



Outthink. Outperform.

Earnings improvement expected

MBM's 1Q17 net profit of RM19.5m (-42.3% qoq, +5.7% yoy) was in line with our and consensus estimates, which accounted for 19% of our and consensus full-year forecasts. Overall revenue increased 11.8% yoy, driven by better performance from both the motor trading and auto parts manufacturing divisions. No dividend was declared during the quarter. We maintain our HOLD rating and slightly lower our TP to RM2.30 post housekeeping adjustments.

YoY – PBT rises on stronger revenue

MBM's 1Q17 revenue improved 11.8% yoy to RM418.1m as the motor trading and auto parts manufacturing divisions recorded 10% yoy and 27.5% yoy increases, respectively. The improvement in the motor trading division was mainly due to better car sales volume in the lower-price segment, coupled with better model mix. Higher sales from OMI Alloy also led to an improvement in the auto parts manufacturing segment. The EBIT margin inched up a marginal 0.6ppts. Profit before tax (PBT) increased 3.4% yoy despite stronger revenue, dampened by weaker associate earnings, which fell 4.1% yoy.

QoQ – PBT falls on weaker revenue and associate contribution

Sequentially, core net profit fell 42.3% qoq, dragged down by weaker overall revenue, which declined 6.6% due to both motor trading and auto parts manufacturing. The EBIT margin was up by a marginal 1.7%. The associate contribution also fell by 44.9% qoq to RM28.5m.

Maintain HOLD with slightly lower TP of RM2.30

We tweak our 2017-18 EPS forecasts slightly post housekeeping adjustments to take into account the release of annual report figures. We expect upcoming quarterly earnings to be stronger than 1Q17, with higher car sales volume (new launches from Perodua, Volkswagen and Volvo) expected and auto parts demand from the new car launches. We maintain our **HOLD** rating with a slightly lower 12-month TP of RM2.30 based on unchanged 9x our 2017E EPS.

Risks to our call

Upside risks: i) improvement in consumer spending, which would lead to higher auto sales; and (ii) a strong reversal in the USD/MYR exchange rate. Downside risk: lower-than-expected car sales volume.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	1,815.1	1,670.2	1,756.1	1,951.4	2,003.6
EBITDA (RMm)	50.1	(21.2)	14.4	20.8	24.5
Pretax profit (RMm)	130.2	82.8	112.4	126.9	136.2
Net profit (RMm)	84.0	66.1	100.0	113.7	122.6
EPS (sen)	21.5	16.9	25.6	29.1	31.4
PER (x)	11.3	14.3	9.5	8.3	7.7
Core net profit (RMm)	129.9	96.3	100.0	113.7	122.6
Core EPS (sen)	33.2	24.7	25.6	29.1	31.4
Core EPS growth (%)	15.8	(25.8)	3.8	13.7	7.9
Core PER (x)	7.3	9.8	9.5	8.3	7.7
Net DPS (sen)	7.0	6.0	6.0	6.0	6.0
Dividend Yield (%)	2.9	2.5	2.5	2.5	2.5
EV/EBITDA (x)	22.1	(54.3)	75.8	52.6	44.0
Chg in EPS (%)			(1.2)	0.1	-
Affin/Consensus (x)			1.0	1.0	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

MBM Resources

MBM MK

Sector: Auto & Autoparts

RM2.42 @ 24 May 2017

HOLD (maintain)

Downside: 4.8%

Price Target: RM2.30

Previous Target: RM2.33



Price Performance

	1M	3M	12M
Absolute	0.8%	-1.6%	12.6%
Rel to KLCI	0.0%	-5.7%	3.3%

Stock Data

Issued shares (m)	390.9
Mkt cap (RMm)/(US\$m)	945.9/220.4
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.95-2.7
Est free float	26.1%
BV per share (RM)	4.10
P/BV (x)	0.59
Net cash/ (debt) (RMm) (1Q17)	(177.5)
ROE (FY17E)	5.8%
Shariah Compliant	Yes

Key Shareholders

Med-Bumikar Mara SB	49.5%
EPF	15.1%
AIA	4.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q16	4Q16	1Q17	QoQ % chg	YoY % chg	Comments
Revenue	373.9	447.7	418.1	(6.6)	11.8	Revenue rose 11.8% on strength in the motor trading and auto parts manufacturing divisions.
Op costs	(378.7)	(458.2)	(420.9)	(8.1)	11.2	
EBIT	(4.8)	(10.5)	(2.8)	(73.0)	40.3	
EBIT margin (%)	(1.3)	(2.4)	(0.7)	1.7	0.6	
Finance cost	(4.5)	(4.5)	(4.1)	(7.4)	(7.9)	
Interest income	1.5	1.4	1.1	(16.4)	(22.4)	
Associates	29.7	51.7	28.5	(44.9)	(4.1)	
Exceptional items	0.0	(30.3)	-	n.m	n.m	
Pretax profit	21.9	7.8	22.7	191.1	3.4	
Tax	(1.0)	(2.6)	(1.6)	(37.2)	53.5	
Tax rate (%)	4.8	32.9	7.1	(25.8)	2.3	
MI	(2.5)	(1.7)	(1.6)	(8.4)	(35.4)	
Net profit	18.4	3.5	19.5	458.2	5.7	
EPS (sen)	4.7	0.9	5.0	458.2	5.7	
Core net profit	18.4	33.7	19.5	(42.3)	5.7	Core net profit achieved 19% of both our and consensus estimates and deemed in line with our full-year forecasts.

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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