

14 September 2021

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Neutral (Maintained)

Still Profitable Despite Halt In Activities

Target Price (Return): MYR1.77 (12.0%)
 Price: MYR1.58
 Market Cap: USD444m
 Avg Daily Turnover (MYR/USD): 2.84m/0.68m

- **Still NEUTRAL and MYR1.77 TP, 12% upside.** 1QFY22 (Apr) results were broadly in line with expectations. A first interim dividend of 0.5 sen/share was declared. We expect demand for new vehicles to stay robust for the remaining months of 2021, running up to the end of the Sales & Service Tax (SST) exemption period. However, we believe demand will likely be crippled during the higher vehicle price adjustment period post the SST's reintroduction.
- **Penciling in the impact from the disruption in activities.** Bermaz Auto posted 1QFY22 core net earnings of MYR10.3m (+11% YoY, -85% QoQ). While this was ahead of our previous core earnings expectations of MYR4.5m, we deem these results as broadly in line with our estimates at 7% of our and Street's expectations. We expect a stronger set of results for the remaining months of 2021 following the run-up to the end of the SST exemption period. A first interim dividend of 0.5 sen/share was declared (1QFY21 DPS: 0.5 sen).
- **Results review.** 1QFY22 revenue declined on lower vehicle sales during the quarter, as activities were adversely impacted by the nationwide lockdown. Despite that, the EBIT margin of 5.1% was better than 4QFY20's 1.9% during MCO 1.0, which was supported by cost-savings measures implemented between the two periods. BAUTO's share of losses from associates of MYR0.92m (1QFY21: -MYR1.95m) was dragged by the MYR9.1m LBT posted by Mazda Malaysia at company level (4QFY21: MYR57.7m, 1QFY21: -MYR22.1m) on minimal activities.
- **Recovery gaining pace.** As per our last conversation with management, the outstanding backlog for Mazda vehicles stands at c.1,200 units and will be catered through BAUTO's current inventory of c. 1,200 units. Vendors have sufficient inventory for the next 1-2 months, and daily bookings are up to 30 units/day since the relaxation of rules from 10-15 units/day during the lockdown period. With regards to chip shortages, we understand this will likely affect CBU units – particularly the Mazda 3 and CX30 – but the near-term impact remains manageable, as there is sufficient inventory on hand. On another note, due to the lockdown measures, CKD plans for the Kia Carnival have been delayed – management is targeting for May 2022 from the initial Dec 2021 target.
- **No changes to our earnings,** as results were in line with expectations. We kept our 12x FY23F P/E unchanged, which is close to the sector average. Downside risks include a softer MYR vs the JPY and weak consumer sentiment. Slower-than-expected normalisation in demand post SST exemption at end 2021, sustained disruptions in semiconductor chip supplies, and further COVID-19 spikes and subsequent rolling lockdowns are other key risks. The converse represents the upside risks.

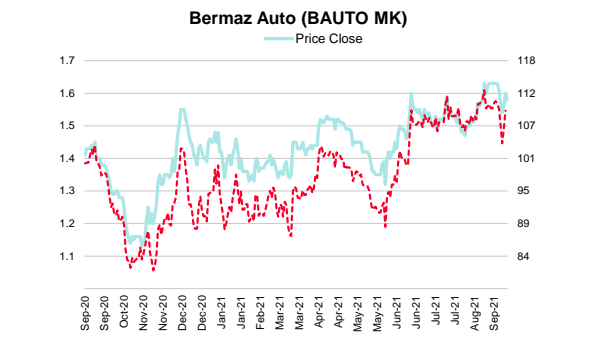
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.0	4.6	5.3	9.0	15.3
Relative	12.2	(0.1)	5.2	11.5	10.6
52-wk Price low/high (MYR)	1.13 – 1.63				



Source: Bloomberg

Forecasts and Valuation	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Total turnover (MYRm)	1,759	2,288	2,397	2,755	3,047
Recurring net profit (MYRm)	108	134	142	166	194
Recurring net profit growth (%)	(59.5)	24.7	5.5	17.2	17.3
Recurring P/E (x)	17.07	13.68	12.97	11.06	9.44
P/B (x)	3.9	3.2	3.1	2.8	2.5
P/CF (x)	na	4.21	na	10.24	14.80
Dividend Yield (%)	4.7	4.1	4.8	5.8	7.0
EV/EBITDA (x)	15.09	7.96	8.37	6.69	5.64
Return on average equity (%)	19.4	25.3	24.4	26.6	28.3
Net debt to equity (%)	7.2	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Malaysia	Recurring EPS	0.09	0.12	0.12	0.14	0.17
Consumer Cyclical	DPS	0.07	0.07	0.08	0.09	0.11
Bermaz Auto	BVPS	0.40	0.49	0.51	0.56	0.62
BAUTO MK	Return on average equity (%)	19.4	25.3	24.4	26.6	28.3
Neutral						
	Valuation metrics	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Recurring P/E (x)	17.07	13.68	12.97	11.06	9.44
	P/B (x)	3.9	3.2	3.1	2.8	2.5
	FCF Yield (%)	(6.8)	23.6	(4.9)	9.0	5.9
	Dividend Yield (%)	4.7	4.1	4.8	5.8	7.0
	EV/EBITDA (x)	15.09	7.96	8.37	6.69	5.64
	EV/EBIT (x)	15.84	8.26	8.68	6.91	5.81
	Income statement (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Total turnover	1,759	2,288	2,397	2,755	3,047
	Gross profit	216	294	327	369	418
	EBITDA	113	162	184	220	263
	Depreciation and amortisation	(5)	(6)	(6)	(7)	(8)
	Operating profit	108	157	178	213	256
	Net interest	(3)	(7)	(6)	(5)	(4)
	Pre-tax profit	132	170	197	237	283
	Taxation	(28)	(41)	(47)	(57)	(68)
	Reported net profit	101	131	142	166	194
	Recurring net profit	108	134	142	166	194
	Cash flow (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Change in working capital	(233)	255	(150)	16	(72)
	Cash flow from operations	(109)	436	(76)	179	124
	Capex	(15)	(4)	(15)	(15)	(15)
	Cash flow from investing activities	(28)	(4)	(25)	(25)	(25)
	Dividends paid	(192)	(37)	(89)	(107)	(128)
	Cash flow from financing activities	(65)	10	(89)	(151)	(122)
	Cash at beginning of period	320	100	561	313	345
	Net change in cash	(202)	442	(189)	3	(23)
	Ending balance cash	118	542	372	316	322
	Balance sheet (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Total cash and equivalents	100	561	313	345	355
	Tangible fixed assets	39	37	102	109	115
	Total investments	213	236	237	237	237
	Total assets	1,288	1,343	1,470	1,546	1,673
	Short-term debt	138	106	100	50	50
	Total long-term debt	0	100	100	100	100
	Total liabilities	767	726	816	818	859
	Total equity	521	617	654	727	814
	Total liabilities & equity	1,288	1,343	1,470	1,546	1,673
	Key metrics	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Revenue growth (%)	(29.4)	30.1	4.8	14.9	10.6
	Recurrent EPS growth (%)	(59.5)	24.8	5.5	17.2	17.3
	Gross margin (%)	12.3	12.9	13.7	13.4	13.7
	Operating EBITDA margin (%)	6.5	7.1	7.7	8.0	8.6
	Net profit margin (%)	5.7	5.7	5.9	6.0	6.4
	Dividend payout ratio (%)	86.1	57.6	62.9	64.3	65.8
	Capex/sales (%)	0.9	0.2	0.6	0.5	0.5
	Interest cover (x)	16.2	12.2	15.1	19.7	26.1

The converse represents the upside risks.

Company Profile

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 export of Malaysia-assembled Mazda vehicles. Its Bermaz Auto Philippines subsidiary distributes Mazda vehicles in the Philippines.

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)	Comments
Revenue	448.9	641.2	320.8	(50.0)	(28.5)	Lower sales volumes registered.
- Malaysia	421.7	588.0	270.6	(54.0)	(35.8)	
- Philippines	27.2	53.2	50.2	(5.7)	84.4	
EBIT	18.5	71.5	16.3	(77.2)	(11.8)	
- Malaysia	18.6	75.8	15.2	(79.9)	(18.3)	
- Philippines	(0.1)	(4.3)	1.1	(126.1)	(1,051.3)	
<i>EBIT margin (%)</i>	<i>4.1</i>	<i>11.2</i>	<i>5.1</i>			Cost-savings measures implemented by the group.
Interest expense	(4.1)	(3.1)	(2.8)	(9.3)	(31.5)	
Interest income	0.6	1.7	1.9	11.2	194.0	
Associates	(1.9)	13.4	(0.9)	(106.9)	(52.9)	
Pre-tax profit	13.1	83.5	14.5	(82.7)	10.4	Lower share of losses from Mazda Malaysia and higher profit contributions from the domestic operations.
<i>Pre-tax margin (%)</i>	<i>2.9</i>	<i>13.0</i>	<i>4.5</i>			
Tax	(4.5)	(17.6)	(4.1)	(76.5)	(8.6)	
<i>Effective tax rate (%)</i>	<i>(34.5)</i>	<i>(21.1)</i>	<i>(28.6)</i>			
Minority interest	0.7	1.0	(0.1)	(107.6)	(111.1)	
Net profit	9.2	66.8	10.3	(84.6)	11.1	
Core profit	9.2	66.8	10.3	(84.6)	11.1	Broadly in line.
<i>Net margin (%)</i>	<i>2.1</i>	<i>10.4</i>	<i>3.2</i>			

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (Units)	1QFY21	4QFY21	1QFY21	QoQ (%)	YoY (%)
Mazda 2	94	60	26	(56.7)	(72.3)
Mazda 3	227	414	218	(47.3)	(4.0)
Mazda 5	1	1	0	(100.0)	(100.0)
Mazda 6	23	16	4	(75.0)	(82.6)
Biante	2	0	0	n.m	(100.0)
CX-3	180	0	0	n.m	(100.0)
CX-30	272	728	160	(78.0)	(41.2)
CX-5	1,486	1,987	963	(51.5)	(35.2)
CX-8	333	431	239	(44.5)	(28.2)
CX-9	27	11	3	(72.7)	(88.9)
MX-5	4	12	3	(75.0)	(25.0)
BT-50	14	0	3	n.m	(78.6)
	2,663	3,660	1,619	(55.8)	(39.2)

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines

FYE Apr (Units)	1QFY21	4QFY21	1QFY21	QoQ (%)	YoY (%)
Mazda 2	10	29	0	(100.0)	70.6
Mazda 3	64	75	32	(57.3)	31.6
Mazda 6	0	9	3	(66.7)	12.5
CX-3	3	9	8	(11.1)	0.0
CX-30	17	42	36	(14.3)	55.6
CX-5	31	77	62	(19.5)	54.0
CX-8	5	73	53	(27.4)	21.7
CX-9	15	42	72	71.4	55.6
MX-5	16	10	17	70.0	0.0
BT-50	16	66	32	(51.5)	32.0
	177	443	315	(28.9)	40.6

Source: Company data

Figure 4: Key assumptions (unchanged)

Sales (units)	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
Malaysia - current	9,484	13,439	12,140	13,370	14,220
Malaysia - previous			12,140	13,370	14,220
Philippines - current	2,227	1,245	1,500	2,000	2,400
Philippines - previous			1,500	2,000	2,400
Peugeot			1,500	2,000	2,500
Kia			300	2,000	3,000
MYR/JPY100 - current	3.86	3.91	3.69	3.74	3.74
MYR/JPY100 - previous			3.69	3.74	3.74

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-09-11	Buy	2.75	2.30
2019-06-13	Buy	3.15	2.49

Source: RHB, Bloomberg

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