

9 December 2022

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Buy (Maintained)

An Exciting 2023 Ahead; Stay BUY

Target Price (Return): MYR2.55 (28.1%)
 Price (Market Cap): MYR1.99 (USD526m)
 ESG score: 3.20 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.69m/0.81m

- Maintain BUY with higher MYR2.55 TP from MYR2.35, 28% upside and 7.5% yield.** Bermaz Auto's 1HFY23 (Apr) earnings exceeded our estimates, contributed by a favourable sales mix and a large associate contribution, which partially benefited from a weakening JPY/MYR. With new models lined-up across all three marques in 2023, BAUTO's growth prospects remain exciting.
- Above expectations.** 2QFY23 core earnings of MYR65.7m brought 1HFY23 earnings to MYR116m, above our and Street's expectations at 58% and 62%, respectively. As revenue was in-line, the deviation from our estimates was mainly due to the higher-than-expected margins, contributed by favourable sales mix and partially from its associates benefiting from a weaker JPY/MYR. 2QFY23 DPS of 3.5 sen brought 1HFY23 DPS to 6.5 sen, within our FY23 estimate of 13 sen.
- Results review.** 2QFY23 revenue rose 9%, mainly lifted 12% QoQ by an increase in Malaysian unit sales. Due to favourable sales mix, its operating margins rose 16% QoQ. Further supported by greater associate contribution and lower effective tax rate, core net profit rose 31% QoQ. Notably, sales of CKD Kia Carnival grew 79% as production continues to be ramped up. Kia EV6 continues to gain traction, with corporate buyers buying for their EV fleets. While BAUTO has launched the MX-30 (its first Mazda EV) in June 2022, it has yet to register any sales, as shipments are only arriving in 3QFY23.
- Outlook.** Currently BAUTO's order backlog remains healthy, with more than half of existing Mazda orders made after 1 Jul 2022 (when purchases were no longer sales tax-exempt). All three marques will also see new models in 2023. The CKD variant of the Mazda CX-30 will be launched in 1QCY23. Currently, CBU CX-30 contributes anywhere from 4% to 21% of total unit sales. With the CKD variant, we think CX-30 could see greater and more steady volumes. 1QCY23 will also see two new models from Peugeot being launched – the new Landtrek and e-2008, BAUTO's first Peugeot EV. Under the Kia brand, there will also the launch of the all-new Sorento in 1QCY23 and all-new Sportage in 4QCY23.
- We increase our FY23F by 10%,** as we increase our FY22 Peugeot sales assumption and adjust our margin assumption to reflect the favourable YTD sales mix. We maintain our FY23F-FY25F DPS of 13-16 sen, conservatively assuming a payout ratio of <80% (pre-pandemic >80%, suggesting more upside to our estimates).
- Maintain BUY,** with a higher TP of MYR2.55 (from MYR2.35) as we roll forward our valuation to FY24F using an unchanged 13x P/E. Our TP includes a 4% ESG premium. We continue to like BAUTO for its 7.5% FY24F yield, and the growth of its Peugeot and Kia brands. Key downside risks include a strengthening JPY/MYR rate, poorer-than-expected car sales, and worse-than-expected component shortages.

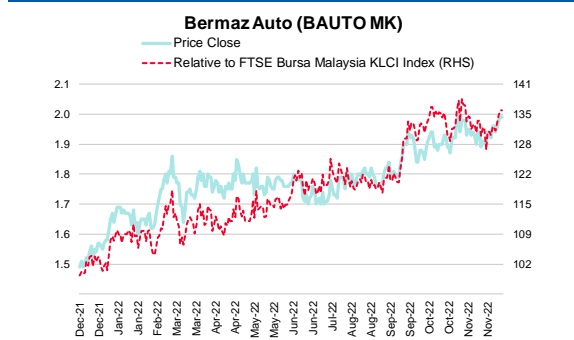
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	25.9	3.1	11.2	12.4	33.6
Relative	32.4	1.4	13.1	16.2	35.5
52-wk Price low/high (MYR)				1.49 – 2.00	



Source: Bloomberg

Forecasts and Valuation	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Total turnover (MYRm)	2,288	2,325	3,284	3,667	4,186
Recurring net profit (MYRm)	134	156	221	218	247
Recurring net profit growth (%)	24.7	16.1	42.1	(1.4)	13.2
Recurring P/E (x)	17.24	14.85	10.45	10.60	9.37
P/B (x)	4.1	3.7	3.8	3.8	3.8
P/CF (x)	na	9.60	9.79	8.41	9.47
Dividend Yield (%)	3.3	4.4	6.5	7.5	8.0
EV/EBITDA (x)	13.57	9.43	6.63	6.70	5.96
Return on average equity (%)	25.9	26.0	35.8	36.1	40.8
Net debt to equity (%)	19.6	4.2	9.2	4.6	9.8

Source: Company data, RHB

Overall ESG Score: 3.20 (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-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Malaysia	Recurring EPS	0.12	0.13	0.19	0.19	0.21
Consumer Cyclical	DPS	0.07	0.09	0.13	0.15	0.16
Bermaz Auto	BVPS	0.49	0.54	0.52	0.52	0.52
BAUTO MK	Return on average equity (%)	25.9	26.0	35.8	36.1	40.8
Buy						
	Valuation metrics	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Valuation basis	Recurring P/E (x)	17.24	14.85	10.45	10.60	9.37
13x FY24F P/E	P/B (x)	4.1	3.7	3.8	3.8	3.8
	FCF Yield (%)	(1.6)	9.8	10.0	11.7	10.3
Key drivers	Dividend Yield (%)	3.3	4.4	6.5	7.5	8.0
i. Strong growth from Philippines;	EV/EBITDA (x)	13.57	9.43	6.63	6.70	5.96
ii. Better than expected consumer spending;	EV/EBIT (x)	14.07	10.37	7.29	7.47	6.66
iii. New model launches.						
	Income statement (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Key risks	Total turnover	2,288	2,325	3,284	3,667	4,186
i. Unfavourable FX movements;	Gross profit	294	307	460	495	565
ii. Disruption in product pipeline;	EBITDA	165	225	325	317	362
iii. Lacklustre consumer spending;	Depreciation and amortisation	(6)	(20)	(30)	(33)	(38)
iv. Slower-than-expected normalisation in demand	Operating profit	160	204	296	284	325
post SST exemption at end 2021;	Net interest	(7)	(4)	(1)	2	2
v. Sustained disruptions in semiconductor chip	Pre-tax profit	173	219	325	319	362
supply	Taxation	(41)	(60)	(87)	(77)	(87)
	Reported net profit	134	156	221	218	247
Company Profile	Recurring net profit	134	156	221	218	247
BAUTO is involved in the distribution, assembling,						
retailing and also the provision of after sales service of	Cash flow (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
Mazda vehicles in Malaysia. The group is also involved	Change in working capital	264	59	(55)	(66)	(81)
in the domestic distribution of locally assembled Mazda	Cash flow from operations	(34)	241	236	275	244
vehicles and the export of the locally assembled Mazda	Capex	(4)	(15)	(5)	(5)	(5)
vehicles. Its subsidiary Bermaz Auto Philippines	Cash flow from investing activities	(4)	(23)	0	2	2
distributes Mazda vehicles in the Philippines.	Dividends paid	(37)	(102)	(151)	(174)	(186)
	Cash flow from financing activities	10	(101)	(191)	(162)	(174)
	Cash at beginning of period	100	86	171	89	120
	Net change in cash	(28)	117	45	115	72
	Ending balance cash	72	203	216	203	192
	Balance sheet (MYRm)	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Total cash and equivalents	86	171	89	120	85
	Tangible fixed assets	37	42	45	50	55
	Total investments	233	276	276	276	276
	Total assets	1,402	1,547	1,495	1,496	1,497
	Short-term debt	106	100	50	50	50
	Total long-term debt	100	100	100	100	100
	Total liabilities	790	859	834	834	833
	Total equity	612	688	661	663	664
	Total liabilities & equity	1,402	1,547	1,495	1,496	1,497
	Key metrics	Apr-21	Apr-22	Apr-23F	Apr-24F	Apr-25F
	Revenue growth (%)	30.1	1.6	41.2	11.7	14.2
	Recurrent EPS growth (%)	24.7	16.1	42.1	(1.4)	13.2
	Gross margin (%)	12.9	13.2	14.0	13.5	13.5
	Operating EBITDA margin (%)	7.2	9.7	9.9	8.7	8.7
	Net profit margin (%)	5.9	6.7	6.7	5.9	5.9
	Dividend payout ratio (%)	56.3	65.3	68.3	79.9	75.3
	Capex/sales (%)	0.2	0.6	0.2	0.1	0.1
	Interest cover (x)	12.5	19.3	27.3	29.0	32.5

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	Comments
Revenue	483.8	716.9	783.0	9.2	61.8	804.6	1,499.8	86.4	QoQ growth mainly driven by volume growth from Malaysia. YoY growth as 1HFY22 saw COVID-19 restrictions.
- Malaysia	449.6	658.0	730.7	11.0	62.5	720.3	1,388.7	92.8	
- Philippines	34.2	58.9	52.3	(11.2)	52.9	84.4	111.2	31.8	
EBIT	31.7	70.2	81.2	15.7	156.4	48.0	151.4	215.5	QoQ improvement due to favourable sales mix.
- Malaysia	30.5	63.9	76.8	20.2	151.7	46.4	140.7	203.1	
- Philippines	1.2	7.1	6.2	(12.0)	439.0	2.3	13.3	485.9	
Interest expense	(2.4)	(2.5)	(2.2)	(13.3)	(7.5)	(5.2)	(4.7)	(8.5)	
Interest income	1.3	2.9	3.3	15.3	149.7	3.2	6.2	93.9	
Associates	2.9	4.0	9.3	130.2	217.4	2.0	13.3	564.1	Strong QoQ growth partially driven by a weakening of JPY/MYR.
Pre-tax profit	33.5	74.6	91.6	22.8	173.0	48.0	166.2	246.0	
Tax	(8.6)	(18.0)	(20.8)	15.8	140.9	(12.8)	(38.7)	203.4	
Minority interest	1.1	(6.5)	(5.1)	(20.5)	N.M.	1.0	(11.6)	N.M.	
Net profit	26.0	50.2	65.7	30.9	152.2	36.3	115.8	219.0	
Core profit	26.0	50.2	65.7	30.9	152.1	36.3	115.8	219.0	Above our and Street's estimates.
<i>EBIT margin (%)</i>	6.5	9.8	10.4			6.0	10.1		
<i>Pre-tax margin (%)</i>	6.9	10.4	11.7			6.0	11.1		
<i>Effective tax rate (%)</i>	(25.7)	(24.1)	(22.7)			(26.6)	(23.3)		
<i>Net margin (%)</i>	5.4	7.0	8.4			4.5	7.7		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1H22	1H23	YoY
Mazda 2	39	80	102	27.5	161.5	65	182	180.0
Mazda 3	371	114	81	(28.9)	(78.2)	589	195	(66.9)
Mazda 6	37	21	76	261.9	105.4	41	97	136.6
CX-3	328	198	0	N.M.	N.M.	328	198	(39.6)
CX-30	126	620	120	(80.6)	(4.8)	286	740	158.7
CX-5	1,437	1,511	2,212	46.4	53.9	2,400	3,723	55.1
MX-30	0	0	0	N.M.	N.M.	0	0	N.M.
CX-8	334	368	559	51.9	67.4	573	927	61.8
CX-9	13	6	13	116.7	0.0	16	19	18.8
MX-5	12	7	13	85.7	8.3	15	20	33.3
BT-50	2	61	156	155.7	7,700.0	5	217	4,240.0
	2,699	2,986	3,332	11.6	23.5	4,318	6,318	46.3

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE April (units)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1H22	1H23	YoY
Mazda 2	0	8	23	187.5	N.M.	0	31	N.M.
Mazda 3	18	31	21	(32.3)	16.7	50	52	4.0
Mazda 6	2	0	0	N.M.	N.M.	5	0	N.M.
CX-3	0	0	10	N.M.	N.M.	8	10	25.0
CX-30	13	19	8	(57.9)	(38.5)	49	27	(44.9)
CX-5	65	76	109	43.4	67.7	127	185	45.7
CX-8	52	140	19	(86.4)	(63.5)	105	159	51.4
CX-9	34	31	57	83.9	67.6	106	88	(17.0)
MX-5	26	13	58	346.2	123.1	43	71	65.1
BT-50	5	104	82	(21.2)	1,540.0	37	186	402.7
	215	422	387	(8.3)	80.0	530	809	52.6

Source: Company data

Figure 4: Key assumptions

Sales (Units)	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
Malaysia – Mazda	13,439	12,038	13,500	13,700	14,500
Philippines – Mazda	1,245	1,304	2,000	2,500	2,800
Peugeot		964	2,200	2,500	3,000
Kia		360	2,000	3,000	4,000

Source: RHB

Figure 5: Line-up of Mazda models

Mazda Model Lineup 2023



2021	CX-9 IPM4 (Aug'21)	Mazda2 IPM5 (Dec'21)	All-New BT-50 (Dec'21)
2022	CX-3 IPM4 (Jan'22)	MX-5 IPM5 (Feb'22)	Mazda3 IPM2 (Feb'22)
	CX-8 IPM3 (June '22)	New MX-30 EV (June'22)	CX-30 IPM2 (Feb'22)
2023	CX-30 CKD (Q1 '23)		

Source: Company

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Figure 6: Line-up of Peugeot models

Peugeot Product Map



	2021	New 3008 (Nov'21) 	New 5008 (Nov'21)
	2022	All-New 2008 (Jan'22) 	
	2023	New Landtrek (Q1'23) 	New e-2008 EV (Q1'23)

65

Source: Company

Figure 7: Line-up of Kia models

KIA Product Map



	2021	All-New Carnival (Dec'21) 	
	2022	Carnival CKD (July '22) 	New EV6 EV (June '22)
	2023	All-New Sorento (Q1'23) 	All-New Sportage (Q4'23)








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Source: Company

Figure 8: BAUTO's EV model line-up

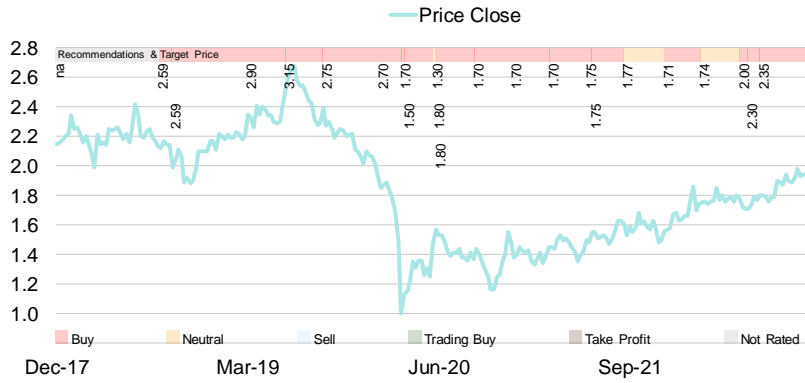
BAuto EV Model Line-up 2023



	Q3/Q4 2022	Q1 2023	TBA
	<p>New MX-30 EV (June'22)</p> 		
		<p>New e-2008 EV (Q1'23)</p> 	
	<p>New EV6 EV (June '22)</p> 		<p>New PBV1 EV (TBA)</p> 

Source: Company

Recommendation Chart

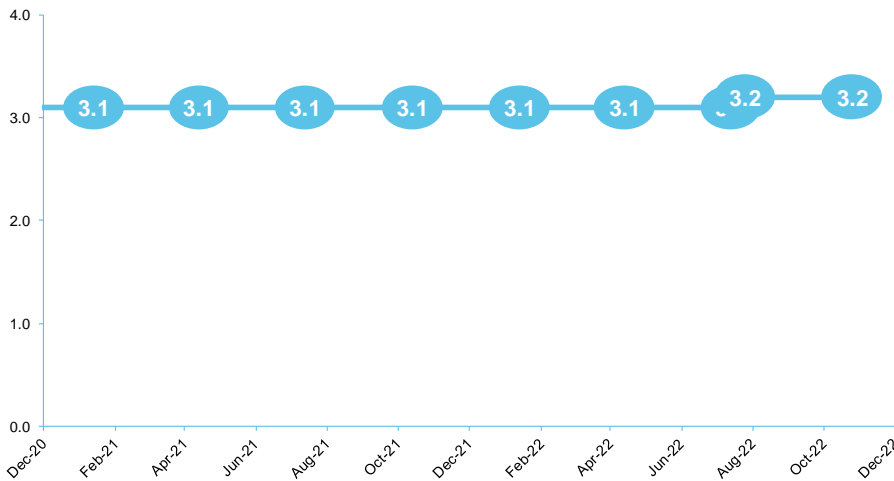


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-06-21	Buy	1.75	1.54
2021-06-09	Buy	1.75	1.43
2021-03-11	Buy	1.70	1.45
2020-12-11	Buy	1.70	1.47
2020-09-11	Buy	1.70	1.37
2020-06-11	Buy	1.80	1.62
2020-06-08	Buy	1.80	1.48

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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