



## Company report

# MBM RESOURCES

(MBM MK EQUITY, MBMR.KL)

26 May 2022

*Too cheap to ignore***BUY**

(Maintained)

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**Rationale for report: Company results**

Price **RM3.19**  
 Fair Value **RM5.00**  
 52-week High/Low RM3.39/RM2.92

**Key Changes**

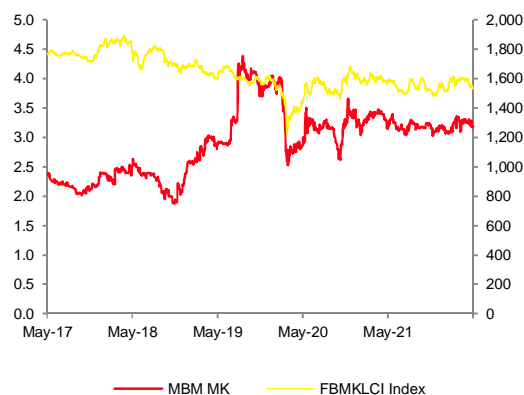
Fair value [↑](#)  
 EPS [↑](#)

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,531.9	2,036.8	2,081.8	2,160.7
Core net profit (RM mil)	168.1	219.2	229.9	242.4
FD Core EPS (sen)	43.0	56.1	58.8	62.0
FD Core EPS growth (%)	1.4	30.4	4.9	5.4
Consensus Net Profit (RM mil)	-	197.3	214.7	222.6
DPS (sen)	20.0	15.0	16.0	17.0
PE (x)	7.4	5.7	5.4	5.1
EV/EBITDA (x)	16.8	15.5	13.3	12.1
Div yield (%)	6.5	4.8	5.2	5.5
ROE (%)	9.0	11.0	10.6	10.4
Net Gearing (%)	nm	nm	nm	nm

**Stock and Financial Data**

Shares Outstanding (million)	390.7
Market Cap (RM mil)	1,246.4
Book Value (RM/share)	4.90
P/BV (x)	0.7
ROE (%)	9.0
Net Gearing (%)	-
Major Shareholders	Med-Bumikar Mara Sdn Bhd (49.5%) Employees Provident Fund (9.2%) Lembaga Tabung Haji (5.2%)
Free Float	30.8
Avg Daily Value (RM mil)	1.0

Price performance	3mth	6mth	12mth
Absolute (%)	6.1	3.8	2.8
Relative (%)	10.0	2.6	5.7

**Investment Highlights**

- We reiterate **BUY** on **MBM Resources (MBMR)** with a higher fair value of **RM5.00** (from **RM4.55**), derived from an unchanged 9x target PE on revised 2022F earnings.
- **MBMR's 1QFY22 results** were within our and consensus expectations. The group's core net profit of **RM54mil (+14% YoY, -50% QoQ)** accounted for 27% of our and street's FY22F earnings. We strip out a **RM31mil gain** from the disposal of the **OMI Alloy (M)** plant and machinery from our core net profit calculation.
- **YoY, the group's 1QFY22 core operating profit** surged 81% underpinned by a revenue growth of 14%. The motor division's operating profit jumped 2.3x on the growth of **MBMR-related brands' sales volume (Exhibit 3)**. Providing additional booster to MBMR's bottom line is **Perodua's associate contribution** which expanded by 17% YoY.
- Separately, the sequentially lower earnings were mainly due to seasonally high sales and the inclusion of investment tax allowance at Perodua's level (estimated at **RM90mil**) in 4Q21.
- Moving forward, we believe **MBMR is set to benefit** from Perodua's continuous effort to widen its product offerings. The introduction of the all-new Perodua Alza could be the next key catalyst for the group. A lack of competition in the entry-level multi-purpose vehicle space bodes well for Perodua. The carmaker also planned to introduce another facelift for 2022 which could further support its sales.
- Taking the view that demand for Perodua models is likely to be sustainable beyond the sales tax exemption period, we raise our sales volume forecast for Perodua (Exhibit 2). We also expect the introduction of the new Alza would help lift Perodua's average selling price. Putting these into account, we increase FY22F–24F earnings by 8–10%.
- Nevertheless, we note that labour shortages, rising raw material prices and supply chain disruptions may pose downside risks to our fair value and earnings estimates.
- The stock is trading at an undemanding valuation of 5.7x 2022F PE vs. its historical average of 9.7x despite the improved outlook while offering a decent 4.8% yield.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>418.3</b>	<b>562.2</b>	<b>478.5</b>	<b>(14.9)</b>	<b>14.4</b>
Cost of sales	(382.7)	(512.9)	(438.4)	(14.5)	14.6
<b>Gross Profit</b>	<b>35.6</b>	<b>49.3</b>	<b>40.1</b>	<b>(18.7)</b>	<b>12.4</b>
Operating expenses	(28.7)	(22.0)	3.4	n/m	n/m
<b>EBIT</b>	<b>6.9</b>	<b>27.3</b>	<b>43.5</b>	<b>59.5</b>	<b>&gt;100</b>
Finance costs	(0.1)	(0.2)	(0.1)	(8.0)	49.0
Interest income	0.9	0.7	1.2	60.9	25.7
Share of results of JV	4.1	5.0	3.1	(38.5)	(25.2)
Share of results of assoc.	43.2	100.9	50.9	(49.6)	17.8
<b>Profit before tax</b>	<b>55.0</b>	<b>133.7</b>	<b>98.5</b>	<b>(26.4)</b>	<b>78.9</b>
Income tax expense	(2.3)	(9.5)	(6.6)	(30.3)	>100
<b>Profit for the period</b>	<b>52.8</b>	<b>124.3</b>	<b>91.9</b>	<b>(26.1)</b>	<b>74.2</b>
Non-controlling interests	5.7	14.7	6.7	(54.8)	17.2
<b>PATAMI</b>	<b>47.1</b>	<b>109.6</b>	<b>85.2</b>	<b>(22.2)</b>	<b>81.1</b>
Exceptional items	0.0	0.0	31.4	n/m	n/m
<b>Core PATAMI</b>	<b>47.1</b>	<b>109.6</b>	<b>53.9</b>	<b>(50.8)</b>	<b>14.4</b>
<b>Earnings Per Share (sen)</b>	<b>12.0</b>	<b>28.0</b>	<b>13.8</b>		
<b>Dividend Per Share (sen)</b>	<b>0.0</b>	<b>15.0</b>	<b>0.0</b>		
<b>Margins</b>					
Gross margin	8.5%	8.8%	8.4%		
EBIT margin	1.7%	4.9%	9.1%		
PBT margin	13.2%	23.8%	20.6%		
Net profit margin	11.3%	19.5%	17.8%		
Core net profit margin	11.3%	19.5%	11.3%		
<b>Segmental Breakdown</b>					
<b>Revenue</b>	<b>418.3</b>	<b>562.2</b>	<b>478.5</b>	<b>(14.9)</b>	<b>14.4</b>
Motor Trading	354.6	485.3	408.7	(15.8)	15.3
Auto Parts manufacturing	63.3	76.4	69.3	(9.2)	9.4
Others	0.4	0.5	0.5	(0.7)	25.5
<b>PBT</b>	<b>55.0</b>	<b>133.7</b>	<b>98.5</b>	<b>(26.4)</b>	<b>78.9</b>
Motor Trading	4.4	22.7	10.1	(55.7)	>100
Auto Parts manufacturing	4.7	6.7	35.2	>100	>100
Share of JV	4.1	5.0	3.1	(38.5)	(25.2)
Share of Associates	43.2	100.9	50.9	(49.6)	17.8
Others	(2.3)	(2.1)	(1.8)	(16.9)	(21.9)
<b>PBT Margin</b>					
Motor Trading	1.2%	4.7%	2.5%		
Auto Parts manufacturing	7.5%	8.8%	50.8%		
Perodua sales volume	57,909	71,198	61,624	-13	6
Total Industry Volume (TIV)	141,708	190,001	159,752	-16	13

Source: MBMR, AmInvestmentBank

## EXHIBIT 2: SALES VOLUME ASSUMPTIONS

(Units)	2020	2021	2022F	2023F	2024F
<b>Perodua TIV (Current)</b>	220,163	190,291	245,000	250,000	255,000
<b>Perodua TIV (Previous)</b>			240,000	250,000	255,000
<b>Daihatsu TIV</b>	1,410	1,282	1,400	1,400	1,500
<b>Hino</b>	3,697	3,697	5,600	5,800	6,000
<b>Volvo</b>	1,080	1,096	1,073	1,073	1,066
<b>Volkswagen</b>	564	367	501	551	551

Source: Malaysian Automotive Association, AmInvestment Bank

**EXHIBIT 3: MBMR-RELATED BRANDS 4Q21 SALES VOLUME**

	1Q21	4Q21	1Q22	QoQ	YoY
Daihatsu	255	515	405	(21.4)	58.8
Hino	1,085	1,491	1,333	(10.6)	22.9
Perodua	57,909	71,198	61,624	(13.4)	6.4
Volvo	449	1,000	696	(30.4)	55.0
Volkswagen	609	748	1,047	40.0	71.9
<b>Total</b>	<b>60,307</b>	<b>74,952</b>	<b>65,105</b>	<b>-13.1</b>	<b>8.0</b>

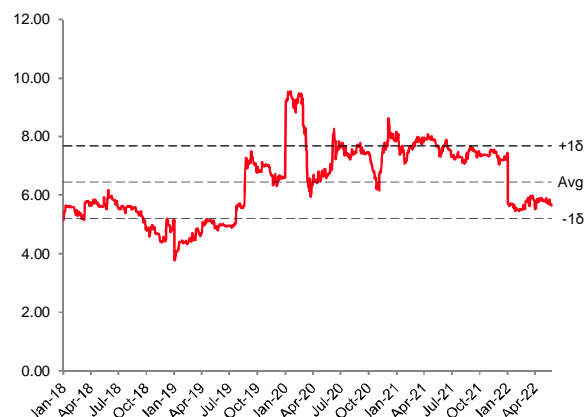
Source: Malaysian Automotive Association

**EXHIBIT 4: PB BAND CHART**



Source: AmInvestment Bank

**EXHIBIT 5: PE BAND CHART**



**EXHIBIT 6: ESG RATING**

<b>Overall</b>	★	★	★			
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: AmInvestment Bank

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	1,796.5	1,531.9	2,036.8	2,081.8	2,160.7
EBITDA	61.3	60.6	67.7	80.1	88.8
Depreciation/Amortisation	17.4	17.7	14.9	15.3	15.6
Operating income (EBIT)	43.9	42.9	52.7	64.8	73.2
Other income & associates	157.5	161.6	210.0	214.5	223.5
Net interest	3.2	3.0	2.5	0.9	(0.3)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	204.5	207.5	265.2	280.3	296.4
Taxation	(14.8)	(15.6)	(14.4)	(17.1)	(19.0)
<b>Minorities/pref dividends</b>	<b>24.0</b>	<b>23.8</b>	<b>31.7</b>	<b>33.2</b>	<b>35.0</b>
Net profit	165.8	168.1	219.2	229.9	242.4
Core net profit	165.8	168.1	219.2	229.9	242.4
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Fixed assets	220.2	212.5	207.6	202.3	196.8
Intangible assets	1.1	1.1	1.1	1.1	1.1
<b>Other long-term assets</b>	<b>1,502.5</b>	<b>1,664.1</b>	<b>1,874.2</b>	<b>2,088.6</b>	<b>2,312.1</b>
Total non-current assets	1,723.9	1,877.8	2,082.9	2,292.1	2,510.0
Cash & equivalent	265.9	273.4	271.2	295.5	319.8
Stock	56.6	48.3	64.2	65.6	68.1
Trade debtors	169.5	144.5	192.2	196.4	203.8
<b>Other current assets</b>	<b>46.6</b>	<b>46.6</b>	<b>46.6</b>	<b>46.6</b>	<b>46.6</b>
Total current assets	538.6	512.8	574.2	604.1	638.3
Trade creditors	139.4	118.9	158.1	161.6	167.7
Short-term borrowings	6.9	41.9	76.9	111.9	146.9
<b>Other current liabilities</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>	<b>4.2</b>
Total current liabilities	150.5	165.0	239.1	277.6	318.8
Long-term borrowings	0.1	0.1	0.1	0.1	0.1
<b>Other long-term liabilities</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>
<b>Total long-term liabilities</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>
Shareholders' funds	1,825.0	1,914.9	2,075.5	2,242.9	2,418.8
Minority interests	277.6	301.3	333.0	366.2	401.3
BV/share (RM)	4.67	4.90	5.31	5.74	6.19
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Pretax profit	204.5	207.5	265.2	280.3	296.4
Depreciation/Amortisation	17.4	17.7	14.9	15.3	15.6
Net change in working capital	-	-	-	-	-
<b>Others</b>	<b>(142.1)</b>	<b>(167.4)</b>	<b>(251.2)</b>	<b>(234.7)</b>	<b>(245.9)</b>
Cash flow from operations	79.9	57.7	29.0	60.8	66.1
Capital expenditure	(4.7)	(10.0)	(10.0)	(10.0)	(10.0)
Net investments & sale of fixed assets	0.4	(161.6)	(210.0)	(214.5)	(223.5)
<b>Others</b>	<b>54.5</b>	<b>161.6</b>	<b>210.0</b>	<b>214.5</b>	<b>223.5</b>
Cash flow from investing	50.2	(10.0)	(10.0)	(10.0)	(10.0)
Debt raised/(repaid)	(28.2)	35.0	35.0	35.0	35.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(43.0)	(78.2)	(58.6)	(62.5)	(66.5)
<b>Others</b>	<b>(52.8)</b>	<b>3.0</b>	<b>2.5</b>	<b>0.9</b>	<b>(0.3)</b>
<b>Cash flow from financing</b>	<b>(124.0)</b>	<b>(40.2)</b>	<b>(21.2)</b>	<b>(26.6)</b>	<b>(31.8)</b>
<b>Net cash flow</b>	<b>6.1</b>	<b>7.5</b>	<b>(2.2)</b>	<b>24.2</b>	<b>24.3</b>
<b>Net cash/(debt) b/f</b>	-	-	-	-	-
Net cash/(debt) c/f	6.1	7.5	(2.2)	24.2	24.3
<b>Key Ratios (YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Revenue growth (%)	(14.0)	(14.7)	33.0	2.2	3.8
EBITDA growth (%)	(23.0)	(1.2)	11.7	18.4	10.9
Pretax margin (%)	11.4	13.5	13.0	13.5	13.7
Net profit margin (%)	9.2	11.0	10.8	11.0	11.2
Interest cover (x)	nm	nm	nm	nm	227.1
Effective tax rate (%)	7.2	7.5	5.4	6.1	6.4
Dividend payout (%)	25.9	46.5	26.7	27.2	27.4
Debtors turnover (days)	32	37	30	34	34
Stock turnover (days)	16	12	10	11	11
Creditors turnover (days)	28	31	25	28	28

Source: Company, AmInvestment Bank Bhd estimates

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