

Bermaz Auto Berhad (BAUTO MK)

Everything everywhere all at once

U/G TP to MYR3.55

BAuto had a record-breaking 3QFY23; leading to an 8% upgrade in our earnings and TP. BAuto is our key pick for the sector. It has a profit-driven, cost-conscious mindset with arguably the highest EBIT/unit results in the industry. Its strong FCF/ net cash profile, dividend yield (9-11% yield; 75% DPR) and earnings growth profile (3-year NP CAGR of 31%) make BAuto a compelling BUY. Our TP is pegged to 14x FY23 PER.

A record-breaking 3QFY23

BAuto set several records in 3QFY23 - highest quarterly: (i) revenue (MYR976m), (ii) earnings (MYR88m) and (iii) vehicle sales (5.8k units) while sustaining its EBIT margin (11.8%). Its 9MFY23 core earnings of MYR205m (+159% YoY) accounted for 76% of our FY estimate. While the sequentially stronger vehicle sales (+23% QoQ) and sustained EBIT margin were expected, the higher associate profit from its 30% Mazda Malaysia S/B; +65% QoQ, was a positive surprise. It declared a 3rd interim DPS of 4.5 sen in 3Q23 (going ex on 17 Apr 2023); bringing its 9M23 DPS to 11 sen (62% DPR). BAuto retired its MYR100m ICP @ a 2.25% interest rate in 3Q23, which would see MYR5m in interest savings annually. It remained net cash, at MYR428m @ 37 sen/shr as at Jan 2023.

Will continue its record breaking streak

Our 8% earnings upgrade mainly reflects higher associate profits. Overall, the momentum (sales, margins, earnings) should continue over the next 15 months, for BAuto is committed to fulfill the 'SST-tax holidays orders' by end-Mar 2023. We expect Group's EBIT margin to sustain, for the SST burden (post Jun 2022) will be offset by lower A&P spending (rebates, discounts, marketing costs) and improved product mix (higher CKD sales vs. CBU). It has 2 months of order backlog and is averaging an impressive 1.5k-1.7k unit/ month of new bookings.

BAuto offers earnings growth and dividend yield

Our 75% DPR expectation for FY23-25 is reasonable (below FY15-20's 78%-114% payout), for BAuto is financially resilient. It is net cash, generates strong FCFs and has minimal capex needs. Also, BAuto's mid-term target of reaching 30k units of vehicle sales (Mazda, Kia & Peugeot), (from 14.6k units in FY22) is achievable as the franchise values for Kia & Peugeot improve over time.

FYE Apr (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,288	2,324	3,373	3,773	4,093
EBITDA	158	209	360	398	427
Core net profit	131	155	291	323	349
Core EPS (sen)	11.3	13.4	25.0	27.8	30.0
Core EPS growth (%)	25.1	18.7	87.5	10.8	8.2
Net DPS (sen)	6.5	8.8	18.8	20.8	22.6
Core P/E (x)	13.1	13.3	8.5	7.6	7.1
P/BV (x)	3.0	3.2	3.0	2.7	2.4
Net dividend yield (%)	4.4	4.9	8.9	9.8	10.6
ROAE (%)	25.9	25.9	39.9	36.8	35.6
ROAA (%)	9.7	10.5	17.5	17.4	17.2
EV/EBITDA (x)	8.9	7.7	5.4	4.8	4.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	200	212	256
MIBG vs. Consensus (%)	-	-	45.6	52.2	36.3

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BUY

Share Price	MYR 2.12
12m Price Target	MYR 3.55 (+67%)
Previous Price Target	MYR 3.30

Company Description

Franchise holders and sole distributors of: (i) Mazda, Peugeot and Kia vehicles in Malaysia and (ii) Mazda in the Philippines.

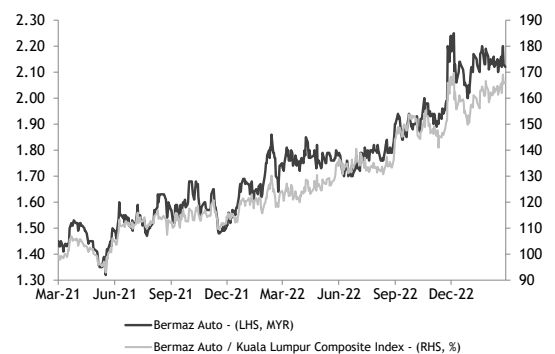
Statistics

52w high/low (MYR)	2.25/1.70
3m avg turnover (USDm)	1.1
Free float (%)	65.0
Issued shares (m)	1,167
Market capitalisation	MYR2.5B USD552M

Major shareholders:

Employees Provident Fund	14.9%
Dynamic Milestone Sdn. Bhd.	14.6%
Permodalan Nasional Bhd.	8.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(4)	22
Relative to index (%)	1	(1)	33

Source: FactSet

Bermaz Auto's results summary

FY Apr (MYR m)	Quarterly					Cumulative		
	3QFY4/23	3QFY4/22	%YoY	2QFY4/23	%QoQ	9M23	9M22	% YoY
Turnover	976.0	623.1	56.6	783.0	24.6	2,475.8	1,427.8	73.4
EBITDA	106.0	52.9	>100	86.5	22.6	268.5	108.6	>100
Interest expense	(2.7)	(2.6)	2.8	(2.2)	23.1	(7.4)	(7.8)	(4.7)
Associates	14.8	6.6	>100	9.3	59.5	28.0	8.6	>100
- MMSB (30%)	13.4	5.0	>100	8.1	65.1	24.4	3.2	>100
- Inokom (29%)	2.1	2.2	(7.4)	1.4	45.6	4.5	6.0	(24.2)
- Peugeot (20%)	(0.6)	0.0	NM	(0.3)	82.3	(0.8)	(0.7)	21.8
Exceptional items	(0.5)	(0.3)	78.5	0.1	>100	(1.5)	(2.2)	(28.3)
Pre-tax profit	115.5	55.1	>100	91.6	26.1	281.7	103.1	>100
Taxation	(23.3)	(12.4)	88.3	(20.8)	12.3	(62.1)	(25.2)	>100
Minority interest	(4.9)	(2.0)	>100	(5.1)	4.7	(16.5)	(1.0)	>100
Net profit	87.3	40.7	>100	65.7	32.9	203.1	77.0	>100
Core net profit	87.8	41.0	>100	65.5	33.9	204.7	79.2	>100
EBITDA margin (%)	10.9	8.5	2.4	11.0	(0.2)	10.8	7.6	3.2
Tax rate (%)	20.2	22.5	(2.3)	22.7	(2.5)	22.0	24.4	(2.4)
	3QFY4/23	3QFY4/22	%YoY	2QFY4/23	%QoQ	9M23	9M22	% YoY
Revenue	976.0	623.1	56.6	783.0	24.6	2,475.8	1,427.8	73.4
- Malaysia	927.7	580.4	59.8	730.7	27.0	2,316.3	1,300.6	78.1
- Philippines	48.3	42.8	13.0	52.3	(7.6)	159.5	127.1	25.4
EBIT	115.5	55.1	>100	91.6	26.1	281.7	103.1	>100
- Malaysia	89.9	48.7	84.6	77.6	15.8	230.6	95.1	>100
- Philippines	7.8	1.1	>100	5.8	33.4	21.1	3.4	>100
- Others	6.3	1.6	>100	0.9	>100	10.9	6.0	81.9
EBIT Margin %	11.8	8.8	3.0	11.7	0.1	11.4	7.2	4.2
- Malaysia	9.7	8.4	1.3	10.6	(0.9)	10.0	7.3	2.6
- Philippines	16.1	2.6	13.5	11.2	5.0	13.2	2.7	10.5
	3QFY4/23	3QFY4/22	%YoY	2QFY4/23	%QoQ	9M23	9M22	% YoY
Vehicle Unit Sales	5,796	3,945	46.9	4,729	22.6	14,855	8,926	66.4
- Mazda MY	4,453	3,169	40.5	3,332	33.6	10,771	7,487	43.9
- Mazda PH	350	336	4.2	387	(9.6)	1,159	866	33.8
- Peugeot	371	283	31.1	629	(41.0)	1,474	416	>100
- Kia	622	157	>100	381	63.3	1,451	157	>100

Source: Company, Maybank IBG Research

Mazda Malaysia S/B (MMSB)- Results summary (30%-owned)

FY Apr (MYR m)	Quarterly					Cumulative		
	3QFY4/23	3QFY4/22	%YoY	2QFY4/23	%QoQ	9M23	9M22	% YoY
PAT	45.8	14.2	>100	27.2	68.4	82.8	8.8	>100
No. of vehicles (unit)	4,732	2,766	71.1	3,625	30.5	10,569	6,536	61.7

Source: Company, Maybank IBG Research

Inokom - Results summary (29%-owned)

FY Apr (MYR m)	Quarterly					Cumulative		
	3QFY4/23	3QFY4/22	%YoY	2QFY4/23	%QoQ	9M23	9M22	% YoY
PAT	9.1	7.7	18.3	2.9	211.8	15.6	20.6	(24.2)
No. of vehicles (unit)	8,012	8,380	(4.4)	7,175	11.7	21,877	16,034	36.4

Source: Company, Maybank IBG Research

Bermaz Auto's vehicle sales by marques & models

FY Apr (MYR m)	Quarterly					Cumulative		
	3QFY4/23	3QFY4/22	%YoY	2QFY4/23	%QoQ	9M23	9M22	% YoY
<u>Mazda MY: (i) + (ii)</u>	4,453	3,169	40.5	3,332	33.6	10,771	7,487	43.9
<u>CBU (i)</u>								
- Mazda 2	56	79	(29.1)	102	(45.1)	238	144	65.3
- Mazda 3	8	76	(89.5)	81	(90.1)	203	663	(69.4)
- Mazda 5	0	0	NM	0	NM	0	0	NM
- Mazda 6	65	29	>100	76	(14.5)	162	70	100
- Biante	0	0	NM	0	NM	0	0	NM
- CX-3	362	212	70.8	0	NM	560	540	3.7
- CX-30	182	166	9.6	120	51.7	922	452	>100
- CX-5	0	0	NM	0	NM	0	0	NM
- MX-30	4	0	NM	0	NM	4	1	>100
- CX-8	0	0	NM	0	NM	0	0	NM
- CX-9	11	17	(35.3)	13	(15.4)	30	33	(9.1)
- MX-5	8	5	60.0	13	(38.5)	28	20	40.0
- BT-50	25	43	(41.9)	156	(84.0)	242	48	>100
<u>CKD (ii)</u>								
- Mazda 3	0	0	NM	0	NM	0	2	NM
- CX-5	2,763	2,074	33.2	2,212	24.9	6,486	4,474	45.0
- CX-8	969	467	>100	559	73.3	1,896	1,040	82.3
<u>Mazda PH CBU</u>	350	336	4.2	387	(9.6)	1,159	866	33.8
- Mazda 2	6	27	(77.8)	23	(73.9)	37	27	37.0
- Mazda 3	0	18	NM	21	NM	52	68	(23.5)
- Mazda 6	0	1	NM	0	NM	0	6	NM
- CX-3	4	0	NM	10	(60.0)	14	8	75.0
- CX-30	1	25	(96.0)	8	(87.5)	28	74	(62.2)
- CX-5	137	55	>100	109	25.7	322	182	76.9
- CX-8	42	67	(37.3)	19	>100	201	172	16.9
- CX-9	20	0	NM	57	(64.9)	108	106	1.9
- MX-5	51	11	>100	58	(12.1)	122	54	>100
- BT-50	89	132	(32.6)	82	8.5	275	169	62.7
<u>Peugeot</u>	371	416	(10.8)	629	(41.0)	1,474	416	>100
- '2008 (CKD)	144	57	>100	200	(28.0)	590	57	>100
- '3008 (CKD)	192	267	(28.1)	383	(49.9)	768	267	>100
- '5008 (CKD)	35	92	(62.0)	46	(23.9)	116	92	26.1
<u>Kia</u>	622	157	>100	381	63.3	1,451	157	>100
- Carnival (CBU)	377	157	>100	2	>100	642	157	>100
- EV6 (CBU)	35	0	NM	52	(32.7)	89	0	NM
- Carnival (CKD)	210	0	NM	327	(35.8)	720	0	NM

Source: Company, Maybank IBG Research

BAuto's auto stats (units)

FY Apr	2021	2022	2023F	2024F	2025F
Mazda					
- MY (100%)	13,439	12,038	14,000	15,500	16,500
- PH (60%)	1,245	1,304	2,000	2,100	2,150
Kia					
- MY (100%)		360	2,500	3,500	4,500
Peugeot					
- MY (55%)	242*	964	2,000	2,500	2,600

Note: *20% equity stake from Dec 2021 to Jun 2021

Source: Company, Maybank IBG Research

USD-MYR movement



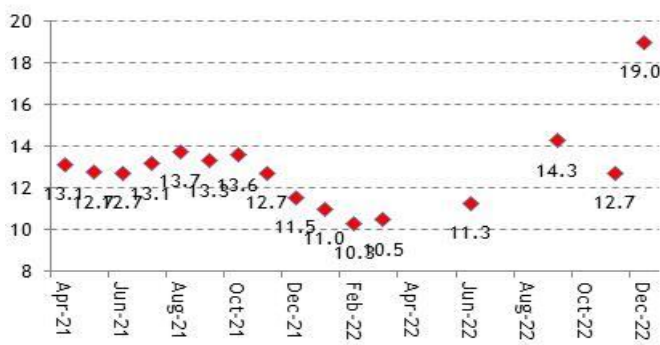
Source: Bloomberg, Maybank IBG Research

JPY-MYR movement



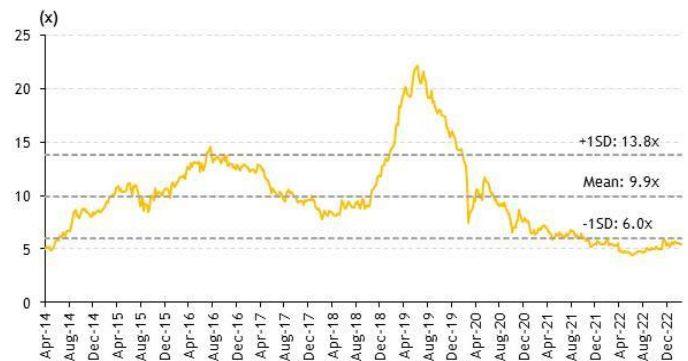
Source: Bloomberg, Maybank IBG Research

Foreign shareholding



Source: Company, Maybank IBG Research

1-year forward EV/ EBITDA



Source: Maybank IBG Research

FYE 30 Apr	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	12.1	12.0	8.5	7.6	7.1
Core P/E (x)	13.1	13.3	8.5	7.6	7.1
P/BV (x)	3.0	3.2	3.0	2.7	2.4
P/NTA (x)	3.0	3.2	3.0	2.7	2.4
Net dividend yield (%)	4.4	4.9	8.9	9.8	10.6
FCF yield (%)	26.3	13.6	8.4	10.8	11.8
EV/EBITDA (x)	8.9	7.7	5.4	4.8	4.4
EV/EBIT (x)	9.2	7.9	5.5	4.9	4.5

INCOME STATEMENT (MYR m)

Revenue	2,287.9	2,323.7	3,372.9	3,773.3	4,092.7
EBITDA	158.3	209.2	360.3	397.9	426.7
Depreciation	(4.9)	(5.4)	(8.0)	(8.0)	(8.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	153.4	203.8	352.3	389.9	418.7
Net interest income / (exp)	(8.0)	(4.0)	6.0	10.7	10.7
Associates & JV	20.5	18.1	48.6	54.0	60.4
Exceptionals	3.1	(0.1)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	168.9	217.7	407.0	454.6	489.8
Income tax	(40.0)	(59.7)	(93.2)	(109.1)	(117.6)
Minorities	4.9	(2.9)	(22.7)	(22.9)	(23.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	133.8	155.1	291.1	322.7	349.2
Core net profit	130.7	155.2	291.1	322.7	349.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	563.4	693.9	699.4	747.7	796.9
Accounts receivable	148.5	142.5	206.9	231.5	251.1
Inventory	277.8	230.4	334.4	374.1	405.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	37.2	41.6	45.6	49.6	53.6
Intangible assets	0.5	1.3	1.3	1.3	1.3
Investment in Associates & JVs	233.3	275.7	324.3	378.4	438.8
Other assets	141.1	162.3	162.3	162.3	162.3
Total assets	1,401.8	1,547.7	1,774.2	1,944.9	2,109.7
ST interest bearing debt	105.7	100.0	0.0	0.0	0.0
Accounts payable	247.6	253.0	367.3	410.9	445.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	99.8	99.8	100.0	100.0	100.0
Other liabilities	337.0	406.0	406.0	406.0	406.0
Total Liabilities	789.7	858.6	873.1	916.7	951.4
Shareholders Equity	565.4	634.3	823.7	927.9	1,034.9
Minority Interest	46.7	54.8	77.4	100.3	123.4
Total shareholder equity	612.1	689.1	901.2	1,028.2	1,158.3
Total liabilities and equity	1,401.8	1,547.7	1,774.2	1,944.9	2,109.7

CASH FLOW (MYR m)

Pretax profit	168.9	217.7	407.0	454.6	489.8
Depreciation & amortisation	4.9	5.4	8.0	8.0	8.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	278.0	72.2	(54.1)	(20.7)	(16.5)
Cash taxes paid	(40.0)	(59.7)	(93.2)	(109.1)	(117.6)
Other operating cash flow	43.2	55.5	(48.6)	(54.0)	(60.4)
Cash flow from operations	455.0	291.1	219.0	278.8	303.4
Capex	(3.6)	(10.6)	(12.0)	(12.0)	(12.0)
Free cash flow	451.4	280.5	207.0	266.8	291.4
Dividends paid	(37.2)	(78.4)	(101.7)	(218.5)	(242.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	67.7	(5.6)	(99.8)	0.0	0.0
Other invest/financing cash flow	(18.8)	(65.9)	0.0	0.0	0.0
Effect of exch rate changes	(1.1)	0.0	0.0	0.0	0.0
Net cash flow	462.1	130.6	5.5	48.3	49.2

FYE 30 Apr	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	30.3	1.6	45.2	11.9	8.5
EBITDA growth	36.0	32.2	72.3	10.4	7.2
EBIT growth	37.0	32.9	72.9	10.7	7.4
Pretax growth	28.0	28.8	87.0	11.7	7.7
Reported net profit growth	32.7	15.9	87.7	10.8	8.2
Core net profit growth	25.1	18.7	87.5	10.8	8.2
Profitability ratios (%)					
EBITDA margin	6.9	9.0	10.7	10.5	10.4
EBIT margin	6.7	8.8	10.4	10.3	10.2
Pretax profit margin	7.4	9.4	12.1	12.0	12.0
Payout ratio	56.4	65.6	75.1	75.1	75.1
DuPont analysis					
Net profit margin (%)	5.8	6.7	8.6	8.6	8.5
Revenue/Assets (x)	1.6	1.5	1.9	1.9	1.9
Assets/Equity (x)	2.5	2.4	2.2	2.1	2.0
ROAE (%)	25.9	25.9	39.9	36.8	35.6
ROAA (%)	9.7	10.5	17.5	17.4	17.2
Liquidity & Efficiency					
Cash conversion cycle	53.1	23.2	15.1	17.0	17.2
Days receivable outstanding	20.1	22.5	18.6	20.9	21.2
Days inventory outstanding	86.9	46.9	35.9	40.3	40.9
Days payables outstanding	53.9	46.2	39.5	44.2	44.9
Dividend cover (x)	1.8	1.5	1.3	1.3	1.3
Current ratio (x)	2.2	2.3	2.6	2.6	2.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	2.0	2.1	2.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	19.1	50.4	na	na	na
Debt/EBITDA (x)	1.3	1.0	0.3	0.3	0.2
Capex/revenue (%)	0.2	0.5	0.4	0.3	0.3
Net debt/ (net cash)	(357.9)	(494.1)	(599.4)	(647.7)	(696.9)

Source: Company; Maybank IBG Research

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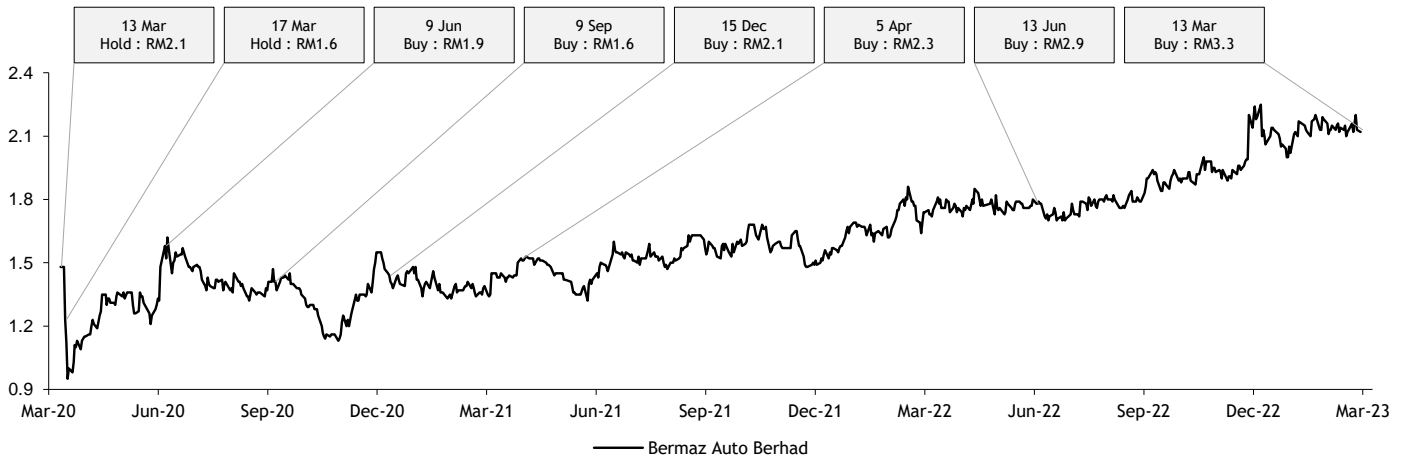
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