

12 June 2024

Consumer Cyclical | Auto & Autoparts

## Bermaz Auto (BAUTO MK)

**Buy** (Maintained)

### Another Record-High Year; Stay BUY

Target Price (Return):	MYR3.25 (27.9%)
Price (Market Cap):	MYR2.54 (USD629m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (MYR/USD)	6.39m/1.35m

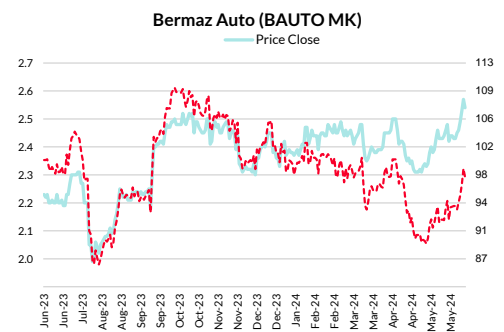
- **Keep BUY, new MYR3.25 TP from MYR3.35, 28% upside and c.9% yield.** FY24 (Apr) earnings met our and Street's expectations. Looking ahead, its volume-heavy CX-30 CKD should continue to provide support to Mazda sales on top of the newly launched CX-3 and CX-5 models, together with anticipated launch of all-new Kia Sportage and Xpeng G6. We favour Bermaz Auto for its resilient car sales and attractive c.9% FY24F yield.
- **In-line results.** 4QFY24's core profit of MYR91m brought FY24 core earnings to MYR353m, making up 103% and 106% of our and Street's full-year estimates – largely in line with expectations. Its 4QFY24 and special DPS of 4.75 sen and 7.0 sen brought FY24 DPS to 26 sen – slightly above our forecast of 25 sen.
- **Results highlights.** 4QFY24 revenue rose 5% QoQ, as sales volumes in both Malaysia and the Philippines rose 5% and 6% QoQ. Operating profit grew by a larger 27% QoQ, thanks to favourable product mix during the period, bringing its margin to 11.8% (3QFY24: 9.7%). As a result, core net profit climbed 30% QoQ, bringing FY24 earnings to MYR353.2m (+16.3% YoY). The record-high earnings achievement was also supported by higher associates' contributions in FY24 (+28% YoY).
- **Outlook.** While we believe BAUTO's sales volumes will soften in FY25, in line with expected TIV cyclical downturn, we think its car sales will remain relatively resilient. This is mainly supported by Mazda's newly launched CX-3 and CX-5 models earlier this year on top of robust CX-30 CKD sales, which on its own makes up more than 30% of total Mazda volume sold in Malaysia. Management is also hopeful on the anticipated launch of the all-new Kia Sportage this year-end, which will contribute to Kia's volume growth in FY25. Not only that, BAUTO's new marque under its umbrella (Xpeng) should help the group set its foothold in the local EV market. The impact of diesel subsidy rationalisation should not materially impact BAUTO's earnings as its exposure to diesel-powered vehicles is less than 5%.
- **Forecast.** We lift our FY24-25F earnings by 1-5% as we lift our sales volume assumptions to take into account the debut of Xpeng as well as the comeback of Kia Sportage to the local market. We also lift our FY25F DPS assumption to 23 sen from 22 sen, assuming a payout ratio of 84%, ie conservative relative to FY24's 86%.
- **Our new MYR3.25 TP is based on a rolled forward 11.5x FY25F P/E and 4% ESG premium.** Though the stock is currently trading at its historical mean of 9x FY25F EPS, we believe BAUTO deserves a higher PE considering its robust car sales due to consistent new model launches as well as attractive c.9% 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	7.6	6.7	3.7	8.5	13.9
Relative	(3.2)	6.0	(0.6)	(2.9)	(3.2)
52-wk Price low/high (MYR)				1.99	-2.57



Source: Bloomberg

Forecasts and Valuation	Apr-23	Apr-24	Apr-25F	Apr-26F	Apr-27F
Total turnover (MYRm)	3,548	3,930	3,787	4,234	4,214
Recurring net profit (MYRm)	304	353	318	363	362
Recurring net profit growth (%)	95.8	16.3	(10.1)	14.4	(0.3)
Recurring P/E (x)	9.72	8.36	9.30	8.12	8.15
P/B (x)	3.9	3.6	3.3	3.1	2.9
P/CF (x)	25.70	15.10	7.49	9.29	7.93
Dividend Yield (%)	8.7	10.2	8.7	10.2	10.2
EV/EBITDA (x)	7.74	5.79	5.94	5.15	5.06
Return on average equity (%)	36.6	44.3	37.3	39.8	37.2
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	0.22	0.26	0.26
<b>Bermaz Auto</b>	BVPS	0.66	0.71	0.76	0.81	0.86
BAUTO MK	Return on average equity (%)	36.6	44.3	37.3	39.8	37.2
Buy						
	<b>Valuation metrics</b>	<b>Apr-23</b>	<b>Apr-24</b>	<b>Apr-25F</b>	<b>Apr-26F</b>	<b>Apr-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	9.72	8.36	9.30	8.12	8.15
11.5x FY25F P/E	P/B (x)	3.9	3.6	3.3	3.1	2.9
	FCF Yield (%)	3.4	6.1	12.3	9.6	11.4
<b>Key drivers</b>	Dividend Yield (%)	8.7	10.2	8.7	10.2	10.2
i. Strong growth from the Philippines;	EV/EBITDA (x)	7.74	5.79	5.94	5.15	5.06
ii. Better than expected consumer spending;	EV/EBIT (x)	8.29	6.15	6.33	5.48	5.38
iii. New model launches.						
	<b>Income statement (MYRm)</b>	<b>Apr-23</b>	<b>Apr-24</b>	<b>Apr-25F</b>	<b>Apr-26F</b>	<b>Apr-27F</b>
<b>Key risks</b>	Total turnover	3,548	3,930	3,787	4,234	4,214
i. Unfavourable FX movements;	Gross profit	591	3,930	606	677	674
ii. Disruption in product pipeline;	EBITDA	352	463	430	495	493
iii. Lacklustre consumer spending;	Depreciation and amortisation	(23)	(27)	(27)	(30)	(29)
iv. Slower-than-expected normalisation in demand post SST exemption at end 2021;	Operating profit	329	436	403	466	464
v. Sustained disruptions in semiconductor chip supply	Net interest	5	3	0	0	0
	Pre-tax profit	373	489	449	514	513
	Taxation	(94)	(111)	(108)	(123)	(123)
	Reported net profit	255	351	318	363	362
	Recurring net profit	304	353	318	363	362
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Apr-23</b>	<b>Apr-24</b>	<b>Apr-25F</b>	<b>Apr-26F</b>	<b>Apr-27F</b>
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.	Change in working capital	(238)	(188)	72	(54)	2
	Cash flow from operations	115	196	394	318	372
	Capex	(15)	(15)	(30)	(35)	(35)
	Cash flow from investing activities	1	(8)	(22)	(27)	(27)
	Dividends paid	(256)	(300)	(256)	(302)	(302)
	Cash flow from financing activities	(269)	(361)	(276)	(310)	(310)
	Cash at beginning of period	172	89	59	155	135
	Net change in cash	(153)	(174)	96	(20)	35
	Ending balance cash	20	(85)	155	135	171
	<b>Balance sheet (MYRm)</b>	<b>Apr-23</b>	<b>Apr-24</b>	<b>Apr-25F</b>	<b>Apr-26F</b>	<b>Apr-27F</b>
	Total cash and equivalents	89	59	155	135	171
	Tangible fixed assets	45	41	45	50	56
	Total investments	314	366	412	460	510
	Total assets	1,777	1,862	1,933	2,062	2,148
	Short-term debt	100	63	50	50	50
	Total liabilities	938	948	933	974	972
	Total equity	839	914	1,000	1,088	1,176
	Total liabilities & equity	1,777	1,862	1,933	2,062	2,148
	<b>Key metrics</b>	<b>Apr-23</b>	<b>Apr-24</b>	<b>Apr-25F</b>	<b>Apr-26F</b>	<b>Apr-27F</b>
	Revenue growth (%)	52.7	10.8	(3.6)	11.8	(0.5)
	Recurrent EPS growth (%)	95.8	16.3	(10.1)	14.4	(0.3)
	Gross margin (%)	16.7	100.0	16.0	16.0	16.0
	Operating EBITDA margin (%)	9.9	11.8	11.4	11.7	11.7
	Net profit margin (%)	7.2	8.9	8.4	8.6	8.6
	Dividend payout ratio (%)	100.1	85.6	80.5	83.2	83.4
	Capex/sales (%)	0.4	0.4	0.8	0.8	0.8
	Interest cover (x)	35.5	58.8	50.4	58.2	57.9

Source: Company data, RHB

## Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
<b>Revenue</b>	<b>1,072.4</b>	<b>896.5</b>	<b>937.5</b>	<b>4.6</b>	<b>(12.6)</b>	<b>3,548.2</b>	<b>3,930.3</b>	<b>10.8</b>	FY24 YoY growth was driven by both the Malaysia and Philippines segments.
- Malaysia	1,000.5	805.8	841.7	4.5	(15.9)	3,316.8	3,554.4	7.2	
- Philippines	71.9	90.7	95.9	5.7	33.4	231.4	375.9	62.5	
<b>EBIT</b>	<b>126.5</b>	<b>87.1</b>	<b>110.7</b>	<b>27.1</b>	<b>(12.5)</b>	<b>376.8</b>	<b>436.1</b>	<b>15.7</b>	Strong YoY improvement on the back of more favourable product mix.
- Malaysia	120.1	74.3	101.3	36.3	(15.7)	354.3	383.0	8.1	
- Philippines	8.5	13.3	13.4	1.0	58.4	28.5	57.4	101.4	
Interest expense	(1.8)	(1.8)	(1.7)	(4.4)	(6.6)	(9.3)	(7.4)	(19.9)	
Interest income	4.0	2.3	2.1	(11.9)	(48.5)	14.6	10.5	(28.5)	
Associates	10.9	7.5	19.6	162.4	78.9	39.0	50.0	28.3	Strong YoY improvements were largely driven by Mazda Malaysia.
<b>Pre-tax profit</b>	<b>139.5</b>	<b>95.1</b>	<b>130.6</b>	<b>37.3</b>	<b>(6.4)</b>	<b>421.2</b>	<b>489.1</b>	<b>16.1</b>	
Tax	(31.9)	(20.5)	(31.0)	50.8	(2.9)	(94.0)	(111.4)	18.5	
Minority interest	(7.0)	(4.0)	(9.4)	132.7	33.9	(23.5)	(26.7)	13.7	
<b>Net profit</b>	<b>100.6</b>	<b>70.5</b>	<b>90.2</b>	<b>28.0</b>	<b>(10.3)</b>	<b>303.7</b>	<b>351.0</b>	<b>15.6</b>	
<b>Core profit</b>	<b>100.6</b>	<b>70.4</b>	<b>91.4</b>	<b>29.8</b>	<b>(9.2)</b>	<b>303.7</b>	<b>353.2</b>	<b>16.3</b>	FY24 results are in line with our and Street's estimates at 103 and 106%.
EBIT margin (%)	11.8	9.7	11.8			10.6	11.1		
Pre-tax margin (%)	13.0	10.6	13.9			11.9	12.4		
Effective tax rate (%)	(22.9)	(21.6)	(23.7)			(22.3)	(22.8)		
Net margin (%)	9.4	7.9	9.7			8.6	9.0		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Mazda 2	46	49	27	(44.9)	(41.3)	284	150	(47.2)
Mazda 3	314	150	274	82.7	(12.7)	517	1,635	216.2
Mazda 6	11	16	17	6.3	54.5	173	112	(35.3)
CX-3	606	276	254	(8.0)	(58.1)	1,166	1,594	36.7
CX-30	1,567	1,691	1,274	(24.7)	(18.7)	2,489	5,835	134.4
CX-5	1,540	1,616	1,878	16.2	21.9	8,026	6,789	(15.4)
MX-30	0	0	0	-	-	4	5	25.0
CX-8	695	441	466	5.7	(32.9)	2,591	2,139	(17.4)
CX-9	13	2	4	100.0	(69.2)	43	13	(69.8)
MX-5	4	5	6	20.0	50.0	32	25	(21.9)
BT-50	31	21	10	(52.4)	(67.7)	273	97	(64.5)
	<b>4,827</b>	<b>4,267</b>	<b>4,210</b>	<b>(1.3)</b>	<b>(12.8)</b>	<b>15,598</b>	<b>18,394</b>	<b>17.9</b>

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Mazda 2	17	5	7	40.0	(58.8)	54	26	(51.9)
Mazda 3	50	57	66	15.8	32.0	102	333	226.5
Mazda 6	2	6	5	(16.7)	150.0	2	21	950.0
CX-3	19	6	5	(16.7)	(73.7)	33	28	(15.2)
CX-30	11	9	28	211.1	154.5	39	101	159.0
CX-5	57	75	92	22.7	61.4	379	402	6.1
CX-8	58	57	61	7.0	5.2	259	350	35.1
CX-9	91	15	30	100.0	(67.0)	199	183	(8.0)
CX-60	0	130	106	(18.5)	n.m.	0	321	n.m.
CX-90	0	68	51	(25.0)	n.m.	0	202	n.m.
MX-5	121	25	52	108.0	(57.0)	243	191	(21.4)
BT-50	97	153	134	(12.4)	38.1	372	425	14.2
	523	606	637	5.1	21.8	1,682	2,583	53.6

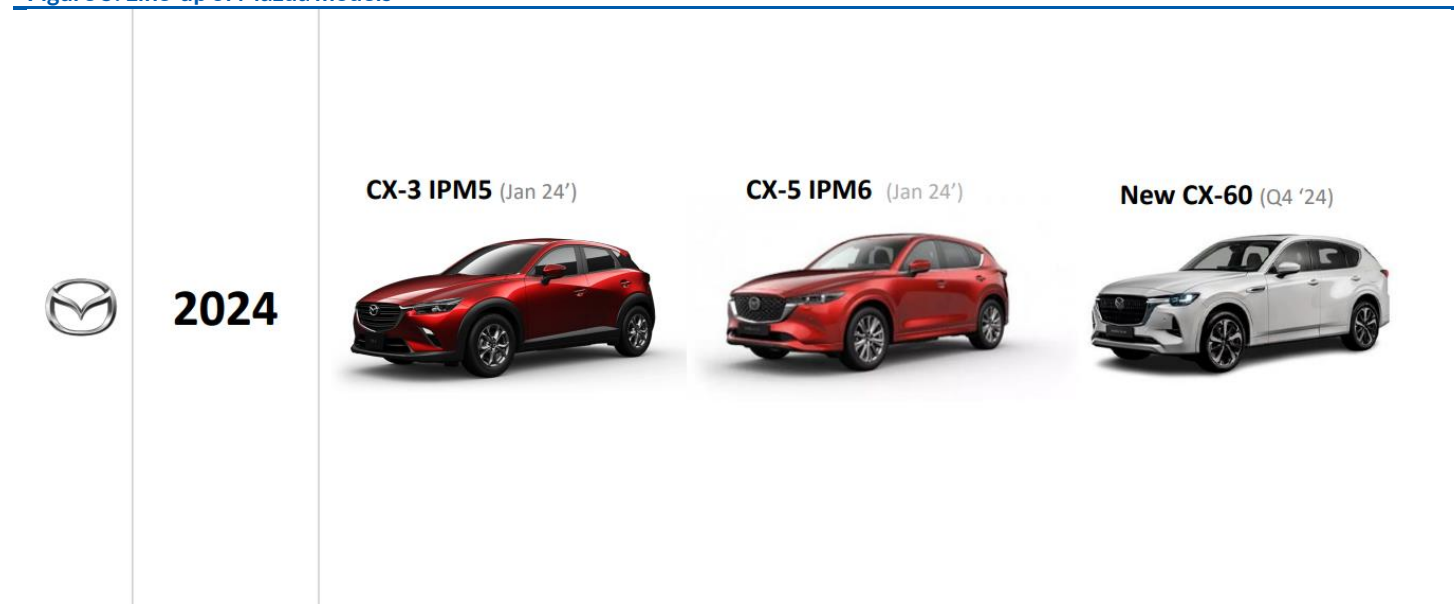
Source: Company data

Figure 4: Key assumptions

Sales (Units)	FY22	FY23	FY24	FY25F	FY26F	FY27F
Malaysia – Mazda	12,038	15,598	18,600	16,000	16,100	16,100
Philippines – Mazda	1,304	1,663	2,500	2,400	2,500	2,500
Kia	360	2,194	1,900	3,100	4,850	4,750
XPeng	-	-	-	450	600	600




Source: RHB

Figure 5: Line-up of Mazda models










Source: Company data

Figure 6: Line-up of Kia models

	<p>2024</p>	<p>All-New EV9 CBU (June 24')</p> 	<p>All-New Sportage CBU (Q4 '24)</p> 
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Source: Company data

Figure 7: BAUTO's EV model line-up

		Line-Up CY 2024	
		<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> 		

Source: Company data

## Emissions And ESG

### Trend analysis

In FY23, Scope 1 emissions increased to 915 tonnes of CO2 equivalents (FY22: 574 tonnes of CO2 equivalents) while Scope 2 emissions increased to 2,672 tonnes of CO2 equivalents (FY22: 2,231 tonnes of CO2 equivalents).

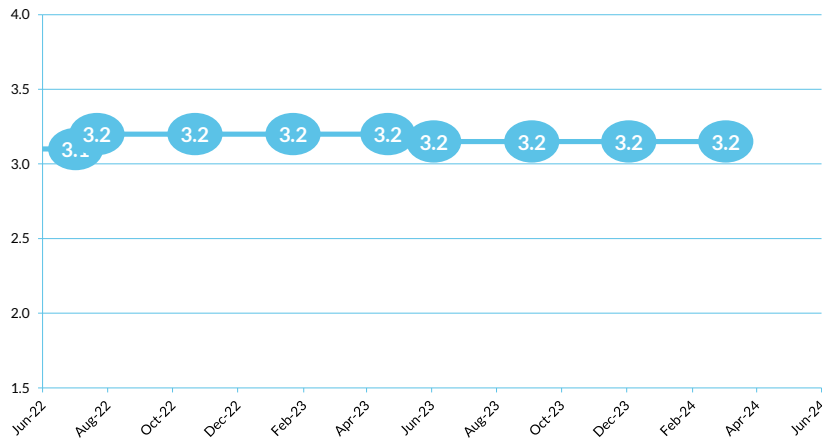
Emissions (tCO2e)	Apr-22	Apr-23	Apr-24
Scope 1	574	915	na
Scope 2	2,231	2,672	na
Scope 3	3	2,030	na
Total emissions	2,808	5,617	na

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
2024-03-14	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
2021-09-06	Neutral	1.77	1.61

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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