

26 August 2022

MBM Resources Bhd

Volume and Margin Boost

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MBMR's 1HFY22 results met expectations. It chalked up strong sales (as the economy reopened) and margins (due to high-margin new models and better pricing power for its auto parts amidst supply constraints in the industry). Associate Perusahaan Otomobil Kedua Sdn Bhd also turned in excellent results thanks to strong car sales. Maintain OUTPERFORM with a TP of RM4.10. The stock offers dividend yield of >6%.

Its 1HFY22 results met expectations with a core profit of RM106.5m (excluding RM44.8m gain from the disposal of its alloy wheels business), making up 54%/51% of house/street's FY22 forecasts. It declared first interim NDPS of 6.0 sen and special NDPS of 10.0 sen (ex-date: 8 Sep; payment date: 30 Sep) in 2QFY22 vs. 5.0 sen paid in 2QFY21.

1HFY22 turnover rose 40% YoY driven by: (i) strong sales from vehicle distribution (+41%) due to robust demand for Perodua, Volvo and Volkswagen vehicles, as well as Daihatsu commercial vehicles as the economy reopened, and (ii) equally strong sales recorded by its auto parts manufacturing (+38%) division. The share of profit from associates rose sharply (+86%) driven by strong car sales at Perusahaan Otomobil Kedua Sdn Bhd (+31% to 127,343 units). Core PATAMI rose by a larger 67% due to better margins at both vehicle distribution (due to high-margin new models, i.e. Perodua Alza and Perodua Ativa) as well as auto parts manufacturing (due to better pricing power amidst supply constraints in the industry).

Outlook. We like MBMR for its: (i) strategy to focus on affordable-priced range Perodua vehicles amidst the high inflationary environment with more than 400k units of back-logged bookings, (ii) highly sought after Tier-1 OEM auto parts manufacturing line boosted by the all-new models (i.e. all-new Perodua Alza, and Proton X50), and (iii) position in capitalising on both front for Perodua through its 22.58% stake and role as the largest Perodua dealership. Perodua recently launched the all-new Alza to replace its older generation model, already receiving overwhelmed backlog of 39k units. MBMR which also deals in the Volvo marque offers Volvo XC40 Recharge opening a path to the exciting tax-free BEV market.

Forecasts. Maintained.

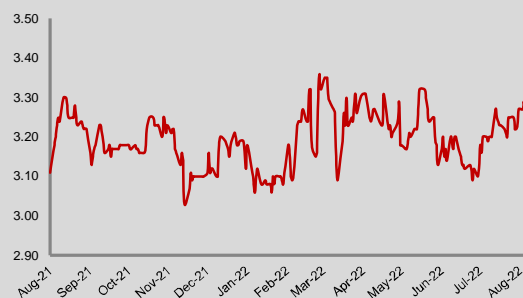
Maintain OUTPERFORM with a Target Price of RM4.10 based on Automotive PER of 7x on FY23F EPS which is at the lower range of our coverages trailing PER of 7x to 15x given its smaller scale and business model which is skewed toward auto dealerships compared to other players which are more involved in auto manufacturing. There is no adjustment to our TP based on ESG for which it is given a 3-star rating as appraised by us (see Page 4). The stock also offers an attractive dividend yield of >6%.

Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation, (ii) persistent disruptions (including chip shortages) in the global automotive supply chain, and (iii) persistently high cost for materials in auto parts manufacturing.

OUTPERFORM ↔

Price: RM3.29
Target Price: RM4.10 ↔

Share Price Performance



KLCI 1,495.49
YTD KLCI chg -4.6%
YTD stock price chg 6.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MBM MK Equity
Market Cap (RM m)	1,286.0
Shares Outstanding	390.9
52-week range (H)	3.39
52-week range (L)	2.92
3-mth avg daily vol:	169,115
Free Float	31%
Beta	0.8

Major Shareholders

Med-Bumikar Mara Sdn Bhd	49.5%
Employees Provident Fund	9.9%
Lembaga Tabung Haji	5.0%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	1,531.9	2,047.4	2,280.3
EBIT	42.9	32.7	37.1
PBT	207.5	254.0	281.3
PATAMI	167.9	195.5	227.7
Core PATAMI	167.9	195.5	227.7
Consensus (NP)	-	207.3	214.3
Earnings Revision	-	-	-
Core EPS (sen)	43.0	50.0	58.3
Core EPS growth (%)	5.6	16.4	16.5
NDPS (sen)	20.0	22.0	24.0
BVPS (RM)	4.90	5.18	5.52
PER (x)	7.7	6.6	5.6
PBV (x)	0.7	0.6	0.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.1	6.7	7.3



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Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	557.0	478.5	16.4%	320.9	73.6%	1035.5	739.2	40.1%
EBIT/ (LBIT)	21.8	45.5	-52.2%	9.4	132.8%	67.3	17.2	290.2%
Associates	54.3	50.9	6.8%	12.6	330.0%	105.2	55.8	88.5%
Jointly controlled entity	3.6	3.1	16.6%	1.6	121.5%	6.7	6.4	4.1%
PBT/(LBT)	78.9	98.5	-19.9%	22.8	245.9%	177.4	77.9	127.9%
Taxation	-5.5	-6.6	16.9%	-3.0	-84.6%	-12.1	-5.3	-129.8%
PATAMI	66.0	85.2	-22.6%	16.7	295.7%	151.2	63.7	137.2%
Core PATAMI	56.8	49.6	14.5%	16.7	240.8%	106.5	63.7	67.0%
EPS (sen)	14.5	12.7	14.5%	4.3	240.8%	27.2	16.3	67.0%
DPS (sen)	16.0	0.0		5.0		16.0	5.0	
EBIT/(LBIT) margin	3.9%	9.5%		2.9%		6.5%	2.3%	
PBT/(LBT) margin	14.2%	20.6%		7.1%		17.1%	10.5%	
Core PATAMI margin	10.2%	10.4%		5.2%		10.3%	8.6%	
Effective tax rate	6.9%	6.7%		13.0%		6.8%	6.7%	

Source: Company, Kenanga Research

Segmental breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	557.0	478.5	16.4%	320.9	73.6%	1035.5	739.2	40.1%
Vehicles Distribution	485.4	408.7	18.8%	282.0	72.1%	894.1	636.6	40.5%
Auto Parts Manufacturing	71.1	69.3	2.5%	38.4	84.9%	140.4	101.8	37.9%
Others	0.6	0.5	3.0%	0.4	28.3%	1.1	0.9	26.9%
Segment PBT	78.9	98.5	-19.9%	22.8	245.9%	177.4	77.9	127.9%
Vehicles Distribution	17.2	10.6	61.9%	9.1	88.1%	27.8	14.1	97.7%
Auto Parts Manufacturing	4.9	4.9	1.2%	0.6	737.1%	9.8	5.4	82.9%
Others	-1.1	29.0	-103.9%	-1.2	3.4%	27.9	-3.1	993.2%
Jointly-controlled Entity	3.6	3.1	16.6%	1.6	121.5%	6.7	5.8	16.3%
Associates	54.3	50.9	6.8%	12.6	330.0%	105.2	55.8	88.5%
Segment PBT margin (%)	14.2%	20.6%		7.1%		17.1%	10.5%	
Vehicles Distribution	3.5%	2.6%		3.2%		3.1%	2.2%	
Auto Parts Manufacturing	7.0%	7.0%		1.5%		7.0%	5.3%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	1.77	2.30	29.94%	2,055.0	Y	04/2023	14.1	16.1	5.1%	14.4%	12.6	11.0	2.9	24.4%	8.5	4.8%
DRB-HICOM BHD	MP	1.51	1.55	2.65%	2,918.8	Y	12/2022	4.8	8.3	-55.8%	73.1%	31.4	18.2	0.3	1.0%	2.0	1.3%
MBM RESOURCES BHD	OP	3.29	4.10	24.62%	1,286.1	Y	12/2022	50.0	58.3	16.5%	16.6%	6.6	5.6	0.6	8.7%	20.0	6.1%
SIME DARBY BHD	OP	2.33	2.60	11.59%	15,846.3	Y	06/2023	17.7	19.5	0.5%	10.6%	13.2	11.9	1.0	7.4%	12.0	5.2%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.15	1.00	-13.04%	772.8	Y	12/2022	1.9	2.9	-31.3%	54.4%	61.8	40.0	0.3	0.5%	0.0	0.0%
UMW HOLDINGS BHD	OP	3.04	4.40	44.74%	3,551.6	Y	12/2022	30.7	33.7	60.5%	9.9%	9.9	9.0	0.5	4.9%	6.0	2.0%
Simple Average								19.9	23.1	-0.8%	29.8%	22.6	16.0	0.9	7.8%		3.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Electric Vehicles Initiatives	★	★			
	Energy Efficient Vehicles Initiatives	★	★	★	★	
	Renewable Energy	★	★	☆		
	Occupational Health and Safety	★	★	★	★	
	Waste Management /Recycling	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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