



Company report

MBM RESOURCES

(MBM MK EQUITY, MBMR.KL)

20 Nov 2020

Registers best-ever quarterly profit in 3Q20

BUY

(Maintained)

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Rationale for report: Company results

Price	RM3.21
Fair Value	RM4.32
52-week High/Low	RM4.11/RM2.50

Key Changes

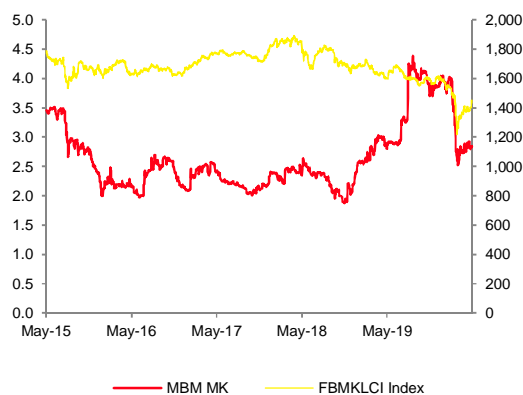
Fair value	↕
EPS	↕

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,824.6	1,396.3	1,636.9	1,907.0
Core net profit (RM mil)	188.9	143.8	187.5	206.3
FD Core EPS (sen)	49.0	36.8	48.0	52.8
FD Core EPS growth (%)	4.7	(25.0)	30.4	10.0
Consensus Net Profit (RM mil)	-	131.4	171.0	190.0
DPS (sen)	22.0	14.7	19.2	20.9
PE (x)	6.5	8.7	6.7	6.1
EV/EBITDA (x)	15.1	18.9	18.1	13.9
Div yield (%)	6.9	4.6	6.0	6.5
ROE (%)	11.5	8.3	10.2	10.6
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	390.7
Market Cap (RM mil)	1,254.2
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)	1.6

Price performance	3mth	6mth	12mth
Absolute (%)	1.6	12.6	(17.9)
Relative (%)	1.1	1.3	(16.8)



Investment Highlights

- We maintain BUY on MBM Resources (MBMR) with an unchanged fair value of RM4.32, based on a 9x FY21F EPS.
- MBMR recorded its best-ever quarterly core profit of RM65.1mil in 3Q20. Overall, the group's 9M20 core net profit of RM87.4mil came in at 61% and 67% of our and consensus full-year forecasts respectively. We deem this to be within our expectations but above consensus. We expect a sustained strong follow-through momentum in 4Q20 on the back of improved sales volume, boosted by the SST exemption. MBMR's 9M20 core net profit dived by 43% YoY compared to 9M19's RM152.8mil due to the movement control order (MCO) in 1H20.
- MBMR registered a lower 9MFY20 revenue of RM1.2bil (-23% YoY) largely due to lower contribution from its motor trading division (-22% YoY) as the MCO shut down all car showrooms and service centres throughout the nation from 18 March till 4 May 2020.
- Perodua sold a total of 145.0K units in 9M20 vs. 178.8K units in 9M19 (-19% YoY). We note that Federal Auto and Daihatsu & Hino's sales volume were down by 26.1% and 15.0% YoY respectively. With that, MBMR's motor trading division posted a lower 9M20 PBT of RM23.4mil (-2% YoY).
- MBMR's auto parts manufacturing division also recorded a weaker revenue of RM107.5mil (-28% YoY) in 9M20. As a result, the division's PBT slid to RM3.5mil (-60% YoY) from RM8.7mil in 9M20. We also noticed a smaller earnings contribution from Hirotako Acoustics (HASB) and Oriental Metal Industries (OMI) with lower sales revenues of 30.5% and 27.8% YoY respectively.

- Earnings contribution from MBMR's associate was also weaker with a PBT of RM79.0mil (-75% YoY) in 9MFY20 compared to RM147.1mil in 9MFY19. We reckon this was due to Perodua's smaller earnings contribution as sales and production volume shrank due to the MCO earlier this year.
- We note that the group's associate earnings (mainly from Perodua) contributed to about 73% of MBMR's PBT for 9M20.
- MBMR's balance sheet remained stellar with a net cash position of RM163.1mil (41.7sen/share) as of 30 Sep 2020.

- We expect MBMR to continue its strong showing in 4Q20 – empowered by the SST exemption until 31 December 2020. Our BUY call is also premised on the belief that the sales volume of Perodua cars would be more encouraging compared to other brands because of its more attractive pricings for its model line-ups and value propositions.

EXHIBIT 1: RESULTS SUMMARY

	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	%
Revenue	515.3	258.6	600.4	132%	17%	1,592.4	1,233.1	-23%
Cost of sales	(475.0)	(238.8)	(552.2)	131%	16%	(1,471.8)	(1,134.8)	-23%
Gross Profit	40.4	19.8	48.2	144%	20%	120.6	98.3	-19%
Other income	11.4	9.9	10.9	11%	-4%	67.6	28.0	-58%
Administrative and other expenses	(23.2)	(17.6)	(21.2)	21%	-9%	(68.8)	(62.3)	-10%
Selling and marketing expenses	(17.8)	(11.0)	(18.9)	71%	6%	(55.5)	(44.5)	-20%
Finance costs	(0.5)	(0.3)	(0.2)	-31%	-54%	(1.6)	(0.9)	-43%
Interest income	0.9	1.3	0.9	-33%	-5%	3.1	3.8	22%
Share of results of jointly controlled entity, net of tax	2.3	(0.1)	4.4	-4501%	93%	8.6	6.6	-23%
Share of results of associates, net of tax	53.8	(4.7)	55.4	-1268%	3%	147.1	79.0	-46%
Profit before tax	67.4	(2.8)	79.6	-2923%	18%	221.0	108.0	-51%
Income tax expense	(2.4)	(1.4)	(4.6)	227%	91%	(8.5)	(6.9)	-19%
Profit for the period	64.9	(4.2)	75.0	-1868%	15%	212.5	101.2	-52%
Non-controlling interests	7.4	0.8	9.9	1079%	34%	23.4	13.8	-41%
Net profit	57.5	(5.1)	65.1	-1381%	13%	189.0	87.4	-54%
Exceptional items	1.3	0.0	(0.1)					
Core net profit	56.2	(5.1)	65.1	-1383%	16%	152.8	87.4	-43%
Earnings Per Share (sen)	14.4	(1.3)	16.7			39.1	22.4	
Dividend Per Share (sen)	0.0	5.0	0.0			6.0	5.0	
Margins								
Gross margin	7.8%	7.7%	8.0%			7.6%	8.0%	
EBITDA margin	3.0%	2.0%	3.9%			4.9%	2.6%	
EBIT margin	2.1%	0.4%	3.2%			4.0%	1.6%	
PBT margin	13.1%	-1.1%	13.3%			13.9%	8.8%	
Net profit margin	11.2%	-2.0%	10.8%			11.9%	7.1%	
Core net profit margin	10.9%	-2.0%	10.8%			9.6%	7.1%	
Segmental Breakdown								
Revenue								
Motor Trading	468.5	241.0	547.4	127%	17%	1,441.5	1,124.4	-22%
Auto Parts manufacturing	46.4	17.3	52.6	204%	13%	149.7	107.5	-28%
Others	0.4	0.3	0.4	65%	13%	1.2	1.2	1%
Total	515.3	258.6	600.4	132%	17%	1,592.4	1,233.1	-23%
PBT								
Motor Trading	8.8	5.0	17.3	250%	97%	23.8	23.4	-2%
Auto Parts manufacturing	2.3	(1.5)	4.0	-363%	74%	8.7	3.5	-60%
Share of JV	2.3	(0.1)	4.4	-4501%	93%	8.6	6.6	-23%
Share of Associates	53.8	(4.7)	55.4	-1268%	3%	147.1	79.0	-46%
Others	0.1	(1.4)	(1.6)	13%	-1362%	(3.8)	(4.5)	17%
Total	67.4	(2.8)	79.6	-2923%	18%	184.3	108.0	-41%
PBT Margin								
Motor Trading	1.9%	2.1%	3.2%			1.6%	2.1%	
Auto Parts manufacturing	5.0%	-8.8%	7.6%			5.8%	3.2%	
Perodua volume								
Sales volume	56,972	29,193	70,842	143%	24%	178,754	145,012	-19%
Total Industry Volume (TIV)	146,667	68,147	166,796	145%	14%	443,001	341,471	-23%

Source: AmInvestment Bank Bhd

EXHIBIT 2: OVERALL GROUP SALES PERFORMANCE

Sales Performance	3QFY20		9MFY20
	QoQ	YoY	YTD
TIV	144.4%	13.7%	-22.9%
Total Group's Vehicle Sales	123.9%	31.0%	-14.8%
Subsidiaries			
DMSB - Daihatsu & Hino	176.5%	8.9%	-15.0%
DMSS - Perodua dealership	116.4%	23.1%	-14.0%
FA - Volvo, VW & Mitsubishi	205.2%	1.4%	-26.1%
HASB	162.4%	0.8%	-30.5%
OMI	213.7%	16.0%	-27.8%
Service throughputs	106.0%	3.8%	-14.9%
JV			
AHSB (51%) - airbags & seatbelts	199.1%	31.8%	-15.9%
Associates			
Perodua (20%)	182.9%	20.8%	-17.9%

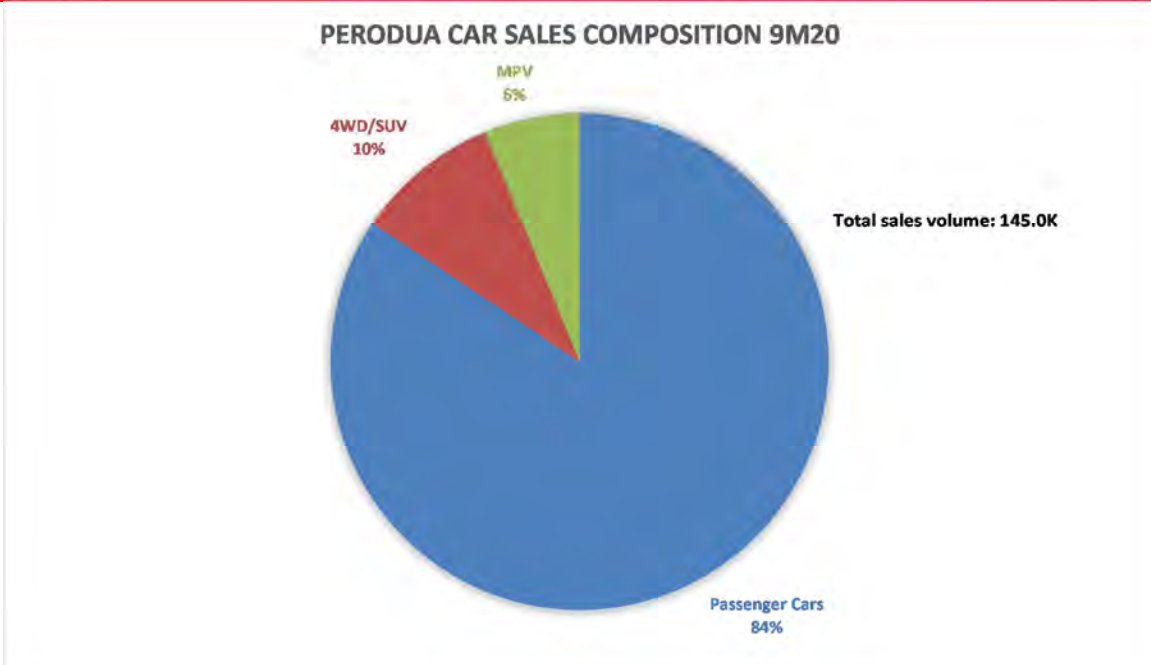
Source: AmInvestment Bank Bhd

EXHIBIT 3: PERODUA PRICE LIST POST-SST EXEMPTION

Perodua model	Variant	Price with SST	Price with 2020 SST exemption (until December 31)	Price difference	Price difference in percentage
Axia	1.0 E (MT)	RM24,090	RM23,367	-RM723	-3.00%
	1.0 G (AT)	RM33,490	RM32,485	-RM1,005	-3.00%
	1.0 GXtra (AT)	RM34,990	RM33,940	-RM1,050	-3.00%
	1.0 Style (AT)	RM38,890	RM37,515	-RM1,375	-3.54%
	1.0 SE (AT)	RM38,890	RM37,515	-RM1,375	-3.54%
	1.0 Advance (AT)	RM43,190	RM41,427	-RM1,763	-4.08%
Bezza	1.0 G (MT)	RM34,580	RM33,456	-RM1,124	-3.25%
	1.0 G (AT)	RM36,580	RM35,391	-RM1,189	-3.25%
	1.3 X (AT)	RM43,980	RM42,551	-RM1,429	-3.25%
	1.3 Advance (AT)	RM49,980	RM48,356	-RM1,624	-3.25%
Myvi	1.3 G (MT)	RM42,790	RM41,292	-RM1,498	-3.50%
	1.3 G (AT)	RM44,590	RM43,029	-RM1,561	-3.50%
	1.3 Premium X (AT)	RM46,590	RM44,959	-RM1,631	-3.50%
	1.5 High (AT)	RM50,290	RM48,530	-RM1,760	-3.50%
	1.5 Advance (AT)	RM54,090	RM52,197	-RM1,893	-3.50%
Alza	1.5 S (MT)	RM51,490	RM49,944	-RM1,546	-3.00%
	1.5 S (AT)	RM54,290	RM52,661	-RM1,629	-3.00%
	1.5 SE (AT)	RM56,890	RM55,186	-RM1,704	-3.00%
	1.5 Advance (AT)	RM62,690	RM60,525	-RM2,165	-3.45%
Aruz	1.5 X (AT)	RM72,900	RM68,526	-RM4,374	-6.00%
	1.5 Advance (AT)	RM77,900	RM73,226	-RM4,674	-6.00%

Source: AmInvestment Bank Bhd, paultan.org

EXHIBIT 4: PERODUA SALES MIX 9M20



Source: AmInvestment Bank Bhd, MAA

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,927.0	1,824.6	1,396.3	1,636.9	1,907.0
EBITDA	36.9	85.6	69.8	73.2	94.1
Depreciation/Amortisation	24.9	26.1	27.0	27.9	28.0
Operating income (EBIT)	12.0	59.6	42.8	45.3	66.1
Other income & associates	197.4	164.9	126.5	170.4	174.0
Net interest	(5.4)	(4.9)	(5.8)	(6.5)	(6.5)
Exceptional items	-	-	-	-	1.0
Pretax profit	204.0	219.6	163.5	209.2	233.6
Taxation	(15.1)	(11.6)	(11.4)	(11.1)	(12.2)
Minorities/pref dividends	(22.1)	(12.7)	(8.3)	(10.6)	(14.1)
Net profit	166.8	188.9	143.8	187.5	207.3
Core net profit	174.6	188.9	143.8	187.5	206.3
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	269.0	276.6	270.0	265.9	263.7
Intangible assets	1.1	1.1	1.1	1.1	1.1
Other long-term assets	1,380.6	1,580.9	1,607.1	1,677.2	1,749.9
Total non-current assets	1,650.8	1,858.6	1,878.2	1,944.3	2,014.7
Cash & equivalent	197.4	164.8	132.8	126.0	138.4
Stock	104.4	172.6	132.1	154.9	180.4
Trade debtors	132.1	160.0	122.4	143.5	167.2
Other current assets	21.4	11.2	11.2	11.2	11.2
Total current assets	455.3	508.5	398.5	435.6	497.2
Trade creditors	121.5	119.1	91.1	107.3	129.4
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	226.2	252.4	284.5
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	1,782.7	1,895.2	2,019.7
Minority interests	249.2	262.0	270.3	280.8	295.0
BV/share (RM)	4.04	4.34	4.56	4.85	5.17
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	204.0	219.6	163.5	209.2	233.6
Depreciation/Amortisation	24.9	26.1	27.0	27.9	28.0
Net change in working capital	40.5	(98.5)	(102.9)	(58.8)	(50.9)
Others	(200.6)	(171.6)	(132.2)	(175.0)	(176.7)
Cash flow from operations	68.8	(24.5)	(44.6)	3.4	34.0
Capital expenditure	(9.7)	(27.4)	(20.9)	(24.6)	(28.6)
Net investments & sale of fixed assets	1.8	-	-	-	-
Others	109.4	106.4	105.8	104.9	105.0
Cash flow from investing	101.5	79.1	84.8	80.4	76.4
Debt raised/(repaid)	(131.0)	(2.0)	(4.0)	(5.0)	(4.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(24.9)	(78.1)	(57.5)	(75.0)	(81.7)
Others	(10.7)	(11.0)	(10.8)	(10.5)	(10.3)
Cash flow from financing	(166.6)	(91.1)	(72.3)	(90.5)	(96.0)
Net cash flow	3.7	(36.5)	(32.0)	(6.8)	14.4
Net cash/(debt) b/f	201.1	201.3	164.8	132.8	126.0
Net cash/(debt) c/f	204.8	164.8	132.8	126.0	140.4
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	11.9	(5.3)	(23.5)	17.2	16.5
EBITDA growth (%)	(116.2)	131.9	(18.5)	4.8	28.6
Pretax margin (%)	10.6	12.0	11.7	12.8	12.3
Net profit margin (%)	8.7	10.4	10.3	11.5	10.9
Interest cover (x)	2.2	12.1	7.4	7.0	10.2
Effective tax rate (%)	7.4	5.3	7.0	5.3	5.2
Dividend payout (%)	7.9	31.0	30.0	30.0	29.6
Debtors turnover (days)	27	29	37	30	30
Stock turnover (days)	24	28	40	32	32
Creditors turnover (days)	24	24	27	22	23

Source: Company, AmInvestment Bank Bhd estimates

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