

PP14767/09/2012(030761)

## Berjaya Auto Berhad

## “Margin Compression”

## Results Review

- Actual vs. expectations.** Berjaya Auto Berhad (BAuto) FY16 net profit of RM198 million (-7% y-o-y) came in line with ours and consensus estimates respectively, accounting 102% and 99% of both divides full year forecast, thanks to better-than-expected EBIT contribution from the Philippines operations that grew by 81% y-o-y. Overall, EBIT margin stood at 12% in FY16, lower than FY15 margin of 16%, hammered by higher marketing expenses due to intense competition in the local automotive industry coupled with the strengthening of Yen against Ringgit which further pressurised BAuto's EBIT margin. Note that Ringgit continued its downtrend performance in 4Q16, tumbling to an average RM3.62/Yen compared to 4Q15 average of RM3.03/Yen.
- Dividend.** Declared fourth interim dividend of 2.50sen/share and a special dividend of 7.50sen/share for 4Q16, bringing total dividend to 16.90sen/share as at FY16 or translating into a net yield of 7%.
- Top line.** Revenue surged to RM2.1 billion (+15% y-o-y) in FY16 mainly driven by higher contribution from both Malaysia and the Philippines operations. Revenue recorded by Malaysia operations improved to RM1.7 billion (+8% y-o-y) in FY16 lifted by higher sales volume growth on the back of strong demand of the all new Mazda CX-3 model which was launched in December 2015. We note that Mazda's domestic sales volume surged to approximately 15,105 units as at FY16 that jumped by a solid 28% y-o-y from FY15 of 12,020 units. Furthermore, the Philippines operations also posted higher revenue of RM423 million (+59% y-o-y) in FY16 in tandem with higher sales volume growth of Mazda 2 and CX-5 models.

Wednesday, June 15, 2016

## BUY (TP: RM2.64)

Current Price (RM)	RM2.32
New Target Price (RM)	RM2.64
Previous Target Price (RM)	RM2.42
Previous Recommend.	BUY
Upside To Target Price	14%
Dividend Yield (FY18)	4%

## Stock Code

Bloomberg	BAuto MK
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## Stock &amp; Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	1,144
Market Cap (RM mn)	2,646
YTD Chg In Share Price	8%
Beta (x)	1.11
52-week Hi/Lo (RM)	2.88   1.79
3M Average Volume (shrs)	2.42mn
Estimated Free Float	49%

## Major Shareholders

Berjaya Group	14%
EPF	10%
Podium Success	6%

## Results Review - Berjaya Auto Berhad

- Bottom line.** BAuto posted a lower EBIT of RM262 million (-8% y-o-y) in FY16 impacted by higher . advertising and promotional expenses coupled with higher vehicle cost arising from the weakening of Ringgit against Yen, . resulting in lower EBIT contribution from the Malaysia operations of RM218 million (-17% y-o-y), offsetting stronger EBIT contribution from the Philippines operations which grew tremendously to RM45 million (+81% y-o-y).
- Outlook.** We assume Mazda's vehicle sales in Malaysia to reach approximately 17,500 units in FY17 (+16% y-o-y) driven by a slew of attractive new launches including the all new CX-3, CX-5 CKD (facelift) and coupled with Mazda's strong sales volume of its existing Mazda 2, Mazda 3, and CX-5. Besides, Mazda's vehicle sales in the Philippines (via 60% owned BAP - Berjaya Auto Philippines) is expected to contribute positively to BAuto's earnings in FY17, assisted by higher contribution from Mazda 3, CX-5, Mazda 2 and BT-50 as well as continuous growth in the Philippines' automotive market (2015 TIV growth: +17% y-o-y).
- Change to forecast.** We keep unchanged our earnings forecast as FY16 results are within our expectation. We also introduce our FY18 earnings projection. That said, FY17 and FY18 earnings are expected to surged by 16% y-o-y and 12% y-o-y respectively y driven by i) improvement in sales volume anchored by the new CX-3, CX-5, Mazda 3 and Mazda 2 steady sales and ii) strong contribution from the Philippines' operation.
- Valuation & recommendation.** We value BAuto at RM2.64 based on 12x PER pegged to FY18 EPS of 22sen and the stock is a **BUY** underpinned by clear earnings visibility powered by i) aggressive launch of new models and ii) higher sales volume from Mazda CKD model.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
UMW Holdings	Dec	5.28	43	50	18.0	15.1	1.3	1.3	5	5	5.22	Hold
Tan Chong	Dec	1.96	13	18	20.4	14.8	0.6	0.6	3	2	1.87	Sell
MBM Resources	Dec	2.10	28	31	8.4	7.6	0.6	0.6	7	3	2.34	Hold
Berjaya Auto	Apr	2.32	21	24	10.0	8.8	3.7	3.0	52	5	2.64	Buy
APM Automotive	Dec	3.74	36	38	11.2	10.5	NA	NA	7	5	NR	NR
Average					13.6	11.4	1.5	1.4	15	4		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

Y/E: Apr (RM'mil)	FY14	FY15	FY16	FY17F	FY18F
Revenue	1,451	1,830	2,112	2,485	2,647
EBITDA	176	292	268	314	352
EBIT	170	286	262	299	337
Net interest expense	-1	0	0	-7	-8
Associates	11	9	11	22	24
PBT	180	301	279	314	352
Net profit	131	215	198	227	255
EPS (sen)	17	26	17	20	22
EBITDA margin	12%	16%	13%	13%	13%
PBT margin	12%	16%	13%	13%	13%
Net profit margin	9%	12%	9%	9%	10%
Dividend (sen)	5	15	17	8	9
Dividend yield (%)	3%	6%	7%	4%	4%
PER (x)	12.1	8.7	13.2	11.5	10.2
P/BV (x)	4.6	3.9	5.6	3.6	3.6

Source: Company, M&amp;A Securities

Table 3: Results Analysis

Y/E: Apr (RM million)	4Q15	3Q16	4Q16	q-o-q	y-o-y	12M15	12M16	y-o-y
Revenue	424	523	535	2%	26%	1,830	2,112	15%
EBIT	72	53	70	32%	-3%	284	262	-8%
Finance cost	(0.02)	(0.03)	(0.03)	-17%	4%	(0.15)	(0.12)	-24%
Associates	4	4	2	-54%	-51%	9	11	26%
PBT	77	58	73	26%	-5%	299	279	-7%
Taxation	20	(14)	(17)	23%	-186%	(79)	(68)	-14%
Minority interest	(2)	(1)	(4)	197%	138%	(7)	(13)	78%
Net Profit	55	39	52	33%	-7%	212	198	-7%
EPS	5	4	5	25%	-7%	19	17	-7%
EBIT Margin	17%	10%	13%			16%	12%	
PBT margin	18%	11%	14%			16%	13%	
Net profit margin	13%	7%	10%			12%	9%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

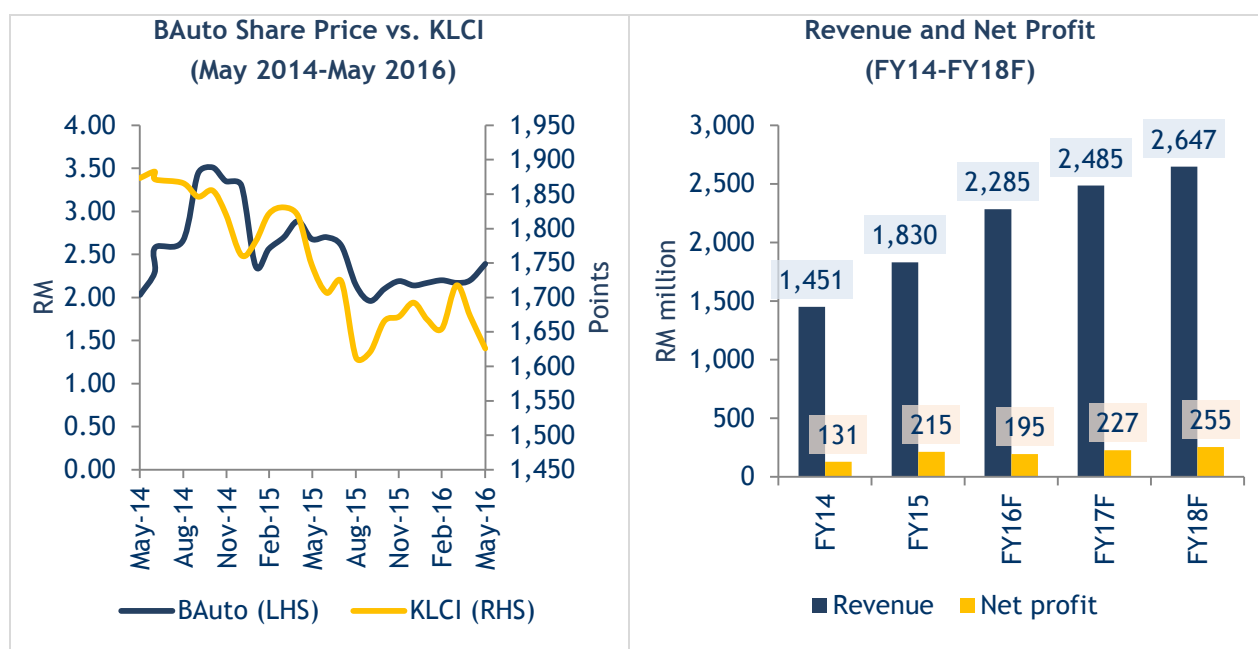
Y/E: Apr (RM million)	4Q15	3Q16	4Q16	q-o-q	y-o-y	12M15	12M16	y-o-y
<b>Revenue</b>								
Malaysia	360	408	432	6%	20%	1,564	1,690	8%
Philippines	64	115	103	-10%	61%	266	423	59%
<b>EBIT</b>								
Malaysia	67	43	55	28%	-18%	262	218	-17%
Philippines	6	10	15	48%	151%	25	45	81%

Source: Bursa Malaysia, M&amp;A Securities

Table 5: YTD 2016 TIV

Marque	Apr-15	Mar-16	Apr-16	m-o-m	y-o-y	4M15	4M16	y-o-y
Proton	4,972	5,535	4,477	-19%	-10%	32,654	23,702	-27%
Perodua	17,584	17,629	14,898	-15%	-15%	74,737	62,079	-17%
Toyota	6,190	4,440	4,089	-8%	-34%	22,273	14,305	-36%
Honda	6,562	7,418	5,964	-20%	-9%	28,707	24,741	-14%
Nissan	3,003	4,350	3,015	-31%	0%	16,229	13,788	-15%
Mazda	705	1,416	1,305	-8%	85%	4,077	4,857	19%
Others	6,171	8,012	8,429	5%	37%	34,812	29,960	-14%
TIV	45,187	48,800	42,177	-14%	-7%	213,489	173,432	-19%
Passenger	40,902	43,247	37,893	-12%	-7%	189,834	155,266	-18%
Commercial	4,285	5,553	4,284	-23%	0%	23,655	18,166	-23%

Source: MAA, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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A Participating Organisation of Bursa Malaysia Securities Berhad

### Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)