

20 November 2020

MBM Resources Bhd

9MFY20 Above Our Expectation

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

9MFY20 core PATAMI of RM87.4m (-47%), came in above our estimate at 81%, but below consensus expectation at 66%, of full-year estimate. Positive variance to our estimate is due to higher-than-expected associates' contribution which rebounded strongly in 3QFY20. As such, we increase FY20E and FY21E CNP by 16% and 6%, respectively, and raised the TP to RM3.35 (from RM3.15, previously). However, we are still cautious on 4QFY20 which is bearing the full-brunt of the enhanced MCO (tentatively up to early-December 2020). Maintain MP.

9MFY20 above our expectation. 9MFY20 core PATAMI of RM87.4m (-47%), came in above our estimate at 81%, but below consensus expectation at 66% of full-year estimate. Our positive variance is due to higher-than-expected associates' contribution which rebounded strongly in 3QFY20. No dividend was declared for the quarter, as expected bringing YTD-DPS to 5.0sen (9MFY19: 6.0 sen).

QoQ, 3QFY20 rebounded, recording core PATAMI of RM65.1m, compared to core loss of RM5.1m in 2QFY20 bouncing off the suppressed market condition under the various stages of MCO in the preceding quarter, and further boosted by strong demand from the sales tax exemption. All these were further supported by various cost reduction measures and Transformation Programme aimed at improving overall performance. Perodua's sales volume recorded the strongest quarterly sales in its history at 70,482 units (+143% QoQ, +24% YoY) which translated into a stronger contribution from 22.58%-owned associates, Perodua which recorded a profit of RM55.4m, compared to a loss of RM4.7m in 2QFY20.

YoY, 9MFY20 core PATAMI plunged 47% mainly due to closures of business operations during the MCO period which lasted till 4th May (2QFY20), when the conditional MCO was introduced. Perodua's sales volume skidded to 145,012 unit (-19%), which in turn affected MBMR's associates' contribution (-46%), Motor Vehicles trading (-2%), and Auto parts manufacturing (-60%). Note that, the top three selling models were still Perodua's Myvi, Axia and especially the face-lifted Bezza.

Outlook. MBMR's business strategy lies in: (i) its deep value stake in 22.58%-owned Perodua, and (ii) dual-income streams as the largest Perodua dealer and as parts supplier for most of the popular marques. Perodua's market share is supported by higher delivery of all-new Myvi, all-new Perodua ARUZ, and face-lifted Bezza. Perodua is cautiously optimistic on 4QCY20 prospects with tax exemptions and incentives on passenger vehicles helping to sustain volume until the end of the year. Nevertheless, with the recent surge in Covid-19 cases globally and within the country, the group expects the pandemic to remain as the key risk factor to undermine the group's performance in the near term. Perodua is targeting year-end 2020 sales volume of 210k units and expecting to launch all-new Perodua D55L SUV on 1QCY2021.

Increase FY20E-21E CNP by 16-6%. We increase FY20E and FY21E CNP by 16% and 6%, respectively, on improving associates' contribution which rebounded strongly in 3QFY20.

Maintain MARKET PERFORM with a higher TP of RM3.35 (from RM3.15), based on unchanged 9x FY21E EPS (at 5-year forward historical mean PER).

Risks to our call include: (i) lower-than-expected car sales volume, and (ii) lower-than-expected associates' contribution.

MARKET PERFORM ↔

Price: **RM3.21**
Target Price: **RM3.35** ↑

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,583.68 |
| YTD KLCI chg | -0.3% |
| YTD stock price chg | -16.8% |

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | MBM MK Equity |
| Market Cap (RM m) | 1,254.7 |
| Shares Outstanding | 390.9 |
| 52-week range (H) | 4.11 |
| 52-week range (L) | 2.50 |
| 3-mth avg daily vol: | 553,110 |
| Free Float | 31% |
| Beta | 1.2 |

Major Shareholders

| | |
|--------------------------|-------|
| Med-Bumikar Mara Sdn Bhd | 49.5% |
| Employees Provident Fund | 9.5% |
| Lembaga Tabung Haji | 5.3% |

Summary Earnings Table

| FYE Dec (RM m) | 2019A | 2020E | 2021E |
|--------------------|--------------|--------------|--------------|
| Turnover | 2,088.5 | 1,919.8 | 1,942.4 |
| EBIT | 61.0 | 34.4 | 42.4 |
| PBT | 263.2 | 154.2 | 180.0 |
| PATAMI | 228.7 | 124.9 | 145.8 |
| Core PATAMI | 192.0 | 124.9 | 145.8 |
| Consensus (NP) | - | 131.4 | 171.0 |
| Earnings Revision | - | +15.7% | +5.8% |
| Core EPS (sen) | 49.1 | 32.0 | 37.3 |
| Core EPS growth(%) | 16.0 | -34.9 | 16.7 |
| NDPS (sen) | 22.0 | 12.0 | 15.0 |
| BVPS (RM) | 4.46 | 4.66 | 4.88 |
| PER (x) | 6.5 | 10.0 | 8.6 |
| PBV (x) | 0.7 | 0.7 | 0.7 |
| Net Gearing (x) | N.Cash | N.Cash | N.Cash |
| Net Div. Yield (%) | 6.9 | 3.7 | 4.7 |



20 November 2020

Result Highlight

| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
|---------------------------|--------------|--------------|-----------------|--------------|--------------|---------------|---------------|---------------|
| FYE Dec (RM m) | FY20 | FY20 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Turnover | 600.4 | 258.6 | 132.2% | 515.3 | 16.5% | 1233.1 | 1592.4 | -22.6% |
| EBIT/ (LBIT) | 20.4 | 3.0 | 584.0% | 11.6 | 75.1% | 25.3 | 67.1 | -62.3% |
| Associates | 55.4 | -4.7 | >100% | 53.8 | 2.9% | 79.0 | 147.1 | -46.3% |
| Jointly controlled entity | 4.4 | -0.1 | >100% | 2.3 | 93.1% | 6.6 | 8.6 | -22.6% |
| PBT/(LBT) | 79.6 | -2.8 | >100% | 67.4 | 18.2% | 108.0 | 221.0 | -51.1% |
| Taxation | -4.6 | -1.4 | >100% | -2.4 | -90.8% | -6.9 | -8.5 | 19.3% |
| PATAMI | 65.1 | -5.1 | >100% | 57.5 | 13.1% | 87.4 | 189.0 | -53.8% |
| Core PATAMI | 65.1 | -5.1 | >100% | 57.5 | 13.1% | 87.4 | 164.3 | -46.8% |
| EPS (sen) | 16.7 | -1.3 | >100% | 14.7 | 13.1% | 22.4 | 42.0 | -46.8% |
| DPS (sen) | 0.0 | 5.0 | | 0.0 | | 5.0 | 6.0 | |
| EBIT/(LBIT) margin | 3.4% | 1.2% | | 2.3% | | 2.0% | 4.2% | |
| PBT/(LBT) margin | 13.3% | n.m. | | 13.1% | | 8.8% | 13.9% | |
| Core PATAMI margin | 10.8% | n.m. | | 11.2% | | 7.1% | 10.3% | |
| Effective tax rate | 5.8% | n.m. | | 3.6% | | 6.4% | 3.9% | |

Source: Company, Kenanga Research

Segmental breakdown

| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
|-------------------------------|--------------|--------------|-----------------|--------------|--------------|---------------|---------------|---------------|
| FYE Dec (RM m) | FY20 | FY20 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Revenue | 600.4 | 258.6 | 132.2% | 515.3 | 16.5% | 1233.1 | 1592.4 | -22.6% |
| Motor Vehicles Trading | 547.4 | 241.0 | 127.1% | 468.5 | 16.8% | 1124.4 | 1441.5 | -22.0% |
| Auto Parts Manufacturing | 52.6 | 17.3 | 204.2% | 46.4 | 13.3% | 107.5 | 149.7 | -28.2% |
| Others | 0.4 | 0.3 | 64.8% | 0.4 | 13.4% | 1.2 | 1.2 | 1.0% |
| Segment PBT | 79.6 | -2.8 | >100% | 67.4 | 18.2% | 108.0 | 221.0 | -51.1% |
| Motor Vehicles Trading | 17.3 | 5.0 | 249.9% | 8.8 | 97.1% | 23.4 | 23.8 | -1.5% |
| Auto Parts Manufacturing | 4.0 | -1.5 | >100% | 2.3 | 74.4% | 3.5 | 8.7 | -60.0% |
| Others | -1.6 | -1.4 | 12.8% | 0.1 | >100% | -4.5 | 32.8 | >100% |
| Jointly-controlled Entity | 4.4 | -0.1 | >100% | 2.3 | 93.1% | 6.6 | 8.6 | -22.6% |
| Associates | 55.4 | -4.7 | >100% | 53.8 | 2.9% | 79.0 | 147.1 | -46.3% |
| Segment PBT margin (%) | 13.3% | n.m. | | 13.1% | | 8.8% | 13.9% | |
| Motor Vehicles Trading | 3.2% | 2.1% | | 1.9% | | 2.1% | 1.6% | |
| Auto Parts Manufacturing | 7.6% | n.m. | | 5.0% | | 3.2% | 5.8% | |

Source: Company, Kenanga Research

20 November 2020

Peer Comparison

| Name | Last Price (RM) | Market Cap (RM'm) | Shariah Compliance | Current FYE | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | | Net Div Yld (%) 1-Yr. Fwd. | Target Price (RM) | Rating | |
|------------------------------|-----------------|-------------------|--------------------|-------------|----------------|--------------|----------------------|--------------|-------------------------|-------------|-------------|------------|------------|-------------|-------------|----------------------------|-------------------|--------|--|
| | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | | | | | |
| STOCKS UNDER COVERAGE | | | | | | | | | | | | | | | | | | | |
| BERMAZ AUTO BHD | 1.32 | 1,533.2 | Y | 04/2021 | 55.6% | 5.0% | -7.2% | 51.6% | 15.2 | 16.4 | 10.8 | 2.9 | 2.4 | 16.0% | 3.6% | 1.40 | MP | | |
| DRB-HICOM BHD | 1.99 | 3,847.1 | Y | 12/2020 | -9.3% | 30.1% | -215.7% | 29.6% | 23.3 | N.A. | 15.5 | 0.4 | 0.4 | -1.9% | 0.0% | 2.10 | MP | | |
| MBM RESOURCES BERHAD | 3.21 | 1,254.7 | Y | 12/2020 | -8.1% | 1.2% | -34.9% | 16.7% | 6.5 | 10.0 | 8.6 | 0.6 | 0.6 | 6.1% | 3.7% | 3.35 | MP | | |
| SIME DARBY BERHAD | 2.32 | 15,781.9 | Y | 06/2021 | 5.3% | 5.2% | 13.5% | 1.4% | 15.2 | 13.4 | 13.2 | 1.1 | 1.0 | 7.7% | 4.3% | 2.30 | MP | | |
| TAN CHONG MOTOR HOLDINGS BHD | 1.06 | 691.6 | N | 12/2020 | -30.5% | 17.7% | -168.8% | 0.9% | 15.2 | N.A. | 21.9 | 0.2 | 0.2 | -1.1% | 1.9% | 1.00 | MP | | |
| UMW HOLDINGS BHD | 2.66 | 3,107.7 | Y | 12/2020 | -22.8% | 28.1% | -66.1% | 113.9% | 12.2 | 35.9 | 16.8 | 0.5 | 0.5 | 1.4% | 1.1% | 2.70 | MP | | |
| Simple Average | | | | | -1.6% | 14.6% | -79.9% | 35.7% | 14.6 | 18.9 | 14.5 | 1.0 | 0.9 | 4.7% | 2.4% | | | | |

Source: Bloomberg, Kenanga Research

The rest of the page is intentionally left blank

20 November 2020

Stock Ratings are defined as follows:**Stock Recommendations**

| | |
|----------------|--|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

Sector Recommendations***

| | |
|-------------|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

