

# BERMAZ AUTO

(BAUTO MK EQUITY, BJAU.KL)

11 Mar 2021

## 3QFY21 sales bolstered by Penjana SST exemption

### BUY

(Maintained)

### Company report

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**Rationale for report: Company results**

Price	RM1.35
Fair Value	RM1.74
52-week High/Low	RM1.65/RM0.94

#### Key Changes

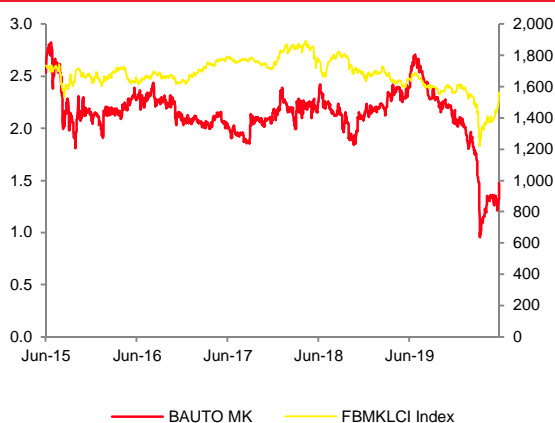
Fair value	↔
EPS	↔

YE to Apr	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,759.0	2,150.4	2,250.3	2,352.4
Core net profit (RM mil)	105.9	89.4	154.9	162.1
FD Core EPS (sen)	9.2	7.7	13.4	14.0
FD Core EPS growth (%)	(59.7)	(15.6)	73.3	4.7
Consensus Net Profit (RM mil)	-	96.6	149.8	171.0
DPS (sen)	7.5	4.6	8.1	8.4
PE (x)	14.7	17.4	10.1	9.6
EV/EBITDA (x)	9.7	18.3	8.0	7.6
Div yield (%)	5.6	3.5	6.0	6.3
ROE (%)	18.6	15.7	25.1	23.9
Net Gearing (%)	net cash	net cash	net cash	net cash

#### Stock and Financial Data

Shares Outstanding (million)	1,154.6
Market Cap (RM mil)	1,558.7
Book Value (RM/share)	0.48
P/BV (x)	2.8
ROE (%)	18.6
Net Gearing (%)	(64.5)
Major Shareholders	Dynamic Milestone Sdn Bhd (15.1%) EPF (8.0%) ASB (6.0%)
Free Float	49.9
Avg Daily Value (RM mil)	2.6

Price performance	3mth	6mth	12mth
Absolute (%)	(10.0)	(4.3)	(12.9)
Relative (%)	(9.2)	(13.0)	(24.0)



#### Investment Highlights

- We maintain our BUY call on Bermaz Auto (BAuto) with an unchanged fair value (FV) of RM1.74/share, based on 13x FY22F EPS. There is no adjustment to our FV for ESG based on our 3-star rating (Exhibit 3).
- BAuto's 9MFY21 core net profit of RM67.1mil came in within our expectations but missed consensus, accounting for 75% and 69% of our full-year forecasts and consensus full-year estimates respectively. Core earnings were down 33% YoY despite an increase in revenue to RM1,646.7mil (+13% YoY). Underlying net profit margin was compressed by 2.8 ppts to 4.1% due to the group's aggressive promotional campaign – free 6 years of warranty and 6 years of free maintenance – which ends on 31 Dec 2020.
- In 9MFY21, BAuto sold a total of 9.8K units of vehicles (+24% YoY) in the domestic market vs. 9MFY20's 7.9K units. The surge in domestic sales was largely attributed to the Penjana SST exemption from 15 June 2020 to 30 June 2021.
- The group's operations in the Philippines continued to be a notable drag, recording a 9MFY21 total sales volume of only 811 units (-58% YoY). We believe that the weak performance was predominantly due to the Enhanced Community Quarantine (ECQ), a stay-at-home order from 17 March till 1 June 2020. This was followed by the General Community Quarantine (GCQ) on 1 June 2020, in which selected businesses (depending on industry) were allowed to operate at 50% operational capacity.
- BAuto's 30%-owned MMSB sank into a loss of RM5.5mil (-108% YoY) in 9MFY21 as MMSB sold only 5.9K units vs. 11.7K units in 9MFY20. However, it was partially mitigated by Inokom's 9MFY21 PAT of RM21.8mil (+127% YoY) despite a lower production volume of 12.5K units (-43% YoY) which led to lower revenue at RM112.2mil (-16% YoY).
- BAuto declared a dividend of 3.25 sen/share for 9MFY21, resulting in payout ratio of 56%. We maintain our estimate for FY21F dividend of 4.5 sen, which translates into a yield of 3.4%. The group's balance sheet continued to improve, sitting on a net cash position of RM354.0mil (or 30.5 sen/share).
- We look forward to the introduction of the CX-30 CKD in 2HCY2021 and the potential win of Kia's manufacturing, assembly and distribution rights, possibly by April 2021. We believe this augurs well for BAuto's product line-up and will elevate the group's sales volume along with its profit margins. We estimate the localisation of the CX-30 will reduce the model's domestic selling price by RM15.0K.

## EXHIBIT 1: EARNINGS SUMMARY

	3QFY20	2QFY21	3QFY21	QoQ	YoY	9MFY20	9MFY21	YoY
<b>Revenue</b>	<b>467.5</b>	<b>599.8</b>	<b>598.0</b>	0%	28%	<b>1,459.7</b>	<b>1,646.7</b>	13%
<b>Operating Profit</b>	<b>27.0</b>	<b>34.0</b>	<b>35.6</b>	5%	32%	<b>105.9</b>	<b>88.1</b>	-17%
Investment related income	0.7	1.4	1.7	23%	157%	3.0	3.7	26%
Finance costs	(1.8)	(3.2)	(2.4)	-24%	37%	(4.0)	(9.7)	144%
<b>Finance Costs</b>	<b>(1.1)</b>	<b>(1.8)</b>	<b>(0.7)</b>	-60%	-34%	<b>(1.0)</b>	<b>(6.0)</b>	495%
Share of results of associates	8.5	1.8	7.4	320%	-14%	23.7	7.2	-70%
<b>Profit before tax</b>	<b>34.3</b>	<b>33.9</b>	<b>42.2</b>	25%	23%	<b>128.6</b>	<b>89.2</b>	-31%
Tax	(6.0)	(9.4)	(9.6)	3%	62%	(27.1)	(23.5)	-13%
<b>Profit after tax</b>	<b>28.4</b>	<b>24.5</b>	<b>32.6</b>	33%	15%	<b>101.5</b>	<b>65.7</b>	-35%
Minority interest	1.2	(0.3)	(0.5)	100%	-142%	3.4	(1.4)	-142%
<b>Net profit</b>	<b>27.2</b>	<b>24.8</b>	<b>33.1</b>	33%	22%	<b>98.1</b>	<b>67.1</b>	-32%
<b>Core Net Profit</b>	<b>28.6</b>	<b>24.8</b>	<b>33.1</b>	33%	16%	<b>100.4</b>	<b>67.1</b>	-33%
<b>EPS (sen)</b>	<b>2.3</b>	<b>2.1</b>	<b>2.8</b>			<b>8.4</b>	<b>5.8</b>	
<b>GDPS (sen)</b>	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>			<b>7.5</b>	<b>3.3</b>	
<b>Margins</b>								
EBITDA margin	6.6%	6.3%	6.6%			8.0%	6.1%	
EBIT margin	5.8%	5.7%	6.0%			7.3%	5.3%	
PBT margin	7.3%	5.7%	7.1%			8.8%	5.4%	
Net profit margin	5.8%	4.1%	5.5%			6.7%	4.1%	
Core net margin	6.1%	4.1%	5.5%			6.9%	4.1%	
<b>Revenue breakdown</b>								
Malaysia	853.8	558.4	971.6	74%	14%	1,694.1	1,951.7	15%
Philippines	148.7	41.4	75.3	82%	-49%	151.9	143.9	-5%
<b>Total</b>	<b>1,002.5</b>	<b>599.8</b>	<b>1,046.9</b>	<b>75%</b>	<b>4%</b>	<b>992.2</b>	<b>2,095.6</b>	<b>111%</b>
<b>Operating income breakdown</b>								
Malaysia	22.0	32.9	54.0	64%	146%	92.6	104.5	13%
Philippines	4.0	2.1	(0.1)	-104%	-102%	9.1	1.9	-80%
<b>Total</b>	<b>25.9</b>	<b>34.9</b>	<b>54.0</b>	<b>55%</b>	<b>108%</b>	<b>79.7</b>	<b>106.4</b>	<b>33%</b>
<b>Operating margin</b>								
Malaysia	2.6%	5.9%	5.6%			5.5%	5.4%	
Philippines	2.7%	5.0%	-0.1%			6.0%	1.3%	
<b>Sales Volume</b>								
Malaysia	2,242	3,520	3,596	2%	60%	7,896	9,779	24%
Philippines	681	282	352	25%	-48%	1,912	811	-58%
<b>Total</b>	<b>2,923</b>	<b>3,802</b>	<b>3,948</b>	<b>4%</b>	<b>35%</b>	<b>9,808</b>	<b>10,590</b>	<b>8%</b>

Source: AmInvestment Bank Bhd

## EXHIBIT 2: SALES SUMMARY

Sales	3QFY21		
	Malaysia	Phil	Model Total
<b>CBU</b>			
Mazda 2	41	13	54
Mazda 3	230	64	294
Mazda 5	0	0	0
Mazda 6	7	12	19
Mazda 8	0	0	0
Biante	0	0	0
CX-3	2	4	6
CX-30	429	48	477
CX-5	0	64	64
CX-7	0	0	0
CX-8	0	35	35
CX-9	26	40	66
MX-5	1	15	16
BT-50	1	57	58
Sub-total	737	352	1,089
<b>CKD</b>			
Mazda 3	0	0	0
CX-5	2,514	0	2,514
CX-8	345	0	345
Sub-total	2,859	0	2,859
<b>Total by Country</b>	3,596	352	
<b>TOTAL SOLD</b>	<b>3,948</b>		

	FY20				FY21			9M		%
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	FY20	FY21	
<b>Malaysia</b>										
<b>CBU</b>										
Mazda 2	247	276	48	33	94	95	104	571	293	-49%
Mazda 3	143	207	165	79	227	352	291	515	870	69%
Mazda 5	0	1	2	0	1	25	1	3	27	800%
Mazda 6	36	38	21	13	23	0	23	95	46	-52%
Mazda 8	0	0	0	0	0	0	0	0	0	NA
Biante	0	0	0	0	2	0	2	0	4	NA
CX-3	232	175	135	55	180	53	183	542	416	-23%
CX-30	0	0	102	103	272	495	289	102	1,056	935%
CX-5	0	0	0	0	0	0	31	0	31	NA
CX-8	0	0	0	0	0	0	0	0	0	NA
CX-7	0	0	0	0	0	0	5	0	5	NA
CX-9	24	38	51	18	27	48	42	113	117	4%
MX-5	2	7	2	4	4	7	20	11	31	182%
BT-50	26	7	5	15	14	6	30	38	50	32%
<b>Sub-total</b>	<b>710</b>	<b>749</b>	<b>531</b>	<b>320</b>	<b>844</b>	<b>1,081</b>	<b>1,021</b>	<b>1,990</b>	<b>2,946</b>	<b>48%</b>
<b>CKD</b>										
Mazda 3	101	33	7	2	0	0	0	141	0	-100%
CX-5	2,449	1,612	1,133	1,002	1,486	1,827	2,514	5,194	5,827	12%
CX-8	0	0	571	264	333	612	345	571	1,290	126%
<b>Sub-total</b>	<b>2,550</b>	<b>1,645</b>	<b>1,711</b>	<b>1,268</b>	<b>1,819</b>	<b>2,439</b>	<b>2,859</b>	<b>5,906</b>	<b>7,117</b>	<b>21%</b>
<b>Total for M'sia</b>	<b>3,260</b>	<b>2,394</b>	<b>2,242</b>	<b>1,588</b>	<b>2,663</b>	<b>3,520</b>	<b>3,596</b>	<b>7,896</b>	<b>9,779</b>	<b>24%</b>

	FY20				FY21			9M		%
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	FY20	FY21	
<b>Philippines</b>										
Mazda 2	218	35	52	17	10	15	13	305	38	-88%
Mazda 3	0	310	173	57	64	91	64	483	219	-55%
Mazda 5	0	0	0	0	0	3	0	0	3	NA
Mazda 6	23	15	8	8	0	0	12	46	12	-74%
Mazda 8	0	0	0	0	0	0	0	0	0	NA
Biante	0	0	0	0	0	0	0	0	0	NA
CX-3	0	37	22	9	3	4	4	59	11	-81%
CX-5	0	0	121	27	17	10	48	121	75	-38%
CX-5	87	131	67	50	31	36	64	285	131	-54%
CX-7	0	0	0	0	0	0	0	0	0	NA
CX-8	0	0	80	60	5	19	35	80	59	
CX-9	86	49	46	27	15	27	40	181	82	-55%
MX-5	16	36	29	10	16	35	15	81	66	-19%
BT-50	97	91	83	50	16	42	57	271	115	-58%
<b>Total for Phil</b>	<b>527</b>	<b>704</b>	<b>681</b>	<b>315</b>	<b>177</b>	<b>282</b>	<b>352</b>	<b>1,912</b>	<b>811</b>	<b>-58%</b>
<b>Grand Total</b>	<b>3,787</b>	<b>3,098</b>	<b>2,923</b>	<b>1,903</b>	<b>2,840</b>	<b>3,802</b>	<b>3,948</b>	<b>9,808</b>	<b>10,590</b>	<b>8%</b>

Source: AmInvestment Bank Bhd

**EXHIBIT 3: ESG RATING**

<b>Overall</b>	★	★	★		
Zero-carbon initiatives	★				
Work site safety	★	★	★		
Worker welfare	★	★	★		
Corporate social responsibility	★	★	★		
Pollution control	★	★			
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★	★	★	★

*We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star*

## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 30 Apr)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,492.1	1,759.0	2,150.4	2,250.3	2,352.4
EBITDA	288.8	123.9	69.3	155.5	162.6
Depreciation/Amortisation	(4.8)	(15.8)	(16.0)	(16.0)	(16.0)
Operating income (EBIT)	284.0	108.1	53.3	139.5	146.6
Other income & associates	50.2	26.5	54.2	58.0	59.8
Net interest	(0.7)	(2.9)	(5.6)	(5.6)	(4.6)
<b>Exceptional items</b>	-	-	-	-	<b>1.0</b>
Pretax profit	342.3	131.8	101.8	191.9	199.8
Taxation	(74.2)	(28.3)	(11.4)	(34.8)	(33.8)
<b>Minorities/pref dividends</b>	<b>2.8</b>	<b>3.0</b>	<b>0.9</b>	<b>2.1</b>	<b>2.8</b>
Net profit	265.3	100.5	89.4	154.9	163.1
Core net profit	263.1	105.9	89.4	154.9	162.1
<b>Balance Sheet (RMmil, YE 30 Apr)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	16.3	10.9	6.3	1.6	(0.1)
Intangible assets	0.5	0.5	0.5	0.5	0.5
<b>Other long-term assets</b>	<b>234.7</b>	<b>274.8</b>	<b>328.9</b>	<b>386.9</b>	<b>444.7</b>
Total non-current assets	251.5	286.2	335.7	389.0	445.1
Cash & equivalent	181.2	355.5	294.3	307.0	321.7
Stock	412.2	78.2	209.0	210.0	205.0
Trade debtors	110.3	28.4	67.9	73.0	71.6
<b>Other current assets</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>1.3</b>
Total current assets	704.1	462.5	571.4	590.4	599.6
Trade creditors	172.6	43.2	116.5	118.4	115.7
Short-term borrowings	-	-	-	-	1.0
<b>Other current liabilities</b>	<b>80.7</b>	<b>22.7</b>	<b>50.6</b>	<b>54.2</b>	<b>53.3</b>
Total current liabilities	253.3	65.9	167.2	172.7	170.0
Long-term borrowings	-	-	-	-	1.0
<b>Other long-term liabilities</b>	<b>74.2</b>	<b>31.6</b>	<b>52.2</b>	<b>54.8</b>	<b>55.1</b>
<b>Total long-term liabilities</b>	<b>74.2</b>	<b>31.6</b>	<b>52.2</b>	<b>54.8</b>	<b>56.1</b>
Shareholders' funds	529.7	551.4	587.2	649.1	715.0
Minority interests	52.4	53.7	54.6	56.7	59.5
BV/share (RM)	0.46	0.48	0.51	0.56	0.62
<b>Cash Flow (RMmil, YE 30 Apr)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	342.3	131.8	101.8	191.9	199.8
Depreciation/Amortisation	4.8	6.0	16.0	16.0	16.0
Net change in working capital	-	-	-	-	-
<b>Others</b>	<b>(253.0)</b>	<b>129.6</b>	<b>(118.3)</b>	<b>(94.9)</b>	<b>(97.7)</b>
Cash flow from operations	94.0	267.4	(0.5)	112.9	118.1
Capital expenditure	(2.4)	(0.6)	(1.5)	(1.6)	(1.5)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	-	-	-	-	-
Cash flow from investing	(2.4)	(0.6)	(1.5)	(1.6)	(1.5)
Debt raised/(repaid)	-	-	-	-	1.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(211.6)	(86.9)	(53.7)	(93.0)	(97.3)
<b>Others</b>	<b>(5.6)</b>	<b>(5.6)</b>	<b>(5.6)</b>	<b>(5.6)</b>	<b>(5.6)</b>
<b>Cash flow from financing</b>	<b>(217.2)</b>	<b>(92.5)</b>	<b>(59.3)</b>	<b>(98.6)</b>	<b>(101.9)</b>
<b>Net cash flow</b>	<b>(125.6)</b>	<b>174.3</b>	<b>(61.2)</b>	<b>12.8</b>	<b>14.6</b>
<b>Net cash/(debt) b/f</b>	<b>306.8</b>	<b>181.2</b>	<b>355.5</b>	<b>294.3</b>	<b>307.0</b>
Net cash/(debt) c/f	181.2	355.5	294.3	307.0	322.7
<b>Key Ratios (YE 30 Apr)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	25.1	(29.4)	22.3	4.6	4.5
EBITDA growth (%)	54.5	(57.1)	(44.1)	124.5	4.6
Pretax margin (%)	13.7	7.5	4.7	8.5	8.5
Net profit margin (%)	10.6	5.7	4.2	6.9	6.9
Interest cover (x)	406.8	37.3	9.4	24.7	31.6
Effective tax rate (%)	21.7	21.5	11.2	18.1	16.9
Dividend payout (%)	79.8	86.5	60.0	60.0	59.6
Debtors turnover (days)	15	14	8	11	11
Stock turnover (days)	48	51	24	34	32
Creditors turnover (days)	23	22	14	19	18

Source: Company, AmlInvestment Bank Bhd estimates

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