

COMPANY UPDATE

Bermaz Auto (BAUTO MK)

Stands To Gain The Most From A Weakened Yen

The weakening of the Japanese yen against the Malaysian ringgit to its lowest level in seven years has benefitted automobile manufacturers with cost content denominated in yen. BAUTO's cost (incurred for CBU units and imported auto parts) is denominated in yen, and we expect the group's margin to improve by 3-4ppt following our new yen assumption. Further impetus could come from the SST extension. Maintain BUY with a higher target price of RM2.04

WHAT'S NEW

- **Benefitting from devaluation of Japanese yen.** BAUTO is benefitting from the weakening yen due to its association with Mazda Malaysia Sdn Bhd, which incurs input costs denominated in yen. The group's exposure is primarily comprised of completely-built-up (CBU) imports denominated in yen for the Mazda brand, as CBUs account for approximately 30% of Mazda's domestic sales volume (9MFY22), while 60% of the imported auto parts in the completely knocked-down (CKD) segment is denominated in yen.
- **Mazda's first EV model to be launched at end-22.** BAUTO is on track to roll out its first electric vehicle (EV) - the Mazda MX-30 - which was debuted at the 2019 Tokyo Motor Show with its body based on the CX-30 compact crossover. While management has not indicated the actual selling price, it was disclosed that the company is working to get the MX-30's price below RM200,000, taking into account the current EV subsidies. Under RM200,000, the MX-30's primary competitor will be the Hyundai Kona Electric, which was introduced in Nov 17 and is available in three models and two battery sizes (39.2 and 64 kWh) with price ranging from RM149,888 to RM199,888.
- **Extension of SST exemption could boost sales further.** Note that the Malaysia Automotive Association (MAA) has petitioned to the Ministry of Finance (MoF) to extend the automobile Sales & Service Tax (SST) exemption until end-22 in order to allow automakers to complete their backlog of orders. The SST exemption, which was originally slated to expire on 31 Dec 20, has been extended three times, and was first introduced in the Penjana stimulus package to help reduce the consequences of the first Movement Control Order, which took effect in Mar 20. Recall that BAUTO's sales during the SST exemption increased by 17% from Jul 20 to Dec 21.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,755	2,288	2,465	3,096	3,562
EBITDA	113	164	174	236	246
Operating profit	108	160	166	227	236
Net profit (rep./act.)	101	134	137	182	183
Net profit (adj.)	101	134	137	182	183
EPS (sen)	8.6	11.5	11.8	15.6	15.7
PE (x)	20.1	15.1	14.8	11.1	11.1
P/B (x)	4.3	3.6	3.2	2.8	2.5
EV/EBITDA (x)	16.4	11.2	10.6	7.8	7.5
Dividend yield (%)	4.3	3.7	3.4	4.5	4.5
Net margin (%)	5.7	5.9	5.6	5.9	5.1
Net debt/(cash) to equity (%)	8.0	(62.7)	(36.8)	(28.7)	(26.3)
Interest cover (x)	39.0	22.2	29.0	29.5	30.8
ROE (%)	19.5	25.8	22.8	26.7	23.7
Consensus net profit	-	-	131	172	202
UOBKH/Consensus (x)	-	-	1.05	1.06	0.91

Source: Bermaz Auto Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.74
Target Price	RM2.04
Upside	+17.2%
(Previous TP)	RM1.99)

COMPANY DESCRIPTION

Bermaz Auto is involved in the distribution, assembling, retailing and also the provision of after sales service of Mazda vehicles in Malaysia. The group also involved in distribution of locally assembled Mazda vehicles in Malaysia and Philippines.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	BAUTO MK
Shares issued (m):	1,162.2
Market cap (RMm):	2,022.2
Market cap (US\$m):	459.9
3-mth avg daily t'over (US\$m):	0.6

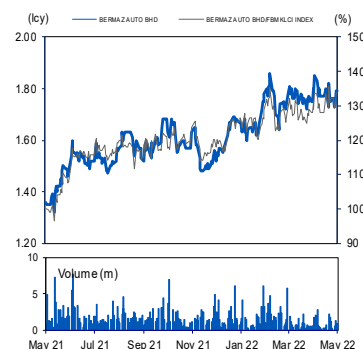
Price Performance (%)

52-week high/low		RM1.86/RM1.30		
1mth	3mth	6mth	1yr	YTD
(0.6)	(2.2)	10.8	26.6	10.1

Major Shareholders

	%
Employees Provident Fund Board	18.2
Dynamic Milestone Sdn Bhd	14.4
Amanah Saham Nasional Bhd	7.9
FY22 NAV/Share (RM)	0.55
FY22 Net Cash/Share (RM)	0.20

PRICE CHART



Source: Bloomberg

ANALYST(S)

Malaysia Research Team
+603 2147 1988
research@uobkayhian.com

STOCK IMPACT

- **We anticipate 4Q22 results to be comparable to that of 4Q21.** With SST exemption continuing to drive sales and majority of the sales orders being fulfilled before the financial year ended on 30 Apr 22, we expect BAUTO to deliver net profit of RM60m-65m in 4Q22 (down 3-11% yoy). With 8,926 units sold in 9MFY22, BAUTO is on track to fulfil its sales target of 13,000 units for Malaysia and the Philippines as production is being ramped up to clear outstanding orders.
- **Introduction of new models to encourage sales growth.** BAUTO has just launched the all-new Peugeot 2008 SUV in Jan 22 and could potentially launch New Landtrek in 3Q22. BAUTO will offer Mazda's first EV, the MX-30 in 4Q22, with KIA Sportage and Sorento following in 3Q/4Q22. The locally-assembled forms of the Mazda CX-30 and KIA Carnival are still on track to being introduced in mid-22 and are expected to help improve margin.
- **The company has a sales target of 18,000 units for 2023 vs our forecast of 17,790 units.** The launches of several new models and the full resumption of economic activities should boost sales to pre-pandemic levels. Should the SST exemption be extended, it will continue to drive the automobile industry sales.
- **Note that the yen has depreciated from JPY0.037 to JPY0.034 currently.** Our sensitivity analysis shows that every RM0.10 depreciation in JPY/MYR from our base-case assumption of RM3.40 would benefit BAUTO'S earnings by about 1% as 30% of its sales derived from CBU units and 60% of component cost for CKD unit is denominated in yen.

EARNINGS REVISION/RISK

- Our 2023-24 earnings forecasts are increased by 3% to account for the weakening of the yen to RM3.40/JPY100 from RM3.70/JPY100.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM2.04.** This is still based on 13x 2023F target PE (historical average). Key re-rating catalysts for the stock are: a) localisation of CX-30 and Kia Carnival, which will help to improve margin, b) the Kia and Peugeot franchises gaining traction at a faster-than-expected rate, and c) launches of new model as BAUTO will offer Mazda's first EV, the MX-30 in 4Q22 and Peugeot Landtrek in 3Q22, with KIA Sportage and Sorento following in 3Q/4Q22.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) UPDATES

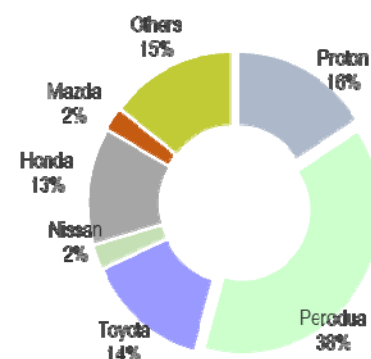
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Environmental governance. The Environmental Performance Monitoring Committee and the Environmental Regulatory Compliance Monitoring Committee are responsible for monitoring compliance and the effectiveness of the policy. - Energy management. BAUTO supports the Republic Act 11285 (Energy Efficiency and Conservation Act), which institutionalises energy efficiency and conservation as a national way of life. - Renewable energy promoted – assessing viability of installing solar energy system in HQ & its 3S centres. • Social <ul style="list-style-type: none"> - Corporate social responsibility. In 2021, its societal contributions have focused on assisting those affected by COVID-19, contributed RM100K to Ministry of Health and spent approximately RM640K on PPE, PCR test and etc to combat the pandemic. - Mazda Medicare Fund (MMF) dialysis programme channelled 100% funds to charity. • Governance <ul style="list-style-type: none"> - Board composition. Complies with Malaysian code on Corporate Governance which require independent directors (4 out of 7) to comprise the majority of the board.

NOTABLE NEW MODEL LAUNCHES IN NEXT 12 MONTHS

Model	Launch Date
KIA Sportage	3Q22
KIA Sorento	4Q22
KIA Carnival CKD	Mid-22
Mazda MX-30	4Q22
Mazda CX-30 CKD	1Q23
Peugeot Landtrek	3Q22

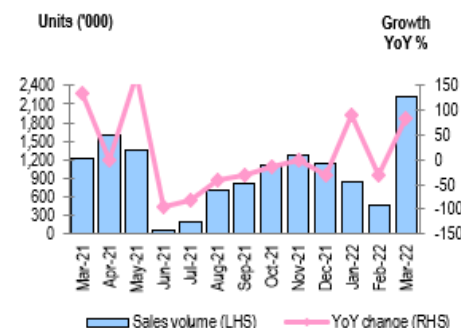
Source: Media Reports, Respective companies, UOB Kay Hian

MAZDA'S MARKET SHARE (1Q22)



Source: Malaysia Automotive Association (MAA)

MAZDA'S SALES TREND



Source: Malaysia Automotive Association (MAA)

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	2,288	2,465	3,096	3,562
EBITDA	164	174	236	246
Deprec. & amort.	5	8	9	10
EBIT	160	166	227	236
Associate contributions	21	28	32	38
Net interest income/(expense)	(7)	(6)	(8)	(8)
Pre-tax profit	173	188	250	266
Tax	(41)	(45)	(60)	(64)
Minorities	2	(6)	(8)	(19)
Net profit	134	137	182	183
Net profit (adj.)	134	137	182	183

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	37	55	61	66
Other LT assets	374	402	434	472
Cash/ST investment	561	414	408	415
Other current assets	370	626	786	905
Total assets	1,343	1,497	1,690	1,858
ST debt	106	80	100	100
Other current liabilities	282	387	460	518
LT debt	100	100	100	100
Other LT liabilities	239	239	239	239
Shareholders' equity	567	636	727	818
Minority interest	50	56	64	83
Total liabilities & equity	1,343	1,497	1,690	1,858

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	453	(21)	88	122
Pre-tax profit	173	188	250	266
Tax	(38)	(45)	(60)	(64)
Deprec. & amort.	5	8	9	10
Associates	(21)	(28)	(32)	(38)
Working capital changes	255	(150)	(87)	(61)
Other operating cashflows	78	6	8	8
Investing	(1)	(9)	(11)	(11)
Capex (growth)	(6)	(15)	(15)	(15)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	5	6	4	4
Financing	10	(118)	(83)	(104)
Dividend payments	(37)	(68)	(91)	(92)
Issue of shares	2	0	0	0
Proceeds from borrowings	n.a.	n.a.	n.a.	n.a.
Loan repayment	68	(25)	20	0
Others/interest paid	(23)	(24)	(12)	(12)
Net cash inflow (outflow)	462	(147)	(6)	7
Beginning cash & cash equivalent	100	561	414	408
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	561	414	408	415

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	7.2	7.1	7.6	6.9
Pre-tax margin	7.5	7.6	8.1	7.5
Net margin	5.9	5.6	5.9	5.1
ROA	10.2	9.6	11.4	10.3
ROE	25.8	22.8	26.7	23.7
Growth				
Turnover	30.3	7.7	25.6	15.0
EBITDA	46.0	5.9	35.3	4.4
Pre-tax profit	30.8	8.8	33.2	6.4
Net profit	32.8	2.2	32.9	0.7
Net profit (adj.)	32.8	2.2	32.9	0.7
EPS	33.0	2.2	32.9	0.7
Leverage				
Debt to total capital	25.0	20.6	20.2	18.2
Debt to equity	36.2	28.3	27.5	24.4
Net debt/(cash) to equity	(62.7)	(36.8)	(28.7)	(26.3)
Interest cover (x)	22.2	29.0	29.5	30.8

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