



Company report

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MBM RESOURCES

(MBM MK EQUITY, MBMR.KL)

26 Aug 2022

Demand remains robust even after SST reintroduced

BUY

(Maintained)

Rationale for report: Company results

Price RM3.29
Fair Value RM5.00
52-week High/Low RM3.39/RM2.92

Key Changes

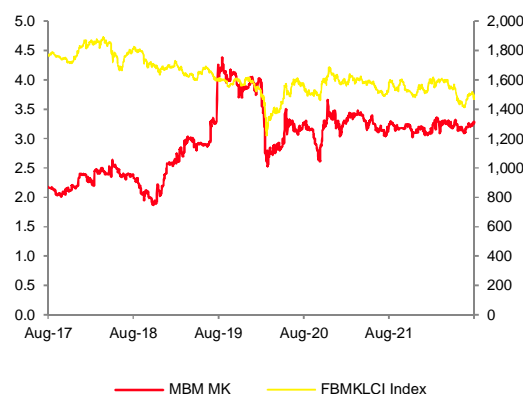
Fair value ⇄
EPS ⇄

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	218.8	229.2	241.6
FD Core EPS (sen)	43.0	56.0	58.6	61.8
FD Core EPS growth (%)	1.4	30.2	4.7	5.5
Consensus Net Profit (RM mil)	-	207.3	214.3	224.3
DPS (sen)	20.0	30.0	16.0	17.0
PE (x)	7.7	5.9	5.6	5.3
EV/EBITDA (x)	17.4	17.0	14.5	13.2
Div yield (%)	6.1	9.1	4.9	5.2
ROE (%)	9.0	11.1	10.9	10.6
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	390.7
Market Cap (RM mil)	1,285.4
Book Value (RM/share)	4.90
P/BV (x)	0.7
ROE (%)	9.0
Net Gearing (%)	-
Major Shareholders	Med-Bumikar Mara (49.5%) Employees Provident Fund (9.2%) Lembaga Tabung Haji (5.2%)
Free Float	31.4
Avg Daily Value (RM mil)	0.5

Price performance	3mth	6mth	12mth
Absolute (%)	3.1	9.5	5.1
Relative (%)	5.9	16.5	10.3



Investment Highlights

- We reiterate our BUY call on MBM Resources (MBMR) with an unchanged fair value (FV) of RM5.00/share, derived from FY22F target PE 9x (in line with its historical average of 3 years) and a neutral ESG scoring of 3 stars.
- We make no changes to our core earnings estimates as group's 1HFY22 core net profit of RM112mil (+75% YoY) was within expectations, accounting for 51% of our FY22F earnings and 54% of consensus. We exclude an RM8mil gain from the disposal of the OMI Alloy (M) plant and machinery from our core net profit calculation. For comparison, 1H accounted for 42%–50% of FY18–FY19 (pre-pandemic period) core net profit.
- MBMR's 2QFY22 core net profit rose 8% QoQ to RM58mil, driven mainly by a stronger performance of the motor trading division and higher associate contribution. The motor trading division's outperformance was mainly attributed to the higher sales volume of MBMR-related brands (Exhibit 2). In line with this, the division's revenue grew 19% QoQ to RM485mil.
- The 7% QoQ growth in associate contribution was also in tandem with the growth in Perodua sales (+7% QoQ) during the quarter. Separately, on top of the 6 sen/share interim dividend, MBMR also declared a special dividend of 10 sen/share following the disposal of the alloy wheel plant.
- Moving forward, Perodua's sales are expected to be supported by its robust order book (>240,000 bookings as of end-July) as well as deliveries of the all-new Alza. The entry-level multipurpose vehicle received a positive response from consumers with 39,000 bookings to date.
- In addition to that, in line with our view, demand for Perodua cars looks healthy even after the sales tax (SST) was reintroduced starting July 2022. The national automaker collected more than 24,000 bookings during the month, signifying that the SST reintroduction may not have dampened the demand for new cars.
- On the supply side, given that chip shortage is no longer its key concern, Perodua should be able to fully capitalise on the burgeoning demand. While the current inflationary environment may lead to consumers cutting back on discretionary spending, Perodua stands to benefit from potential downtrading by customers with its cars that are value for money, in our view.
- Valuation-wise, despite having more than 6 months of sales visibility, the stock is trading at an attractive valuation of FY23F PE of 5.6x vs. its 3-year average of 9x.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	320.9	478.5	557.0	16.4	73.6	739.2	1,035.5	40.1
Cost of sales	(292.7)	(438.4)	(511.1)	16.6	74.7	(675.3)	(949.6)	40.6
Gross Profit	28.2	40.1	45.9	14.5	62.6	63.9	85.9	34.6
Operating expenses	(20.5)	3.4	(25.7)	(>100)	25.5	(49.2)	(22.2)	(54.8)
EBIT	7.8	43.5	20.2	(53.6)	>100	14.7	63.7	>100
Finance costs	(0.1)	(0.1)	(0.2)	32.2	95.0	(0.2)	(0.3)	72.1
Interest income	0.9	1.2	1.0	(16.3)	9.0	1.8	2.1	17.5
Share of results of JV	1.6	3.1	3.6	16.6	>100	5.8	6.7	16.3
Share of results of assoc.	12.6	50.9	54.3	6.8	>100	55.8	105.2	88.5
Profit before tax	22.8	98.5	78.9	(19.9)	>100	77.9	177.4	>100
Income tax expense	(3.0)	(6.6)	(5.5)	(16.9)	84.6	(5.3)	(12.1)	>100
Profit for the period	19.9	91.9	73.5	(20.1)	>100	72.6	165.4	>100
Non-controlling interests	3.2	6.7	7.5	12.1	>100	8.9	14.1	59.5
PATAMI	16.7	85.2	66.0	(22.6)	>100	63.7	151.2	>100
Exceptional items	0.0	31.4	8.1			0.0	39.5	
Core PATAMI	16.7	53.9	57.9	7.5	>100	63.7	111.7	75.3
Earnings Per Share (sen)	4.3	13.8	14.8			16.3	28.6	
Dividend Per Share (sen)	5.0	0.0	16.0			5.0	16.0	
Margins								
Gross margin	8.8%	8.4%	8.2%			8.6%	8.3%	
EBIT margin	2.4%	9.1%	3.6%			2.0%	6.2%	
PBT margin	7.1%	20.6%	14.2%			10.5%	17.1%	
Net profit margin	5.2%	17.8%	11.8%			8.6%	14.6%	
Core net profit margin	5.2%	11.3%	10.4%			8.6%	10.8%	
Segmental Breakdown								
Revenue	320.9	478.5	557.0	16.4	73.6	739.2	1,035.5	40.1
Motor Trading	282.0	408.7	485.4	18.8	72.1	636.6	894.1	40.5
Auto Parts manufacturing	38.4	69.3	71.1	2.5	84.9	101.8	140.4	37.9
Others	0.4	0.5	0.6	3.0	28.3	0.9	1.1	26.9
PBT	22.8	98.5	78.9	(19.9)	>100	77.9	177.4	>100
Motor Trading	8.6	10.1	16.8	67.5	94.8	13.1	26.9	>100
Auto Parts manufacturing	0.6	35.2	4.8	(86.3)	>100	5.3	40.0	>100
Share of JV	1.6	3.1	3.6	16.6	>100	5.8	6.7	16.3
Share of Associates	12.6	50.9	54.3	6.8	>100	55.8	105.2	88.5
Others	(1.5)	(1.8)	(1.5)	(17.9)	(0.3)	(3.7)	(3.2)	(13.5)
PBT Margin								
Motor Trading	3.1%	2.5%	3.5%			2.1%	3.0%	
Auto Parts manufacturing	1.5%	50.8%	6.8%			5.2%	28.5%	
Perodua sales volume	39,381	61,624	65,719	6.6	66.9	97,290	127,343	30.9
Total Industry Volume (TIV)	107,479	159,752	171,830	7.6	59.9	249,187	331,582	33.1

Source: MBMR, AmInvestmentBank

EXHIBIT 2: MBMR-RELATED BRANDS 2Q22 SALES VOLUME

	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)
Daihatsu	249	405	240	(40.7)	(3.6)	504	645	28.0
Hino	851	1,333	1,473	10.5	73.1	1,936	2,806	44.9
Perodua	39,381	61,624	65,719	6.6	66.9	97,290	127,343	30.9
Volvo	545	696	1,097	57.6	101.3	994	1,793	80.4
Volkswagen	451	1,047	1,004	(4.1)	1.22.6	1,060	2,051	93.5
Total	41,477	65,105	69,533	6.8	67.6	101,784	134,638	32.3

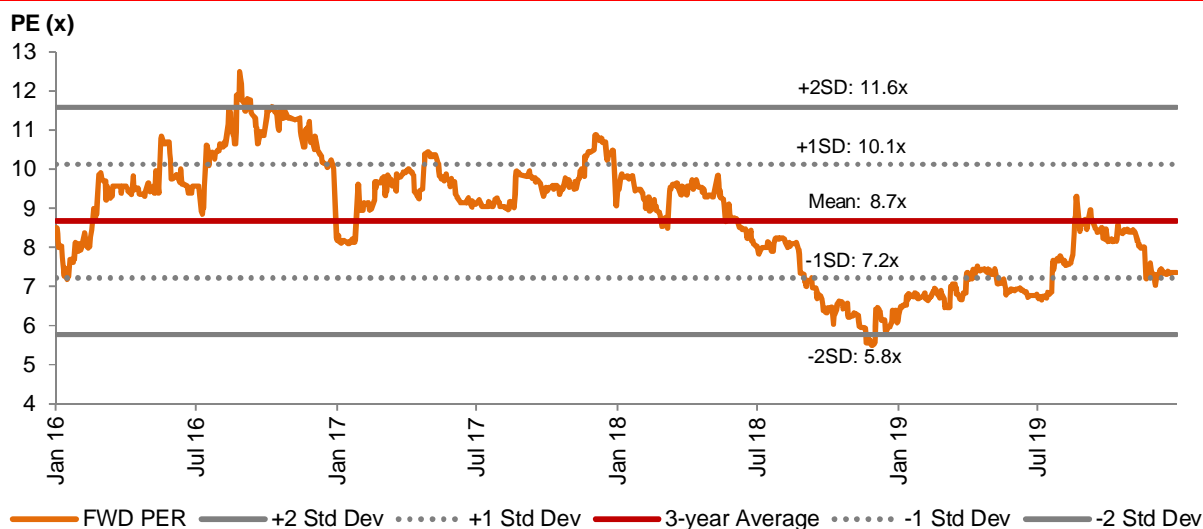
Source: Malaysian Automotive Association

EXHIBIT 3: SALES VOLUME ASSUMPTIONS

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

Source: Malaysian Automotive Association, AmInvestment Bank

EXHIBIT 4: 3-YEAR PE BAND (PRE-PANDEMIC)



Source: Bloomberg, AmInvestment Bank

EXHIBIT 5: 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: AmInvestment Bank

EXHIBIT 6: 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	1.9	(0.2)	(1.5)
Exceptional items	-	-	-	-	-
Pretax profit	204.5	207.5	264.6	279.1	295.2
Taxation	(14.8)	(15.6)	(14.2)	(16.8)	(18.6)
Minorities/pref dividends	24.0	23.8	31.6	33.1	34.9
Net profit	165.8	168.1	218.8	229.2	241.6
Core net profit	165.8	168.1	218.8	229.2	241.6
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	220.2	212.5	207.6	202.3	196.8
Intangible assets	1.1	1.1	1.1	1.1	1.1
Other long-term assets	1,502.5	1,664.1	1,874.2	2,088.6	2,312.1
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	212.2	235.5	258.9
Stock	56.6	48.3	64.2	65.6	68.1
Trade debtors	169.5	144.5	192.2	196.4	203.8
Other current assets	46.6	46.6	46.6	46.6	46.6
Total current assets	538.6	512.8	515.1	544.1	577.5
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
Other current liabilities	4.2	4.2	4.2	4.2	4.2
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
Other long-term liabilities	9.3	9.3	9.3	9.3	9.3
Total long-term liabilities	9.4	9.4	9.4	9.4	9.4
Shareholders' funds	1,825.0	1,914.9	2,016.5	2,183.1	2,358.3
Minority interests	277.6	301.3	333.0	366.1	401.0
BV/share (RM)	4.67	4.90	5.16	5.58	6.03
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	204.5	207.5	264.6	279.1	295.2
Depreciation/Amortisation	17.4	17.7	14.9	15.3	15.6
Net change in working capital	-	-	-	-	-
Others	(142.1)	(167.4)	(250.5)	(233.2)	(244.4)
Cash flow from operations	79.9	57.7	29.1	61.1	66.4
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)
Others	54.5	161.6	210.0	214.5	223.5
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)	(117.3)	(62.5)	(66.5)
Others	(52.8)	3.0	1.9	(0.2)	(1.5)
Cash flow from financing	(124.0)	(40.2)	(80.4)	(27.8)	(33.0)
Net cash flow	6.1	7.5	(61.3)	23.4	23.4
Net cash/(debt) b/f	-	-	-	-	-
Net cash/(debt) c/f	6.1	7.5	(61.3)	23.4	23.4
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
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	13.4	13.7
Net profit margin (%)	9.2	11.0	10.7	11.0	11.2
Interest cover (x)	nm	nm	nm	261.5	47.9
Effective tax rate (%)	7.2	7.5	5.4	6.0	6.3
Dividend payout (%)	25.9	46.5	53.6	27.3	27.5
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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