

## Berjaya Auto Berhad

### “Acceleration Mode”

Mazda cars will continue to gain strong demand thanks to the introduction of Mazda’s SkyActiv technology. Berjaya Auto’s (BAuto) earnings will mirror this steady trajectory supported by upcoming new launches including the all new CX-3, Mazda 6 (facelift) and CX-5 (facelift). BAuto strong performance will complement Mazda’s strong sales volume of its existing models namely Mazda 2, Mazda 3, and CX-5. BAuto is valued at RM3.32 and the stock is a BUY.

**New launches.** BAuto is on track to achieve further gains fuelled by the successful launch of the all new Mazda 2 (January 2015) and Mazda 3 CKD (April 2015) which may enhance Mazda’s position in the B-Segment and C-Segment market respectively. Based on our pricing analysis, the price of the new Mazda 2 of RM85k is relatively at the mid-range compare to Honda City (RM74k-RM89k), Honda Jazz (RM72k-RM87k), Toyota Vios (RM75k-RM94k) and slightly higher than Nissan Almera (RM65k-77k). The price of the new Mazda 3 CKD of between RM106k-RM121k is relatively cheaper compared to Toyota Altis (RM114k-RM138k), Honda Civic (RM113k-RM132k) and Nissan Sylphy (RM112k-RM122k).

**Mazda sales to accelerate in FY16.** We assume Mazda’s vehicle sales in Malaysia to reach approximately 15,000 units in FY16 (+25% y-o-y) driven by a slew of upcoming new launches including the all new CX-3, Mazda 6 (facelift) and

CX-5 (facelift) coupled with Mazda’s strong sales volume of existing Mazda 2, Mazda 3, and CX-5. Besides, Mazda’s vehicle sales in the Philippines (via 60% owned BAP - Berjaya Auto Philippines) is expected to contribute positively to BAuto’s earnings in FY16, assisted by higher contribution from Mazda 3, CX-5, Mazda 2 and BT-50 as well as continuous growth in the Philippines’ automotive market (2014 TIV growth: +30% y-o-y).

### BUY (TP: RM3.32)

Current Price (RM)	RM2.70
New Target Price (RM)	RM3.32
Previous Target Price (RM)	RM4.30
Previous Recommend.	BUY
Upside To Target Price	32%
Dividend Yield (FY17)	4%

Stock Code	
Bloomberg	BAuto MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	1,141
Market Cap (RM mn)	3,158
YTD Chg In Share Price	18%
Beta (x)	NA
52-week Hi/Lo (RM)	3.00   1.61
3M Average Volume (shrs)	3.04mn
Estimated Free Float	43%

Major Shareholders	
Berjaya Group	34%
Podium Success	6%
EPF	6%

**Growth fuelled by SkyActiv technology.** SkyActiv is referring to Mazda’s latest technological development under “Sustainable Zoom Zoom” plan which was announced in 2007. The main focus is to attain improvement in fuel efficiency and environmental friendly emission. Mazda is taking a different step in strengthening its business strategy by emphasis on enhancing internal combustion engine technology rather than shifting into hybrids/electric vehicles like other car manufacturers such as Honda and Toyota.

**Lower import duties.** Under the Free Trade Arrangement (FTA) with Japan, imported cars below 2.0 litres will see lower import duties from 10% to 5% starting from January 2014 and is expected to be zero by 2016. Therefore, three BAuto’s CBU models consist of Mazda 6, Mazda 3 and Biente will benefit from this alterations. On top of the group’s localisation programme, the street estimates that the effective excise duties for CKD Mazda 6 and Mazda 3 models could be reduced from 75% to 45% assuming a localisation rate of 40%.

**Corporate exercise.** BAuto has proposed a 2 for 5 bonus issue of up to 326 million new BAuto shares of RM0.50 each equivalent to RM163 million. This exercise is expected to improve the group’s market liquidity. Therefore, post completion of the corporate exercise will enlarge BAuto’s share base from 813.5 million to 1,138.9 million or 1,140.7 million shares depending on the finalisation of ESOS reserves option. The entire corporate exercise is expected to be completed soon.

**Corporate exercise.** BAuto has completed the issuance of 2 for 5 bonus issue of up to 326 million new BAuto shares of RM0.50 each equivalent to RM163 million which is expected to improve the group’s market liquidity. Therefore, post completion of the corporate exercise has enlarged BAuto’s share base from 813.5 million to 1,140.7 million shares.

**FY15 recap.** BAuto posted an impressive FY15 net profit of RM215 million (+65% y-o-y), beating ours and consensus estimates respectively, thanks to better-than-expected EBIT contribution from Malaysia (+68% y-o-y) and the Philippines (+104% y-o-y). Note that Mazda’s domestic sales volume surged to approximately 12,020 units as at FY15 that jumped by a solid 28% y-o-y from FY14 of 9,409 units at the back of strong demand for the all new Mazda 2 and CX-5 CKD.

**Valuation & recommendation.** Post bonus issue exercise, we re-value BAuto at RM3.32 based on 13x PER pegged to FY17 EPS of 26sen and the stock is a **BUY** underpinned by clear earnings visibility powered by i) aggressive launch of new models and ii) higher sales volume from Mazda CKD model.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	10.14	77	84	14.1	13.0	1.8	1.7	10	4	10.77	Hold
Tan Chong	Dec	2.95	22	29	14.0	10.3	0.7	0.7	4	2	3.00	Hold
MBM Resources	Dec	3.48	37	41	9.3	8.3	0.8	0.8	8	2	4.17	Buy
Berjaya Auto	Apr	2.70	23	29	15.6	13.8	6.9	5.8	52	3	3.32	Buy
APM Automotive	Dec	4.78	53	56	9.7	9.2	1.0	1.0	10	4	NR	NR
Average					12.5	10.9	2.3	2.0				

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

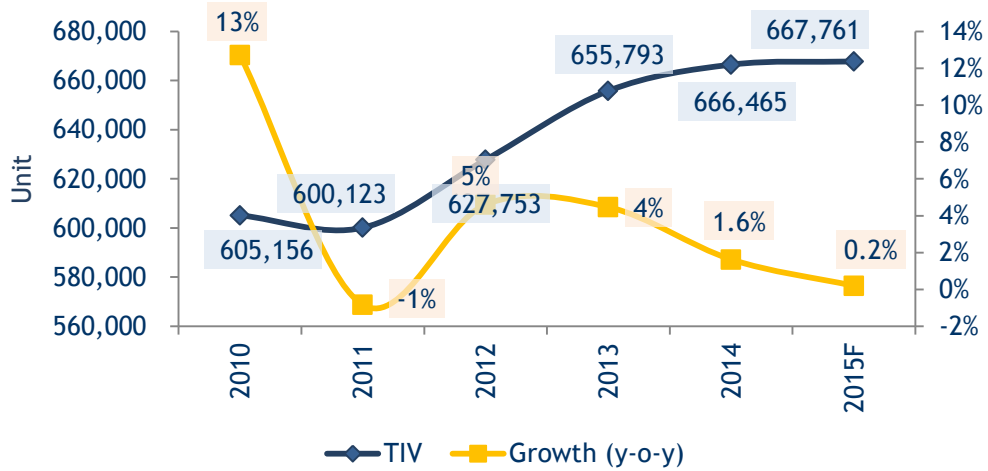
Y/E: Apr (RM'mil)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,064	1,451	1,830	2,285	2,856
EBITDA	82	176	292	337	405
EBIT	76	170	286	324	390
Net interest expense	-5	-1	0	-7	-9
Associates	-2	11	9	21	26
PBT	69	180	301	338	407
Net profit	51	131	215	244	294
EPS (sen)	7	17	26	30	36
EBITDA margin	8%	12%	16%	15%	14%
PBT margin	7%	12%	16%	15%	14%
Net profit margin	5%	9%	12%	11%	10%
Dividend (sen)	NA	5	15	12	15
Dividend yield (%)	NA	3%	4%	3%	4%
PER (x)	NA	12.1	13.4	11.8	9.8
P/BV (x)	NA	4.6	6.1	4.7	3.7

Source: Company, M&A Securities

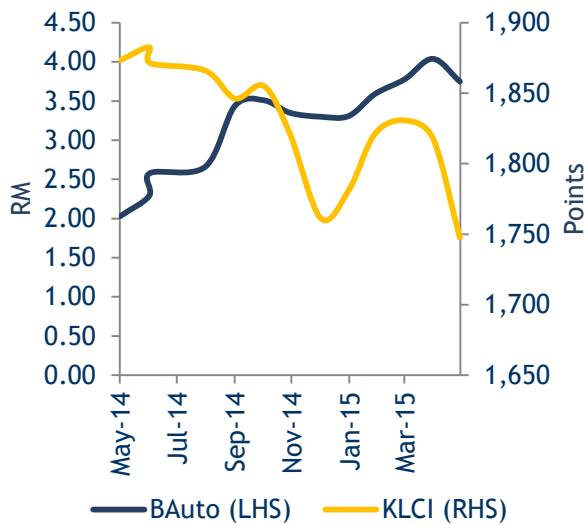
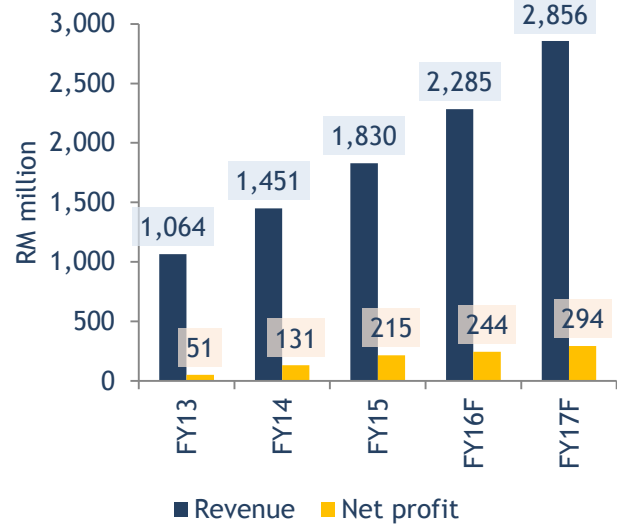
Table 5: Selected New Launches 2014/2015

Model	Launch	Segment	OTR price (RM)
Toyota Rush Facelift	Apr-15	SUV	98k-103k
Toyota Camry	Apr-15	D	150k-175k
Mazda CX-5 GL	Apr-15	SUV	126k-133k
Mazda 3	Apr-15	C	106k-121k
Honda H-RV	Feb-15	SUV	99k-119k
Proton Exora Facelift	Feb-15	MPV	57k-82k
Perodua Myvi Facelift	Jan-15	B	42k-59k
Mazda 2	Jan-15	B	88k
Nissan Almera Facelift	Jan-15	B	65k-78k
Nissan X-Trail	Jan-15	SUV	142k-165k
Perodua Axia	Sep-14	A	24K-42K
Proton Iriz	Sep-14	B	42k-62k
Honda Jazz	Jul-14	B	73k-88k
Nissan Teana	Jun-14	D	140k-170k
Mazda 5	May-14	MPV	157k
Perodua Myvi XT	Apr-14	B	41k - 44k
Nissan Sylphy	Apr-14	C	112k - 122k

Source: Company, M&A Securities

TIV Performance  
(2010-2015F)

Source: MAA, M&amp;A Securities

BAuto Share Price vs. KLCI  
(May 2014-May 2015)Revenue and Net Profit  
(FY13-FY17F)

Source: Bloomberg, M&amp;A Securities

## M&A Securities

### STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

### SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

### DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities SdnBhd (15017-H)  
(A wholly-owned subsidiary of INSAS BERHAD)  
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:  
Level 1,2,3 No.45-47 & 43-6  
The Boulevard, Mid Valley City,  
Lingkaran Syed Putra,  
59200 Kuala Lumpur  
Tel: +603 - 2282 1820 Fax: +603 - 2283 1893  
Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)