

21 August 2019 | 2QFY19 Results Review

MBM Resources

Positive surprise from new dividend policy

INVESTMENT HIGHLIGHT

- **2Q19 met our expectation but ahead of consensus**
- **Generous dividend policy a positive surprise, strong catalyst for valuation re-rating**
- **Elimination of OMIA drag from 3Q19 onwards**
- **Re-affirm BUY at unchanged TP of RM4.20, 8% yield attractive**

2Q19 beats consensus. MBM reported core earnings of RM49m for its 2Q19 (excluding a RM25m gain on disposal of 22% stake in Hino), bringing 1H19 core earnings to RM99m. This is well within our expectation (which is among the highest on the street) but ahead of consensus accounting for 54% and 59% of FY19F estimates respectively. An interim dividend of 6sen/share was declared, significantly higher than the 3sen/share announced in 2Q18.

More aggressive dividend policy. A positive surprise, MBM is adopting a new, more aggressive dividend policy of a minimum 60% payout, which is a significant improvement versus the 14% payout seen in the past 2 years (See Exhibit 2). At our current FY19F, implied dividends at 60% payout translate to a generous 7.7% yield. Share price should react very positively to this announcement today. In fact, this could potentially address the drag on MBM's valuations which have historically traded at a discount (below 9x PER) against the sector's ~12x, and catalyse a strong valuation re-rating.

Strong demand for Perodua. Associate earnings comprising mainly of 22.6%-owned Perodua, increased 29%yoy driven by the Aruz and existing MyVi and Axia models – underpinning our thesis of record TIV for Perodua this year. Perodua's invoiced volumes increased by 9%yoy; the 2Q19 reflects full quarter contribution of the Aruz.

Elimination of OMIA drag is the next catalyst. MBM ceased operations of its loss making alloy wheel plant mid-2019. This should eliminate a key drag to earnings from 3Q19 onwards. OMIA registered net losses of RM38m/RM29m in FY16/17 and is estimated to have reported RM20m-RM30m losses in FY18 (RM5m-RM6m/quarter); this translates to ~10%-15% improvement to group earnings on annualised basis. OMIA as a standalone company is estimated to entail negative shareholders fund of RM179m as at end-FY17 against total liabilities of RM224m and total asset of RM45m. Our forecasts (which are already 9%/15% higher than consensus) are under review pending a briefing this week, but we raise our dividend payout assumption to 60% from 25% previously.

MBM (BUY) remains our top sector pick at unchanged **TP of RM4.20**. At just 7x FY20F earnings coupled with an attractive 8% yield, MBM remains a cheap proxy to Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. 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.

Maintain BUY

Unchanged Target Price: RM4.20

RETURN STATS

Price (20 Aug 2019)	RM3.67
Target Price	RM4.20
Expected Share Price Return	+14.4%
Expected Dividend Yield	+7.7%
Expected Total Return	+22.1%

STOCK INFO

KLCI	1602.75
Bursa / Bloomberg	5983 / MBM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	390.89
Market cap. (RM'm)	1434.56
Price over NA	0.89
52-wk price Range	RM1.86-RM3.76
Beta (against KLCI)	0.56
3-mth Avg Daily Vol	0.56m
3-mth Avg Daily Value	RM0.80m
Major Shareholders (%)	
Med-Bumikar	49.5
EPF	10.9
AIA	4.0

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Kindly refer to the last page of this publication for important disclosures

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	1,680.7	1,732.6	1,928.2	1,827.7	1,854.3
EBIT (RM'm)	(48.5)	(257.6)	12.5	25.3	27.2
Pre-tax Profit (RM'm)	79.4	(148.5)	200.7	236.2	262.2
Normalised PATAMI (RM'm)	84.8	86.1	168.3	184.6	206.5
FD EPS (sen)	21.7	22.1	43.1	47.3	52.9
EPS growth (%)	5.4	1.6	95.6	9.6	11.9
PER (x)	16.9	16.6	8.5	7.8	6.9
Net Dividend (sen)	6.0	3.0	6.0	28.4	31.8
Net Dividend Yield (%)	1.6	0.8	1.6	7.7	8.7

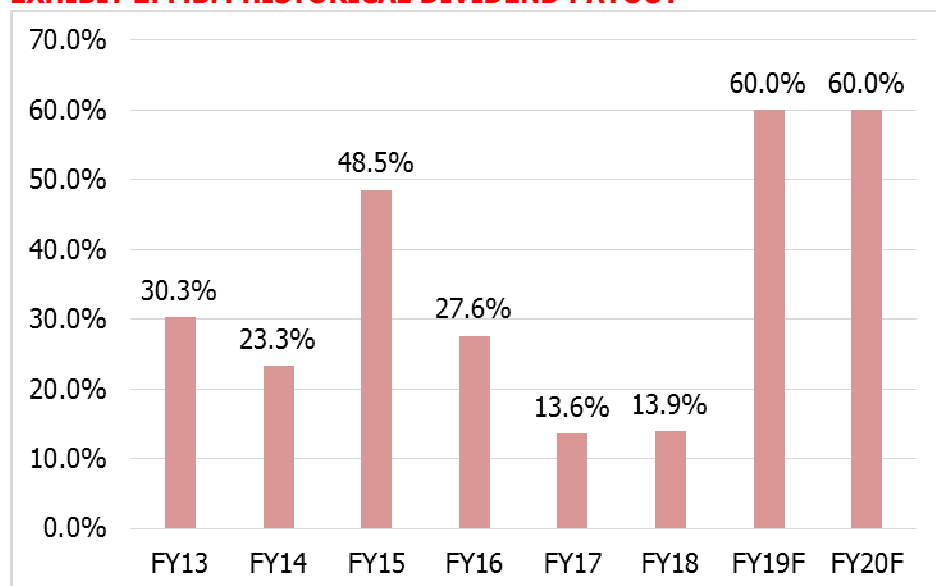
Source: Company, MIDF

EXHIBIT 1: MBM SOP VALUATION

Segments	FY19F earnings (RMm)	PE (x)	Value (RMm)
Perodua (@ 22.6% stake)	161.5	9	1,453
Auto dealerships, parts & others	23.1	8	185
Total value	184.8		1,640
No of shares (m)			390
Value per share (RM)			4.20

Source: Company, MIDF

EXHIBIT 2: MBM HISTORICAL DIVIDEND PAYOUT

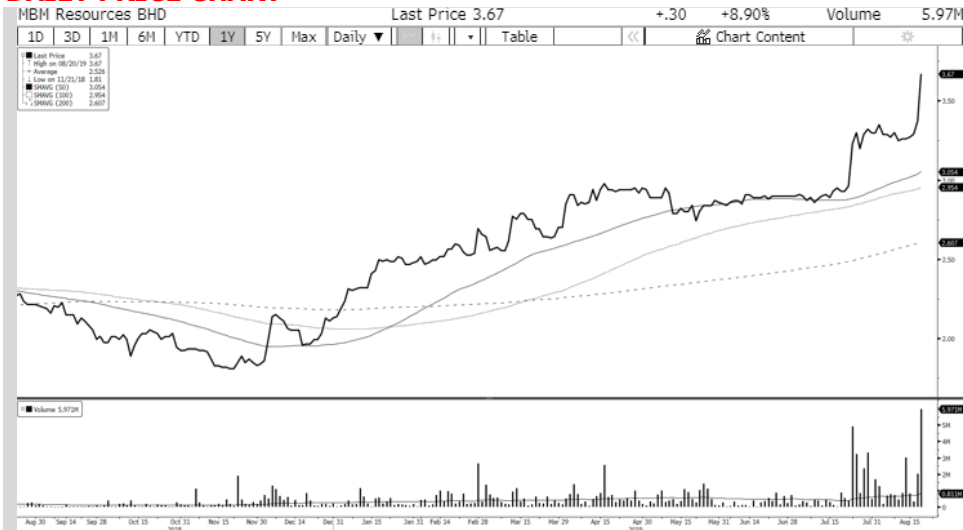


Source: Company, MIDF

FYE Dec (RMm)	2Q18	1Q19	2Q19	YoY	QoQ	1H18	1H19	YTD
Revenue	483.5	532.5	558.0	15.4%	4.8%	935.4	1077.1	15.1%
Operating profit	5.8	15.7	35.7	518.3%	127.0%	12.4	53.0	328.7%
Net finance cost	(0.7)	(1.0)	0.8	-224.8%	-183.8%	(1.0)	1.1	-203.5%
JCE	4.4	3.9	2.4	-46.5%	-39.6%	7.8	6.3	-19.3%
Associates	39.2	42.8	50.5	28.7%	17.8%	76.0	93.3	22.7%
Pretax income	48.7	61.5	89.3	83.2%	45.2%	95.1	153.6	61.5%
Tax	(2.7)	(2.8)	(3.2)	19.5%	14.2%	(4.9)	(6.1)	24.2%
PAT	46.0	58.7	86.1	87.0%	46.7%	90.2	147.6	63.6%
MI/Discontinued Ops	11.5	9.0	12.0	4.7%	33.7%	22.9	23.9	4.4%
Net profit	34.5	49.7	74.0	114.3%	49.1%	67.4	123.7	83.6%
Core net profit	34.5	41.1	49.3	42.6%	19.9%	67.4	98.9	46.9%
GDPS (sen)	3.00	0.00	6.00	100.0%	NA	3.70	6.00	62.2%
Core EPS (sen)	8.85	10.53	12.63	42.6%	19.9%	17.26	31.70	83.6%
Operating margin	1.2%	3.0%	6.4%			1.3%	4.9%	
Pretax margin	10.1%	11.5%	16.0%			10.2%	14.3%	
Tax rate	-5.6%	-4.6%	-3.6%			-5.1%	-4.0%	
Core net profit margin	7.1%	7.7%	8.8%			7.2%	9.2%	
Revenue by division	2Q18	1Q19	2Q19	YoY	QoQ	1H18	1H19	YTD
Motor trading	439.6	467.9	505.1	14.9%	7.9%	839.3	973.0	15.9%
Parts Manufacturing	43.6	64.1	52.6	20.7%	-18.0%	115.6	116.7	1.0%
Pretax by division								
Motor trading	6.5	17.5	9.4	45.0%	-45.9%	11.7	26.9	129.0%
Parts Manufacturing	1.6	(0.4)	4.0	152.6%	-1037.4%	(7.8)	3.5	-145.5%
Pretax margin								
Motor trading	1.5%	3.7%	1.9%			1.4%	2.8%	97.5%
Parts Manufacturing	3.6%	-0.7%	7.5%			-6.7%	3.0%	-145.0%
P2 TIV (units)- MAA	61,530	60,659	61,123	-0.7%	0.8%	117,098	121,782	4.0%

Source: Company, MIDF

DAILY PRICE CHART



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Income Statement (RMm)	FY16	FY17	FY18	FY19F	FY20F
Revenue	1,680.7	1,732.6	1,928.2	1,827.7	1,854.3
Operating expenses	(1,729.3)	(1,990.1)	(1,915.8)	(1,802.4)	(1,827.1)
EBIT	(48.5)	(257.6)	12.5	25.3	27.2
Net interest expense	(12.2)	(11.3)	(5.9)	(7.1)	(5.2)
Associates/JCE	140.2	120.4	194.1	218.0	240.2
PBT	79.4	(148.5)	200.7	236.2	262.2
Taxation	(7.7)	(7.5)	(11.7)	(23.6)	(26.2)
Minority Interest	9.7	(7.2)	23.5	28.1	29.4
Net profit	62.0	(148.8)	165.5	184.6	206.5
Core net profit	84.8	86.1	168.3	184.6	206.5
<i>Consensus net profit</i>		<i>79.0</i>	<i>138.4</i>	<i>169.7</i>	<i>179.8</i>
<i>MIDF / Consensus</i>		<i>9.0%</i>	<i>21.6%</i>	<i>8.8%</i>	<i>14.9%</i>
Balance Sheet (RMm)	FY16	FY17	FY18	FY19F	FY20F
Non-current assets	1,824.7	1,567.9	1,645.0	2,023.5	2,119.1
PPE	354.3	334.7	335.2	326.8	319.1
Investments in associate	1,057.2	1,105.0	1,168.0	1,240.8	1,314.2
Others	413.2	128.2	141.8	456.0	485.8
Current assets	538.3	506.6	464.3	530.9	539.5
Inventories	191.9	148.2	116.2	127.9	129.8
Receivables	148.3	150.5	146.5	161.3	163.6
Others	31.1	14.5	27.9	31.1	31.1
Cash & equivalent	167.0	193.3	173.7	210.6	214.9
TOTAL ASSETS	2,362.9	2,074.5	2,109.3	2,554.5	2,658.6
Share capital	390.7	390.7	390.7	390.7	390.7
Minority Interest	266.9	215.7	303.0	331.0	360.5
Reserves	1,210.6	1,048.9	1,134.9	1,468.4	1,551.1
TOTAL EQUITY	1,868.2	1,655.3	1,828.6	2,190.2	2,302.3
Non-current liabilities	212.9	116.6	92.6	128.9	123.9
Long-term borrowings	201.3	108.2	85.5	117.3	112.3
Deferred tax liabilities	3.7	4.4	3.7	3.7	3.7
Others	7.9	3.9	3.4	7.9	7.9
Current liabilities	281.8	302.6	188.1	235.4	232.4
Short-term borrowings	170.0	168.5	58.2	96.0	91.0
Payables	109.6	131.6	126.1	137.2	139.1
Others	2.2	2.5	3.8	2.2	2.2
TOTAL LIABILITIES	494.7	419.2	280.7	364.3	356.3

Cash Flow Statement (RMm)	FY16	FY17	FY18	FY19F	FY20F
Operating activities					
PBT	82.8	83.5	200.7	212.6	235.9
Depreciation & Amortization	25.7	29.9	29.1	28.4	27.7
Chgs in working capital	(16.2)	(2.4)	50.6	30.4	(2.2)
Others	(138.1)	(35.2)	(216.1)	(218.0)	(240.2)
CF from Operations	(45.9)	75.8	64.4	53.4	21.2
Investing activities					
Capex	(25.5)	(20.0)	(20.0)	(20.0)	(20.0)
Others	71.3	135.6	122.9	124.3	136.9
CF from Investments	45.8	115.6	102.9	104.3	116.9
Financing activities					
Dividends paid	(32.2)	(11.0)	(24.9)	(110.7)	(123.8)
Net proceeds in borrowings	(40.7)	(102.1)	(144.0)	(10.0)	(10.0)
Others	26.7	(67.6)	-	-	-
CF from Financing	(46.2)	(180.7)	(169.0)	(120.7)	(133.8)
Net changes in cash	(46.3)	10.8	(1.7)	37.0	4.3
Beginning cash	224.2	209.1	219.8	218.1	255.1
Overdrafts & Deposits	31.2				
Ending cash	209.1	219.8	218.1	255.1	259.4
Ratios	FY16	FY17	FY18	FY19F	FY20F
Revenue growth	-7.5%	3.1%	11.3%	-5.2%	1.5%
EBIT growth	NA	NA	-104.8%	102.9%	7.5%
Core net profit growth	5.4%	1.6%	95.6%	9.6%	11.9%
PBT margin	4.7%	-8.6%	10.4%	12.9%	14.1%
Core net profit margin	5.0%	5.0%	8.7%	10.1%	11.1%
ROE	5.3%	6.0%	11.0%	9.9%	10.6%
ROA	3.6%	4.1%	8.0%	7.2%	7.8%
Net gearing (%)	12.8%	5.8%	-2.0%	0.1%	-0.6%
Book value/share (RM)	4.10	3.69	3.91	4.76	4.98
PBV (x)	0.89	0.99	0.94	0.77	0.74

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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.