

16 January 2019 | Corporate Update

MBM Resources

Cheapest proxy to Perodua TIV expansion

Maintain BUY

Revised Target Price: RM3.80

(from RM3.15)

INVESTMENT HIGHLIGHT

- **Key beneficiary of the Aruz**
- **Perodua forecasted to hit record TIV**
- **FY18F/19F earnings raised 16%/19%**
- **Re-affirm BUY, TP raised to RM3.80**

Turning more bullish. We reaffirm our BUY call on MBM and raise our sum-of-parts derived TP to RM3.80 (from RM3.15). MBM is now our top sector pick. In line with our sector report today, we raise MBM's FY18F/19F earnings by 16%/19% to RM148m/RM165m – we are now 10%/16% above consensus. The upward revision is to reflect higher Perodua TIV forecasts for FY18F and FY19F; the former, given stronger than expected sales over the tax holiday period and the latter, driven by Perodua's new SUV model, the Aruz. Our TIV forecast for Perodua was raised to 227K/241K units for FY18F/19F representing 11%/6% yoy growth respectively.

Why is the Aruz important? The Aruz plugs an important gap in Perodua's model mix after having been absent from the SUV segment since 2009. The Aruz is now Perodua's highest priced model - previously, the Alza was its highest, priced at RM51,490-RM62,690. Given the large ~RM10K gap in price points within a price sensitive segment, we think the Aruz is unlikely to cannibalise the Alza in a big way.

The Aruz also fills a vacuum in the <RM80K SUV segment - the Aruz would be the cheapest 7-seater SUV from the mainstream brands to be available in the market giving Perodua a strong advantage. The Haval H1 (5-seater SUV from a Chinese brand), although entailing cheaper pricing of RM59K-RM72K, has not really been selling in the market and is not a direct competitor given its much smaller size.

Cheap entry into Perodua. MBM is a cheap play into Perodua's structural TIV growth from the Aruz, trading at just 6x FY19F earnings. Furthermore, MBM provides earnings leverage into Perodua as Perodua accounts for >90% of MBM's earnings. The group's dealership unit, particularly 51%-owned Daihatsu Malaysia Sdn Bhd is a key beneficiary of Perodua's TIV expansion as DMSB is the largest Perodua dealership in the country accounting for circa 10% of Perodua TIV. MBM's parts manufacturing units are also beneficiaries from supplies to the Aruz and potentially, Proton X70. National cars typically entail high local content of 70%-95% vs. 40%-60% for non-nationals.

Key catalysts. (1) Strong 6%yoy Perodua TIV expansion (FY19F) on the back of the Aruz to fill up a vacuum in Perodua's model mix (2) A recovery in industry production driven by the new national car launches. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.

RETURN STATS	
Price (15 Jan 2019)	RM2.49
Target Price	RM3.80
Expected Share Price Return	+52.6%
Expected Dividend Yield	+4.2%
Expected Total Return	+56.8%

STOCK INFO	
KLCI	1679.42
Bursa / Bloomberg	5983 / MBM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	390.89
Market cap. (RM'm)	973.31
Price over NA	0.64
52-wk price Range	RM1.86-2.68
Beta (against KLCI)	0.59x
3-mth Avg Daily Vol	0.29m
3-mth Avg Daily Value	RM0.62m
Major Shareholders (%)	
Med-Bumikar	49.5
EPF	14.7
AIA	4.2

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,816.7	1,680.7	1,732.6	1,654.8	1,709.3
EBIT (RM'm)	21.3	(48.5)	(257.6)	8.8	17.1
Pre-tax Profit (RM'm)	123.0	79.4	(148.5)	183.6	216.6
Normalised PATAMI (RM'm)	80.4	84.8	86.1	148.2	165.0
FD EPS (sen)	20.6	21.7	22.1	38.0	42.3
EPS growth (%)	(29.6)	5.4	1.6	72.2	11.3
PER (x)	12.1	11.5	11.3	6.6	5.9
Net Dividend (sen)	10.0	6.0	3.0	9.5	10.6
Net Dividend Yield (%)	4.0	2.4	1.2	3.8	4.2

Source: Company, MIDF

EXHIBIT 1: MBM SOP VALUATION

Segments	FY19F earnings (RMm)	PE (x)	Value (RMm)
Perodua (@ 22.6% stake)	151.5	9	1,363
Auto dealerships, parts & others	13.5	8	108
Total value	165.0		1,471
No of shares (m)			390
Value per share (RM)			3.80

Source: Company, MIDF

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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Income Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	1,816.7	1,680.7	1,732.6	1,654.8	1,709.3
Operating expenses	(1,795.4)	(1,729.3)	(1,990.1)	(1,646.0)	(1,692.2)
EBIT	21.3	(48.5)	(257.6)	8.8	17.1
Net interest expense	(14.2)	(12.2)	(11.3)	(10.0)	(7.0)
Associates/JCE	115.9	140.2	120.4	184.9	206.4
PBT	123.0	79.4	(148.5)	183.6	216.6
Taxation	(19.7)	(7.7)	(7.5)	(10.1)	(21.7)
Minority Interest	22.9	9.7	(7.2)	25.3	29.9
Net profit	80.4	62.0	(148.8)	148.2	165.0
Core net profit	80.4	84.75	86.1	148.2	165.0
<i>Consensus net profit</i>			<i>79.0</i>	<i>134.7</i>	<i>142.1</i>
<i>MIDF / Consensus</i>			<i>9.0%</i>	<i>10.0%</i>	<i>16.1%</i>
Balance Sheet (RMm)	FY15	FY16	FY17	FY18F	FY19F
Non-current assets	1,808.5	1,824.7	1,567.9	1,933.5	2,014.8
PPE	347.4	354.3	334.7	335.2	327.7
Investments in associate	983.4	1,057.2	1,105.0	1,163.8	1,231.4
Others	477.7	413.2	128.2	434.6	455.6
Current assets	581.4	538.3	506.6	470.2	485.9
Inventories	182.2	191.9	148.2	188.9	195.1
Receivables	174.4	148.3	150.5	146.0	150.8
Others	12.5	31.1	14.5	31.1	31.1
Cash & equivalent	212.3	167.0	193.3	104.2	108.9
TOTAL ASSETS	2,389.9	2,362.9	2,074.5	2,403.7	2,500.7
Share capital	390.7	390.7	390.7	390.7	390.7
Minority Interest	267.8	266.9	215.7	306.8	336.8
Reserves	1,207.3	1,210.6	1,048.9	1,379.7	1,503.4
TOTAL EQUITY	1,865.8	1,868.2	1,655.3	2,077.2	2,230.9
Non-current liabilities	273.6	212.9	116.6	133.9	94.9
Long-term borrowings	266.8	201.3	108.2	122.3	83.3
Deferred tax liabilities	3.7	3.7	4.4	3.7	3.7
Others	3.2	7.9	3.9	7.9	7.9
Current liabilities	250.4	281.8	302.6	192.6	174.9
Short-term borrowings	107.3	170.0	168.5	110.0	90.0
Payables	142.2	109.6	131.6	80.3	82.7
Others	0.9	2.2	2.5	2.2	2.2
TOTAL LIABILITIES	524.1	494.7	419.2	326.5	269.8

Cash Flow Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Operating activities					
PBT	103.3	82.8	83.5	173.5	194.9
Depreciation & Amortization	22.6	25.7	29.9	29.1	28.5
Chgs in working capital	(16.9)	(16.2)	(2.4)	(21.6)	(8.7)
Others	(79.8)	(138.1)	(35.2)	(184.9)	(206.4)
CF from Operations	29.3	(45.9)	75.8	(3.8)	8.3
Investing activities					
Capex	(18.2)	(25.5)	(20.0)	(20.0)	(21.0)
Others	90.8	71.3	135.6	105.4	117.7
CF from Investments	72.6	45.8	115.6	85.4	96.7
Financing activities					
Dividends paid	(51.3)	(32.2)	(11.0)	(37.0)	(41.2)
Net proceeds in borrowings	(35.7)	(40.7)	(102.1)	(59.0)	(59.0)
Others	(20.5)	26.7	(67.6)	-	-
CF from Financing	(107.5)	(46.2)	(180.7)	(96.0)	(100.2)
Net changes in cash	(5.6)	(46.3)	10.8	(14.4)	4.7
Beginning cash	214.2	224.2	209.1	219.8	205.4
Overdrafts & Deposits	15.6	31.2			
Ending cash	224.2	209.1	219.8	205.4	210.1
Ratios	FY15	FY16	FY17	FY18F	FY19F
Revenue growth	2.0%	-7.5%	3.1%	-4.5%	3.3%
EBIT growth	NA	NA	NA	-103.4%	94.8%
Core net profit growth	-33.9%	5.4%	1.6%	72.2%	11.3%
PBT margin	6.8%	4.7%	-8.6%	11.1%	12.7%
Core net profit margin	4.4%	5.0%	5.0%	9.0%	9.7%
ROE	5.0%	5.3%	6.0%	8.4%	8.7%
ROA	3.4%	3.6%	4.1%	6.2%	6.6%
Net gearing (%)	10.1%	12.8%	5.8%	7.2%	3.4%
Book value/share (RM)	4.10	4.10	3.69	4.54	4.85
PBV (x)	0.61	0.61	0.67	0.55	0.51

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.