

PP14767/09/2012(030761)

Berjaya Auto Berhad

“No Surprise”

Results Review

- Actual vs. expectations.** Berjaya Auto Berhad (BAuto) 6M16 net profit of RM105 million (-7% y-o-y) came in below ours but slightly in line with consensus estimates respectively, accounting 43% and 45% of both divides forecast, no thanks to weaker-than-expected EBIT contribution from the local operation that weakened by -13% y-o-y. Overall, EBIT margin stood at 13% in 6M16, lower than 6M15 margin of 15%, hammered by higher marketing expenses due to intense competition in the local automotive industry coupled with the strengthening of Yen against Ringgit which further pressurised BAuto's EBIT margin. Note that Ringgit continued its downtrend performance in 2Q16, tumbling to an average RM3.56/Yen compared to 2Q15 average of RM2.98/Yen.
- Dividend.** Declared second interim dividend of 2.50sen/share for 2Q16, bringing the total dividend to 4.75sen/share as at 6M16 or equivalent to a dividend payout ratio of 51%.
- Top line.** Revenue surged to RM1.1 billion (+4% y-o-y) in 6M16 mainly driven by higher contribution from the Philippines operations which recorded a strong revenue of RM205 million (+54% y-o-y) driven by improving sales volume of Mazda 2 in the Philippines market. Meanwhile, revenue contribution from local operation declined to RM850 million (-4% y-o-y) as a result of unfavourable sales mix and sales being recorded net of GST.
- Bottom line.** BAuto posted a lower EBIT of RM139 million (-6% y-o-y) in 6M16 impacted by higher spending on advertising and promotional expenses coupled with higher vehicle cost arising from the weakening of Ringgit against Yen which resulted in lower EBIT contribution from Malaysia segment of

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BUY (TP: RM2.42)

Current Price (RM)	RM2.12
New Target Price (RM)	RM2.42
Previous Target Price (RM)	RM2.45
Previous Recommend.	BUY
Upside To Target Price	14%
Dividend Yield (FY17)	4%

Stock Code

Bloomberg	BAuto MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	1,140
Market Cap (RM mn)	2,451
YTD Chg In Share Price	-8%
Beta (x)	1.02
52-week Hi/Lo (RM)	2.96 1.79
3M Average Volume (shrs)	2.56mn
Estimated Free Float	43%

Major Shareholders

Berjaya Group	34%
EPF	7%
Podium Success	6%

RM120 million (-13% y-o-y), offsetting stronger EBIT contribution from the Philippines segment which grew tremendously to RM20 million (+63% y-o-y).

- **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 attractive 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).
- **Maintain car price for now.** BAuto is trying to maintain their car prices at the moment by taking several initiatives to mitigate higher operational cost including implementing cost-efficiency measures rather than passing some rising cost to customers. Nonetheless, the management also do not rule-out that there will be a potential price adjustment going forward if Ringgit continued to tumble in near term. If such thing happens, we do not see a vast dent to the sales volume of Mazda as they have loyal base and strong followers for all their models.
- **Change to forecast.** We made adjustment in earnings by cutting FY16 and FY17 projection by 10% as 7% respectively 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 2% y-o-y and 14% y-o-y respectively driven by i) improvement in sales volume anchored by the new CX-3, CX-5, Mazda 3 and Mazda 2 steady sales and ii) strong contribution from the Philippines' operation.
- **Valuation & recommendation.** We re-value BAuto at RM2.42 based on 11x PER pegged to FY17 EPS of 22sen 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	7.82	45	54	18.1	15.1	1.4	1.4	8	5	7.70	Hold
Tan Chong	Dec	2.68	11	16	25.2	16.5	0.6	0.6	2	2	2.47	Sell
MBM Resources	Dec	2.50	32	36	8.5	7.5	0.7	0.6	8	3	3.20	Buy
Berjaya Auto	Apr	2.12	20	22	10.0	9.4	4.2	3.6	52	5	2.42	Buy
APM Automotive	Dec	3.93	49	49	8.3	8.3	0.7	NA	8	5	NR	NR
Average					14.0	11.4	1.5	1.6	15	4		

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	303	344
EBIT	76	170	286	291	328
Net interest expense	-5	-1	0	-7	-9
Associates	-2	11	9	21	26
PBT	69	180	301	304	346
Net profit	51	131	215	220	250
EPS (sen)	7	17	26	19	22
EBITDA margin	8%	12%	16%	13%	12%
PBT margin	7%	12%	16%	13%	12%
Net profit margin	5%	9%	12%	10%	9%
Dividend (sen)	NA	5	15	8	9
Dividend yield (%)	NA	3%	4%	4%	4%
PER (x)	NA	12.1	13.4	11.0	9.7
P/BV (x)	NA	4.6	6.1	2.9	2.3

Source: Company, M&A Securities

Table 3: Results Analysis

Y/E: Apr (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue	509	513	542	6%	7%	1,017	1,055	4%
EBIT	77	68	71	4%	-8%	149	139	-6%
Finance cost	(0.02)	(0.04)	(0.03)	-38%	9%	(0.05)	(0.07)	43%
Associates	2	4	2	NM	-33%	6	6	-5%
PBT	81	74	74	0%	-9%	158	147	-7%
Taxation	(21)	(19)	(18)	-4%	-17%	(40)	(36)	-10%
Minority interest	(3)	(3)	(3)	0%	0%	(3)	(6)	65%
Net Profit	58	52	53	2%	-8%	114	105	-7%
EPS	5	5	5	2%	-8%	10	9	-8%
EBIT Margin	15%	13%	13%			15%	13%	
PBT margin	16%	14%	14%			15%	14%	
Net profit margin	11%	10%	10%			11%	10%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

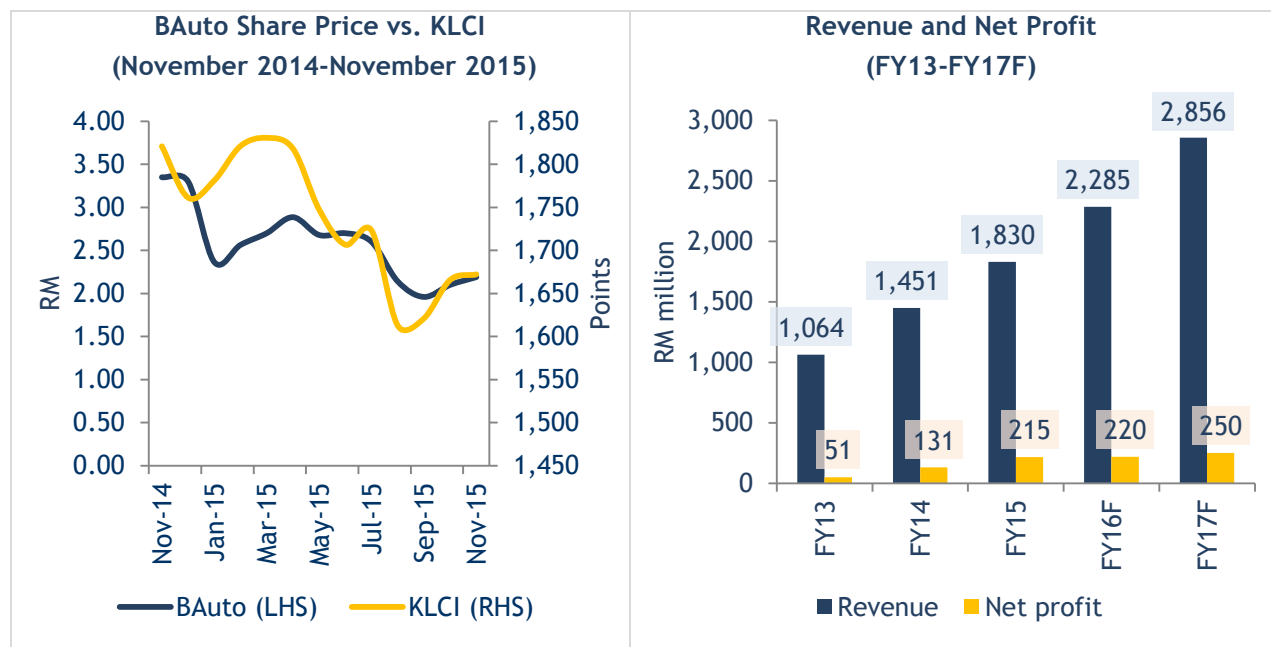
Y/E: Apr (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue								
Malaysia	436	424	426	0%	-2%	884	850	-4%
Philippines	73	88	117	33%	61%	133	205	54%
EBIT								
Malaysia	70	59	61	5%	-12%	137	120	-13%
Philippines	7	10	10	1%	34%	12	20	63%

Source: Bursa Malaysia, M&A Securities

Table 5: YTD 2015 TIV

Marque	Oct-14	Sep-15	Oct-15	m-o-m	y-o-y	10M14	10M15	y-o-y
Proton	8,130	8,723	8,026	-8%	-1%	98,879	86,862	-12%
Perodua	17,683	14,479	17,305	20%	-2%	158,000	174,832	11%
Toyota	8,064	8,049	9,200	14%	14%	83,879	72,663	-13%
Honda	6,188	7,519	8,504	13%	37%	62,935	74,915	19%
Nissan	4,080	3,595	3,700	3%	-9%	36,689	38,459	5%
Mazda	971	1,279	1,273	-0.5%	31%	9,746	11,659	20%
Others	9,071	7,462	7,746	4%	-15%	96,364	81,752	-15%
TIV	54,187	51,106	55,754	9%	3%	546,492	541,142	-1%
Passenger	47,544	45,245	49,063	8%	3%	484,196	480,779	-1%
Commercial	6,643	5,861	6,691	14%	1%	62,296	60,363	-3%

Source: MAA, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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