

PP14767/09/2012(030761)

Market Access

MBM Resources Berhad

“Expect Robust Quarter Ahead”

Results Review

- Actual vs. expectations.** MBM Resources Bhd (MBMR) 6M15 core net profit of RM53.6 million, excluding one-off gain from property sales, came in below ours and consensus estimates respectively, accounting 37% of both estimates full year net profit forecast. Disappointing earnings performance in 6M15 was largely hammered by weaker-than-expected PBT contribution from auto parts manufacturing division (-72% y-o-y) due to lower demand from major customers.
- Dividend.** Declared an interim dividend of 4.0sen per share and a special dividend of 3.0sen per share during the quarter, translating into a dividend payout of 43% in 6M15, higher than 6M14 payout of 29%, in line with lower net profit performance.
- Top line.** Excluding one-off property contribution, MBMR revenue declined to RM827 million (-12% y-o-y) in 6M15 due to lower contribution from motor trading division (+13% y-o-y) impacted by lower sales volume from the group’s subsidiaries namely DMSB - Daihatsu & Hino trucks (-26% y-o-y) and Federal Auto - Volvo, Volkswagen and Mitsubishi (-34% y-o-y). Nonetheless, sales volume from DMMS - Perodua continued to improve in 6M15 after posting creditable growth of 12% y-o-y.
- Bottom line.** Excluding one-off property contribution, MBMR 6M15 PBT remained steady at RM66 million (+2% y-o-y) supported by strong PBT contribution from motor trading division which grew by 16% y-o-y to RM74 million coupled with higher associates contribution which improved by 11% y-o-y to RM65 million due to higher vehicle sales from Perodua thanks to the sturdy demand of Perodua Axia and the new Myvi facelift. Note that Perodua’s vehicle sales stood at 108k units in 6M15, accounting 52% of Perodua’s FY15

Thursday, August 20, 2015

BUY (TP: RM3.88)

Current Price (RM)	RM3.09
New Target Price (RM)	RM3.88
Previous Target Price (RM)	RM4.17
Previous Recommend.	BUY
Upside To Target Price	26%
Dividend Yield (FY16)	3%

Stock Code	
Bloomberg	MBM MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	391
Market Cap (RM mn)	1,348
YTD Chg In Share Price	19%
Beta (x)	0.71
52-week Hi/Lo (RM)	3.54 2.60
3M Average Volume (shrs)	0.41mn
Estimated Free Float	27%

Major Shareholders	
Med-Bumikar Mara	50%
EPF	14%
AIA	4%

Legend	
DMSB: Daihatsu (Malaysia) Sdn Bhd	
DMMS: DMM Sales Sdn Bhd	

sales target of 208k units, essentially on track with their target.

- 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 respectable 130k units since its launch in September 2014 with 84k units have been delivered to customers. Interestingly, Perodua has rolled-out 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. 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). Meanwhile, Perodua officially announced that its new Perodua Sedan is now entering into prototype stage and expected to make debut between 2016-2018. This could be a new catalyst for Perodua in maintaining its vigorous performance in Malaysia's automotive industry since the last 5 years with market share of between 30%-31% annually.
- OMI alloy wheel plant.** The management anticipated that the losses from OMI's alloy wheel plant to narrow down in FY15 (FY14 losses at RM25 million) to be supported by higher production ramps driven by more orders from Perodua and Proton. MBM has allocated between RM16-RM17 million to upsurge 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.
- Change to forecast.** We made adjustment to our earnings by cutting our FY15 and FY16 earnings forecast by 6% respectively as we factor in lower sales assumption from Federal Auto and Hino in line with weaker consumer sentiment post-GST implementation. Given that, FY15 and FY16 earnings are forecast to jump by 19% y-o-y and 15% y-o-y driven by i) stronger Perodua vehicle sales on steady deliveries of Perodua Axia and ii) full production of Hino manufacturing plant by FY15.
- Valuation & recommendation.** We re-value MBMR at RM3.88 based on average 3-years PER of 10x pegged to FY16 EPS of 40sen and the stock is a **BUY** powered by i) leveraging on higher vehicles sales of its associates, Perodua and ii) improvement in production volume from its alloy wheel plant.

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	8.80	63	73	15.9	13.8	1.7	1.6	9	4	10.77	Hold
Tan Chong	Dec	2.46	19	26	14.5	10.5	0.6	0.6	3	2	3.00	Hold
MBM Resources	Dec	3.09	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	1.99	22	25	11.4	10.5	5.2	4.4	53	3	3.32	Buy
APM Automotive	Dec	4.15	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&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,268	2,267	1,780	2,149	2,299
EBIT	92	70	121	64	80
Finance costs	(25)	(23)	(21)	(21)	(23)
Interest Income	5	9	1	6	7
Associates	125	140	125	150	161
PBT	197	196	132	200	225
Net profit	136	139	114	136	157
EPS (sen)	38	36	29	35	40
PBT margin	9%	9%	7%	9%	10%
Net profit margin	6%	6%	6%	6%	7%
PER (x)	8.3	8.3	8.3	9.9	7.7
P/BV (x)	0.9	0.9	0.8	0.8	0.8
DPS (sen)	6	6	6	9	9
Dividend yield	2%	2%	2%	3%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	2Q14	1Q14	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	492	592	374	-37%	-24%	940	966	3%
Gross profit	33	66	27	-59%	-18%	62	93	50%
Net finance cost	(5)	(5)	(5)	1%	1%	(10)	(11)	1%
Associates/JCE	40	34	40	17%	2%	73	74	2%
PBT	37	65	34	-48%	-7%	64	99	54%
Taxation	(2)	(15)	(1)	-91%	-32%	(3)	(17)	413%
Net profit	31	35	29	-17%	-6%	55	64	18%
EPS (sen)	8	9	8	-17%	-6%	14	17	18%
EBIT margin	7%	11%	7%			7%	10%	
PBT margin	7%	11%	9%			7%	10%	
Net profit margin	6%	6%	8%			6%	7%	
Effective tax rate	6%	23%	4%			5%	17%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

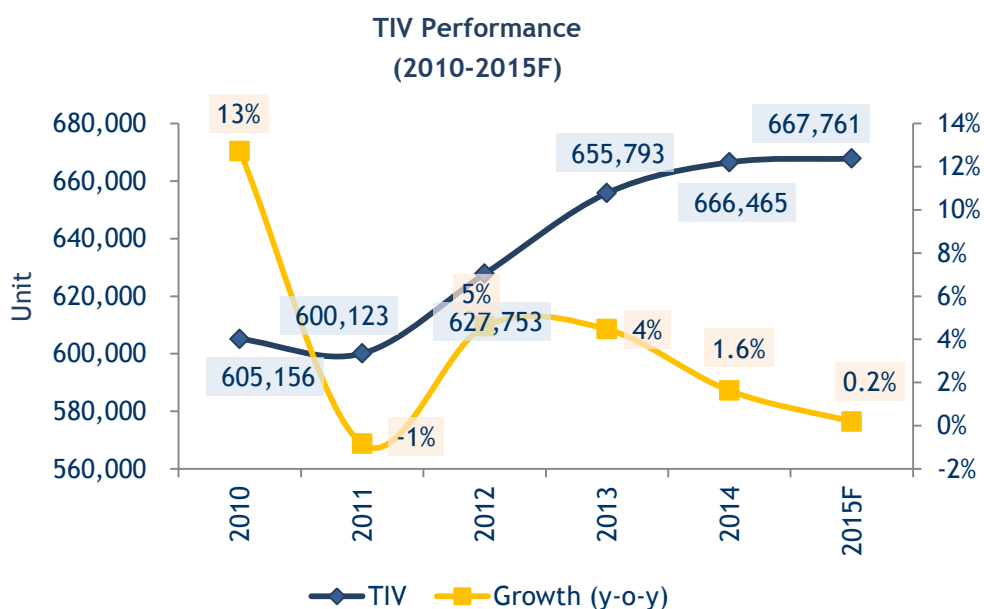
YE: Dec (RM million)	2Q14	1Q14	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
<u>Revenue</u>								
Motor Trading	445	411	328	-20%	-26%	854	739	-13%
Auto Parts Manufacturing	47	41	46	13%	-2%	86	87	1%
<u>PBT</u>								
Motor Trading	35	34	39	13%	13%	63	74	16%
Auto Parts Manufacturing	7	2	1	-63%	-88%	11	3	-72%

Source: Bursa Malaysia, M&A Securities

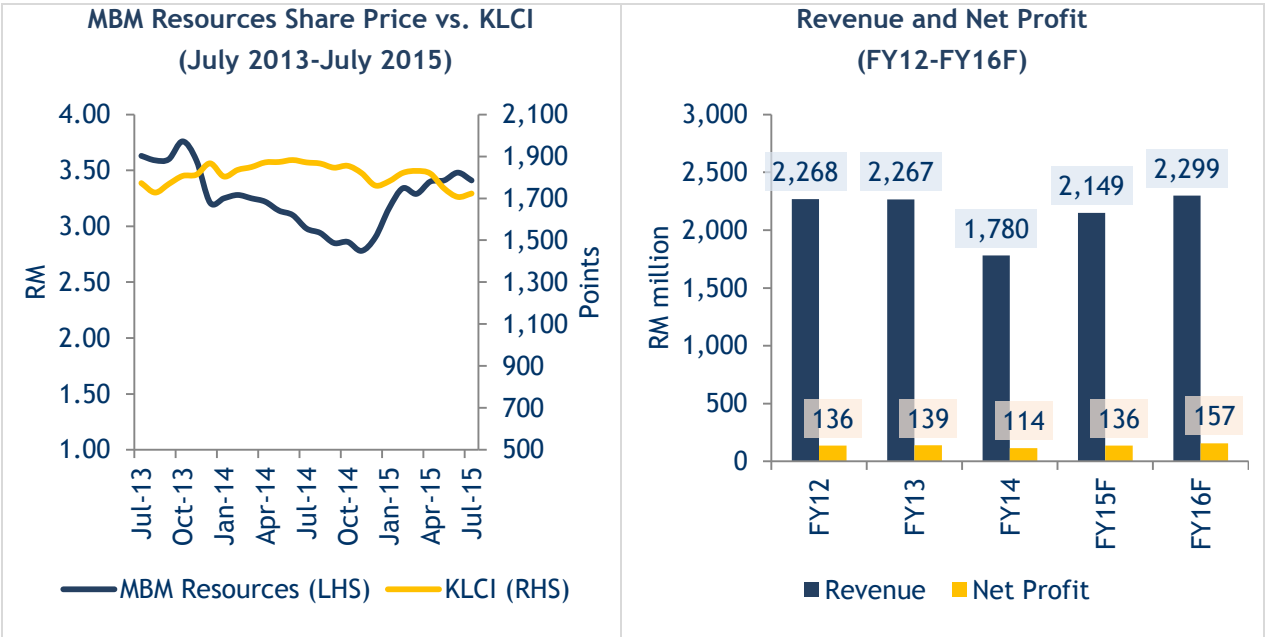
Table 5: YTD 2015 TIV

Marque	Jun-14	May-15	Jun-15	m-o-m	y-o-y	1H14	1H15	y-o-y
Proton	10,060	8,285	9,267	12%	-8%	63,040	50,206	-20%
Perodua	16,834	17,290	16,475	-5%	-2%	94,500	108,502	15%
Toyota	9,755	7,724	9,173	19%	-6%	51,938	39,690	-24%
Honda	7,295	6,221	8,668	39%	19%	37,203	43,596	17%
Nissan	3,519	3,300	3,765	14%	7%	22,113	23,294	5%
Mazda	1,063	1,155	1,350	17%	27%	5,794	6,582	14%
Others	10,035	7,277	8,739	20%	-13%	58,554	50,314	-14%
TIV	58,561	51,252	57,437	12%	-2%	333,142	322,184	-3%
Passenger	51,898	45,874	50,695	11%	-2%	296,779	286,533	-3%
Commercial	6,663	5,380	35,651	563%	435%	36,363	35,651	-2%

Source: MAA, M&A Securities



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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