

28 February 2022

Consumer Cyclical | Auto & Autoparts

MBM Resources (MBM MK)

Neutral (Maintained)

Ambitious FY22 Sales Target For Perodua

Target Price (Return):	MYR3.38 (9.0%)
Price (Market Cap):	MYR3.10 (USD288m)
ESG score:	2.80 (out of 4)
Avg Daily Turnover (MYR/USD)	0.43m/0.10m

- **Stay NEUTRAL, new MYR3.38 TP from MYR3.12, 9% upside and c.8% yield.** Results were ahead of our and Street's estimates, on higher-than-expected contribution from its associate Perodua. Channel checks suggest a robust order backlog of 4-5 months for Perodua vehicles. Nevertheless, we forecast a conservative 230,000 unit sales (vs Perodua's 247,800-unit target) as we expect the numbers to soften in 2H22, with TIV tapering off for a few quarters following the re-imposition of the Sales and Services Tax (SST), before resuming growth.

- **Beat expectations.** MBM Resources reported 4Q21 core PATAMI of MYR109.6m (+38% YoY), from a loss of MYR5.2m in 3Q21. This brought FY21 core PATAMI to MYR168m (+0.7% YoY) – well ahead of our and consensus' estimates at 142% and 131%. A second interim dividend and special dividend of 5 sen and 10 sen DPS were announced, bringing FY21's total DPS to 20 sen (FY20 DPS: 20 sen), implying a dividend payout of c.47% and 6.5% yield.

- **Results review.** Business activities picked up in 4Q21, following the relaxation of lockdown measures. 4Q21 group EBIT was at MYR27.3m (+>100% QoQ, +11.8% YoY) while MBM's main earnings contributor – 20%-owned Perodua – reported a MYR100.9m share of profits in 4Q21, returning to the black and contributing a large 67% of MBM's total FY21 profits from associates. During this quarter, Perodua sold 71,198 units (+227% QoQ, -5% QoQ) following the ramp-up of production activities. However, the recovery momentum stalled in January, with sales of Perodua vehicles declining 24% MoM following the disruption in production due to the recent floods.

- **FY22F-23F earnings lifted by 24%/13%,** mainly on higher associate contributions due to margin adjustments. We keep our Perodua sales assumption unchanged for FY22-23F, and introduce a 242,000 sales target for FY24F. We also lower our FY22F ascribed P/E to 7x (from 8x) to -0.5SD from its 5-year mean, which we think is fair, given the supply chain concerns that could persist. All in, our TP is increased to MYR3.38, and includes a 4% ESG discount on our intrinsic value, based on its ESG score of 2.8 out.

- **Risks:** i) Weaker-than-expected consumer sentiment, ii) rising number of COVID-19 cases, and iii) unfavourable FX trends that could pose downside risks to earnings. Slower-than-expected normalisation in demand post SST exemption at end Jun 2022, and sustained disruptions in semiconductor chip supply are the other key risks. The opposite represents upside risks.

Analyst

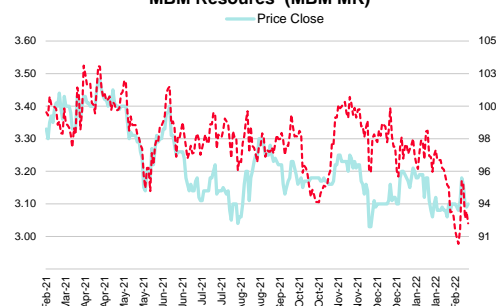
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.1)	0.6	(2.2)	(4.0)	(7.5)
Relative	(4.6)	(4.9)	(7.1)	(5.4)	(8.1)
52-wk Price low/high (MYR)	3.03 – 3.48				

MBM Resources (MBM MK)



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F					
Total turnover (MYRm)	1,793	1,532	1,768	1,881	1,898					
Recurring net profit (MYRm)	167	168	196	213	216					
Recurring net profit growth (%)	(15.1)	0.7	16.9	8.5	1.2					
Recurring P/E (x)	7.26	7.21	6.17	5.69	5.62					
P/B (x)	0.7	0.6	0.6	0.6	0.5					
P/CF (x)	14.62	98.50	30.24	23.49	20.54					
Dividend Yield (%)	3.5	6.5	7.5	8.2	8.3					
EV/EBITDA (x)	-	4.04	-	5.69	-	6.15	-	7.21	-	8.60
Return on average equity (%)	9.3	9.0	10.0	10.3	9.8					
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash					

Source: Company data, RHB

Overall ESG Score: 2.80 (out of 4)

E: GOOD

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

S: GOOD

Continuous efforts have been 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 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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.43	0.43	0.50	0.55	0.55
Consumer Cyclical	DPS	0.11	0.20	0.23	0.25	0.26
MBM Resources	BVPS	4.67	4.90	5.17	5.46	5.76
MBM MK	Return on average equity (%)	9.3	9.0	10.0	10.3	9.8
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	7.26	7.21	6.17	5.69	5.62
	P/B (x)	0.7	0.6	0.6	0.6	0.5
	FCF Yield (%)	6.5	0.3	1.7	2.6	3.2
	Dividend Yield (%)	3.5	6.5	7.5	8.2	8.3
	EV/EBITDA (x)	- 4.04	- 5.69	- 6.15	- 7.21	- 8.60
	EV/EBIT (x)	- 5.62	- 8.03	- 8.26	- 9.61	- 11.53
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	1,793	1,532	1,768	1,881	1,898
	Gross profit	145	136	141	150	152
	EBITDA	61	61	70	74	75
	Depreciation and amortisation	(17)	(18)	(18)	(18)	(19)
	Operating profit	44	43	52	56	56
	Net interest	3	3	2	1	(0)
	Pre-tax profit	207	207	238	258	261
	Taxation	(16)	(16)	(14)	(15)	(14)
	Reported net profit	167	168	196	213	216
	Recurring net profit	167	168	196	213	216
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	13	13	(18)	(9)	(1)
	Cash flow from operations	83	12	40	52	59
	Capex	(5)	(9)	(20)	(20)	(20)
	Cash flow from investing activities	50	76	(20)	(20)	(20)
	Dividends paid	(43)	(78)	(91)	(99)	(100)
	Cash flow from financing activities	(144)	(94)	(69)	(78)	(81)
	Cash at beginning of period	266	271	261	209	162
	Net change in cash	(11)	(6)	(49)	(47)	(42)
	Ending balance cash	255	265	211	163	120
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	271	261	209	162	121
	Tangible fixed assets	214	181	184	185	186
	Total investments	1,472	1,589	1,773	1,975	2,180
	Total assets	2,256	2,362	2,536	2,711	2,878
	Short-term debt	7	23	58	93	128
	Total long-term debt	0	0	(15)	(30)	(45)
	Total liabilities	153	176	218	249	270
	Total equity	2,103	2,185	2,318	2,462	2,608
	Total liabilities & equity	2,256	2,362	2,536	2,711	2,878
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(14.0)	(14.6)	15.4	6.4	0.9
	Recurrent EPS growth (%)	(15.0)	0.7	16.9	8.5	1.2
	Gross margin (%)	8.1	8.9	8.0	8.0	8.0
	Operating EBITDA margin (%)	3.4	4.0	4.0	3.9	4.0
	Net profit margin (%)	9.3	11.0	11.1	11.3	11.4
	Dividend payout ratio (%)	25.8	46.5	46.5	46.5	46.5
	Capex/sales (%)	0.3	0.6	1.1	1.1	1.1
	Interest cover (x)	37.3	92.5	51.0	34.0	25.0

Source: Company data, RHB

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Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Revenue	560.4	230.6	562.2	143.8	0.3	1,793.5	1,531.9	-14.6	Overall business activities improved following the relaxation of movement restrictions
EBIT / Operating Income	24.4	1.0	27.3	2,758.8	11.8	44.0	42.9	-2.4	
<i>EBIT Margin (%)</i>	4.4	0.4	4.9			2.5	2.8		
Finance costs (net)	0.2	0.8	0.6	-26.7	211.6	3.0	3.0	-2.4	
Jointly controlled entity	6.0	0.3	5.0	1,464.2	-16.7	12.7	11.1	-12.4	
Associates	67.9	(6.2)	100.9	-1,726.7	48.7	146.9	150.5	2.5	Strong rebound in associate contributions
Pretax profit	98.5	(4.2)	133.7	-3,316.7	35.8	206.5	207.5	0.5	
<i>Pretax Margin (%)</i>	17.6	(1.8)	23.8			11.5	13.5		
Tax	(9.4)	(0.9)	(9.5)	968.5	0.6	(16.3)	(15.6)	-4.2	
<i>Effective tax rate (%)</i>	(9.5)	21.3	(7.1)			(7.9)	(7.5)		
Minority Interest	9.6	0.2	14.7	8,417.9	53.2	23.4	23.8	1.6	
Net Profit	79.4	(5.2)	109.6	-2,200.4	37.9	166.8	168.1	0.7	
Core Net Profit	79.4	(5.2)	109.6	-2,200.4	37.9	166.8	168.1	0.7	Ahead of expectations
<i>Net Profit Margin (%)</i>	14.2	(2.3)	19.5			9.3	11.0		

Source: Company data, RHB

Figure 2: Forecast assumptions (unchanged)

FYE Dec	Dec-19	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Perodua TIV (units) – current	240,341	220,163	190,292	220,000	240,000	242,000

Source: Company data, RHB

Recommendation Chart

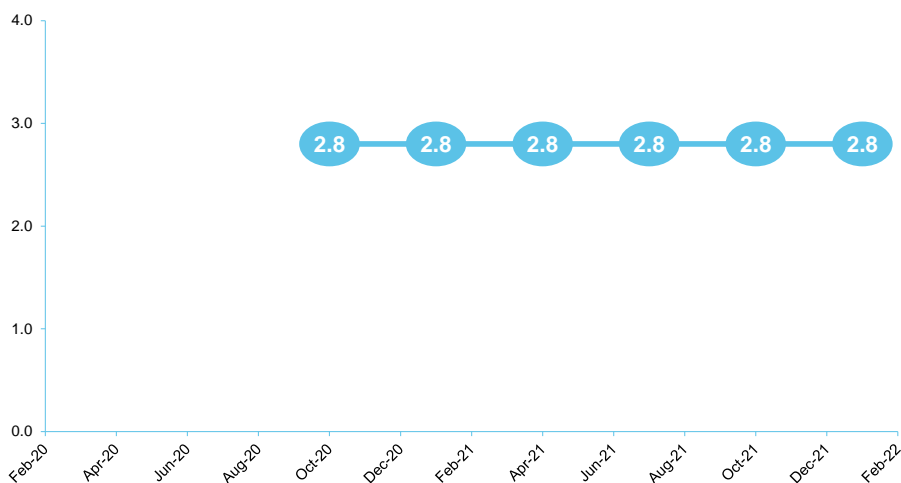


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-25	Neutral	3.12	3.17
2021-07-28	Neutral	3.18	3.14
2021-05-18	Buy	3.80	3.30
2020-11-20	Buy	4.30	3.31
2020-08-21	Buy	3.75	3.24
2020-06-08	Buy	4.00	3.43
2020-05-18	Buy	3.50	2.82
2020-03-27	Buy	3.80	2.71
2019-11-22	Buy	4.95	3.73
2019-08-26	Buy	4.85	4.23
2019-08-06	Buy	4.20	3.29
2019-05-24	Buy	3.70	2.86

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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