

PP14767/09/2012(030761)

Market Access

# MBM Resources Berhad

## “Lagging the Pack”

### Results Review

- Actual vs. expectations.** MBM Resources Bhd (MBMR) 1Q16 core net profit of RM18 million (-25% y-o-y, -14% q-o-q), came in below ours but slightly in line with consensus estimates respectively, accounting 16% and 20% of both estimates full year net profit forecast. The lower earnings performance in 1Q16 was largely hammered by weaker-than-expected PBT contribution from motor trading division (-12% y-o-y) and lower earnings contribution from auto parts manufacturing which suffered a loss before tax (LBT) of RM2 million vs. 1Q15 PBT of RM2 million.
- Dividend.** No dividend was declared during the quarter.
- Top line vs bottom line.** Excluding one-off property contribution recorded in 1Q15, MBMR revenue declined to RM374 million (-17% y-o-y, -15% q-o-q) in 1Q16 due to lower contribution from motor trading division (-18% y-o-y, -15% q-o-q) impacted by weaker sales volume from the group’s subsidiaries namely DMSB - Daihatsu & Hino trucks (-15% y-o-y, -18% q-o-q), DMMS - Perodua vehicles (-12% y-o-y, -18% q-o-q) and Federal Auto - Volvo, Volkswagen and Mitsubishi (-27% y-o-y, -13% q-o-q). Bottom line wise, excluding one-off property contribution in 1Q15, MBMR posted lower 1Q16 PBT at RM22 million (-31% y-o-y) hammered by weaker associates’ contribution no thanks to lower sales volume from Hino’s vehicles coupled with adverse foreign exchange movement.
- Leverage on Perodua.** Perodua is expected to launch a new sedan model in 2H2016 which will be the first Perodua’s model based on “Sedan” concept and we do not rule out that this model would be a new Perodua’s volume selling model after the success of Perodua Myvi and Axia. Moreover, this could be a new long-term

Thursday, May 19, 2016

HOLD (TP: RM2.34)

Current Price (RM)	RM2.20
New Target Price (RM)	RM2.34
Previous Target Price (RM)	RM2.79
Previous Recommend.	BUY
Upside To Target Price	6%
Dividend Yield (FY17)	3%

#### Stock Code

Bloomberg	MBM MK
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#### Stock & Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	391
Market Cap (RM mn)	848
YTD Chg In Share Price	-10%
Beta (x)	0.69
52-week Hi/Lo (RM)	3.50   1.94
3M Average Volume (shrs)	0.17mn
Estimated Free Float	25%

#### Major Shareholders

Med-Bumikar Mara	50%
EPF	16%
AIA	4%

#### Legend

DMSB: Daihatsu (Malaysia) Sdn Bhd  
DMMS: DMM Sales Sdn Bhd

catalyst for Perodua in maintaining its vigorous performance in Malaysia's automotive industry.

- **OMI alloy wheel plant.** The management anticipated that the losses from OMI's alloy wheel plant to narrow down in FY16 as the group targets sales volume to hit 350k units (FY15: 139k units) with more new orders expected to come from Perodua following the launch of its new sedan model in 2H2016. Nonetheless, the management indicated that the breakeven level could only be achieved when the production reach 600k units per annum.
- **Outlook.** Despite the anticipated softer sales of non-national car, we think that MBMR performance will continue to be driven by the strong sales of Perodua cars. In the environment where consumers spending are expected to suffer a pullback, we think that Perodua is likely to remain the main choice for car buyers. Hence, expect Perodua car sales performance to remain steady in 2016 and beyond.
- **Change to forecast.** We made adjustment to our earnings by cutting our FY16 and FY17 earnings forecast by 22% and 16% respectively as we factor in lower sales assumption from Federal Auto and Hino in line with anticipated weaker consumer sentiment on non-national car segment. Given that, FY16 and FY17 earnings are forecast to jump by 18% y-o-y and 12% y-o-y driven by i) steady Perodua vehicle sales on new sedan model and ii) turnaround in OMI alloy wheel plant.
- **Valuation & recommendation.** We re-value MBMR at RM2.34 based on average 3-years PER of 9x pegged to FY17 EPS of 26sen and the stock is a **HOLD**. Re-rating catalysts may come from i) appreciation of Ringgit against USD and ii) better-than-expected Malaysia's TIV growth going forward.

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	5.77	43	50	18.0	15.1	1.3	1.3	5	5	6.66	Hold
Tan Chong	Dec	2.03	13	18	20.4	14.8	0.6	0.6	3	2	1.87	Sell
MBM Resources	Dec	2.20	28	31	8.4	7.6	0.6	0.6	7	3	2.34	Hold
Berjaya Auto	Apr	2.29	21	24	10.0	8.8	3.7	3.0	52	5	2.42	Buy
APM Automotive	Dec	3.82	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&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	2,267	1,780	1,817	1,727	1,761
EBIT	70	121	21	35	44
Finance costs	(23)	(21)	(21)	(17)	(18)
Interest Income	9	1	6	5	5
Associates	140	125	116	112	114
PBT	196	132	123	135	146
Net profit	139	114	80	90	101
EPS (sen)	36	29	21	23	26
PBT margin	9%	7%	7%	8%	8%
Net profit margin	6%	6%	4%	5%	6%
PER (x)	8.3	8.3	15.5	9.6	8.5
P/BV (x)	0.9	0.8	0.8	0.5	0.5
DPS (sen)	6	6	7	7	7
Dividend yield	2%	2%	3%	3%	3%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	592	439	374	-15%	-37%	592	374	-37%
Gross profit	66	25	26	1%	-61%	66	26	-61%
Net finance cost	(5)	(3)	(4)	36%	-15%	(5)	(4)	-15%
Associates/JCE	34	26	30	16%	-13%	34	30	-13%
PBT	65	11	22	92%	-66%	65	22	-66%
Taxation	(15)	(2)	(1)	-43%	-93%	(15)	(1)	-93%
Net profit	35	7	18	148%	-48%	35	18	-48%
EPS (sen)	9	2	5	147%	-48%	9	5	-48%
EBIT margin	11%	6%	7%			11%	7%	
PBT margin	11%	3%	6%			11%	6%	
Net profit margin	6%	2%	5%			6%	5%	
Effective tax rate	23%	17%	5%			23%	5%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

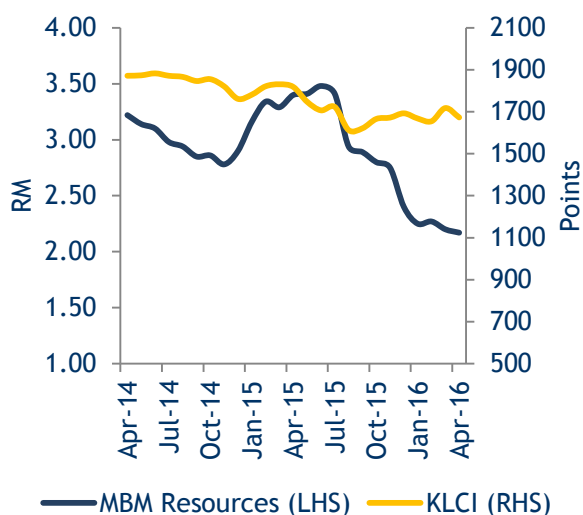
YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
<u>Revenue</u>								
Motor Trading	411	395	336	-15%	-18%	411	336	-18%
Auto Parts Manufacturing	41	45	38	-16%	-8%	41	38	-8%
<u>PBT</u>								
Motor Trading	34	17	30	76%	-12%	34	30	-12%
Auto Parts Manufacturing	2	0	(2)	NM	NM	2	(2)	NM

Source: Bursa Malaysia, M&amp;A Securities

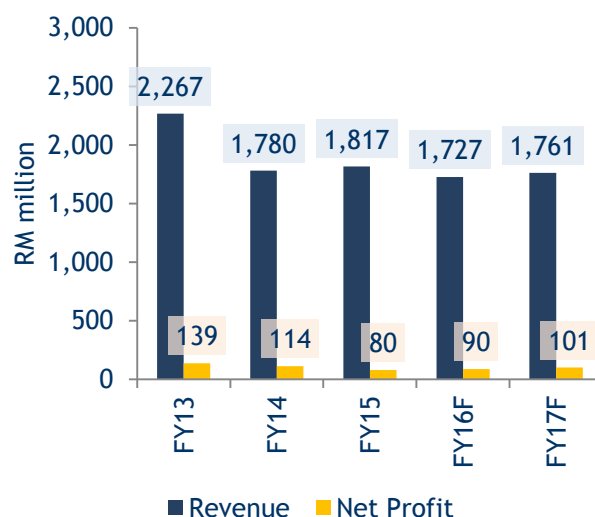
Table 5: YTD 2016 TIV

Marque	Mar-15	Feb-16	Mar-16	m-o-m	y-o-y	3M15	3M16	y-o-y
Proton	10,528	5,947	5,535	-7%	-47%	27,682	19,225	-31%
Perodua	22,497	14,014	17,629	26%	-22%	57,153	47,181	-17%
Toyota	7,335	3,007	4,440	48%	-39%	16,603	10,488	-37%
Honda	9,581	5,616	7,418	32%	-23%	22,145	18,777	-15%
Nissan	5,005	2,773	4,350	57%	-13%	13,226	10,773	-19%
Mazda	1,503	782	1,416	81%	-6%	3,372	3,552	5%
Others	10,865	5,737	8,012	40%	-26%	28,125	21,271	-24%
TIV	67,314	37,876	48,800	29%	-28%	168,306	131,267	-22%
Passenger	59,318	34,126	43,247	27%	-27%	148,932	117,373	-21%
Commercial	7,996	3,750	5,553	48%	-31%	19,374	13,894	-28%

Source: MAA, M&amp;A Securities

MBM Resources Share Price vs. KLCI  
(April 2014-April 2016)

Source: Bloomberg, M&amp;A Securities

Revenue and Net Profit  
(FY13-FY17F)

# 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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