

MBM Resources Bhd

A Shining Star in 2019

TP: RM4.45 (+8.5%)

Last Traded: RM4.10

Buy

Angeline Chin

Tel: +603-2167 9611

angelinechin@ta.com.my

www.taonline.com.my

Year-to-date, MBM Resources Berhad (MBM)'s share price appreciated by circa 86%, though the rally has weakened in recent months. At current price levels, the stock is trading at an undemanding CY20 PER of 8.3x, which is lower than its 5-year average rolling PER of 9x. Moreover, with a potential dividend yield of 6.8% - 7.8% for FY19-FY21, this may help provide a buffer to any downside risk. The compelling story being a shining proxy to Perodua's sales by 1) supplying auto parts to Perodua, 2) having a 22.5% stake in Perodua, and 3) is the largest Perodua dealer in Malaysia. We believe that the stock still has some potential upside and growth story. As such, we upgrade the stock from Hold to BUY with an unchanged TP of RM4.45/share, based on 9x CY20 PER.

Expect Lower Sales Volume in 3QFY19 on QoQ Basis

We expect MBM to register lower Perodua unit sales in 3QFY19 compared to 2QFY19. Based on Perodua's total car sales of 57k units in 3Q19 (-6.8% QoQ) and MBM's contribution to Perodua sales of 10% to 11% in the past, we expect MBM to register a lower sales of 5.7k to 6.3k units in 3Q19 compared to 6.5k units recorded in 2Q19.

Also, the sales volume for its wholly-owned subsidiary, Federal Auto Holdings Berhad (FAHB), is expected to be lower as well due to decline in sales of Volvo in 3Q19. Lastly, Daihatsu (Malaysia)'s (DMSB) should record higher number of car sales in 3QFY19 and this shall provide some buffer to 3Q19 earnings risks. According to Malaysia Automotive Association (MAA), Daihatsu registered a sales volume of 410 units in 3Q 2019 (+24.2% QoQ). Overall, we expect MBM to register lower profit in 3QFY19 with a range of RM35mn-RM45mn compared to RM57.0mn registered in 2QFY19 and RM36.2mn in 3QFY18.

... but Higher Profit for FY19

We still expect Perodua to register higher sales volume in 4Q 2019, which is on track to achieve its sales target of 235k units (+3.4% YoY). We believe the launch of New 2019 Axia in September, which is priced from RM24,090-43,190 would attract strong buying interest due to its affordable pricing. Management is expecting about 27% of its 235k unit sales forecast to come from Axia model. Being one of the most affordable cars in Malaysia, we believe the new Axia coupled with strong demand for the 3rd Gen Myvi to be the engine of growth for MBM for FY19-20. In our forecast, we expect MBM to register a higher profit of 9.4% to RM181.8mn in FY19. Also, we expect the positive momentum to spillover into FY20 with a profit growth of estimated RM193.3mn (+6.0% YoY).

Committed to Rewarding Investors

MBM has recently announced a new dividend policy of minimum 60% payout of its net profit. By adopting a new dividend policy, the group is confident of

Share Information

Bloomberg Code	MBM MK
Stock Code	5983
Listing	Main Market
Share Cap (mn)	390.9
Market Cap (RMmn)	1602.6
52-wk Hi/Lo (RM)	4.47/1.86
12-mth Avg Daily Vol ('000 shrs)	169
Estimated Free Float (%)	36.5
Beta	0.6

Major Shareholders (%)

Med-Bumikar	- 49.5
EPF	- 9.02

Forecast Revision

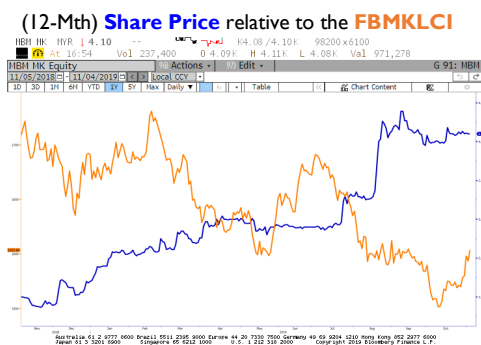
	FY19	FY20
Forecast Revision (%)	-	-
Net profit (RMmn)	181.8	193.3
Consensus	187.1	195.4
TA's / Consensus (%)	97	99
Previous Rating	Hold	(Upgraded)

Financial Indicators

	FY19	FY20
Net Debt / Equity (x)	Net Cash	Net Cash
CFPS (sen)	60.2	54.0
Price / CFPS (x)	6.8	7.6
ROA (%)	8.4	8.6
NTA/Share (RM)	4.2	4.4
Price/NTA (x)	1.0	0.9

Share Performance (%)

Price Change	MBM	FBM KLCI
1 mth	2.8	2.9
3 mth	24.6	(0.4)
6 mth	39.0	(2.1)
12 mth	105.0	(6.2)



Source: Bloomberg

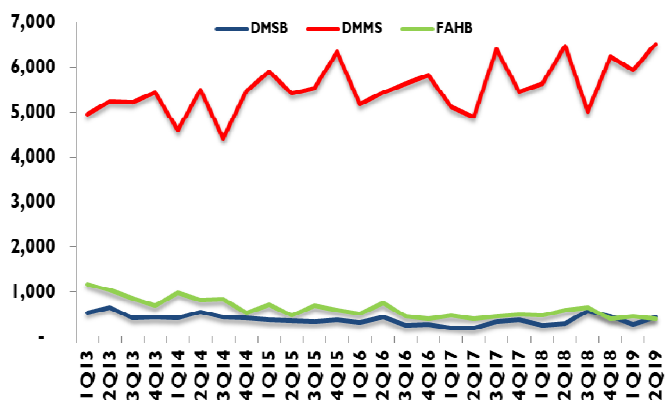
future cash flow and this should enhance shareholders' confidence. Note that the 60% dividend payout is relatively high if compared to previous three years, ranging from 11.1% to 28.1%. Based on 60% payout, we expect the group to pay dividends of 28/30/32sen/share for FY19/FY20/FY21. This would translate to a yield of 6.8% - 7.8%, which is higher than most of its peers.

The group has declared a DPS of 6.0 sen for 2QFY19. Note that MBM's net cash improved substantially from RM4.31mn in 1QFY19 to RM88.7mn in 2QFY19. This was mainly due to the disposals of 22% shareholding in its associates, Hino Motors Sales (Malaysia) Sdn Bhd (HMSM) and Hino Motors Manufacturing (Malaysia) Sdn Bhd (HMMM) to Hino Motors Ltd (HML) for RM74.4mn. Looking forward, we expect MBM's net cash to improve to RM141.2mn in FY19.

Upgrade to BUY

MBM is doing well fundamentally, and a recent pullback is a buying opportunity, in our view. We believe that the stock still has some potential upside and growth story. With a potential upside of more than 12%, we upgrade the stock from Hold to **BUY** with an unchanged TP of RM4.45/share, based on 5-year average rolling PER of 9x.

Figure 1: Motor Trading Sales Volume



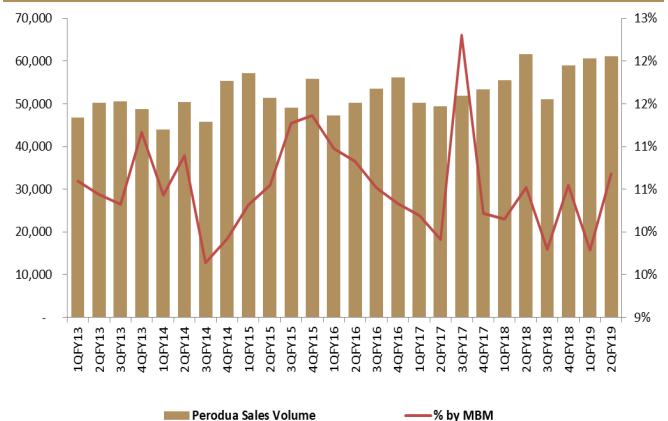
Source: Company, TA Research

*Daihatsu (Malaysia) Sdn. Bhd (DMSB)

*DMM Sales Sdn. Bhd. (DMMS)

*Federal Auto Holdings Berhad (FAHB)

Figure 2: Perodua Vs. MBM's Sales Volume



Source: MAA, Company, TA Research

Earnings Summary

Income Statement

FYE Dec 31 (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Revenue	1,721.6	1,927.0	2,093.2	2,149.2	2,466.9
EBITDA	16.1	28.0	40.1	46.2	53.3
Dep. & amortisation	(22.0)	(16.5)	(15.9)	(15.5)	(15.2)
Net finance cost	(11.1)	(5.4)	(0.3)	1.9	2.6
Associate + JV	129.1	197.4	201.7	206.0	215.5
Forex & EI	(244.8)	0.5	0.0	0.0	0.0
PBT	(132.7)	204.0	225.6	238.6	256.3
Taxation	(12.4)	(15.1)	(16.7)	(16.7)	(16.1)
MI	6.4	(22.1)	(27.1)	(28.6)	(30.8)
Net profit	(138.7)	166.8	181.8	193.3	209.4
Core net profit	106.1	166.2	181.8	193.3	209.4
Reported EPS (diluted) (sen)	(35.5)	42.7	46.5	49.5	53.6
Core EPS (diluted) (sen)	27.1	42.5	46.5	49.5	53.6
DPS (sen)	3.0	12.0	28.0	30.0	32.0

Ratios

FYE Dec 31 (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Valuations					
Core PER (x)	15.1	9.6	8.8	8.3	7.6
Div. Yield (%)	0.7	2.9	6.8	7.3	7.8
P/BV (x)	1.0	0.9	0.8	0.8	0.7

Profitability ratios (%)

Core ROE	7.3	10.5	11.0	11.2	11.6
Core ROA	5.1	7.9	8.4	8.6	8.9
EBITDA margin	0.9	1.5	1.9	2.2	2.2
PBT margin	(7.7)	10.6	10.8	11.1	10.4
Core net margin	6.2	8.6	8.7	9.0	8.5

Liquidity ratios

Current ratio (x)	1.6	2.5	2.4	2.6	2.6
Quick ratio (x)	1.2	1.9	1.9	2.0	1.9

Leverage ratios

Equity/total liabilities (x)	3.9	6.6	8.1	9.6	10.6
Net debt / equity (x)	0.1	Net Cash	Net Cash	Net Cash	Net Cash

Growth ratios (%)

Sales	3.1	11.9	8.6	2.7	14.8
Pretax	>100	>100	10.6	5.8	7.4
Core earnings	16.7	56.7	9.4	6.3	8.3
Total assets	(12.2)	0.7	2.8	3.6	4.7

Balance Sheet

FYE Dec 31 (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Fixed assets	273.1	269.0	262.9	257.1	251.7
Associates + JV	1,197.1	1,280.2	1,290.2	1,392.0	1,503.4
Prepaid land lease	36.1	35.6	35.6	35.6	35.6
Others	72.0	64.7	64.7	64.7	64.7
LT assets	1,578.3	1,649.5	1,653.3	1,749.4	1,855.4
Inventories	149.1	104.4	113.4	116.4	133.7
Trade receivables	129.3	117.9	127.2	130.4	148.1
Cash	201.1	197.4	235.2	211.1	176.3
Others	33.6	36.9	36.9	36.9	36.9
Current assets	513.2	456.6	512.7	494.8	495.0
Total Assets	2,091.4	2,106.1	2,166.0	2,244.2	2,350.3
Trade payables	132.1	121.5	132.0	135.6	155.6
ST borrowings	175.6	58.5	75.2	51.2	28.0
Others	4.2	3.8	3.8	3.8	3.8
Current liabilities	311.9	183.9	211.0	190.5	187.4
LT borrowings	104.0	85.4	18.8	12.8	7.0
Others	9.3	8.3	8.3	8.3	8.3
LT liabilities	113.3	93.7	27.0	21.0	15.2
Shareholders equity	1,449.7	1,579.3	1,651.6	1,727.7	1,812.0
MI	216.5	249.2	276.3	304.9	335.7
Total Equity	1,666.2	1,828.5	1,928.0	2,032.6	2,147.7
Total Equity & Liabilities	2,091.4	2,106.1	2,166.0	2,244.2	2,350.3

Cash Flow Statement

FYE Dec 31 (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
PBT	(132.7)	204.0	225.6	238.6	256.3
Dep. & amortisation	22.0	16.5	15.9	15.5	15.2
Net Finance Cost	11.1	5.4	0.3	(1.9)	(2.6)
Associates & JV	(129.1)	(197.4)	(201.7)	(206.0)	(215.5)
Changes in WC	74.4	40.4	(7.8)	(2.6)	(14.9)
Finance costs	(15.4)	(10.7)	(6.0)	(4.0)	(2.5)
Taxation	(12.4)	(15.1)	(16.7)	(16.7)	(16.1)
Others	264.1	21.9	0.0	0.0	0.0
Operational cash flow	81.9	65.0	9.5	22.9	19.8
Capex	(6.3)	(9.7)	(9.7)	(9.7)	(9.7)
Dividend	106.4	104.1	104.1	104.1	104.1
Interest Inc	4.4	5.3	5.7	5.9	5.1
Others	10.3	4.9	87.6	0.0	0.0
Investing cash flow	114.7	104.5	187.7	100.3	99.5
Dividend paid	(17.6)	(17.6)	(109.4)	(117.3)	(125.1)
Net change in debts	(104.7)	(132.9)	(50.0)	(30.0)	(29.0)
Others	(46.2)	(22.8)	0.0	0.0	0.0
Financial cash flow	(168.5)	(173.3)	(159.4)	(147.3)	(154.1)
Net cash flow	28.2	(3.8)	37.8	(24.1)	(34.8)
Opening cash flow	173.0	201.1	197.4	235.2	211.1
Forex & others	0.0	0.0	0.0	0.0	0.0
Closing cash flow	201.1	197.4	235.2	211.1	176.3

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
- HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
- SELL** : Total return is lower than the required rate of return.
- Not Rated:** The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Tuesday, November 05, 2019, the analyst, Angeline Chin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my