

26 May 2022

Consumer Cyclical | Auto & Autoparts

MBM Resources (MBM MK)

Neutral (Maintained)

Starting The Year As Expected

- **Stay NEUTRAL, with new MYR3.40 TP from MYR3.38, 7% upside.** 1Q22 results came within our and Street estimates, as Perodua performed as expected. We anticipate 2Q to be stronger, as Perodua rushes to fulfil orders before the tax relief expires, and 2H22 sales to be supported by discounts and new launches. While we like MBM Resources' 8% yield, we maintain our call, given the lack of fresh re-rating catalysts. This report marks the transfer of coverage to Jim Lim.
- **Within expectations.** MBM reported 1Q21 core PATAMI of MYR50m – within our and Street expectations at 25% of full year estimates. No dividends declared, as expected.
- **Results review.** YoY, revenue rose 14% from a weak 1Q21, which was due to movement restrictions. A one-off gain from the disposal of a piece of leasehold land (MYR30.4m) lifted EBIT by 530% and net profit by 81%. Absent of the non-core income, core net profit rose by 5%. Core net margin eased 0.9ppt on product mix, and partially due to rising production costs. MBM's main earnings contributor – 20%-owned Perodua – reported a MYR50.9m profit, an 18% YoY increase. During the quarter, Perodua sold 61,627 units (-13% QoQ, +6% YoY). QoQ, core net profit fell 55% as Perodua's contribution fell 50%, mainly weighed by production disruption in Jan and Feb 2022, after the Dec 2021 floods.
- **Outlook.** Perodua's April sales volume (25,652 units) fell 4% MoM, a relatively limited impact compared to the TIV fall of 23% MoM, caused by chip and component shortages. We expect the said resilience to support May and Jun 2022 sales, as Perodua continues to fulfil its strong order backlog before the expiry of the sales & service tax (SST) exemption. Sales in 2H22 should marginally ease vs 1H22, supported by discounts and the launch of the all-new Alza.
- **Forecast.** Despite earnings coming in line, we tweak our Perodua FY22 volume assumption to 240,000 units (Perodua: 247,800 units) from 230,000 units to account for the strong YTD sales volume of 87,278 units. That lifts our FY22F earnings by 0.5% and our TP to MYR3.40. Our TP also includes a 4% ESG discount, based on its ESG score of 2.8 out of 4.0. We maintain our 7x FY22F P/E, or +0.5SD from its 5-year mean, given Perodua's strong sales volume and relative resilience against component shortages. We maintain our NEUTRAL call on the stock, as it is fairly valued at its 5-year mean forward P/E of 6.3x. Besides, the stock lacks fresh re-rating catalysts, and Perodua's strong FY22 sales are largely expected by the market and thus, arguably priced in.
- **Key downside risks** include slower-than-expected normalisation in demand post SST exemption at end Jun 2022, and sustained disruptions in chip and other component supply. The opposite represents upside risks.

Target Price (Return):	MYR3.40 (+7%)
Price (Market Cap):	MYR3.19 (USD284m)
ESG score:	2.80 (out of 4)
Avg Daily Turnover (MYR/USD)	0.96m/0.23m

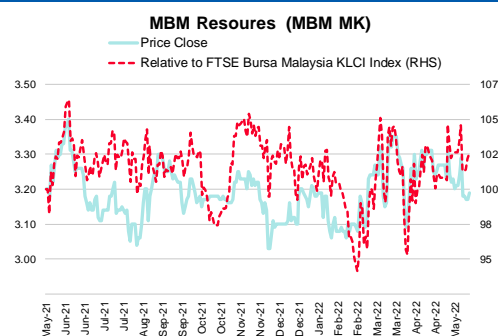
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.3)	(1.9)	2.9	0.6	(0.3)
Relative	1.7	1.5	6.4	(0.6)	2.4
52-wk Price low/high (MYR)	3.03 – 3.40				



Source: Bloomberg

Overall ESG Score: 2.80 (out of 4)

E: GOOD

MBM has taken effort to monitor and improve its environmental standing. The company is working on the assessment of its carbon footprint.

S: GOOD

Continuous efforts are made to improve employee safety and welfare, alongside consistent engagement programmes with the local community. However, we note that quantitative statistics were absent in the sustainability report.

G: GOOD

MBM has applied and adopted the majority of best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that less than half of the board comprises independent directors, and women are represented by only one director out of six. The board also does not disclose on a named basis the Top 5 senior management's remuneration components in bands of MYR50,000.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,793	1,532	1,813	1,881	1,898
Recurring net profit (MYRm)	167	168	197	213	216
Recurring net profit growth (%)	(15.1)	0.8	17.4	8.0	1.2
Recurring P/E (x)	7.47	7.42	6.32	5.85	5.78
P/B (x)	0.7	0.7	0.6	0.6	0.6
P/CF (x)	15.04	101.36	33.10	22.68	21.14
Dividend Yield (%)	3.4	6.3	7.4	7.9	8.0
EV/EBITDA (x)	- 3.46	- 5.11	- 5.50	- 6.75	- 8.14
Return on average equity (%)	9.3	9.0	10.0	10.3	9.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.43	0.43	0.50	0.55	0.55
Consumer Cyclical	DPS	0.11	0.20	0.23	0.25	0.26
MBM Resources	BVPS	4.67	4.90	5.17	5.46	5.76
MBM MK	Return on average equity (%)	9.3	9.0	10.0	10.3	9.8
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	7.47	7.42	6.32	5.85	5.78
	P/B (x)	0.7	0.7	0.6	0.6	0.6
	FCF Yield (%)	6.3	0.3	1.4	2.8	3.1
	Dividend Yield (%)	3.4	6.3	7.4	7.9	8.0
	EV/EBITDA (x)	- 3.46	- 5.11	- 5.50	- 6.75	- 8.14
	EV/EBIT (x)	- 4.82	- 7.21	- 7.33	- 8.99	- 10.92
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	1,793	1,532	1,813	1,881	1,898
	Gross profit	145	136	145	150	152
	EBITDA	61	61	71	74	75
	Depreciation and amortisation	(17)	(18)	(18)	(18)	(19)
	Operating profit	44	43	53	56	56
	Net interest	3	3	2	1	(0)
	Pre-tax profit	207	207	240	258	261
	Taxation	(16)	(16)	(14)	(15)	(14)
	Reported net profit	167	168	197	213	216
	Recurring net profit	167	168	197	213	216
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	13	13	(21)	(5)	(1)
	Cash flow from operations	83	12	38	55	59
	Capex	(5)	(9)	(20)	(20)	(20)
	Cash flow from investing activities	50	76	(20)	(20)	(20)
	Dividends paid	(43)	(78)	(92)	(99)	(100)
	Cash flow from financing activities	(144)	(94)	(70)	(78)	(81)
	Cash at beginning of period	266	271	261	207	163
	Net change in cash	(11)	(6)	(52)	(43)	(42)
	Ending balance cash	255	265	209	163	121
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	271	261	207	163	121
	Tangible fixed assets	214	181	184	185	186
	Total investments	1,472	1,589	1,773	1,975	2,180
	Total assets	2,256	2,362	2,541	2,711	2,879
	Short-term debt	7	23	58	93	128
	Total long-term debt	0	0	(15)	(30)	(45)
	Total liabilities	153	176	222	249	270
	Total equity	2,103	2,185	2,319	2,463	2,609
	Total liabilities & equity	2,256	2,362	2,541	2,711	2,879
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(14.0)	(14.6)	18.3	3.7	0.9
	Recurrent EPS growth (%)	(15.0)	0.8	17.4	8.0	1.2
	Gross margin (%)	8.1	8.9	8.0	8.0	8.0
	Operating EBITDA margin (%)	3.4	4.0	3.9	3.9	4.0
	Net profit margin (%)	9.3	11.0	10.9	11.3	11.4
	Dividend payout ratio (%)	25.8	46.5	46.5	46.5	46.5
	Capex/sales (%)	0.3	0.6	1.1	1.1	1.1
	Interest cover (x)	37.3	92.5	52.4	34.0	25.0

Source: Company data, RHB

Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	418.3	562.2	478.5	-14.9	14.4	
EBIT / Operating Income	6.9	27.3	43.5	59.5	529.6	
Finance costs (net)	0.8	0.6	1.0	80.7	22.9	
Jointly controlled entity	4.1	5.0	3.1	-38.5	-25.2	
Associates	43.2	100.9	50.9	-49.6	17.8	Perodua's sales came within expectations
Pretax profit	55.0	133.7	98.5	-26.4	78.9	
Tax	(2.3)	(9.5)	(6.6)	-30.3	188.4	
Minority Interest	5.6	14.7	6.7	-54.7	18.2	
Net Profit	47.1	109.6	85.2	-22.2	80.9	Inflated by a one-off gain from disposal of a piece of leasehold land (MYR30.4m)
Core Net Profit	47.1	109.6	49.6	-54.7	5.3	Within our and Street expectations
<i>EBIT Margin (%)</i>	1.7	4.9	9.1			
<i>Pretax Margin (%)</i>	13.2	23.8	20.6			
<i>Effective tax rate (%)</i>	(4.2)	(7.1)	(6.7)			
<i>Net Profit Margin (%)</i>	11.3	19.5	10.4			

Source: Company data, RHB

Figure 2: Forecast assumptions

FYE Dec	Dec-19	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Perodua TIV (units) – current	240,341	220,163	190,292	240,000	240,000	242,000
Perodua TIV (units) – previous				230,000		

Source: Company data, RHB

Recommendation Chart

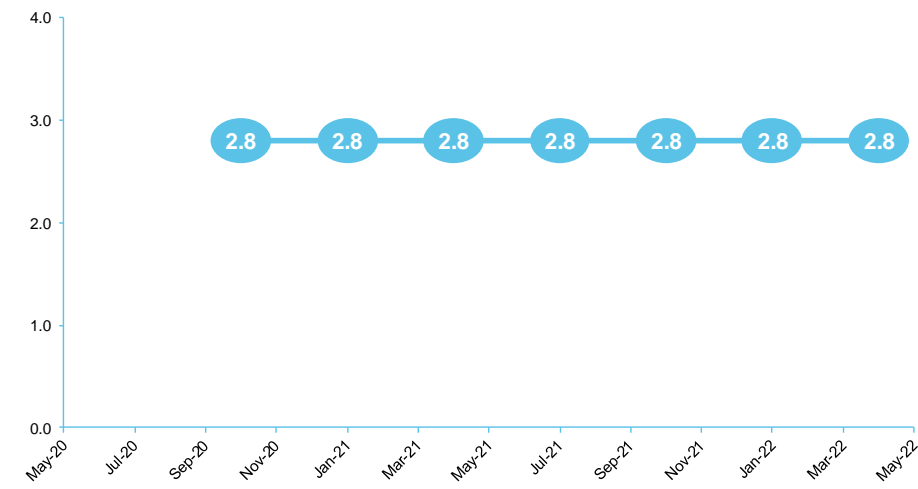


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-28	Neutral	3.38	3.23
2021-11-25	Neutral	3.12	3.17
2021-07-28	Neutral	3.18	3.14
2021-05-18	Buy	3.80	3.30
2020-11-20	Buy	4.30	3.31
2020-08-21	Buy	3.75	3.24
2020-06-08	Buy	4.00	3.43
2020-05-18	Buy	3.50	2.82
2020-03-27	Buy	3.80	2.71
2019-11-22	Buy	4.95	3.73
2019-08-26	Buy	4.85	4.23
2019-08-06	Buy	4.20	3.29

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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