



Company report

MBM RESOURCES

(MBM MK EQUITY, MBMR.KL)

22 May 2020

1Q20 depressed by MCO; 2H20 expected to be better

BUY

(Maintained)

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Rationale for report: Company results

Price **RM2.85**
 Fair Value **RM3.59**
 52-week High/Low RM4.47/RM2.50

Key Changes

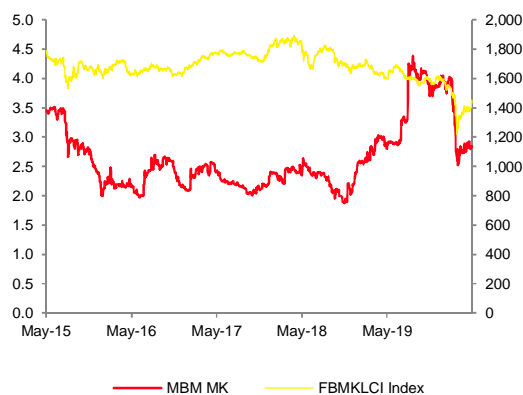
Fair value
 EPS

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,824.6	1,580.6	1,881.7	1,936.6
Core net profit (RM mil)	188.9	130.8	200.4	207.3
FD Core EPS (sen)	48.3	33.5	51.3	53.0
FD Core EPS growth (%)	3.2	(30.7)	53.1	3.5
Consensus Net Profit (RM mil)	-	177.0	215.1	215.2
DPS (sen)	22.0	13.4	20.5	21.0
PE (x)	5.9	8.5	5.6	5.4
EV/EBITDA (x)	13.5	19.7	13.0	12.2
Div yield (%)	7.7	4.7	7.2	7.4
ROE (%)	11.5	7.5	10.9	10.6
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	390.7
Market Cap (RM mil)	1,113.5
Book Value (RM/share)	4.34
P/BV (x)	0.7
ROE (%)	11.5
Net Gearing (%)	-
Major Shareholders	Med-Bumikar Mara Sdn Bhd (50.1%) EPF (15.9%) AIA (4.3%)
Free Float	15.0
Avg Daily Value (RM mil)	1.9

Price performance	3mth	6mth	12mth
Absolute (%)	(28.9)	(23.0)	(1.7)
Relative (%)	(25.1)	(15.5)	8.5



Investment Highlights

- We maintain our BUY call on MBM Resources (MBMR) with a higher FV of RM3.59 (from RM3.18 previously) as we roll over our valuations to FY21F, pegging the stock to a PE of 7x.
- We cut our FY20F net profit forecast by 27% to account for lower sales volume assumptions due to: i) the prolonged movement control order (MCO); and ii) weaker market demand as consumer demand for big-ticket items is unlikely to recover to pre-Covid-19 levels in the near term. No changes to our FY21–22F estimates.
- We deem MBMR's 1Q20 core net profit of RM27.3mil to be below both our and consensus estimates, accounting for 15% of ours and consensus forecasts. MBMR's core net profit was down by 33% YoY compared to 1Q19's RM40.9mil.
- MBMR registered a lower 1Q20 revenue of RM374.0mil (-28% YoY) largely due to a slide in its motor trading division's sales volume (-28% YoY). Perodua sold a total of 45.0K units in 1Q20 vs. 60.7K units in 1Q19 (-26% YoY).

We also witnessed a drop in sales volume of Daihatsu & Hino trucks (-9.7% YoY). Federal Auto's sales volume also disappointed, falling by 30.8% YoY. Due to the implementation of the MCO, both Volvo and Volkswagen recorded 1Q20 depressed sales volumes of 0.4K units (-15% YoY) and 0.8K units (-42% YoY) respectively. MBMR's motor trading division posted a lower 1Q20 PBT of RM1.1mil (-80% YoY) compared to 1Q19's RM5.5mil.

- MBMR's auto parts manufacturing division also recorded a lower revenue of RM37.6mil (-26% YoY) in 1Q20. With that, the division's PBT tumbled 59% YoY to RM1.0mil from RM2.4mil in 1Q20. We also noticed a decreased earnings contribution from Hirotako Acoustics (HASB) and Oriental Metal Industries (OMI) with a relatively lower sales revenue of 28.4% and 25.4% YoY respectively.
- Earnings contribution from MBMR's associate was also weaker with a PBT of RM28.3mil (-34% YoY) in 1Q20 compared to RM42.8mil in 1Q19. We reckon this was due to Perodua's lower earnings contribution as sales volume shrank due to the MCO.

We note that the group's associate earnings contributed 91% of MBMR's PBT for 1Q20.

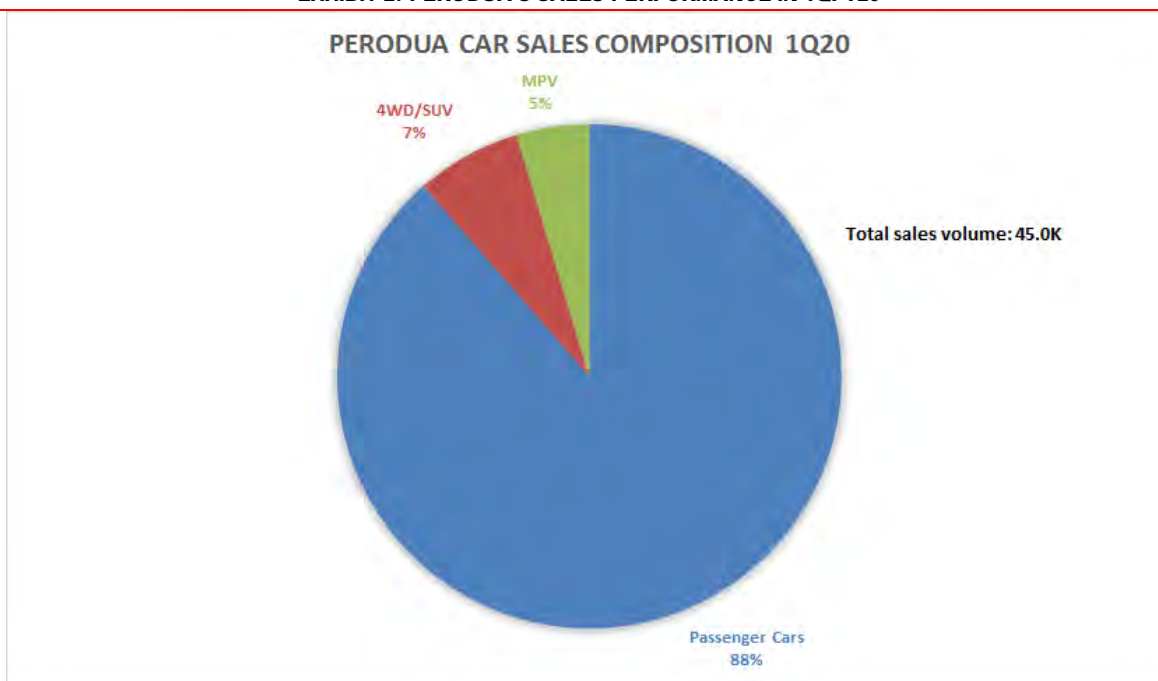
- Nevertheless, MBMR's balance sheet remains strong with a net cash position of RM189.0mil as of 1Q20. This will help it weather the headwinds in these uncertain times of a global pandemic and lower consumer demand for big-ticket items.
- We expect MBM's earnings to improve in 2H20 as dealers and showrooms are now allowed to open for business, compared to zero sales for about 2 months in 1H20. Our BUY call is also premised on the belief that Perodua cars should recover more quickly compared to other brands because of its more attractive pricings for its model line-ups and value propositions.

EXHIBIT 1: RESULTS SUMMARY

	1Q19	4Q19	1Q20	QoQ	YoY
Revenue	519.1	496.1	374.0	-25%	-28%
Cost of sales	(481.4)	(465.1)	(343.8)	-26%	-29%
Gross Profit	37.6	30.9	30.2	-2%	-20%
Other income	21.2	15.1	7.2	-52%	-66%
Administrative and other expenses	(23.9)	(24.9)	(23.5)	-6%	-2%
Selling and marketing expenses	(17.6)	(23.9)	(14.6)	-39%	-17%
Finance costs	(0.7)	(0.4)	(0.4)	-12%	-45%
Interest income	0.9	1.4	1.6	11%	78%
Share of results of jointly controlled entity, net of tax	3.9	3.3	2.3	-30%	-41%
Share of results of associates, net of tax	42.8	40.7	28.3	-30%	-34%
Profit before tax	64.3	42.2	31.3	-26%	-51%
Income tax expense	(2.8)	(0.0)	(0.8)	3435%	-71%
Profit for the period	61.5	42.1	30.5	-28%	-50%
Non-controlling interests	9.0	2.5	3.0	20%	-66%
Net profit	52.5	39.6	27.4	-31%	-48%
Exceptional items	11.6	0.7	0.1		
Core net profit	40.9	38.9	27.3	-30%	-33%
Earnings Per Share (sen)	10.5	10.0	7.0		
Dividend Per Share (sen)	0.0	7.0	0.0		
Margins					
Gross margin	7.3%	6.2%	8.1%		
EBITDA margin	4.3%	0.4%	1.0%		
EBIT margin	3.3%	-0.6%	-0.2%		
PBT margin	12.4%	8.5%	8.4%		
Net profit margin	10.1%	8.0%	7.3%		
Core net profit margin	7.9%	7.9%	7.3%		
Segmental Breakdown					
Revenue					
Motor Trading	467.9	438.2	335.9	-23%	-28%
Auto Parts manufacturing	50.8	57.4	37.6	-34%	-26%
Others	0.4	0.4	0.5	8%	18%
Total	519.1	496.1	374.0	-25%	-28%
PBT					
Motor Trading	5.5	(2.3)	1.1	-148%	-80%
Auto Parts manufacturing	2.4	2.5	1.0	-60%	-59%
Share of JV	3.9	3.3	2.3	-30%	-41%
Share of Associates	42.8	40.7	28.3	-30%	-34%
Others	(2.3)	(2.0)	(1.5)	-26%	-36%
Total	52.4	42.2	31.3	-26%	-40%
PBT Margin					
Motor Trading	1.2%	-0.5%	0.3%		
Auto Parts manufacturing	4.8%	4.3%	2.6%		
Perodua volume					
Sales volume	60,659	61,587	44,977	-27%	-26%
Total Industry Volume (TIV)	143,064	161,296	105,533	-35%	-26%

Source: AmInvestment Bank Bhd

EXHIBIT 2: PERODUA'S SALES PERFORMANCE IN 1QFY20



Source: AmInvestment Bank Bhd

EXHIBIT 3: OVERALL GROUP SALES PERFORMANCE

Sales Performance	1QFY20		1QFY20
	QoQ	YoY	YTD
TIV	-34.0%	-25.6%	-25.6%
Total Group's Vehicle Sales	-31.7%	-23.0%	-23.0%
Subsidiaries			
DMSB - Daihatsu & Hino	-41.9%	-9.7%	-9.7%
DMSS - Perodua dealership	-30.5%	-23.0%	-23.0%
FA - Volvo, VW & Mitsubishi	-38.8%	-30.8%	-30.8%
HASB	-38.4%	-28.4%	-28.4%
OMI	-33.7%	-25.4%	-25.4%
Service throughputs	-13.6%	-4.0%	-4.0%
JV			
AHSB (51%) - airbags & seatbelts	-23.5%	-20.9%	-20.9%
Associates			
Perodua (20%)	-19.2%	-16.9%	-16.9%

Source: AmInvestment Bank Bhd

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,927.0	1,824.6	1,580.6	1,881.7	1,936.6
EBITDA	36.9	85.6	59.7	89.6	95.4
Depreciation/Amortisation	24.9	26.1	27.1	28.1	28.3
Operating income (EBIT)	12.0	59.6	32.6	61.4	67.1
Other income & associates	197.4	164.9	126.5	170.4	174.0
Net interest	(5.4)	(4.9)	(5.8)	(6.4)	(6.1)
Exceptional items	-	-	-	-	1.0
Pretax profit	204.0	219.6	153.3	225.5	235.1
Taxation	(15.1)	(11.6)	(12.3)	(12.0)	(12.3)
Minorities/pref dividends	(22.1)	(12.7)	(10.3)	(13.2)	(14.5)
Net profit	166.8	188.9	130.8	200.4	208.3
Core net profit	174.6	188.9	130.8	200.4	207.3
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	269.0	276.6	272.6	271.8	269.7
Intangible assets	1.1	1.1	1.1	1.1	1.1
Other long-term assets	1,380.6	1,580.9	1,607.2	1,677.6	1,750.2
Total non-current assets	1,650.8	1,858.6	1,880.9	1,950.5	2,021.0
Cash & equivalent	197.4	164.8	137.3	139.7	139.5
Stock	104.4	172.6	149.5	178.0	183.2
Trade debtors	132.1	160.0	138.6	165.0	169.8
Other current assets	21.4	11.2	11.2	11.2	11.2
Total current assets	455.3	508.5	436.6	493.9	503.6
Trade creditors	121.5	119.1	104.2	122.8	131.4
Short-term borrowings	58.5	121.2	131.2	141.2	151.2
Other current liabilities	3.8	3.8	3.8	3.8	3.8
Total current liabilities	183.9	244.1	239.2	267.8	286.5
Long-term borrowings	85.4	82.0	68.0	53.0	39.0
Other long-term liabilities	8.3	8.3	8.3	8.3	8.3
Total long-term liabilities	93.7	90.2	76.2	61.2	47.2
Shareholders' funds	1,579.3	1,696.4	1,774.9	1,895.1	2,020.3
Minority interests	249.2	262.0	272.2	285.4	299.9
BV/share (RM)	4.04	4.34	4.54	4.85	5.17
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	204.0	219.6	153.3	225.5	235.1
Depreciation/Amortisation	24.9	26.1	27.1	28.1	28.3
Net change in working capital	40.5	(98.5)	(89.9)	(56.4)	(64.4)
Others	(200.6)	(171.6)	(133.0)	(176.0)	(177.2)
Cash flow from operations	68.8	(24.5)	(42.4)	21.2	21.8
Capital expenditure	(9.7)	(27.4)	(23.7)	(28.2)	(29.0)
Net investments & sale of fixed assets	1.8	-	-	-	-
Others	109.4	106.4	105.8	105.1	105.4
Cash flow from investing	101.5	79.1	82.1	76.8	76.4
Debt raised/(repaid)	(131.0)	(2.0)	(4.0)	(5.0)	(4.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(24.9)	(78.1)	(52.3)	(80.1)	(82.1)
Others	(10.7)	(11.0)	(10.8)	(10.5)	(10.3)
Cash flow from financing	(166.6)	(91.1)	(67.1)	(95.6)	(96.4)
Net cash flow	3.7	(36.5)	(27.5)	2.4	1.7
Net cash/(debt) b/f	201.1	201.3	164.8	137.3	139.7
Net cash/(debt) c/f	204.8	164.8	137.3	139.7	141.5
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	11.9	(5.3)	(13.4)	19.1	2.9
EBITDA growth (%)	(116.2)	131.9	(30.3)	50.0	6.5
Pretax margin (%)	10.6	12.0	9.7	12.0	12.1
Net profit margin (%)	8.7	10.4	8.3	10.6	10.8
Interest cover (x)	2.2	12.1	5.6	9.6	11.0
Effective tax rate (%)	7.4	5.3	8.0	5.3	5.2
Dividend payout (%)	7.9	31.0	30.0	30.0	29.6
Debtors turnover (days)	27	29	34	29	32
Stock turnover (days)	24	28	37	32	34
Creditors turnover (days)	24	24	26	22	24

Source: Company, AmInvestment Bank Bhd estimates

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