

MBM Resources Berhad

“Gear Up Earnings Momentum”

MBM Resources Berhad (MBMR) long-term outlook remains promising as it will continue to gain traction from its associate, Perodua, following the rolling-out of Perodua Axia (September 2014) and the new Myvi facelift (January 2015) which is expected to boost Perodua sales volume in 2015. Besides, the losses from OMI alloy wheel plant is expected to narrow down in 2015 thanks to steady new orders from car manufacturers. We value MBMR at RM4.17 and the stock is a BUY. The recent sell down by the broader market and also on auto players provides a good opportunity for the investors to make good returns following our attractive fair value on the stock.

2Q15 assessments. We estimate MBMR 2Q15 earnings from motor trading division will continue to register strong growth fuelled by robust Perodua’s sales. Note that Perodua’s vehicle sales growth of 21% y-o-y as at YTD April 2015 had outperformed the total industry TIV which contracted by 2% y-o-y. However, we foresee the earnings contribution from its FAHB dealership will continue to get softer in 1Q15 largely impacted by lack of new launches from Mitsubishi and Volkswagen.

2015 to be a smashing year for Perodua. We foresee 2015 to be a great year for Perodua due to the strong demand of Perodua Axia whose booking numbers have reached a respectable 100,000 units with 60,000 units have been delivered to customers by end of 1Q15. Interestingly, Perodua has launched the new Perodua Myvi facelift on 15 January 2015 with price range from RM41k-RM58k, potentially maintaining its strong grip in the A and B class segment. The new Perodua Myvi comes with six different choice of colours and available in six variants consisting of; i) 1.3 Standard G MT, ii) 1.3 Standard G AT, iii) 1.3 Premium X AT, iv) 1.5 SE MT, v) 1.5 SE AT and vi) 1.5 Advance AT. Hence, we remain optimistic that the two key models would drive Perodua to achieve its 2015 sales target of 208k units (+6% y-o-y).

BUY (TP: RM4.17)

Current Price (RM)	RM9.14
New Target Price (RM)	RM10.70
Previous Target Price (RM)	RM10.70
Previous Recommend.	BUY
Upside To Target Price	17%
Dividend Yield (FY15)	6.2%

Stock Code

Bloomberg	MAY MK
-----------	--------

Stock & Market Data

Listing	MAIN MARKET
Sector	Finance
Shariah Compliance	No
Issued Shares (mn)	9,537
Market Cap (RM mn)	88,122
YTD Chg In Share Price	0.76%
Beta (x)	1.0
52-week Hi/Lo (RM)	RM10.20 RM8.25
3M Average Volume (shrs)	8.7mn
Estimated Free Float	40.5%

Major Shareholders

Med-Bumikar Mara	37.6%
EPF	13.2%
AIA	5.7%

OMI alloy wheel plant. The management anticipate the losses from OMI’s alloy wheel plant to narrow down in FY15 (FY14 losses at RM25 million) supported by higher production driven by more orders from Perodua and Proton. MBM has allocated between RM16-RM17 million to ramp-up the plant capacity by another 250k units by 4Q15 to bring the total capacity to 750k units per annum where the alloy wheel production is expected to increase to approximately 33k units per month from its current of 13k units per month.

Cash for clunkers. Based on our channel checks, the ‘cash for clunkers’ scheme has been put on ‘hold’ by the government due to GST’s related issue but the scheme will not be cancelled. It is waiting for the right time to be implemented, sooner or later. We expect this to be a positive catalyst for the national car player such as Perodua and Proton to ramp-up their sales volume. The Malaysian Automotive Institute (MAI) projects 2015 TIV could reach 750k units, exceeding its initial 2015 forecast of 700k if the scheme being implemented in 2015.

1Q15 highlights. MBMR posted a core net profit of RM24 million (+4% y-o-y) in 1Q15, excluding one-off gain from property development, Menara MBM. MBMR gained immensely from its associates, Perodua (20%-stake) thanks to sturdy demand for Perodua Axia and the new Myvi facelift coupled with robust consumer buying sentiment in 1Q15 ahead of GST implementation. Note that Perodua’s vehicle sales stood at 57k units in 1Q15, accounting 27% of Perodua’s FY15 sales target of 208k units, essentially on track with their target. The group’s core PBT margin stood at 7% in 1Q15, higher than 1Q14 margin of 6%.

Valuation & recommendation. We value MBMR at RM4.17 based on 10x PER pegged to FY16 EPS of 43sen and the stock is a **BUY** powered by i) strengthening of the group’s auto part manufacturing division and ii) leveraging on higher vehicles sales of Perodua and steady sales from other stable notably Hino, Daihatsu, Mitsubishi, Volvo and VW.

Table 1: Peers Comparison (Calenderised)

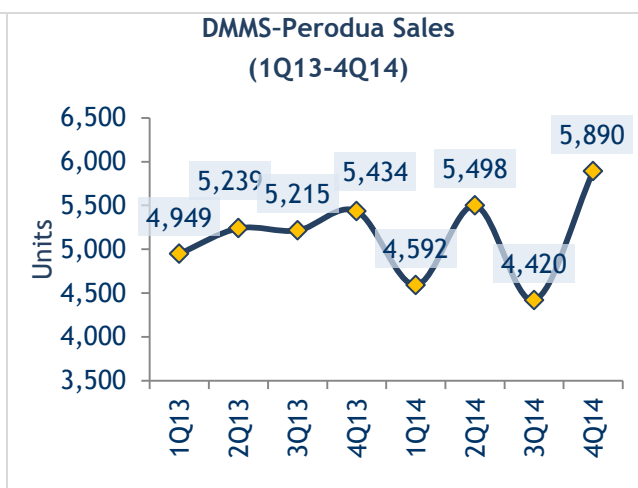
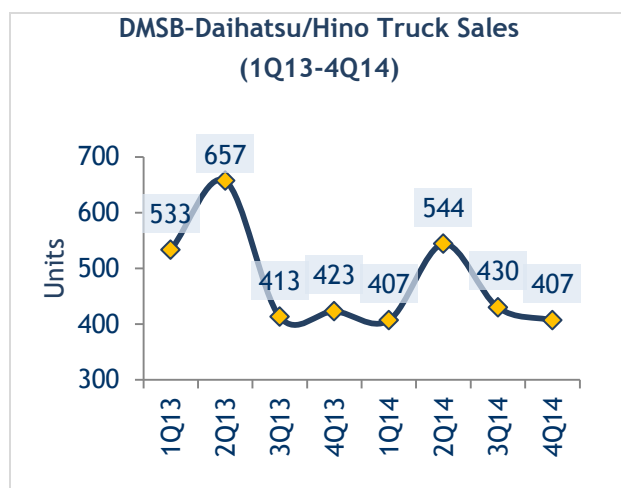
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	10.14	77	84	14.1	13.0	1.8	1.7	10	4	10.77	Hold
Tan Chong	Dec	2.95	22	29	14.0	10.3	0.7	0.7	4	2	3.00	Hold
MBM Resources	Dec	3.48	37	41	9.3	8.3	0.8	0.8	8	2	4.17	Buy
Berjaya 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

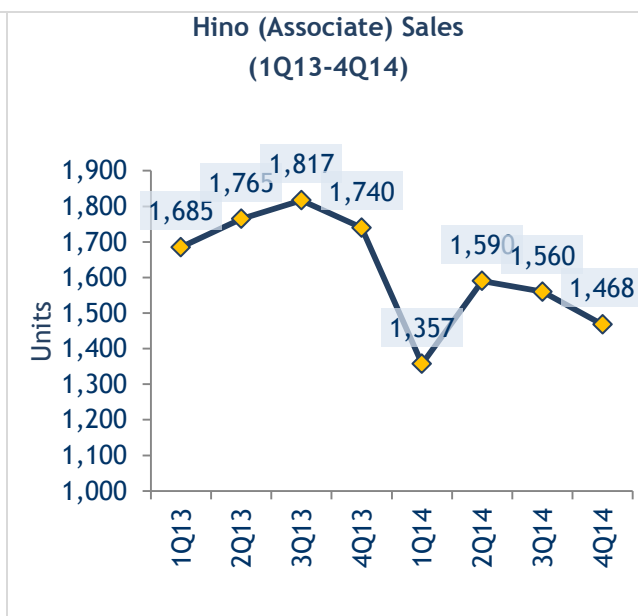
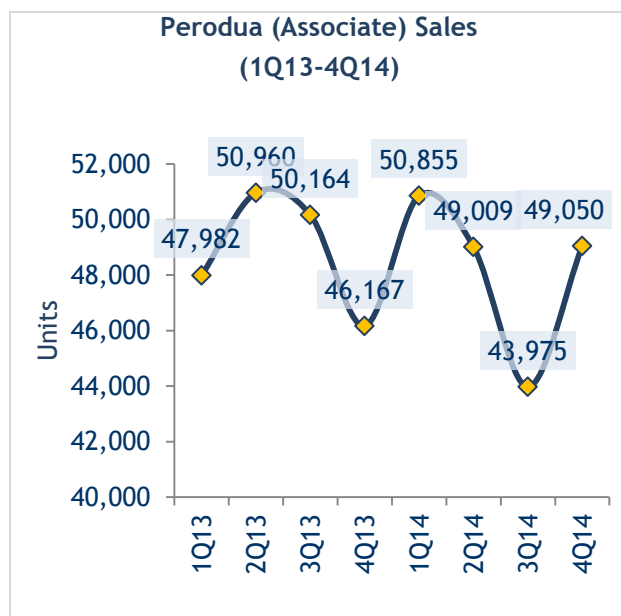
Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,268	2,267	1,780	2,398	2,422
EBIT	92	70	121	72	85
Finance costs	(25)	(23)	(21)	-24	-24
Interest Income	5	9	1	7	7
Associates	125	140	125	168	170
PBT	197	196	132	223	237
Net profit	136	139	114	159	169
EPS (sen)	38	36	29	41	43
PBT margin	9%	9%	7%	9%	10%
Net profit margin	6%	6%	6%	7%	7%
PER (x)	8.3	8.3	8.3	8.5	8.0
P/BV (x)	0.9	0.9	0.8	0.8	0.8
DPS (sen)	6	6	6	8	9
Dividend yield	2%	2%	2%	2%	3%

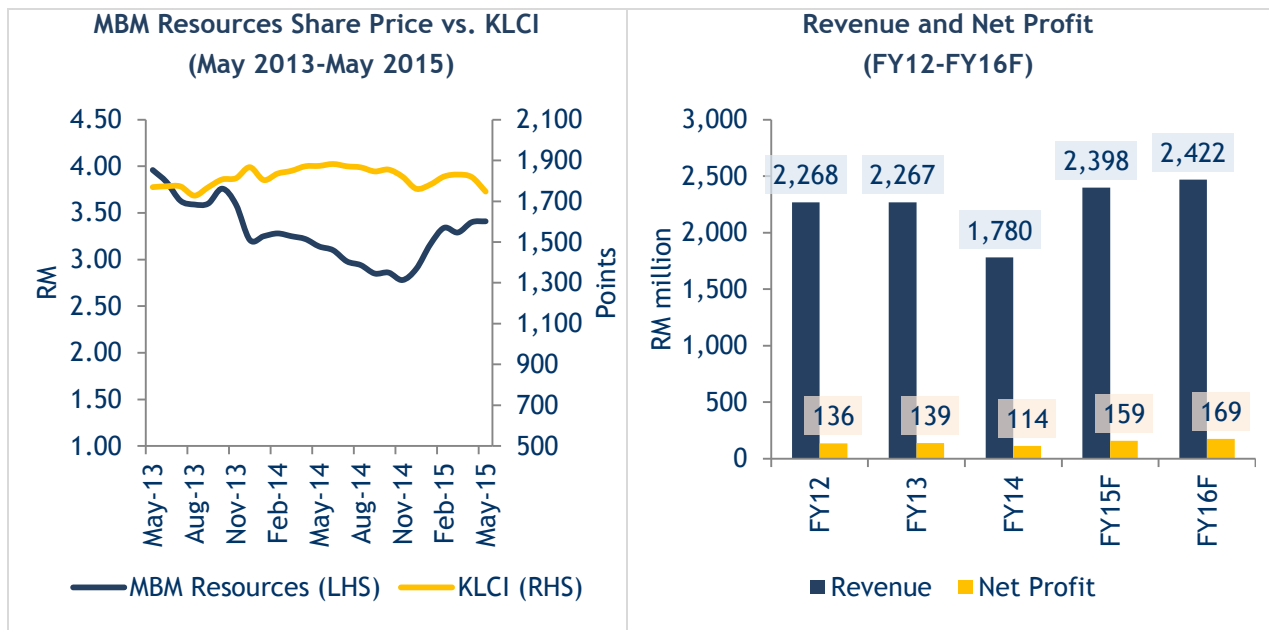
Source: Bursa Malaysia, M&A Securities



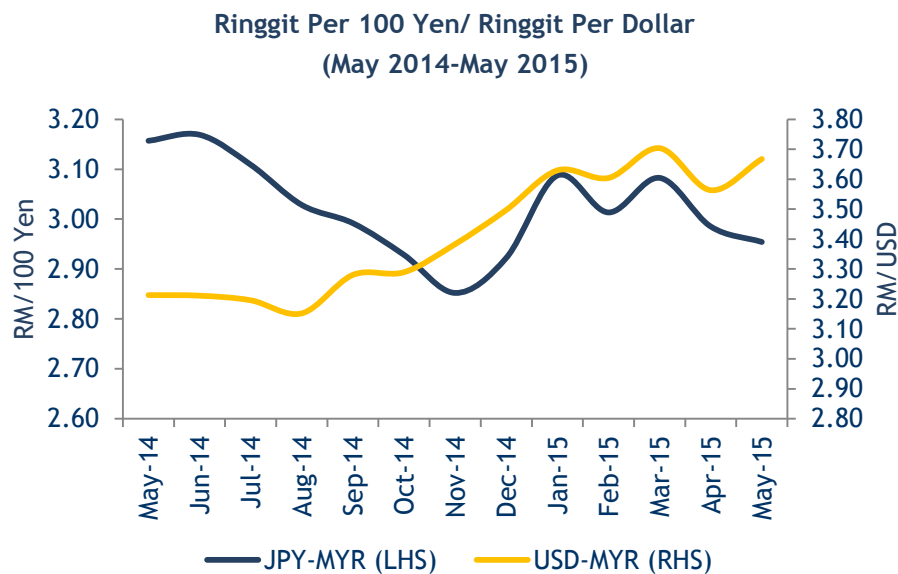
Source: MBMR, M&A Securities



Source: MBMR, M&A Securities



Source: Bloomberg, 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.

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