

PP14767/09/2012(030761)

MBM Resources Berhad

“Lack of Associates Contribution”

Results Review

- Actual vs. expectations.** MBM Resources Bhd (MBMR) 9M15 core net profit of RM63 million (-21% y-o-y), excluding one-off gain from property sales, came in within ours and consensus estimates respectively, accounting 46% and 49% of both estimates full year net profit forecast. The lower cumulative earnings performance in 9M15 was largely hammered by weaker-than-expected PBT contribution from motor trading division (-6% y-o-y) as well as lower associates contribution as a results of massive drop in Hino’s vehicles sales (-31% y-o-y).
- Dividend.** No dividend was declared during the quarter.
- Top line.** Excluding one-off property contribution, MBMR revenue declined to RM1.2 billion (-9% y-o-y) in 9M15 due to lower contribution from motor trading division (-11% y-o-y) impacted by weaker sales volume from the group’s subsidiaries namely DMSB - Daihatsu & Hino trucks (-25% y-o-y) and Federal Auto - Volvo, Volkswagen and Mitsubishi (-29% y-o-y). Nonetheless, sales volume from DMMS - Perodua continued to improve in 6M15 after posting creditable growth of 16% y-o-y.
- Bottom line.** Excluding one-off property contribution, MBMR posted lower 9M15 PBT at RM78 million (-15% y-o-y) hammered by weaker associates’ contribution which plunged by 54% y-o-y in 3Q15 no thanks to the lower sales volume from Hino’s vehicles (-31% y-o-y) coupled with the adverse foreign exchange movement. On the other sides, Perodua’s sales volume in 9M15 remained strong at 156k units (+12% y-o-y), accounting 76% of Perodua’s FY15 sales target of 208k units, thanks to the sturdy demand of Perodua Axia.

Thursday, November 19, 2015

BUY (TP: RM3.20)

Current Price (RM)	RM2.83
New Target Price (RM)	RM3.20
Previous Target Price (RM)	RM3.88
Previous Recommend.	BUY
Upside To Target Price	13%
Dividend Yield (FY16)	3%

Stock Code

Bloomberg	MBM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	391
Market Cap (RM mn)	1,094
YTD Chg In Share Price	-2%
Beta (x)	0.52
52-week Hi/Lo (RM)	3.50 2.57
3M Average Volume (shrs)	0.16mn
Estimated Free Float	26%

Major Shareholders

Med-Bumikar Mara	50%
EPF	15%
AIA	2%

Legend

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

- Leverage on Perodua.** The management re-affirmed that the highly awaited model, the new Perodua Sedan (D63D) which now in the prototype stage, will take 36 to 48 months to develop and expected to make a debut at the earliest in 2018. This will be the first Perodua's model based on "Sedan" concept and we do not rule out that this model would be a new Perodua's volume selling model after the success of Perodua Myvi and Axia. Moreover, this could be a new long-term 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) supported by higher production ramps driven by more orders from Perodua and Proton. MBM has allocated between RM16-RM18 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.
- Outlook.** Despite the anticipated softer sales of non-national car, we think that MBMR performance will continue to be driven by the strong sales of Perodua cars. In the environment where consumers spending are expected to suffer a pullback, we think that Perodua is likely to remain the main choice for car buyers. Hence, expect Perodua car sales performance to remain steady in 2016 and beyond.
- Change to forecast.** We made adjustment to our earnings by cutting our FY15 and FY16 earnings forecast by 16% and 22% respectively as we factor in lower sales assumption from Federal Auto and Hino in line with weaker consumer sentiment post-GST implementation. Given that, FY16 earnings are forecast to jump by 14% y-o-y driven by i) stronger Perodua vehicle sales on steady deliveries of Perodua Axia and ii) higher contribution from auto part manufacturing division.
- Valuation & recommendation.** We re-value MBMR at RM3.20 based on average 3-years PER of 10x pegged to FY16 EPS of 33sen 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	8.35	45	54	18.1	15.1	1.4	1.4	8	5	7.80	Hold
Tan Chong	Dec	2.88	11	16	25.2	16.5	0.6	0.6	2	2	2.47	Sell
MBM Resources	Dec	2.83	32	36	8.5	7.5	0.7	0.6	8	3	3.20	Buy
Berjaya Auto	Apr	2.14	20	22	10.0	9.4	4.2	3.6	52	5	2.45	Buy
APM Automotive	Dec	4.00	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

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,268	2,267	1,780	1,855	1,985
EBIT	92	70	121	56	60
Finance costs	(25)	(23)	(21)	(19)	(20)
Interest Income	5	9	1	6	6
Associates	125	140	125	111	129
PBT	197	196	132	154	175
Net profit	136	139	114	114	130
EPS (sen)	38	36	29	29	33
PBT margin	9%	9%	7%	8%	9%
Net profit margin	6%	6%	6%	6%	7%
PER (x)	8.3	8.3	8.3	9.7	8.5
P/BV (x)	0.9	0.9	0.8	0.7	0.6
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)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	423	374	411	10%	-3%	1,363	1,377	1%
Gross profit	28	27	30	10%	7%	90	123	37%
Net finance cost	(5)	(5)	(5)	-6%	-2%	(16)	(16)	0%
Associates/JCE	33	40	16	-60%	-52%	106	90	-15%
PBT	28	34	12	-63%	-55%	92	112	21%
Taxation	0.3	(1)	(1)	-16%	-490%	(3)	(18)	498%
Net profit	26	29	9	-70%	-67%	81	73	-10%
EPS (sen)	7	8	2	-71%	-67%	21	19	-10%
EBIT margin	7%	7%	7%			7%	9%	
PBT margin	7%	9%	3%			7%	8%	
Net profit margin	6%	8%	2%			6%	5%	
Effective tax rate	-1%	4%	9%			3%	16%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

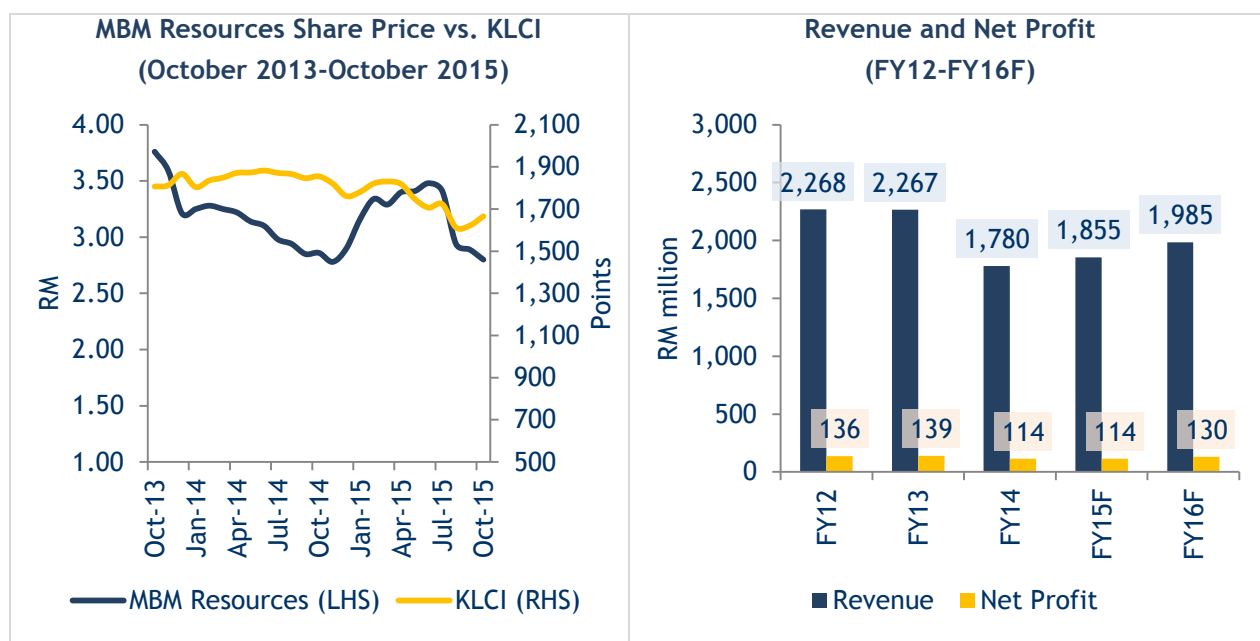
YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
<u>Revenue</u>								
Motor Trading	389	328	369	12%	-5%	1,243	1,108	-11%
Auto Parts Manufacturing	34	46	43	-7%	24%	120	129	8%
<u>PBT</u>								
Motor Trading	33	39	17	-56%	-47%	96	91	-6%
Auto Parts Manufacturing	-1	1	0	-158%	-46%	10	3	-75%

Source: Bursa Malaysia, M&A Securities

Table 5: YTD 2015 TIV

Marque	Sep-14	Aug-15	Sep-15	m-o-m	y-o-y	9M14	9M15	y-o-y
Proton	8,053	9,040	8,723	-4%	8%	90,749	78,836	-13%
Perodua	12,114	16,589	14,479	-13%	20%	140,317	157,527	12%
Toyota	7,585	8,233	8,049	-2%	6%	75,815	63,463	-16%
Honda	6,170	6,853	7,519	10%	22%	56,747	66,411	17%
Nissan	3,503	3,705	3,595	-3%	3%	32,609	34,759	7%
Mazda	990	1,192	1,279	7%	29%	8,775	10,386	18%
Others	9,356	7,840	7,462	-5%	-20%	87,293	74,006	-15%
TIV	47,771	53,452	51,106	-4%	7%	492,305	485,388	-1%
Passenger	41,397	47,302	45,245	-4%	9%	436,652	431,586	-1%
Commercial	6,374	6,150	5,861	-5%	-8%	55,653	53,802	-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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