurring EPS	0.12	0.13	0.16	0.18	0.22
Consumer Cyclical	DPS	0.07	0.09	0.10	0.12	0.13
Bermaz Auto	BVPS	0.49	0.55	0.52	0.52	0.52
BAUTO MK	Return on average equity (%)	25.0	31.3	29.3	35.2	41.3
Buy						
	Valuation metrics	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Recurring P/E (x)	15.41	13.28	11.41	9.73	8.27
	P/B (x)	3.7	3.3	3.4	3.4	3.4
	FCF Yield (%)	(2.0)	12.1	9.7	12.2	11.4
	Dividend Yield (%)	3.7	4.9	5.6	6.7	7.3
	EV/EBITDA (x)	12.43	7.56	7.70	6.31	5.39
	EV/EBIT (x)	12.90	7.94	8.16	6.66	5.68
	Income statement (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Total turnover	2,288	2,325	2,828	3,209	3,640
	Gross profit	294	383	393	448	508
	EBITDA	161	248	245	294	348
	Depreciation and amortisation	(6)	(12)	(14)	(16)	(18)
	Operating profit	155	236	231	278	330
	Net interest	(7)	(4)	(1)	2	2
	Pre-tax profit	168	250	260	312	366
	Taxation	(41)	(60)	(62)	(75)	(88)
	Reported net profit	130	187	181	212	250
	Recurring net profit	134	156	181	212	250
	Cash flow (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Change in working capital	264	59	(30)	(62)	(69)
	Cash flow from operations	(38)	264	205	257	241
	Capex	(4)	(15)	(5)	(5)	(5)
	Cash flow from investing activities	(4)	(23)	0	2	2
	Dividends paid	(37)	(102)	(117)	(139)	(151)
	Cash flow from financing activities	10	(101)	(157)	(127)	(139)
	Cash at beginning of period	100	86	171	113	148
	Net change in cash	(33)	140	48	132	104
	Ending balance cash	67	225	220	245	252
	Balance sheet (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Total cash and equivalents	86	171	113	148	125
	Tangible fixed assets	37	42	45	50	55
	Total investments	233	276	276	276	276
	Total assets	1,402	1,547	1,447	1,451	1,450
	Short-term debt	106	100	50	50	50
	Total long-term debt	100	100	100	100	100
	Total liabilities	790	859	786	789	786
	Total equity	612	688	661	663	664
	Total liabilities & equity	1,402	1,547	1,447	1,451	1,450
	Key metrics	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Revenue growth (%)	30.1	1.6	21.6	13.5	13.4
	Recurrent EPS growth (%)	24.8	16.1	16.4	17.2	17.6
	Gross margin (%)	12.9	16.5	13.9	14.0	14.0
	Operating EBITDA margin (%)	7.0	10.7	8.7	9.1	9.6
	Net profit margin (%)	5.7	8.1	6.4	6.6	6.9
	Dividend payout ratio (%)	58.3	54.6	64.3	65.4	60.4
	Capex/sales (%)	0.2	0.6	0.2	0.2	0.1
	Interest cover (x)	12.1	22.3	21.3	28.3	33.0

Source: Company data, RHB

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Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
Revenue	641.2	623.1	897.4	44.0	40.0	2,287.9	2,325.1	1.6	QoQ improvement was due to higher domestic sales of vehicles (+44% units sold).
- Malaysia	588.0	580.4	840.1	44.8	42.9	2,118.0	2,140.7	1.1	
- Philippines	53.2	42.8	57.3	33.9	7.6	169.9	184.4	8.5	
EBIT	71.5	44.6	106.8	139.4	49.4	159.6	199.4	25.0	QoQ and YoY EBIT growth due to higher margins.
- Malaysia	75.8	47.8	104.8	119.2	38.3	161.9	196.1	21.2	
- Philippines	(4.3)	0.7	1.1	55.8	nm	(2.3)	4.5	nm	
Interest expense	(3.1)	(2.6)	(2.8)	6.2	(9.3)	(12.8)	(10.6)	(17.5)	
Interest income	1.7	6.6	1.9	(70.8)	14.4	5.4	11.7	115.4	
Associates	13.4	6.6	9.5	44.6	(29.0)	20.5	18.1	(12.0)	
Pre-tax profit	83.5	55.1	115.4	109.4	38.3	172.7	218.6	26.6	
Tax	(17.6)	(12.4)	(34.6)	179.2	96.5	(41.1)	(59.7)	45.2	
Minority interest	1.0	(2.0)	(2.1)	6.5	nm	2.4	(3.1)	nm	
Net profit	66.8	40.7	78.7	93.3	17.8	133.9	155.7	16.3	
Core profit	66.8	40.7	78.7	93.3	17.8	133.9	155.7	16.3	Above our and Street's expectations.
<i>EBIT margin (%)</i>	11.2	7.2	11.9			7.0	8.6		Stronger margin QoQ, as 4Q tends to be seasonally stronger. Stronger YoY due to higher CKD:CBU mix.
<i>Pre-tax margin (%)</i>	13.0	8.8	12.9			7.5	9.4		
<i>Effective tax rate (%)</i>	(21.1)	(22.5)	(30.0)			(23.8)	(27.3)		
<i>Net margin (%)</i>	10.4	6.5	8.8			5.9	6.7		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY
Mazda 2	60	79	38	(51.9)	(36.7)	290	182	(37.2)
Mazda 3	414	76	152	100.0	(63.3)	1,223	817	(33.2)
Mazda 5	1	0	0	nm	nm	2	0	nm
Mazda 6	16	29	26	(10.3)	62.5	71	96	35.2
Biante	0	0	0	nm	nm	2	0	nm
CX-3	0	212	117	(44.8)	nm	235	657	179.6
CX-30	728	166	214	28.9	(70.6)	1,924	666	(65.4)
CX-5	1,987	2,074	3,455	66.6	73.9	7,814	7,929	1.5
MX-30	0	1	0	nm	nm	0	1	nm
CX-8	431	467	446	(4.5)	3.5	1,721	1,486	(13.7)
CX-9	11	17	9	(47.1)	(18.2)	112	42	(62.5)
MX-5	12	5	4	(20.0)	(66.7)	24	24	0.0
BT-50	0	43	90	109.3	nm	21	138	557.1
	3,660	3,169	4,551	43.6	24.3	13,439	12,038	(10.4)

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines








FYE April (units)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY
Mazda 2	29	27	15	(44.4)	(48.3)	67	42	(37.3)
Mazda 3	75	18	42	133.3	(44.0)	294	110	(62.6)
Mazda 6	9	1	2	100.0	(77.8)	24	8	(66.7)
CX-3	9	0	0	nm	nm	20	8	(60.0)
CX-30	42	25	17	(32.0)	(59.5)	117	91	(22.2)
CX-5	77	55	124	125.5	61.0	208	306	47.1
CX-8	73	67	102	52.2	39.7	132	274	107.6
CX-9	42	0	15	nm	(64.3)	124	121	(2.4)
MX-5	10	11	27	145.5	170.0	76	81	6.6
BT-50	66	132	94	(28.8)	42.4	181	263	45.3
	443	336	438	30.4	(1.1)	1,254	1,304	4.0

Source: Company data

Figure 4: Products pipeline

BAuto EV Model Lineup 2022



BAuto EV Model 2022	2022	
	Q3	Q4
		
		
		

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Source: Company

Figure 5: Key assumptions

Sales (Units)	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
Malaysia - Current	13,439	12,038	12,730	13,820	15,320
Malaysia - Previous			12,770	14,220	
Philippines	1,245	1,304	2,000	2,500	2,800
Peugeot		964	2,000	2,500	3,000
Kia		360	2,500	3,500	4,500
MYR/JPY100	3.91	3.68	3.74	3.74	3.74

Source: RHB

Recommendation Chart

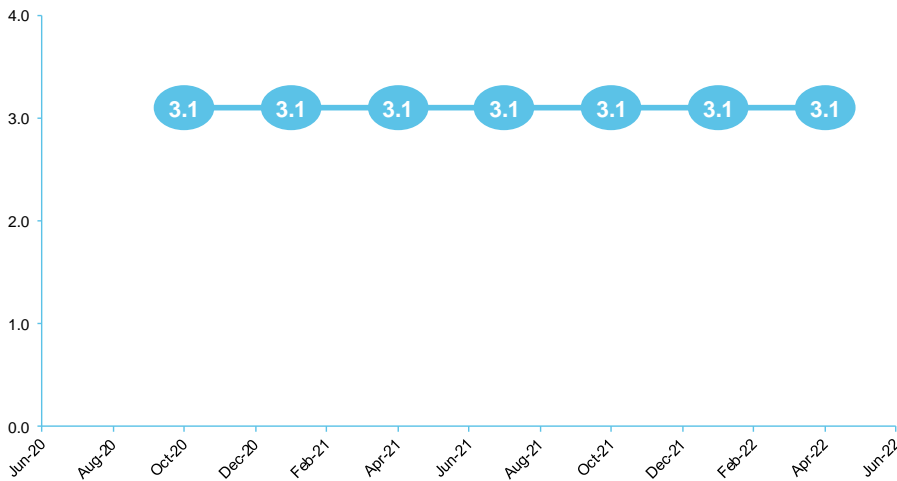


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-03-11	Neutral	1.74	1.74
2021-12-14	Buy	1.71	1.52
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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