

PP14767/09/2012(030761)

## Berjaya Auto Berhad

## “1Q16 on Track Despite Margin Erosion”

## Results Review

- Actual vs. expectations.** Berjaya Auto Berhad (BAuto) 1Q16 net profit of RM52 million (-7% y-o-y, -6% q-o-q) came in line with ours and consensus estimates respectively, accounting 21% of both divide forecast, thanks to better-than-expected EBIT contribution from the Philippines segment (+104% y-o-y). Overall, EBIT margin stood at 13% as at 1Q16, lower than 1Q15 margin of 14%, hammered by higher marketing expenses due to the intense competition in local automotive industry in tandem with the moderation in consumer spending as a result of increased cost of living post GST implementation.
- Dividend.** Declared first interim dividend of 2.25sen/share for 1Q16, equivalent to a dividend payout ratio of 49%, translating into a net dividend yield of 1%.
- Top line.** Revenue surged to RM513 million (+1% y-o-y, +21% q-o-q) in 1Q16 mainly driven by higher sales volumes in Malaysia, on the back of strong demand for the all new Mazda 2, Mazda 3 CKD and CX-5 as well as improving sales volumes from the Philippines, anchored by Mazda 2 and Mazda 3. Note that Mazda’s domestic sales volume surged to approximately 3,838 units as at 1Q16 that jumped by a solid 15% y-o-y from 1Q15 of 3,332 units.
- Bottom line.** BAuto posted a lower EBIT of RM68 million (-5% y-o-y, -6% q-o-q) in 1Q16 impacted by higher spending on advertising and promotional expenses which resulted in lower EBIT contribution from Malaysia segment of RM59 million (-13% y-o-y, -13% q-o-q), offsetting stronger EBIT contribution from the Philippines segment which grew tremendously to RM10 million (+109% y-o-y, +63% q-o-q).

Friday, September 11, 2015

## BUY (TP: RM2.45)

Current Price (RM)	RM2.13
New Target Price (RM)	RM2.45
Previous Target Price (RM)	RM3.32
Previous Recommend.	BUY
Upside To Target Price	15%
Dividend Yield (FY17)	5%

## Stock Code

Bloomberg	BAuto MK
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## Stock &amp; Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	1,139
Market Cap (RM mn)	2,621
YTD Chg In Share Price	-1%
Beta (x)	1.36
52-week Hi/Lo (RM)	2.96   1.89
3M Average Volume (shrs)	2.56mn
Estimated Free Float	43%

## Major Shareholders

Berjaya Group	34%
Podium Success	6%
EPF	6%

- **New launches.** BAuto is on the right track to achieve further gains going forward fuelled by the successful launch of all new Mazda 2 (January 2015) and Mazda 3 CKD (April 2015) which may enhance Mazda's position in 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 coupled with Mazda's strong sales volume of its 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).
- **Change to forecast.** We maintained our FY16 earnings forecast as 1Q16 results were in line with our expectation. However, we made adjustment in earnings by cutting FY17 projection by 9% as we factor in higher imported cost as Ringgit has started to depreciate against Yen. That said, FY16 and FY17 earnings are projected to grow by 13% y-o-y and 11% y-o-y respectively driven by i) improvement in sales volume anchored by the new CX-5 and Mazda 3 and Mazda 2 steady sales and ii) strong contribution from the Philippines' operation.
- **Valuation & recommendation.** We re-value BAuto at RM2.45 based on 10x PER pegged to FY17 EPS of 24sen 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	7.85	63	73	15.9	13.8	1.7	1.6	9	4	8.77	Hold
Tan Chong	Dec	2.64	19	26	14.5	10.5	0.6	0.6	3	2	2.55	Hold
MBM Resources	Dec	2.96	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	2.13	22	25	11.4	10.5	5.2	4.4	53	3	2.45	Buy
APM Automotive	Dec	4.00	52	55	8.5	8.0	0.9	0.8	9	4	NR	NR
Average					12.0	10.3	1.8	1.7	16	3		

Source: Bloomberg, M&amp;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	371
EBIT	76	170	286	324	356
Net interest expense	-5	-1	0	-7	-9
Associates	-2	11	9	21	26
PBT	69	180	301	338	373
Net profit	51	131	215	244	270
EPS (sen)	7	17	26	21	24
EBITDA margin	8%	12%	16%	15%	13%
PBT margin	7%	12%	16%	15%	13%
Net profit margin	5%	9%	12%	11%	9%
Dividend (sen)	NA	5	15	9	10
Dividend yield (%)	NA	3%	4%	4%	5%
PER (x)	NA	12.1	13.4	9.9	9.0
P/BV (x)	NA	4.6	6.1	2.8	2.2

Source: Company, M&amp;A Securities

Table 3: Results Analysis

Y/E: Apr (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	508	424	513	21%	1%	508	513	1%
EBIT	72	72	68	-6%	-5%	72	68	-5%
Finance cost	(0.02)	(0.02)	(0.04)	100%	100%	(0.02)	(0.04)	100%
Associates	4	4	4	NM	13%	4	4	13%
PBT	76	77	74	-5%	-4%	76	74	-4%
Taxation	(19)	(20)	(19)	-9%	-3%	(19)	(19)	-3%
Minority interest	(1)	(2)	(3)	60%	117%	(1)	(3)	117%
Net Profit	56	55	52	-6%	-7%	56	52	-7%
EPS	5	7	5	-33%	-8%	5	5	-8%
EBIT Margin	14%	17%	13%			14%	13%	
PBT margin	15%	18%	14%			15%	14%	
Net profit margin	11%	13%	10%			11%	10%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

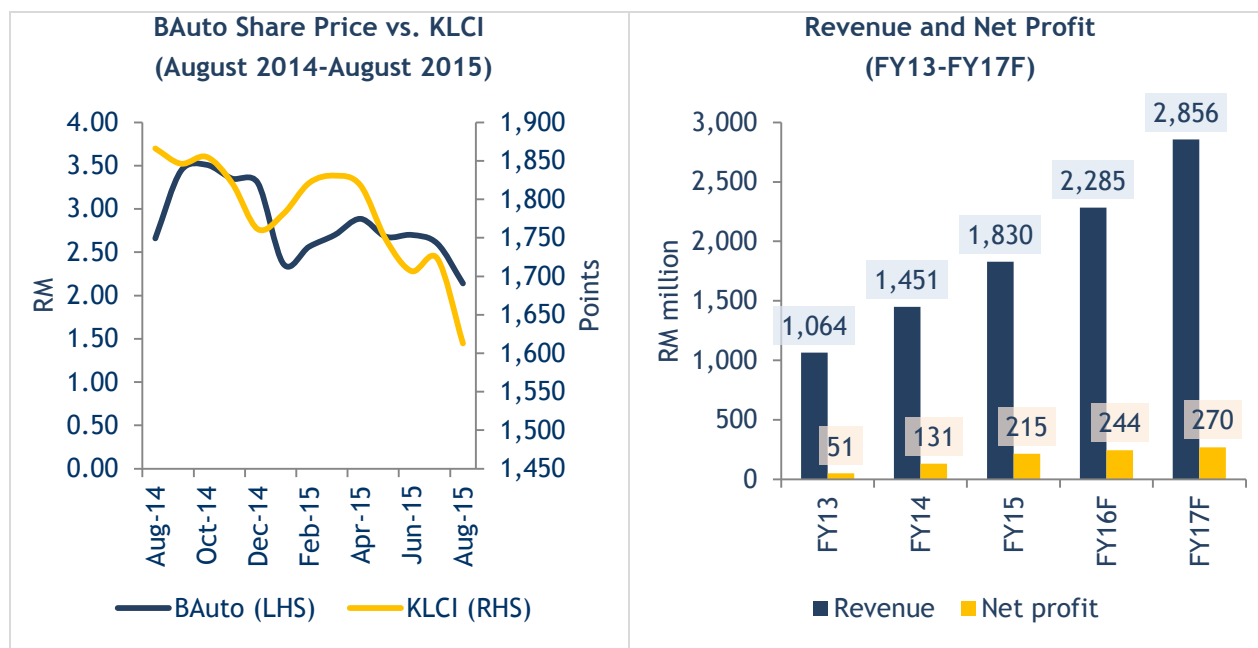
Y/E: Apr (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
<u>Revenue</u>								
Malaysia	448	360	424	18%	-5%	448	424	-5%
Philippines	60	64	88	37%	46%	60	88	46%
<u>EBIT</u>								
Malaysia	67	67	59	-13%	-13%	67	59	-13%
Philippines	5	6	10	63%	109%	5	10	109%

Source: Bursa Malaysia, M&amp;A Securities

Table 5: YTD 2015 TIV

Marque	Jul-14	Jun-15	Jul-15	m-o-m	y-o-y	7M14	7M15	y-o-y
Proton	11,045	9,267	10,867	17%	-2%	74,085	61,073	-18%
Perodua	19,138	16,475	17,957	9%	-6%	113,638	126,459	11%
Toyota	8,412	9,173	7,491	-18%	-11%	60,350	47,181	-22%
Honda	6,685	8,668	8,443	-3%	26%	43,888	52,039	19%
Nissan	3,837	3,765	4,165	11%	9%	25,950	27,459	6%
Mazda	977	1,350	1,333	-1%	36%	6,771	7,915	17%
Others	10,173	8,739	8,390	-4%	-18%	68,727	58,704	-15%
TIV	60,267	57,437	58,646	2%	-3%	393,409	380,830	-3%
Passenger	53,578	50,695	52,636	4%	-2%	350,357	339,039	-3%
Commercial	6,689	35,651	6,010	-83%	-10%	43,052	41,791	-3%

Source: MAA, M&amp;A Securities



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.

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