

COMPANY RESULTS

Bermaz Auto (BAUTO MK)

9MFY23: Above Expectations, Strong Momentum To Continue In 4QFY23

BAUTO's 3QFY23 earnings exceeded our and consensus expectations. The positive variance was mainly attributed to stronger-than-expected earnings due to higher sales volume. Despite the end of SST exemption, order backlog remained robust, peaking at 7,000 units as of Mar 23, and new bookings returned to pre-pandemic levels (1,300 units monthly). Raise FY23-25 earnings forecasts by 18-31% to reflect higher car selling prices. Maintain HOLD. Target price: RM2.30.

9MFY23 RESULTS

| Year to 30 Apr (RMm) | 3QFY23 (RMm) | qoq % chg | yoy % chg | 9MFY23 (RMm) | yoy % chg |
|----------------------|--------------|---------------|---------------|--------------|---------------|
| Revenue | 976.0 | 24.6 | 56.6 | 2475.8 | 73.4 |
| -Malaysia | 927.7 | 27.0 | 59.8 | 2316.3 | 78.1 |
| -Philippines | 48.3 | -7.6 | 13.0 | 159.5 | 25.4 |
| EBIT | 99.0 | 21.9 | 100.1 | 250.4 | 156.5 |
| -Malaysia | 92.3 | 22.9 | 89.6 | 230.6 | 142.4 |
| -Philippines | 7.0 | 6.4 | 528.2 | 21.1 | 522.4 |
| Associates | 14.8 | 59.5 | 125.1 | 28.0 | 227.6 |
| PBT | 115.5 | 26.1 | 109.6 | 281.7 | 173.1 |
| Core Net Profit | 87.3 | 32.9 | 114.4 | 203.1 | 163.7 |
| Cars sold (units) | 5,796 | 22.6 | 46.9 | 14,855 | 66.4 |
| -Malaysia | 5,446 | 25.4 | 50.9 | 13,696 | 69.9 |
| -Philippines | 350 | -9.6 | 4.2 | 1,159 | 33.8 |
| Margins | % | +/-ppt | +/-ppt | % | +/-ppt |
| EBIT | 10.1 | -0.2 | 2.2 | 10.1 | 3.3 |
| -Malaysia | 10.0 | -0.3 | 1.6 | 10.0 | 2.6 |
| -Philippines | 14.6 | 1.9 | 11.9 | 13.2 | 10.5 |
| PBT | 11.8 | 0.1 | 3.0 | 11.4 | 4.2 |
| Core Net Profit | 8.9 | 0.6 | 2.4 | 8.2 | 2.8 |

Source: Bermaz Auto Bhd, UOB Kay Hian

RESULTS

• **Above expectations.** Bermaz Auto (BAUTO) reported 3QFY23 core net profit of RM87.3m (+32.9% qoq, +114.4% yoy), bringing 9MFY23 core net profit to RM203.1m (+163.7% yoy) which accounted for 101% and 95% of our and consensus full-year estimates respectively. We deem 9MFY23 results to be above expectations as we expect a similar performance in 4QFY23 compared to 3QFY23, on the back of strong order backlog. The company has declared a third interim dividend of 4.50 sen/share, bringing the total dividend declared for FY23 to 11.0 sen/share.

KEY FINANCIALS

| Year to 30 Apr (RMm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover | 2,288 | 2,325 | 3,464 | 3,152 | 3,567 |
| EBITDA | 161 | 210 | 349 | 294 | 351 |
| Operating profit | 156 | 204 | 342 | 287 | 343 |
| Net profit (rep./act.) | 131 | 156 | 262 | 223 | 265 |
| Net profit (adj.) | 131 | 156 | 262 | 223 | 265 |
| EPS (sen) | 11.3 | 13.4 | 22.5 | 19.1 | 22.7 |
| PE (x) | 18.8 | 15.9 | 9.4 | 11.1 | 9.3 |
| P/B (x) | 4.4 | 3.9 | 3.5 | 3.2 | 2.9 |
| EV/EBITDA (x) | 13.1 | 10.0 | 6.0 | 7.1 | 6.0 |
| Dividend yield (%) | 3.1 | 4.1 | 7.4 | 6.3 | 7.5 |
| Net margin (%) | 5.7 | 6.7 | 7.6 | 7.1 | 7.4 |
| Net debt/(cash) to equity (%) | (63.3) | (77.9) | (62.5) | (65.8) | (62.8) |
| Interest cover (x) | 21.7 | 53.4 | 97.8 | 82.4 | 98.4 |
| ROE (%) | 25.4 | 26.0 | 38.9 | 29.9 | 32.3 |
| Consensus net profit | - | - | 213 | 219 | 245 |
| UOBKH/Consensus (x) | - | - | 1.23 | 1.02 | 1.08 |

Source: Bermaz Auto Bhd, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|---------------|--------|
| Share Price | RM2.12 |
| Target Price | RM2.30 |
| Upside | +8.5% |
| (Previous TP) | RM2.13 |

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): | 1,165.6 |
| Market cap (RMm): | 2,471.0 |
| Market cap (US\$m): | 549.8 |
| 3-mth avg daily t'over (US\$m): | 1.2 |

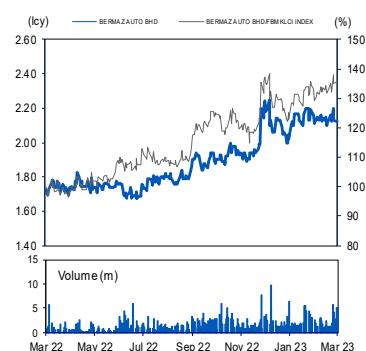
Price Performance (%)

| | | | | |
|------------------|-------------|-------------|------------|---------------|
| 52-week high/low | | | | RM2.25/RM1.68 |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (1.9) | (3.6) | 14.0 | 23.6 | (0.5) |

Major Shareholders

| | |
|--------------------------|------|
| | % |
| Employees Provident Fund | 14.7 |
| Dynamic Milestone | 14.7 |
| Amanah Saham Nasional | 7.2 |
| FY23 NAV/Share (RM) | 0.61 |
| FY23 Net Cash/Share (RM) | 0.38 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Sales tax exemption drives yoy improvement.** 9MFY23 revenue and PBT rose 73.4% and 173.1% respectively thanks to higher sales volume from the clearing of the substantial orders received prior to the expiry of sales and service tax exemption (SST) in 30 Jun 22, with BAUTO absorbing 50% of the SST for vehicle bookings from Jul 22 to Dec 22. Additionally, the stronger growth was also due to 9MFY22's low base as BAUTO's sales were affected by Full Movement Control Order (FMCO) under the National Recovery Plan (NRP) from Jun-Aug 21, before gradually improving when the country moved from Phase 1 to Phase 4 of the NRP in Oct 21. With higher operational efficiency alongside a better CKD mix, core net profit increased by 163.7% yoy.
- **QoQ, 3QFY23 revenue and PBT grew 24.6% and 26.1% respectively** as the group recorded higher units of car sold in 3QFY23 at 5,796 units (vs 4,729 units in 2QFY23), thanks to ongoing strong order backlog after the SST exemption. Despite that, EBIT margin declined 0.2ppt, as a result of slight depreciation of MYR against JPY and lower contribution from CKD sales mix (79%) compared to CBU sales mix (vs 86% CKD sales mix in 2QFY23).

STOCK IMPACT

- **Orderbook remains strong.** Despite the SST exemption on 30 Jun 22 and BAUTO's offer to absorb 50% of the increase in the SST from Jul 22 until end-Dec 22 for new bookings (Mazda, Kia, and Peugeot) ending, new bookings do not show any signs of slowing down. We gather that the group continuing to receive an average of 1,300 orders monthly for Jan 23 and Feb 23 vs 1,300-1,500 in a normal period (pre-COVID-19). The strong orderbook will provide BAUTO with sales visibility for the remaining of 2HFY23 into 1QFY24. We were guided that less than 1,500 units of the 7,000 outstanding orders were booked under the SST exemption period while the remaining 5,500 units were booked after the SST exemption ended.

EARNINGS REVISION/RISK

- **We lift our FY23-25 earnings by 8-31%.** We forecast earnings growth of 31%, 8% and 9% in FY23-25 respectively as we raise our sales target following: a) stronger-than-expected outstanding orders, b) higher average selling price, and c) to account for higher profit margin.
- **Note that we are still slightly conservative with our earnings forecast** as we expect a slowdown in consumption due to: a) the end of SST exemption (current orders in hand will probably last until 1QFY24), and b) the rising inflation and rate hikes which will erode end-consumers' purchasing power.

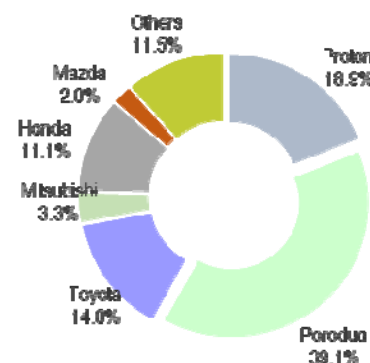
VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM2.30.** Our target price is based on ascribed PE of 12x to its FY24F EPS (which is the sector's five-year mean). Key re-rating catalysts for the stock: a) the Kia and Peugeot franchises gaining traction at a faster-than-expected rate, b) new model launches from Mazda, KIA and Peugeot spurring volume sales, c) localisation of Cx-30, which will help to improve margin, and d) higher dividend payout and potential special dividend.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) UPDATES

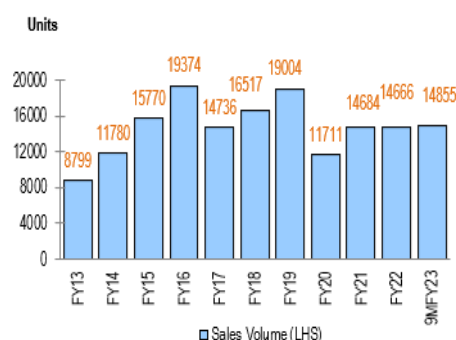
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|---|
| <ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - The Environmental Performance Monitoring Committee and the Environmental Regulatory Compliance Monitoring Committee are responsible for monitoring compliance 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 the headquarters & 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 requires independent directors (4 out of 7) to comprise the majority of the board. |
|---|

MAZDA'S MARKET SHARE IN 2022



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 | 20,000 |
| 2024F | 18,000 |
| 2025F | 20,500 |

Source: BAUTO, UOB Kay Hian

NOTABLE NEW LAUNCHES IN NEXT 12 MONTHS

| Model | Launch Date |
|------------------|-------------|
| KIA Sportage CKD | 2H23 |
| KIA Niro | 3Q/4Q23 |
| Peugeot 2008 EV | 1H23 |
| Peugeot Landtrek | 1Q23 |

Source: BAUTO, UOB Kay Hian

PROFIT & LOSS

| Year to 30 Apr (RMm) | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------------|------------|------------|------------|
| Net turnover | 2,325 | 3,464 | 3,152 | 3,567 |
| EBITDA | 210 | 349 | 294 | 351 |
| Deprec. & amort. | 6 | 6 | 7 | 8 |
| EBIT | 204 | 342 | 287 | 343 |
| Associate contributions | 18 | 31 | 32 | 40 |
| Net interest income/(expense) | (4) | (4) | (4) | (4) |
| Pre-tax profit | 219 | 369 | 315 | 379 |
| Tax | (60) | (89) | (76) | (91) |
| Minorities | (3) | (18) | (17) | (23) |
| Net profit | 156 | 262 | 223 | 265 |
| Net profit (adj.) | 156 | 262 | 223 | 265 |

BALANCE SHEET

| Year to 30 Apr (RMm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 42 | 50 | 58 | 68 |
| Other LT assets | 439 | 469 | 502 | 542 |
| Cash/ST investment | 694 | 646 | 713 | 742 |
| Other current assets | 373 | 595 | 542 | 614 |
| Total assets | 1,548 | 1,761 | 1,814 | 1,965 |
| ST debt | 100 | 100 | 100 | 101 |
| Other current liabilities | 362 | 477 | 447 | 492 |
| LT debt | 100 | 100 | 100 | 101 |
| Other LT liabilities | 297 | 297 | 297 | 298 |
| Shareholders' equity | 634 | 713 | 780 | 859 |
| Minority interest | 55 | 73 | 90 | 113 |
| Total liabilities & equity | 1,548 | 1,761 | 1,814 | 1,964 |

CASH FLOW

| Year to 30 Apr (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|--------------|--------------|--------------|--------------|
| Operating | 249 | 156 | 242 | 232 |
| Pre-tax profit | 219 | 369 | 315 | 379 |
| Tax | (62) | (89) | (76) | (91) |
| Deprec. & amort. | 6 | 6 | 7 | 9 |
| Associates | (18) | (31) | (32) | (40) |
| Working capital changes | 59 | (104) | 23 | (29) |
| 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) | (194) | (167) | (194) |
| Dividend payments | (78) | (184) | (156) | (185) |
| 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 | (46) | 67 | 30 |
| Beginning cash & cash equivalent | 563 | 694 | 648 | 715 |
| Changes due to forex impact | 41 | (2) | (2) | (3) |
| Ending cash & cash equivalent | 694 | 646 | 713 | 742 |

KEY METRICS

| Year to 30 Apr (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 9.0 | 10.1 | 9.3 | 9.8 |
| Pre-tax margin | 9.4 | 10.7 | 10.0 | 10.6 |
| Net margin | 6.7 | 7.6 | 7.1 | 7.4 |
| ROA | 10.6 | 15.9 | 12.5 | 14.0 |
| ROE | 26.0 | 38.9 | 29.9 | 32.3 |
| Growth | | | | |
| Turnover | 1.6 | 49.0 | (9.0) | 13.2 |
| EBITDA | 30.8 | 65.9 | (15.7) | 19.4 |
| Pre-tax profit | 29.4 | 68.9 | (14.6) | 20.2 |
| Net profit | 18.5 | 68.5 | (15.0) | 18.9 |
| Net profit (adj.) | 18.5 | 68.5 | (15.0) | 18.9 |
| EPS | 18.5 | 68.5 | (15.0) | 18.9 |
| Leverage | | | | |
| Debt to total capital | 22.5 | 20.3 | 18.7 | 17.2 |
| Debt to equity | 31.5 | 28.1 | 25.6 | 23.5 |
| Net debt/(cash) to equity | (77.9) | (62.5) | (65.8) | (62.8) |
| Interest cover (x) | 53.4 | 97.8 | 82.4 | 98.4 |

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