

28 May 2024

Consumer Cyclical | Auto & Autoparts

MBM Resources (MBM MK)

Neutral (Maintained)

Stronger Than Expected

Target Price (Return): MYR4.70 (-7%)
Price (Market Cap): MYR5.05 (USD419m)
ESG score: 2.8 (out of 4)
Avg Daily Turnover (MYR/USD) 2.44m/0.50m

- **Maintain NEUTRAL, new MYR4.70 TP from MYR4.10, 7% downside.** 1Q24 earnings outperformed our and Street estimates due to stronger-than-expected associates' contributions. As MBM Resources' share price has gone up by >20% YTD, we believe the strong Perodua sales are already in the price. As such, we recommend investors to retain their positions in MBM for its attractive c.10% FY24F yield.
- **Above expectations.** 1Q24 core net profit of MYR80m exceeded our and Street's expectations, making up 31% and 32% of FY24F earnings. MBM did not declare any dividends in conjunction with the 1Q24 results, as expected.
- **Results highlights.** Revenue fell 12% QoQ, which is expected given the high base in 4Q, but rose 11% YoY due to higher delivery of vehicles. However, core net profit fell by a higher 18% QoQ, as associate contributions weakened 20% QoQ due to lower production and sales of Perodua on the back of shorter working month. Its largest segment – motor trading and assembly – posted a 12% QoQ decline in revenue but EBIT fell by 29% – likely due to lower economies of scale achieved. Despite auto parts revenue falling 13% QoQ, its EBIT improved 9% QoQ due to a favourable sales mix and lower material costs.
- **Outlook.** With a current backlog of 100k units, we believe Perodua sales deliveries will remain robust despite the expected cyclical sector downturn. The carmaker has published its 2024 sales target of 330k units, which is comparable to last year's 330,325 units. As 4M24 sales volume is 16% higher YoY with no signs of delivery slowdown, we think MBM's associate contribution from Perodua should continue to comprise the lion's share of the group's earnings. MBM has also announced that it will enter into a new dealership with Jaecoo, a Chinese SUV brand. Although no guidance has been given, we believe this addition to its current offerings is beneficial for the group, as Jaecoo will be positioned to serve the mid-market segment, alongside with the former's current mass-market and luxury brands.
- **Forecasts.** We lift our FY24F-26F earnings by 6-14%, mainly due to revision of Perodua sales volumes to 330k, 280k, and 280k units from 250k, 230k, and 230k units. We also raise MBM's operating costs to better align with the current performance. We have yet to take into account the Jaecoo dealership into our forecasts, given the scarce details at this juncture.
- **Our TP of MYR4.70 is based on 6.5x FY24F P/E (+1SD from its 5-year mean).** Our TP includes a 4% ESG discount, as MBM's ESG score remains unchanged at 2.8. We maintain our NEUTRAL call, as we believe the valuation is fair, while its c.10% FY24F dividend yield should provide support to the price. Key downside risks include lower-than-expected orders and deliveries, higher-than-expected costs, and resurgent supply chain constraints. The opposite represents the upside risks.

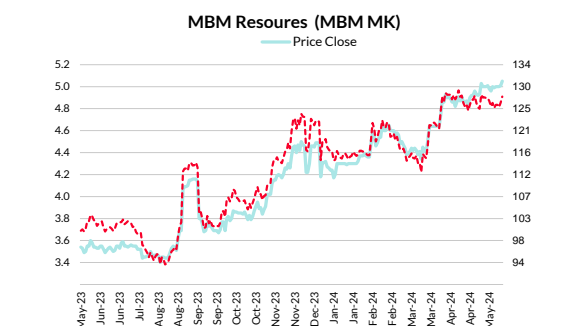
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.1	4.3	10.7	15.6	46.4
Relative	7.9	1.6	6.9	3.9	31.1
52-wk Price low/high (MYR)				3.40	5.05



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: GOOD

MBM has taken effort to monitor and improve its environmental standing. The company is working on the assessment of its carbon footprint.

S: GOOD

Continuous efforts are made to improve employee safety and welfare, alongside consistent engagement programmes with the local community. However, we note that quantitative statistics were absent in the sustainability report.

G: GOOD

MBM has applied and adopted the majority of best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that less than half of the board comprises independent directors, and women are represented by only one director out of six. The board also does not disclose on a named basis the Top 5 senior management's remuneration components in bands of MYR50,000.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,308	2,417	2,014	1,833	1,860
Recurring net profit (MYRm)	269	334	294	216	223
Recurring net profit growth (%)	59.8	24.5	(12.1)	(26.4)	3.3
Recurring P/E (x)	7.35	5.90	6.72	9.13	8.84
P/B (x)	1.0	0.9	0.9	0.9	0.8
P/CF (x)	40.29	21.93	19.81	24.65	30.27
Dividend Yield (%)	8.5	10.7	9.5	6.9	7.1
EV/EBITDA (x)	2.38	2.36	1.55	0.29	(0.89)
Return on average equity (%)	13.5	16.0	13.5	9.5	9.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.69	0.86	0.75	0.55	0.57
Consumer Cyclical	DPS	0.43	0.54	0.48	0.35	0.36
MBM Resources	BVPS	5.26	5.44	5.72	5.92	6.13
MBM MK	Return on average equity (%)	13.5	16.0	13.5	9.5	9.5
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	7.35	5.90	6.72	9.13	8.84
6.5x P/E on FY24F EPS	P/B (x)	1.0	0.9	0.9	0.9	0.8
	FCF Yield (%)	2.5	4.6	4.5	3.5	2.8
Key drivers	Dividend Yield (%)	8.5	10.7	9.5	6.9	7.1
i. Strength of consumer sentiment;	EV/EBITDA (x)	2.38	2.36	1.55	0.29	(0.89)
ii. Expansion of Perodua's product range;	EV/EBIT (x)	2.80	2.82	2.07	0.41	(1.23)
iii. Dividend yield.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	2,308	2,417	2,014	1,833	1,860
Key downside risks:	Gross profit	190	200	161	137	139
i. Lower-than-expected orders and deliveries	EBITDA	123	117	82	77	78
ii. Sustained disruptions in chip and component supplies;	Depreciation and amortisation	(18)	(19)	(21)	(21)	(22)
iii. Lower-than-expected dividend payout ratio.	Operating profit	105	98	61	56	57
	Net interest	4	5	4	5	5
The opposite represents the upside risks.	Pre-tax profit	325	395	352	263	264
	Taxation	(27)	(23)	(17)	(16)	(16)
Company Profile	Reported net profit	269	334	294	216	223
MBM Resources is a multi-brand automotive retailer for the Volvo, Volkswagen, Perodua and Hino marques. It also the distributor of Daihatsu commercial vehicles and owns associate stakes in Hino and Perodua. The company also manufactures automotive safety equipment.	Recurring net profit	269	334	294	216	223
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(51)	(8)	31	14	(2)
	Cash flow from operations	49	90	100	80	65
	Capex	0	0	(10)	(10)	(10)
	Cash flow from investing activities	166	186	277	192	192
	Dividends paid	(63)	0	(188)	(137)	(141)
	Cash flow from financing activities	(180)	(272)	(184)	(132)	(136)
	Cash at beginning of period	261	283	197	386	521
	Net change in cash	35	4	193	140	122
	Ending balance cash	296	286	390	527	644
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	283	197	386	521	638
	Tangible fixed assets	174	187	176	165	153
	Total investments	1,685	1,816	1,816	1,816	1,816
	Total assets	2,529	2,596	2,708	2,802	2,911
	Short-term debt	0	16	16	16	16
	Total liabilities	187	170	134	118	120
	Total equity	2,342	2,426	2,574	2,684	2,791
	Total liabilities & equity	2,529	2,596	2,708	2,802	2,911
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	50.7	4.7	(16.7)	(9.0)	1.5
	Recurrent EPS growth (%)	59.8	24.5	(12.1)	(26.4)	3.3
	Gross margin (%)	8.2	8.3	8.0	7.5	7.5
	Operating EBITDA margin (%)	5.3	4.8	4.1	4.2	4.2
	Net profit margin (%)	11.6	13.8	14.6	11.8	12.0
	Dividend payout ratio (%)	62.6	63.1	63.8	63.2	63.0
	Capex/sales (%)	0.0	0.0	0.5	0.5	0.5
	Interest cover (x)	164	87	68	62	63

Source: Company data, RHB

Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	555.8	700.2	617.3	-11.8	11.1	Declined QoQ, as it was weighed down by the motor trading and auto parts manufacturing segments, both due to seasonal factors.
EBIT / Operating income	16.8	23.2	17.8	-23.6	5.4	Declined QoQ in line with softer revenue.
Finance costs (net)	1.5	0.6	1.1	80.5	-27.1	
Jointly controlled entity	7.3	6.9	7.8	14.0	6.7	
Associates	68.0	85.2	68.4	-19.8	0.6	Weaker QoQ due to high base in 4Q23.
Pre-tax profit	93.6	115.9	95.0	-18.0	1.5	
Tax	(4.8)	(6.5)	(5.0)	-22.3	5.3	
Minority interest	8.9	11.6	9.8	-15.9	9.6	
Net profit	80.0	97.8	80.2	-18.0	0.4	
Core net profit	79.8	97.8	80.3	-17.9	0.6	Weaker QoQ mainly due to weaker contributions from associates.
EBIT margin (%)	3.0	3.3	2.9			
Pre-tax margin (%)	16.8	16.6	15.4			
Effective tax rate (%)	14.4	14.0	13.0			
Net profit margin (%)	(5.1)	(5.6)	(5.3)			

Source: Company data, RHB

Figure 2: Key assumptions

FYE Dec	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F	Dec-26F
Perodua TIV (units) – current	190,292	282,019	330,325	330,000	280,000	280,000

Source: Company data, RHB

Emissions And ESG

Trend analysis

MBM Resources does not disclose its GHG emissions.

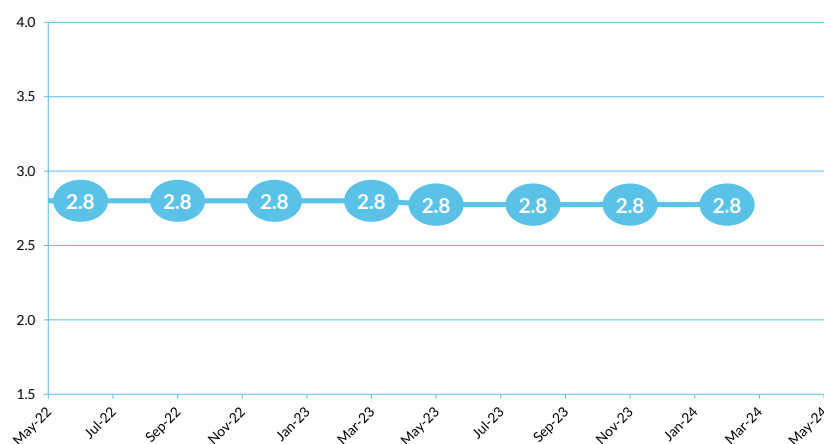
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

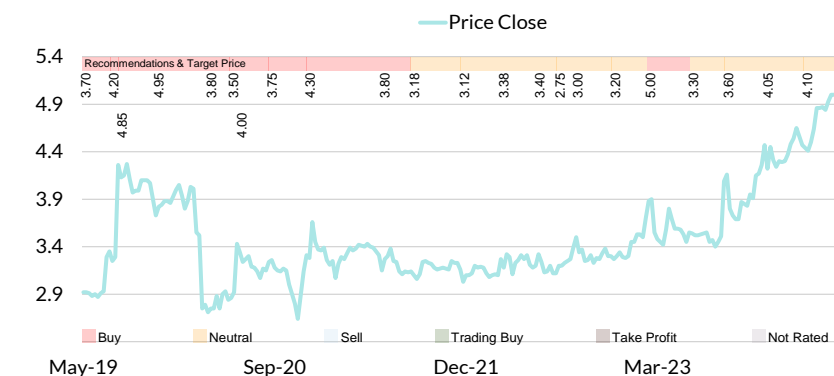
- Some of the initiatives done in 2022 are the installation of solar energy panels and consolidating office space for more efficiency in electricity consumption.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-29	Neutral	4.10	4.50
2023-11-27	Neutral	4.05	4.37
2023-08-24	Neutral	3.60	4.07
2023-06-01	Neutral	3.30	3.50
2023-05-25	Buy	5.00	3.49
2023-02-22	Buy	5.00	3.87
2023-02-21	Buy	5.00	3.90
2023-02-17	Buy	5.00	3.70
2022-11-25	Neutral	3.20	3.30
2022-08-28	Neutral	3.00	3.39
2022-08-26	Neutral	3.00	3.39
2022-07-14	Neutral	2.75	3.09
2022-05-26	Neutral	3.40	3.21
2022-02-28	Neutral	3.38	3.23
2021-11-25	Neutral	3.12	3.17

Source: RHB, Bloomberg

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