

COMPANY RESULTS

Bermaz Auto (BAUTO MK)

1HFY23: Above Expectations; Strong Sales To Last Till 2HFY23

1HFY23 core net profit of RM115.8m exceeded expectations, with earnings expected to be maintained in 2HFY23. BAUTO recorded higher-than-expected earnings due to stronger sales volume and improvement in EBIT margin for its Mazda (higher CKD vehicle) alongside a stronger ringgit against the yen. Booking rate remained healthy, topping 10,000 units as at end-Nov 22. Raise FY23-25 earnings forecasts by 7-10% to account for higher car selling prices. Maintain HOLD. Target price: RM2.06.

2QFY23 RESULTS

Year to 31 Apr (RMm)	2QFY23 (RMm)	qoq % chg	yoy % chg	1HFY23 (RMm)	yoy % chg
Revenue	782.9	9.2	61.8	1,499.8	86.4
-Malaysia	730.7	11.0	62.5	1,388.7	92.8
-Philippines	52.3	(11.2)	52.9	111.2	31.8
EBIT	81.2	15.7	156.4	151.4	215.5
-Malaysia	75.2	19.1	146.4	138.3	197.8
-Philippines	6.6	(11.1)	450.5	14.0	519.5
Associates	9.3	130.2	217.4	13.3	564.1
PBT	91.6	22.8	173.0	166.2	246.0
Core Net Profit	65.7	30.9	152.2	115.8	219.0
Cars sold (units)	4,729	9.2	55.2	9,059	81.9
-Malaysia	4,342	11.1	53.3	8,250	85.4
-Philippines	387	(8.3)	80.0	809	52.6
Margins	%	+/-ppt	+/-ppt	%	+/-ppt
EBIT	10.4	0.6	3.9	10.1	4.1
-Malaysia	10.3	0.7	3.5	10.0	3.5
-Philippines	12.6	0.0	9.1	12.6	9.9
PBT	11.7	1.3	4.8	11.1	5.1
Core Net Profit	8.4	1.4	3.0	7.7	3.2

Source: Bermaz Auto Bhd, UOB Kay Hian

RESULTS

• **Above expectations.** Bermaz Auto (BAUTO) delivered 2QFY23 core net profit of RM65.7m (+31% qoq, +152% yoy), bringing 1HFY23 core net profit to 115.8m (+219% yoy) which accounted for 62% and 63% of our and consensus' full-year estimates respectively. We deem 1HFY23 results to be above expectations as we expect auto sales in 2HFY23 to be similar to 1HFY23 levels. This will be supported by a robust outstanding order backlog. The company has declared a second interim dividend of 3.50 sen/share, bringing the total dividend declared for FY23 to 6.50 sen/share.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	2,288	2,325	3,043	3,367	3,825
EBITDA	161	210	267	274	322
Operating profit	156	204	261	267	314
Net profit (rep./act.)	131	156	200	207	243
Net profit (adj.)	131	156	200	207	243
EPS (sen)	11.3	13.4	17.1	17.7	20.8
PE (x)	17.6	14.9	11.6	11.2	9.6
P/B (x)	4.1	3.7	3.3	3.1	2.8
EV/EBITDA (x)	11.7	8.9	7.0	6.8	5.8
Dividend yield (%)	3.3	4.4	6.0	6.2	7.3
Net margin (%)	5.7	6.7	6.6	6.1	6.3
Net debt/(cash) to equity (%)	(63.3)	(77.9)	(66.3)	(63.7)	(60.4)
Interest cover (x)	21.7	53.4	74.9	76.8	90.4
ROE (%)	25.4	26.0	30.0	28.5	30.6
Consensus net profit	-	-	185	203	224
UOBKH/Consensus (x)	-	-	1.08	1.02	1.08

Source: Bermaz Auto Bhd, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.99
Target Price	RM2.06
Upside	+3.5%
(Previous TP)	RM1.92)

COMPANY DESCRIPTION

Bermaz Auto is involved in the distribution, assembling, retailing and also the provision of after sales service of Mazda vehicles in Malaysia. The group also involved in distribution of locally assembled Mazda vehicles in Malaysia and Philippines.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	BAUTO MK
Shares issued (m):	1,162.9
Market cap (RMm):	2,314.1
Market cap (US\$m):	526.2
3-mth avg daily t'over (US\$m):	0.9

Price Performance (%)

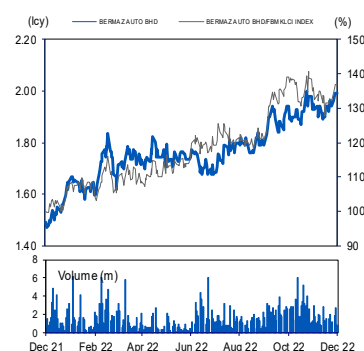
52-week high/low	RM2.00/RM1.47			
1mth	3mth	6mth	1yr	YTD
3.1	11.2	14.0	35.5	27.8

Major Shareholders

Employees Provident Fund	16.7
Dynamic Milestone Sdn Bhd	14.5
Amanah Saham Nasional Bhd	7.2

FY23 NAV/Share (RM)	0.60
FY23 Net Cash/Share (RM)	0.40

PRICE CHART



Source: Bloomberg

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- **YOY**, 2QFY23 revenue and PBT jumped 61.8% and 173.0% respectively following the continued fulfillment of substantial orders received prior to the expiry of sales and service tax exemption (SST) in 30 June, leading to a rise in overall sales volume across its three brands (Mazda, KIA and Peugeot). 2QFY22 posted exceptional lower revenue and pre-tax profit as it was largely hit by lower sales volume due to the Full Movement Control Order (FMCO) under the National Recovery Plan (NRP) from Jun-Aug 21. In tandem with the improved operational efficiency, core net profit rose from RM26m in 2QFY22 to RM65.7m in 2QFY23.
- **QOQ**, 2QFY23 revenue and PBT grew 9.2% and 22.8% respectively as the group recorded higher units of car sold in 2QFY23 at 4,729 units (vs 4,330 units in 1QFY23), thanks to ongoing strong order backlog post SST exemption. In addition, EBIT margin grew 0.6ppt, as a result of stronger MYR against JPY and higher sales volume from its Mazda, Peugeot and KIA CKD sales mix compared to CBU sales mix.

STOCK IMPACT

- **FY23 outlook.** For FY23, the group targets to achieve sales of 17,000 units in Malaysia (1HFY23: 8,250 units). For the Philippines, it is targeting sales of 1,500 units (1HFY23: 809 units) amid the country's challenging outlook which would see a much slower recovery as compared with its Malaysia operations. Note that its latest orderbook stands at about 10,000 units and this is sufficient to fuel its sales at least for the next 6-7 months until 1H23. We expect a stronger earnings recovery from FY24 as consumer sentiment is expected to recover gradually towards 4Q23, with discretionary spending to pick up. Additionally, we also expect 2HFY23 to be similar to 1HFY23, with strong order backlog continuing to drive sales. With 9,059 units sold in 1HFY23, BAUTO is on track to meet its sales target of 18,000-19,000 units (our forecast: 17,500 units).
- **Strong orderbook post SST exemption.** The group's booking rate remains healthy despite the end of SST exemption on 30 Jun 22, clocking an average of 1,200 orders monthly between Jul 22 to Nov 22 vs 1,300-1,500 during a normal period (pre-COVID-19). This is mainly attributed to BAUTO's attractive offer to its customers by absorbing 50% of the increase in the SST from Jul 22 until end-Dec 22, for new bookings across its three brands (Mazda, Kia, and Peugeot). The strong orderbook will provide BAUTO with sales visibility while the impact of the additional cost could be offset by other cost-saving items such as aggressive promotions and marketing campaigns.

EARNINGS REVISION/RISK

- **We adjusted FY23-FY25 net profit forecasts higher by 7-10%.** We forecast earnings growth of 7.5%, 9.5% and 8.8% in FY23-25 respectively, to account for higher profit margin and higher ASP as we expect carmakers to sell at higher prices to command better margins.

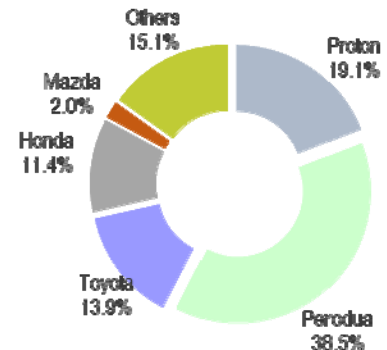
VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM2.06.** This is based on ascribed PE of 12x to its FY23 EPS (which is the sector's five-year mean). We believe the stock is fairly valued at current levels, trading near its five-year historical mean PE. Key re-rating catalysts for the stock: a) the Kia and Peugeot franchises gaining traction at a faster-than-expected rate, b) upcoming new model launches from Mazda, KIA and Peugeot will spur volume sales, and c) higher dividend payout and potentially special dividend.

VALUATION/RECOMMENDATION

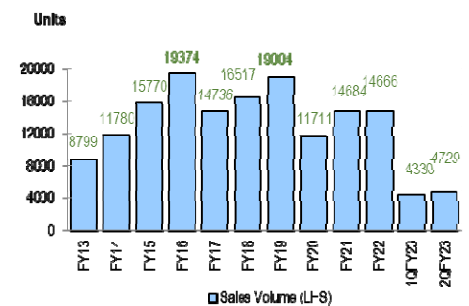
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - The Environmental Performance Monitoring Committee and the Environmental Regulatory Compliance Monitoring Committee is responsible for monitoring compliance and the effectiveness of the policy. - BAUTO supports the Republic Act 11285 (Energy Efficiency and Conservation Act), which institutionalises energy efficiency and conservation as a national way of life. - Renewable energy promoted – assessing viability of installing solar energy system in HQ & its 3S centres. • Social <ul style="list-style-type: none"> - In 2021, its societal contributions have focused on assisting those affected by COVID-19, with RM100,000 contributed to the Ministry of Health and approximately RM640,000 spent on PPE, PCR tests etc to combat the pandemic. - Mazda Medicare Fund (MMF) dialysis programme channelled 100% funds to charity. • Governance <ul style="list-style-type: none"> - Complies with Malaysian code on Corporate Governance which require independent directors (4 out of 7) to comprise the majority of the board.

MAZDA'S MARKET SHARE (10M22)



Source: Malaysia Automotive Association (MAA)

TOTAL BAUTO VEHICLES SALES VOLUME



Source: Malaysia Automotive Association (MAA), BAUTO

KEY ASSUMPTIONS

Financial Year	TIV Forecasts (units)
2021	14,684
2022	14,666
2023F	17,497
2024F	19,617
2025F	21,335

Source: BAUTO, UOB Kay Hian

NOTABLE NEW LAUNCHES IN NEXT 12 MONTHS

Model	Launch Date
KIA Sorento CKD	1Q23
KIA Sportage CKD	4Q23
KIA Niro	3Q/4Q23
Mazda CX-30 CKD	1Q23
Peugeot 2008 EV	1H23
Peugeot Landtrek	1Q23

Source: BAUTO, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	2,325	3,043	3,367	3,825
EBITDA	210	267	274	322
Deprec. & amort.	6	6	7	8
EBIT	204	261	267	314
Associate contributions	18	29	37	43
Net interest income/(expense)	(4)	(4)	(4)	(4)
Pre-tax profit	219	286	300	354
Tax	(60)	(69)	(72)	(85)
Minorities	(3)	(18)	(22)	(27)
Net profit	156	200	207	243
Net profit (adj.)	156	200	207	243

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	249	127	184	208
Pre-tax profit	219	286	300	354
Tax	(62)	(69)	(72)	(85)
Deprec. & amort.	6	6	7	9
Associates	(18)	(29)	(37)	(43)
Working capital changes	59	(72)	(18)	(30)
Other operating cashflows	46	4	4	4
Investing	(27)	(8)	(8)	(8)
Capex (growth)	(34)	(15)	(15)	(16)
Investments	0	0	0	1
Proceeds from sale of assets	0	0	0	0
Others	7	7	7	7
Financing	(132)	(150)	(155)	(178)
Dividend payments	(78)	(140)	(145)	(170)
Issue of shares	0	0	0	0
Proceeds from borrowings	n.a.	n.a.	n.a.	n.a.
Loan repayment	(31)	0	0	2
Others/interest paid	(22)	(11)	(11)	(11)
Net cash inflow (outflow)	90	(31)	21	22
Beginning cash & cash equivalent	563	694	663	684
Changes due to forex impact	41	(2)	(2)	(3)
Ending cash & cash equivalent	694	661	682	703

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	42	50	58	68
Other LT assets	439	468	505	548
Cash/ST investment	694	661	682	703
Other current assets	373	523	579	658
Total assets	1,548	1,702	1,823	1,977
ST debt	100	100	100	101
Other current liabilities	362	437	475	526
LT debt	100	100	100	101
Other LT liabilities	297	297	297	298
Shareholders' equity	634	694	756	829
Minority interest	55	73	94	121
Total liabilities & equity	1,548	1,702	1,823	1,976

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	9.0	8.8	8.1	8.4
Pre-tax margin	9.4	9.4	8.9	9.3
Net margin	6.7	6.6	6.1	6.3
ROA	10.6	12.3	11.7	12.8
ROE	26.0	30.0	28.5	30.6
Growth				
Turnover	1.6	30.9	10.7	13.6
EBITDA	30.8	27.1	2.5	17.6
Pre-tax profit	29.4	30.9	4.9	18.0
Net profit	18.5	28.2	3.5	17.4
Net profit (adj.)	18.5	28.2	3.5	17.4
EPS	18.5	28.2	3.5	17.4
Leverage				
Debt to total capital	22.5	20.7	19.0	17.5
Debt to equity	31.5	28.8	26.4	24.4
Net debt/(cash) to equity	(77.9)	(66.3)	(63.7)	(60.4)
Interest cover (x)	53.4	74.9	76.8	90.4

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