APEX SECURITIES

APEX SECURITIES BERHAD

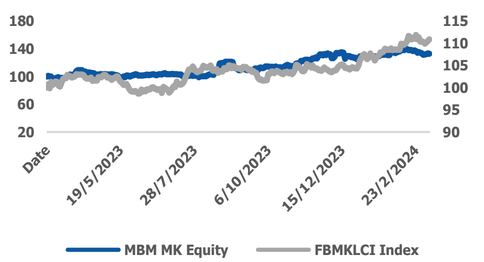
Steven Chong
(603) 7890 8888 (ext 2068)
stevenchong@apexsecurities.com.my

Recommendation:	**HOLD**
Current Price:	**RM 4.42**
Previous Target Price:	**-**
Target Price:	**RM 4.35**
Upside/Downside:	**-1.6%**

Stock information	
Board	MAIN
Sector	Automotive
Bursa / Bloomberg Code	5983 / MBM MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆☆☆★
Bloomberg ESG Rating	N/A
Shares issued (m)	390.9
Market Cap (RM' m)	1,727.7
52-Week Price Range (RM)	3.032-4.66
Beta (x)	0.7
Free float (%)	34.6
3M Average Volume (m)	0.8
3M Average Value (RM' m)	3.7

Top 3 Shareholders	**(%)**
Med-Bumikar Mara Sdn Bhd	49.5
Employees Provident Fund Board	5.0
Lembaga Tabung Haji	4.8

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	-3.9	-0.9	35.3
Relative (%)	-4.5	-6.2	22.6

MBM Resources Berhad

Resilience Amid Sector Downturn

Summary

- **MBMR involved in distributorship and dealership of international brands of vehicles as well as manufacturing of vehicles and automotive parts in Malaysia.**
- **We project core earnings to taper -20.0% yoy in FY24F and recover mildly +3.8% yoy in FY25F in tandem with the anticipated industry wide slowdown.**
- **MBMR is valued by pegging its FY24F core EPS of 66 sen to PE of 6.6x, leading to a FV of RM4.35 (-1.6% potential downside from current price).**

Company Background

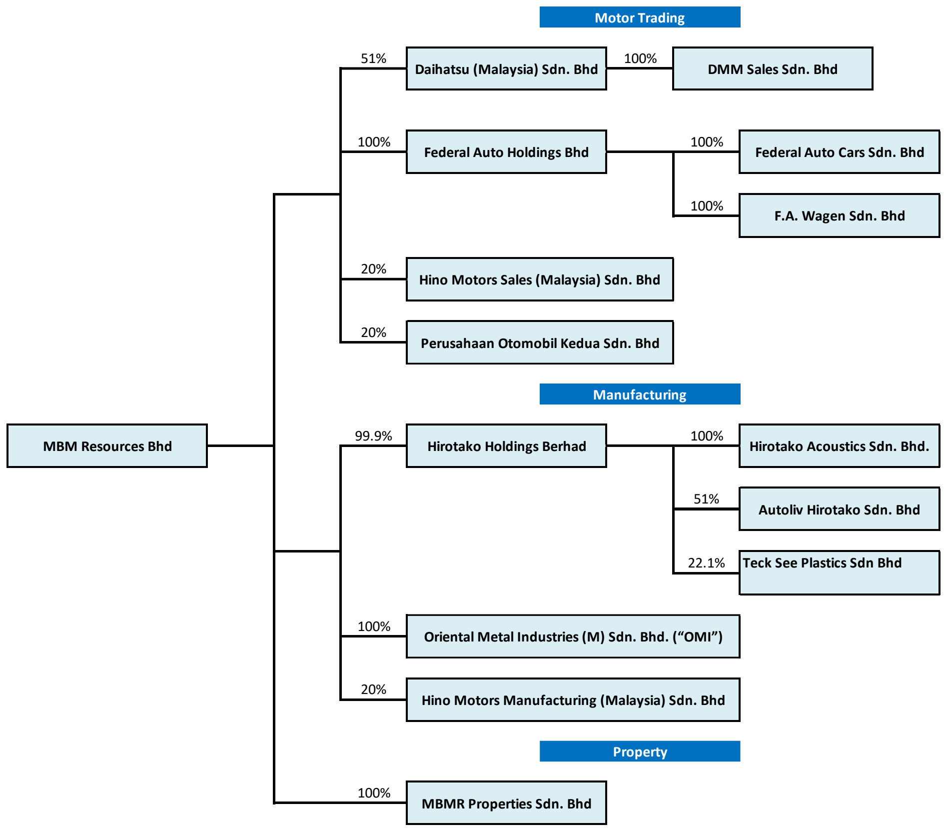
- MBM Resources Bhd (MBMR) journey began in 1980 with distributing Daihatsu motor vehicles in Malaysia. Over the years, MBMR has expanded the variety of brands it distributes through acquisitions and various investments. Currently, the Group is listed on the Main Market of Bursa Malaysia with a market capitalization of approximately RM1.7bn.

- MBMR's wholly-owned subsidiaries, Federal Auto Holdings Bhd (FAHB) and Daihatsu (Malaysia) Sdn. Bhd (DMSB) is engage in the distribution, dealership, and servicing of Volkswagen, Volvo, and Daihatsu brands. Furthermore, MBMR has affiliations with the Perodua and Hino brands through its 20% ownership stakes in Perusahaan Otomobil Kedua Sdn. Bhd and Hino Motors Sales (Malaysia) Sdn. Bhd, allowing for MBMR exposure to the national marques and Hino trucks and buses.

- MBMR diversified into auto parts manufacturing through its subsidiary, Hirotako Holdings Bhd (HHB) which has entered into JV with Autoliv Hirotaka Sdn Bhd (AHSB), a leading supplier of automotive safety restraint products which include seat belts, airbag systems and steering wheels. Besides that, HHB also supplies Noise, Vibration and Harshness (NVH) products to automotive manufacturers via its subsidiary, Hirotako Acoustics Sdn. Bhd.

- Additionally, the Group also owns Oriental Metal Industries Sdn Bhd (OMI) which manufactures steel wheel rims and other value-added components, while also offering tire assembly services.

Corporate Structure



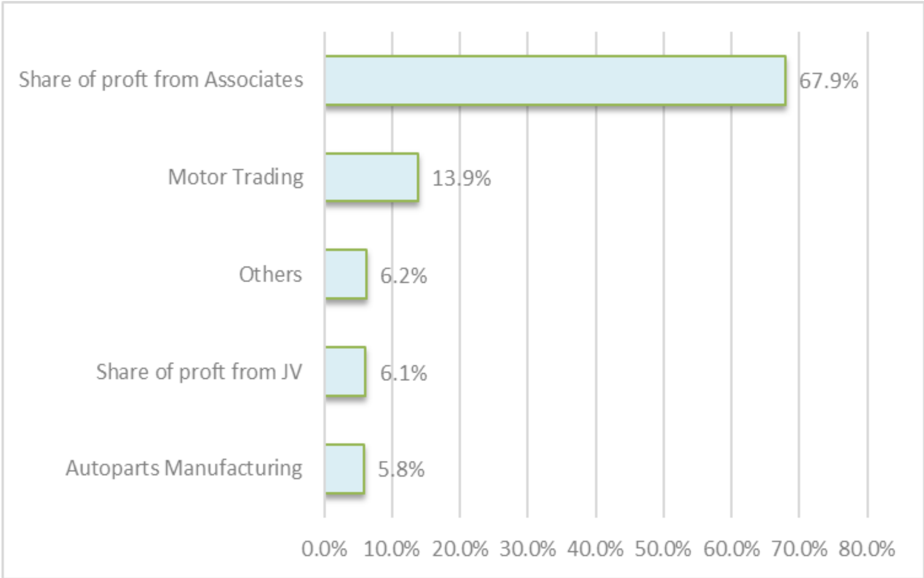
Source: Company

Business Overview

- MBMR operates through three segments, namely (i) Motor Trading, (ii) Auto Parts Manufacturing, and (iii) All others. Motor Trading segment engages in the marketing and distribution of motor vehicles, spare parts and provision of related services. Auto Parts Manufacturing revolves in the manufacturing of automotive parts and components, steel and alloy wheels and discs, noise, vibration and harshness (NVH) products and provision of tire assembly services.

- Key contributor of PBT in FY23 stemmed from earnings generated by associates, primarily from Perodua, constituting 67.9% of total PBT. Following closely was the motor trading segment, from direct dealerships of Perodua, Daihatsu, Volvo, Volkswagen and etc. as well as after-sales service (13.9%). Concurrently, earnings contributions from autoparts manufacturing and its joint venture with AHSB stood at 6.1% and 5.8% respectively.

PBT contribution in %



Source: Company, Apex Securities

- Perodua collaborates with Daihatsu to offer six car models in the Malaysia market which includes Axia, Alza, Aruz, Ativa, Bezza and Myvi. In Indonesia, the Axia, Alza, and Aruz are marketed as Daihatsu and Toyota models, while the Ativa is available in both Japan and Indonesia. On the other hand, the Bezza and Myvi is developed locally.

- Perodua commands dominance in the entry level segments, mainly within the RM20K-50K price points via the Axia, Bezza and MyVi. These three models accounted for over 70% of the Perodua's total TIV of 330k in 2023. On top of that, the Bezza unexpectedly surpassed both the Myvi and Axia to claim the sales crown despite Perodua only kick started the year with the launch of the second gen Axia model.

- While official announcement of new models has yet to be released, we gather that Perodua is likely to unveil a B-segment SUV (Perodua Nexis) positioned above the Ativa in both size and price. This move is expected to create direct competition with the Honda HR-V and Proton X50 in 2024.

Perodua Nexis

Source: Paultan

- **Volvo provide exposure to the EV segment.** Volvo Car Malaysia (VCM) reported a total TIV of 2,694 units in 2023 which declined -15.6% yoy. Among these, 71% were from their Recharge range (hybrid), while 18% came from full EVs. Following the global debut of the EX30 and the flagship EX90, both models will be introduced to the Malaysian market in 2024. Volvo's dedication to electrification is evident, and this commitment extends to VCM with an ambitious target to achieve fully electric by 2030.

Volvo EX30

Source: Volvo

Volvo EX90

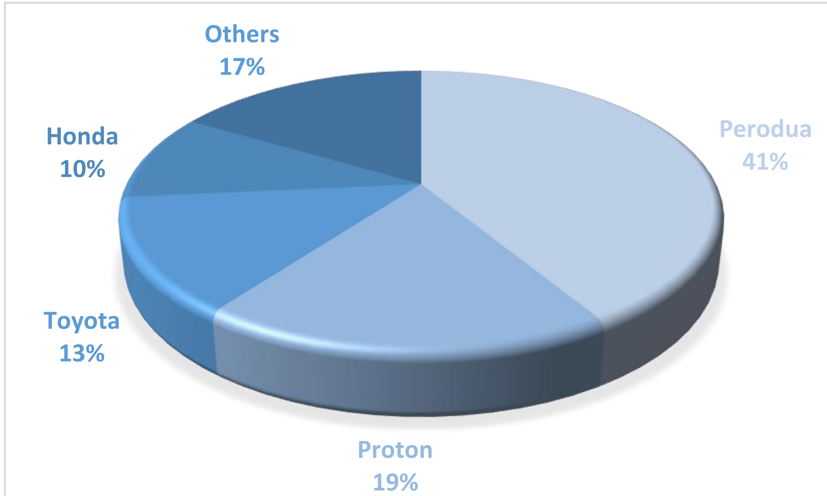
Source: Volvo

Industry Overview

- We gather that total Industry Volume (TIV) 2023 rose +11.0% yoy primarily fueled by robust sales in both passenger vehicles (+12.1% yoy) and commercial vehicle (+2.1% yoy) sales. The stellar performance in 2023 can attributed to fulfillment of backlog orders as a fair amount of booking was done prior to the expiry of SST exemption. In addition to that, improved industry supply chain environment, new model launches as well as resilient domestic economy has also played pivotal role in the strong growth in TIV. Meanwhile, the improvement in sales of commercial vehicles was due to increasing demand as companies began to invest in anticipation of a much more stable political environment.

- During the year, Perodua maintains its position as the market leader, holding 41.3% of the market share, followed by Proton with 18.9%, Toyota with 13.3%, and Honda with 10.0%. These four brands collectively account for over 80% of Malaysia's market share.

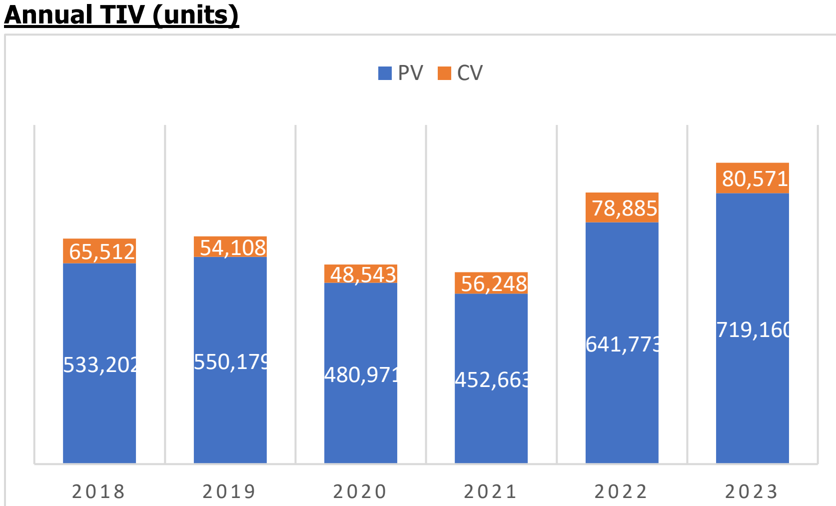
Market Share By Car Brands



Source: Paultan

- Looking ahead, we anticipate a minor slowdown in the TIV for 2024. This is due to concerns surrounding targeted subsidy rationalisation, high cost of living, proposed implementation of the luxury tax, and an increase in the service tax rate for certain services, including motor vehicle repair and maintenance. Additionally, the MAA has revised its full-year 2024 TIV projection down to 740,000 units, reflecting a drop of -7.5% yoy. Nevertheless, the decision by BNM to maintain the OPR at 3% is expected to bring stability to automotive demand, as consumers has become accustomed with the current interest rate level.

Annual TIV (units)

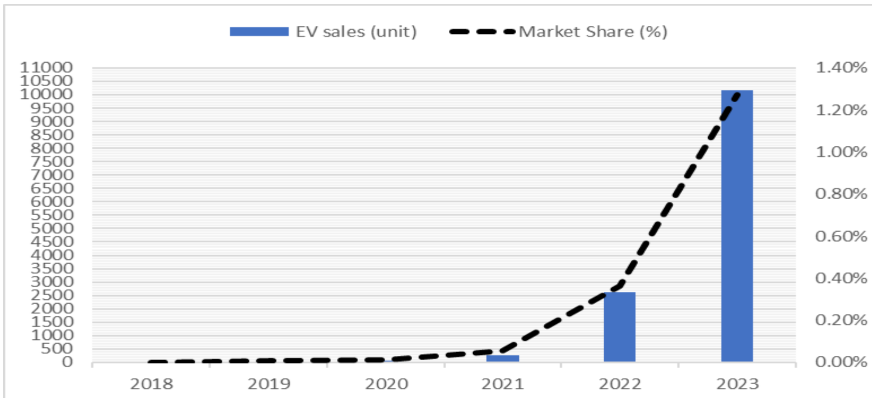


Source: MAA, Apex Securities

- We foresee significant improvements in supply chains and continuous launches of new models, including numerous affordable and competitive EVs. These developments are expected to attract and sustain consumer interest in purchasing vehicles. MITI is presently engaged in discussions with national brands such as Proton and Perodua to accelerate the production of national EVs and introduce affordable EV options.

- Notably, EV market share grew to 1.3% in 2023 from 0.4% as compared to a year ago. This was bolstered by the continuous introduction of new models and the government's commitment to enhancing the EV ecosystem, suggesting potentials for further expansion. The government's aim to achieve 125,000 EVs on the road by 2030 is poised to drive expansion in the market in the years to come. We gather that the auto players are now focused on more EV cars in view of support from government subsidies on renewable energy.

EV Unit Sales and Market Share



Source: MAA, Apex Securities

Investment Highlights

- **Affordable cars to maintain resiliency.** Although Perodua has yet to disclosed their sales target for 2024, we expect a slight decline of around -1.5% yoy in unit sales to 320k. We believed that our sales target is achievable, considering the un-interrupted production rate which is expected to persist throughout the year, along with Perodua's significant order backlog exceeding 120k units. Moving forward, MBMR is positioned to ride on potential upside from the launch of the new a B-segment SUV, Perodua Nexis in 2024.

- **National marques will likely to obtain support from government.** The government has targeted 2025 for national brands Proton and Perodua to introduce electric vehicles (EVs). Currently, there is a floor price set at RM100,000, prohibiting the sale of imported EVs below this threshold. While this measure may seem restrictive, it aims to safeguard the local automotive industry and ensure a fair transition into the new space. In line with the increasing customer acceptance of EVs, Perodua is planning to collaborate with its Japan-based partner to locally assemble EV models, thus positioning itself in this evolving market.

- **Shielded from potential luxury tax.** The Malaysian government is set to introduce the High-Value Goods Tax (HVGT) ranging from 5% to 10%, effective from May 2024. Although specific guidelines and thresholds have yet to be released by the authorities, it is anticipated that the threshold for cars could potentially exceed RM200,000. Consequently, we opined that MBMR will enjoy greater advantage compared to its competitors, owing to Perodua's emphasis on the affordable segment. Additionally, should EVs are granted tax exemptions, this could stimulate demand for Volvo, thus bolstering its sales performance.

- **Attractive dividend yield**. MBMR maintains a dividend policy with a minimum payout ratio of 60%. The group has consistently demonstrated generosity towards its shareholders through its high dividend yield in the past 4 years. We project MBMR to deliver a DPS of RM0.38 for FY24 assuming a payout of 60% of PAT which translates into an attractive yield of 8.5%. This is likely garner investment interest from longer-term investors.

- **Strong cash position.** MBMR is equipped with substantial cash in its balance sheet, ranging from 7%-11% of its total assets for the past 5 years. Approximately RM2.0-5.0m of interests were earned from investing in money market and deposit with banks. In FY23, we note that MBMR utilised a larger portion of its cash reserves primarily for expanding production capacity and dividend disbursements. However, we maintain a favorable outlook on the current cash position, as it enables MBMR to pursue expansion initiatives without resorting to bank borrowing or issuing cash calls to the market.

Financial Highlights

- MBMR's top line for the last 5 years were choppy, registering -14% yoy growth and -14.8% yoy growth during the MCO period in FY20-FY21. However, there has been a notable recovery in FY22-FY23, with growth hitting +51% yoy and +5% yoy respectively. This surge in revenue can be largely attributed to the sales tax exemption and improvement in the supply chain.

- Similarly, earnings experienced a decline of -28.0% yoy in FY20 but rebounded from FY21 onwards, driven by improved margins from motor sales trading. Meanwhile, core earnings (after excluding one-off gain from land sale and factory buildings) for FY22-FY23 expanded by 38.3% yoy and 29.2% yoy in line with improved sales volume as the automotive sector enjoyed strong pent-up demand.

- Looking forward, we envisage MBMR's core earnings to taper off -20.0% yoy in FY24F and recover mildly +3.8% yoy in FY25F in tandem with the anticipated industry wide slowdown. Our forecast is based on core assumptions of i) Perodua sales momentum to sustain on the back of new model release and its strong backlog order, and ii) demand for the premium segment car are likely to lag behind due to the impact of SST and potential luxury tax.

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	**1528.7**	**2307.6**	**2416.9**	**2332.6**	**2285.1**
EBITDA	**23.6**	**41.8**	**39.4**	**40.0**	**38.4**
Pre-tax Profit	**210.8**	**323.3**	**394.7**	**371.1**	**383.4**
Profit After Tax	**195.7**	**297.1**	**371.7**	**282.0**	**291.4**
Net Profit	**171.4**	**267.4**	**334.5**	**244.8**	**254.2**
Core Net Profit	**171.4**	**237.0**	**306.1**	**244.8**	**254.2**
Core EPS (sen)	**43.8**	**60.6**	**78.3**	**62.6**	**65.0**
Core P/E (x)	**10.1**	**7.3**	**5.6**	**7.1**	**6.8**
Dividend Yield (%)	**5.9**	**9.7**	**8.8**	**8.5**	**8.8**
P/B (x)	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**
ROE (%)	**9.1**	**13.1**	**15.6**	**11.4**	**11.3**
Gearing (%)	**1.1**	**0.0**	**0.7**	**0.6**	**0.6**

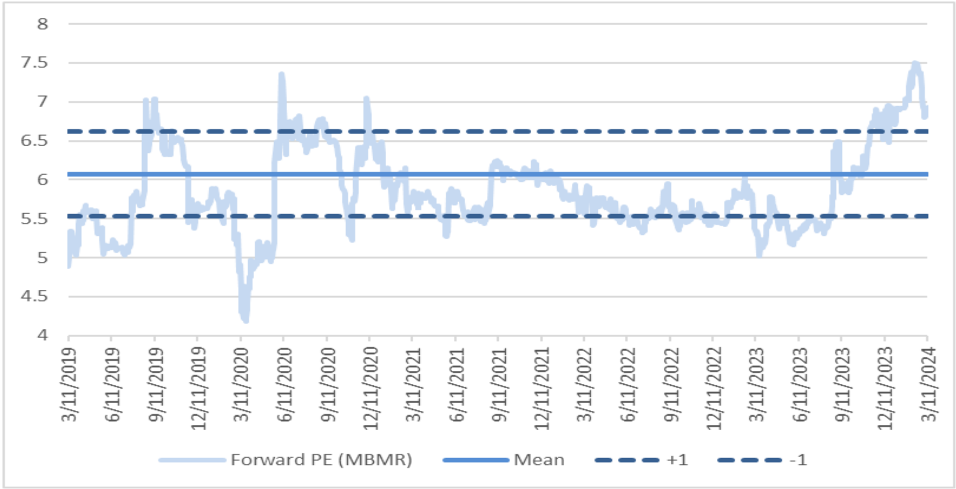
Source: Company, Apex Securities

Valuation & Recommendation

- We favor MBMR due to its association with Perodua, which holds a dominant position in the Malaysia market and substantial financial reserve, with a net cash position exceeding RM180.9mn. Moreover, it is anticipated that MBMR will maintain positive operating cash flow over the next two years, with minimal capital expenditure ranging from RM6.0mn to RM9.0mn.

- We initiate coverage on MBMR with a **HOLD** call based on a **target price of RM4.35**, by pegging 5-year forward P/E of 6.6x to FY24 EPS of 66 sen. Although we like MBMR's exposure to the national brand and its attractive dividend yield, we believe that the current share price has adequately reflects these positives, and the valuation appears fair at present.

MBMR 5yr Forward PE Band



Source: Bloomberg, Apex Securities

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

Head Office:
6th Floor, Menara Apex,
Off Jalan Semenyih,
Bukit Mewah 43000 Kajang,
Selangor Darul Ehsan, Malaysia

General Line: (603) 8736 1118

Mutiara Damansara Office:
5th Floor Menara UAC, 12, Jalan PJU 7/5,
Mutiara Damansara,
47800 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7890 8899

DEALING TEAM

Head Office:
Kong Ming Ming (ext 2002)
Shirley Chang (ext 2026)
Norisam Bojo (ext 2027)
Ahmad Mujib (ext 2028)

Institutional Dealing Team:
Siti Nur Nadhirah (ext 2032)

PJ Office:
General Line: (603) 7620 1118
Azfar Bin Abdul Aziz (Ext 822)

RESEARCH TEAM

Mutiara Damansara Office:
Kenneth Leong (ext 2093)
Lee Cherng Wee (ext 2067)
Steven Chong (ext 2068)
Jayden Tan (ext 2069)

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER