



## Company report

AmInvestment Bank

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# MBM RESOURCES

(MBM MK EQUITY, MBMR.KL)

14 Feb 2022

## All-new Alza – Perodua's next golden goose?

# BUY

(Maintained)

**Rationale for report: Company update**

Price RM3.10  
Fair Value RM4.50  
52-week High/Low RM3.52/RM3.01

### Key Changes

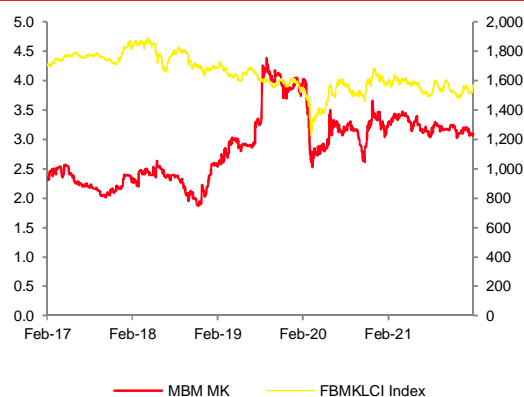
Fair value   
EPS

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,796.5	1,725.9	2,013.0	2,081.8
Core net profit (RM mil)	165.8	125.6	194.3	208.7
FD Core EPS (sen)	42.4	32.1	49.7	53.4
FD Core EPS growth (%)	(13.0)	(24.3)	54.7	7.4
Consensus Net Profit (RM mil)	-	129.0	183.2	200.4
DPS (sen)	11.0	8.3	12.9	13.8
PE (x)	7.3	9.6	6.2	5.8
EV/EBITDA (x)	15.4	16.9	15.3	14.9
Div yield (%)	3.5	2.7	4.1	4.5
ROE (%)	9.3	6.7	9.8	9.8
Net Gearing (%)	nm	nm	nm	nm

### Stock and Financial Data

Shares Outstanding (million)	390.7
Market Cap (RM mil)	1,203.4
Book Value (RM/share)	4.67
P/BV (x)	0.7
ROE (%)	9.3
Net Gearing (%)	-
Major Shareholders	Med-Bumikar Mara Sdn Bhd (49.5%) Employees Provident Fund (9.2%) Lembaga Tabung Haji (5.2%)
Free Float	31.4
Avg Daily Value (RM mil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	(4.6)	(0.6)	(5.5)
Relative (%)	(7.6)	(5.3)	(3.9)



### Investment Highlights

- **Reiterate BUY** with a slight tweak to our fair value to RM4.50 (from RM4.51), derived from an unchanged 9x target PE of 2022F earnings (from 2021F). MBM Resources (MBMR) is set to benefit from Perodua's consistent new model launches and longer term catalyst of product offerings' expansion. The share is trading at an undemanding valuation of 6.3x 2022F PE vs. its historical average of 9.7x despite the improved outlook while offering a decent 4.1% yield.
- **Earnings revision.** We reduce our 2021F and 2022F earnings forecasts by 35.9% and 6.1% respectively, to reflect the later-than-expected reopening of the economy in 3Q21 and the delay of the all-new Perodua Alza launch.
- **4Q21 earnings preview.** We are expecting a strong earnings rebound in 4Q21 as sales of MBMR-related brands surged 216% sequentially, bolstered by pent-up demand after the sector's supply chain reopened in mid-August, coupled with seasonally stronger year-end automobile sales. Our revised forecast implies 4Q21 earnings of RM67mil (vs. a net loss of RM5.2mil in 3Q21). Auto sales are expected to remain resilient in 1Q22 supported by the SST exemption.
- **The all-new Perodua Alza is set to be introduced** as early as April/May this year and will be built on the Daihatsu new global architecture (DNGA) platform. The model will likely be based on the Daihatsu Xenia (available in the Indonesian market) and Toyota Avanza. Despite being rather dated, (first launched in 2009), Perodua still managed to sell a decent 1,200 units/month of Alza in 2021. We believe this is due to the lack of competition within the entry-level multi-purpose vehicle space. Its only other direct competitor that is priced at a similar range is the Proton Exora which itself is long overdue for a generational change.
- **What's next.** Perodua also planned to introduce two other facelifts (including the recently launched Perodua Myvi facelift) for 2022. Based on its product offerings, the Perodua Axia and Aruz are the oldest, making them the best candidates for facelifts next after the Myvi. Our bet is on the Axia given the Aruz facelift might cannibalize the sales of the upcoming new Alza.
- **2022 demand to remain resilient.** Perodua has increased its 2022 sales target to 247,800 units in 2022 (vs. our target of 240,000 units), from 240,000 units previously. The new target implies a 30.2% YoY growth. Our channel checks suggested that the demand for Perodua cars remains healthy with most of its models having longer than a one-month waiting period. Besides the boost from the all-new Alza, demand for the Myvi facelift remains robust while the Ativa has proven to be a marketable model, with monthly average sales of 2,700 units since its launch in March 2021 vs. the Proton X50's 2,330 units per month.

- **Dealership outlets network revamp.** Separately, Perodua is aiming to revamp its dealership network by increasing the numbers of its 3S (sales, services, and spare parts) outlets in the next four years to 70% of its total outlets by 2025, from 28% as of 2021. We believe this should further strengthen Perodua's after-sales service and branding. Proton started a similar transformation in 2017, right after it formed a partnership with Geely and the results have been encouraging. Consumers are more receptive towards the brand which has contributed to improvement in sales in the past years. Being Perodua's dealership with the largest network, MBMR's wholly-owned subsidiary DMM Sales is expected to increase its capex to upgrade its outlets.
- **Perodua is set to reveal its electric vehicle (EV) roadmap plan in 2022.** Following the 12th Malaysian Plan, the government has approached Perodua on Malaysia's plan to achieve the carbon-neutral status by 2050. Perodua and its partner, Daihatsu, are studying this matter and are expected to draw up a long-term strategy to achieve the goal. Meanwhile, Perodua is forecasting a more pessimistic EV adoption of 5% of total industry volume by 2030 vs. the government's target of 15%. Perodua's key challenge is ensuring its EVs are affordable to the mass market. Affordability has always been the brand's key focus and due to technological hurdles, the production of EVs are costlier than the conventional internal combustion vehicles.

EXHIBIT 1: MBMR-RELATED BRANDS 4Q21 SALES VOLUME

(Units)	2020	2021F	2022F	2023F
Perodua TIV	220,163	190,291	240,000	250,000
Daihatsu TIV	1,410	1,282	1,400	1,400
Hino	3,697	3,697	5,600	5,800
Volvo	1,080	1,096	1,073	1,073
Volkswagen	564	367	501	551

Source: Malaysian Automotive Association, AmlInvestment Bank

EXHIBIT 2: MBMR-RELATED BRANDS 4Q21 SALES VOLUME

	4Q20	3Q21	4Q21	QoQ	YoY	2020	2021	YoY
Daihatsu	495	263	515	96%	4%	1,410	1,282	-9%
Hino	908	829	1,491	80%	64%	3,697	4,256	15%
Perodua	75,151	21,803	71,198	227%	-5%	220,163	190,291	-14%
Volvo	768	445	1,000	125%	30%	2,253	2,452	9%
Volkswagen	768	348	748	115%	-3%	3,379	2,156	-36%
<b>Total</b>	<b>78,090</b>	<b>23,688</b>	<b>74,952</b>	<b>216%</b>	<b>-4%</b>	<b>230,902</b>	<b>200,437</b>	<b>-13%</b>

Source: Malaysian Automotive Association

EXHIBIT 3: TOYOTA AVANZA

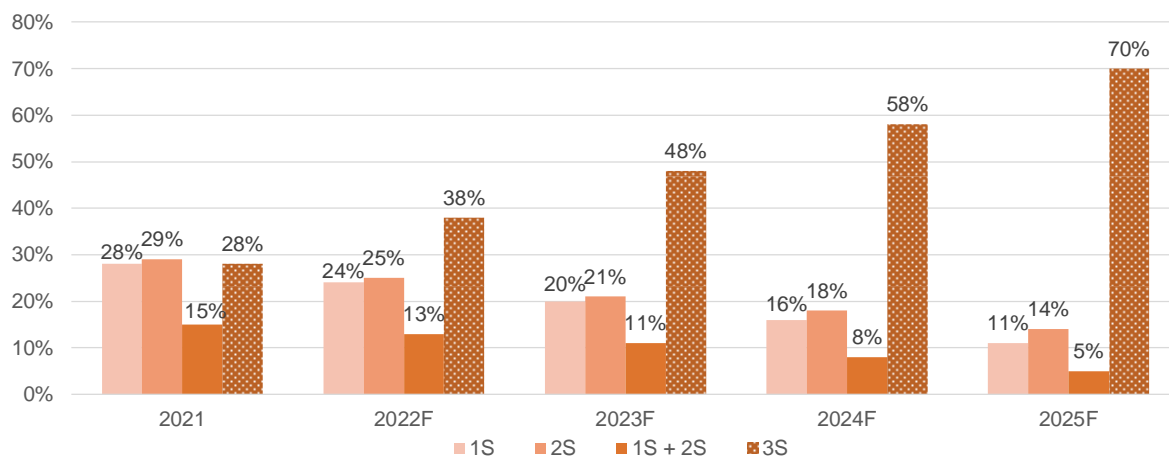


Source: paultan.org

EXHIBIT 4: DAIHATSU XENIA IN INDONESIA WHICH IS ALSO BASED ON TOYOTA AVANZA

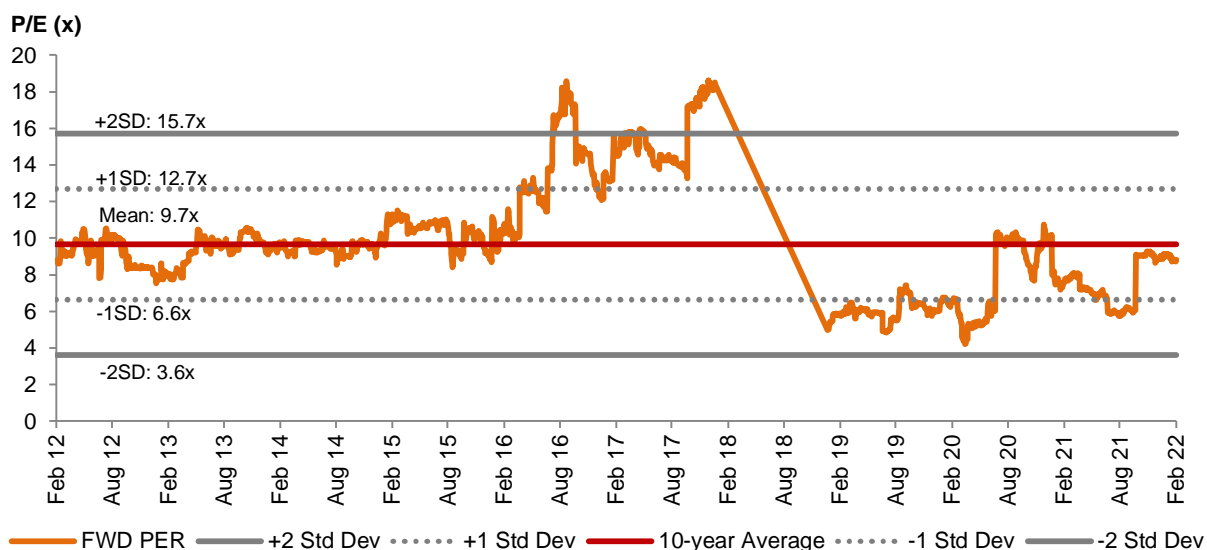


## EXHIBIT 5: PERODUA'S DEALERSHIP NETWORK STRUCTURAL REFORMATION



Source: Perodua

## EXHIBIT 6: 10-YEAR PE BAND CHART



Source: Bloomberg, AmlInvestment Bank

## EXHIBIT 7: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★			
Work site safety	★	★	★		
Shareholder accountability	★	★	★		
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

Source: AmlInvestment Bank

## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,088.5	1,796.5	1,725.9	2,013.0	2,081.8
EBITDA	79.5	61.3	55.3	62.6	65.2
Depreciation/Amortisation	18.6	17.4	14.6	14.9	15.3
Operating income (EBIT)	61.0	43.9	40.7	47.6	50.0
Other income & associates	199.6	157.5	110.5	184.7	200.4
Net interest	2.5	3.2	4.3	3.4	1.9
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	263.2	204.5	155.4	235.6	252.4
Taxation	(8.5)	(14.8)	(11.7)	(13.3)	(13.5)
<b>Minorities/pref dividends</b>	<b>26.0</b>	<b>24.0</b>	<b>18.1</b>	<b>28.1</b>	<b>30.2</b>
Net profit	228.7	165.8	125.6	194.3	208.7
Core net profit	190.6	165.8	125.6	194.3	208.7
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	231.6	220.2	215.6	210.6	205.4
Intangible assets	1.1	1.1	1.1	1.1	1.1
<b>Other long-term assets</b>	<b>1,383.3</b>	<b>1,502.5</b>	<b>1,613.0</b>	<b>1,797.7</b>	<b>1,998.1</b>
Total non-current assets	1,616.0	1,723.9	1,829.7	2,009.4	2,204.6
Cash & equivalent	263.7	265.9	309.6	323.1	344.3
Stock	105.2	56.6	54.4	63.4	65.6
Trade debtors	142.4	169.5	162.8	189.9	196.4
<b>Other current assets</b>	<b>62.1</b>	<b>46.6</b>	<b>46.6</b>	<b>46.6</b>	<b>46.6</b>
Total current assets	573.4	538.6	573.5	623.0	652.9
Trade creditors	132.7	139.4	134.0	156.2	161.6
Short-term borrowings	16.6	6.9	41.9	76.9	111.9
<b>Other current liabilities</b>	<b>3.4</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>
Total current liabilities	152.7	150.5	180.0	237.3	277.6
Long-term borrowings	19.3	0.1	0.1	0.1	0.1
<b>Other long-term liabilities</b>	<b>9.4</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>
<b>Total long-term liabilities</b>	<b>28.6</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>
Shareholders' funds	1,743.9	1,825.0	1,918.0	2,061.9	2,216.5
Minority interests	264.1	277.6	295.7	323.8	354.0
BV/share (RM)	4.46	4.67	4.91	5.28	5.67
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	263.2	204.5	155.4	235.6	252.4
Depreciation/Amortisation	18.6	17.4	14.6	14.9	15.3
Net change in working capital	-	-	-	-	-
<b>Others</b>	<b>(248.2)</b>	<b>(142.1)</b>	<b>(123.0)</b>	<b>(215.1)</b>	<b>(219.2)</b>
Cash flow from operations	33.5	79.9	47.0	35.5	48.4
Capital expenditure	(12.0)	(4.7)	(10.0)	(10.0)	(10.0)
Net investments & sale of fixed assets	0.9	0.4	(110.5)	(184.7)	(200.4)
<b>Others</b>	<b>242.9</b>	<b>54.5</b>	<b>110.5</b>	<b>184.7</b>	<b>200.4</b>
Cash flow from investing	231.8	50.2	(10.0)	(10.0)	(10.0)
Debt raised/(repaid)	(106.5)	(28.2)	35.0	35.0	35.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(86.0)	(43.0)	(32.6)	(50.4)	(54.1)
<b>Others</b>	<b>6.9</b>	<b>(52.8)</b>	<b>4.3</b>	<b>3.4</b>	<b>1.9</b>
<b>Cash flow from financing</b>	<b>(185.5)</b>	<b>(124.0)</b>	<b>6.7</b>	<b>(12.0)</b>	<b>(17.2)</b>
<b>Net cash flow</b>	<b>79.8</b>	<b>6.1</b>	<b>43.7</b>	<b>13.4</b>	<b>21.2</b>
<b>Net cash/(debt) b/f</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net cash/(debt) c/f	79.8	6.1	43.7	13.4	21.2
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	8.4	(14.0)	(3.9)	16.6	3.4
EBITDA growth (%)	115.5	(23.0)	(9.8)	13.2	4.3
Pretax margin (%)	12.6	11.4	9.0	11.7	12.1
Net profit margin (%)	10.9	9.2	7.3	9.7	10.0
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	3.2	7.2	7.5	5.6	5.3
Dividend payout (%)	37.6	25.9	25.9	25.9	25.9
Debtors turnover (days)	24	32	35	32	34
Stock turnover (days)	18	16	12	11	11
Creditors turnover (days)	22	28	29	26	28

Source: Company, AmlInvestment Bank Bhd estimates

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