

Outthink. Outperform.

## Weak vehicles sales continue to be a drag

MBM's 2Q17 net profit of RM16.2m came in below our and consensus full-year forecasts. The lower 2Q17 net profit yoy was due to: (1) lower vehicles sales and thus negatively impacting revenue, (2) lower associate contributions, and (3) margin compression. MBM declared 1.5sen DPS as compared to 3sen in 2Q16. We revise our FY17-19E earnings lower by 19-31%. Maintain HOLD with a lower TP of RM2.10 based on 9x FY18E EPS.

### Earnings miss in 1H17

MBM's 1H17 revenue inched up by 2.6% yoy to RM822m, attributed to the better performance from both motor trading (+2.0%) and auto parts manufacturing (+6.7%) segments. 1H17 net profit declined by 4.3% yoy to RM35.6m. This was below our and consensus estimates, which accounted for 36% of our and consensus full-year forecasts, respectively. Deviation against our earlier expectations is mainly due to lower-than-expected associate contributions which declined by 8.8% yoy.

### PBT falls on weaker revenue and associate contributions

Sequentially, overall revenue fell by 3.4%, affected by weaker motor trading (-5.1%) but higher production volume by the alloy wheel plant and better ASPs from the tyre assembly line helped the auto parts manufacturing segment (+9.7%). Operating margin increased by a marginal 0.3ppt. Associate contributions fell by 14% to RM24.5m due to weaker Perodua sales, Hino truck and buses and decline of JV Autoliv Hirotako.

### Maintain HOLD on muted outlook; lower TP: RM2.10

We lower our 2017-19 EPS forecasts by 31%/20%/19% after imputing for weaker operating margins and lower associate contributions. We reduce our TP to RM2.10, after rolling forward valuations to FY18 based on unchanged target PER of 9x.

### Risks to our call

Upside risks: i) improvement in consumer spending, which would lead to higher auto sales; and (ii) improvement in banks hire-purchase approvals. 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	1,675.5	1,884.9	1,947.2
EBITDA (RMm)	50.1	(21.2)	14.8	17.2	20.6
Pretax profit (RMm)	130.2	82.8	81.2	105.2	113.5
Net profit (RMm)	84.0	66.1	69.1	91.0	98.8
EPS (sen)	21.5	16.9	17.7	23.3	25.3
PER (x)	10.1	12.9	12.3	9.4	8.6
Core net profit (RMm)	129.9	96.3	69.1	91.0	98.8
Core EPS (sen)	33.2	24.7	17.7	23.3	25.3
Core EPS growth (%)	15.8	(25.8)	(28.3)	31.7	8.6
Core PER (x)	6.6	8.8	12.3	9.4	8.6
Net DPS (sen)	7.0	6.0	6.0	6.0	6.0
Dividend Yield (%)	3.2	2.8	2.8	2.8	2.8
EV/EBITDA (x)	20.2	n.m	70.2	61.8	51.3
Chg in EPS (%)			(30.9)	(20.0)	(19.4)
Affin/Consensus (x)			0.7	0.8	0.8

Source: Company, Affin Hwang forecasts, Bloomberg

## Results Note

## MBM Resources

MBM MK

Sector: Auto &amp; Autoparts

RM2.18 @ 23 August 2017

HOLD (maintain)

Downside: 3.8%

Price Target: RM2.10

Previous Target: RM2.30



### Price Performance

	1M	3M	12M
Absolute	-2.2%	-9.2%	-10.7%
Rel to KLCI	-3.0%	-9.5%	-15.2%

### Stock Data

Issued shares (m)	390.9
Mkt cap (RMm)/(US\$m)	852.1/199.1
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	2.08-2.7
Est free float	29.4%
BV per share (RM)	4.13
P/BV (x)	0.53
Net cash/ (debt) (RMm) (2Q17)	(148.9)
ROE (FY18E)	5.3%
Shariah Compliant	Yes

### Key Shareholders

Med-Bumikar Mara SB	49.5%
EPF	15.2%
AIA	4.2%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	QoQ % chg	YoY % chg	1H17	YoY % chg	Comments
Revenue	403.9	(3.4)	(5.4)	822.0	2.6	Revenue increased 2.6% attributable to the better performance from both motor trading (+2.0%) and auto parts manufacturing (+6.7%) segments
Op costs	(405.6)	(3.7)	(5.4)	(826.5)	2.3	
EBIT	(1.7)	(41.7)	(6.8)	(4.5)	(31.2)	
EBIT margin (%)	n.m	n.m	n.m	n.m	n.m	
Finance cost	(3.7)	(10.0)	(22.6)	(7.8)	(15.5)	
Interest income	0.7	(39.5)	(60.9)	1.8	(43.4)	
Associates	24.5	(14.0)	(13.8)	53.0	(8.8)	
Exceptional items	-	n.m	n.m	-	n.m	
Pretax profit	19.8	(12.5)	(16.0)	42.5	(6.7)	
Tax	(1.7)	7.6	(15.6)	(3.3)	7.7	
Tax rate (%)	8.7	1.6ppts	0.0ppts	(7.9)	-1.1ppts	
MI	(1.9)	21.9	(29.2)	(3.5)	(32.2)	
Net profit	16.2	(17.0)	(14.1)	35.6	(4.3)	
EPS (sen)	4.1	(17.0)	(14.1)	9.1	(4.3)	
Core net profit	16.2	(17.0)	(14.1)	35.6	(4.3)	Core net profit came in below our and consensus estimates - accounted for 36% of full-year forecasts.

Source: Affin Hwang, Company data

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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