

# AUTOMOTIVE

**Maintain NEUTRAL**

## 3rd Month of Contraction, Expect Rebound in Sep19

### KEY INVESTMENT HIGHLIGHTS

- **Auto sector registers third consecutive month of contraction**
- **Expect a year-on-year rebound next month given lull in demand immediately post-tax holiday last year. Sequentially, likely to be flattish**
- **Perodua outperformed in August 2019, facelift Axia garnered 5,000 units pre-launch bookings, variants expanded**
- **Maintain NEUTRAL on autos; MBM (BUY, TP: RM4.55) remains our top sector pick as a cheap proxy into Perodua's record TIV.**

**Third consecutive month of contraction.** TIV registered a 22%yoy contraction in Aug19 to 51,148 units. This is the 3<sup>rd</sup> consecutive month of contraction, against a high base last year driven by the Jun18-Aug18 tax holiday. This brought year-to-date TIV to a 6% contraction. On a month-on-month basis, TIV was up marginally by 0.6%.

**Expect rebound in September.** We expect a year-on-year rebound in Sep19 against a low base last year given a lull in demand immediately after the tax holiday period. However on a month-on-month basis, we expect TIV to remain flattish. Nonetheless, year-to-date TIV of 398,335 units is in-line accounting for 66% of our full year forecast of 599K.

**Perodua outperforms.** Notably, Perodua outperformed the industry, expanding by 13%yoy (against the industry's 22%yoy contraction). Perodua's facelift Axia had garnered 5,000 units of pre-launch bookings (officially launched last Friday). This should drive stronger Perodua TIV from Oct19 onwards. Perodua is targeting sales of 6K units/month for the Axia. The Axia is now offered in 6 variants (from 4 previously), with the addition of the GXtra and Style variants (sports a rugged crossover look). Perodua's Advanced Safety Assist 2.0 safety pack has now been introduced for the range topping Axia Advance model, after being introduced for the MyVi and Aruz models previously.

**MBM remains our top pick.** We reaffirm our BUY call on MBM (TP: RM4.55) as a cheap play into Perodua's record TIV. Key catalysts: (1) Strong 6%yoy Perodua TIV expansion (FY19F) on the back of the Aruz to fill up a vacuum in Perodua's model mix (2) A recovery in industry production driven by the new national car launches (3) Attractive dividend yield of 6% (4) Disposal of alloy wheel plant assets (5) Improvement in 2H19 earnings from elimination of OMIA (OMI Alloy) losses. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.

**BAuto (TP: RM2.85) remains a BUY.** From a valuation standpoint, BAuto is cheap at just 10.8x CY19F earnings while dividend yield of 7.4% is very attractive. Key catalysts: (1) Launch of the CX8, facelift CX5 and CX30 in 2QFY20 (2) Dividend outperformance (3) Over 50% increase in FY20F export volumes driven by the CX8 (4) Potential NAP incentives to drive CBU exports (5) Potential introduction of a new export model beyond the CX8.

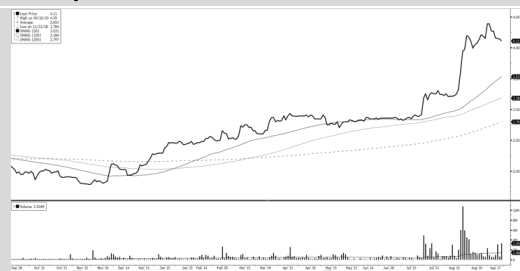
### COMPANY IN FOCUS

#### MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.55  
Price @ 20<sup>th</sup> September 2019: RM4.11

- Perodua TIV grew 13%yoy; outperformed the sector in Aug19
- Facelift Axia has garnered 5,000 units pre-launch bookings, on track to hit record TIV in FY19F
- Cheapest proxy to Perodua at just 8x CY19F earnings, attractive 6% yield

#### Share price chart

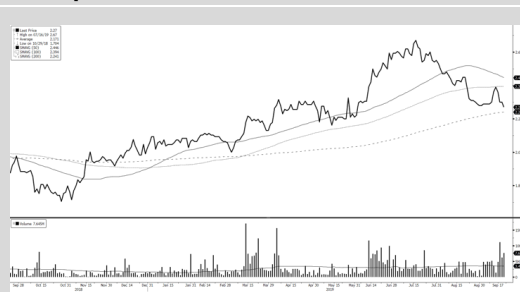


#### Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM2.85  
Price @ 20<sup>th</sup> September 2019: RM2.27

- Volumes to be catalyzed by launch of the CX8, facelift CX5 and CX30 in 2QFY20
- Expect to sustain record FY18 TIV in FY19F
- Solid dividend yields of 7.4%, net cash accounts for 7% of market cap, trades at just 10.8x CY19F earnings

#### Share price chart



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**Table 1: August 2019 TIV Summary**

Marques	Aug-18	Jul-19	Aug-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Aug-18	Aug-19
Proton	9,501	8,590	9,127	-3.9%	6.3%	44,709	61,235	37.0%	14.5%	17.8%
Perodua	17,804	19,924	20,070	12.7%	0.7%	158,732	161,776	1.9%	27.2%	39.2%
Toyota	8,795	5,660	5,415	-38.4%	-4.3%	49,634	42,326	-14.7%	13.4%	10.6%
Honda	10,789	7,534	7,577	-29.8%	0.6%	74,951	59,371	-20.8%	16.5%	14.8%
Nissan	3,501	2,003	1,707	-51.2%	-14.8%	18,730	14,093	-24.8%	5.3%	3.3%
Mazda	1,948	1,002	1,003	-48.5%	0.1%	9,844	8,496	-13.7%	3.0%	2.0%
Others	13,213	6,140	6,249	-52.7%	1.8%	67,130	51,038	-24.0%	20.2%	12.2%
<b>Total</b>	<b>65,551</b>	<b>50,853</b>	<b>51,148</b>	<b>-22.0%</b>	<b>0.6%</b>	<b>423,730</b>	<b>398,335</b>	<b>-6.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

**Table 2: August 2019 TIV Summary by Vehicle Type**

Segment	Aug-18	Jul-19	Aug-19	YoY	MoM	YTD18	YTD19	YTD %
Passenger cars	55,772	46,189	46,802	-16.1%	1.3%	378,026	363,866	-3.7%
Commercial vehicles	9,779	4,664	4,346	-55.6%	-6.8%	45,704	34,469	-24.6%
<b>Total</b>	<b>65,551</b>	<b>50,853</b>	<b>51,148</b>	<b>-22.0%</b>	<b>0.6%</b>	<b>423,730</b>	<b>398,335</b>	<b>-6.0%</b>

Source: MAA, MIDFR

**Table 3: August 2019 TIV Summary by Vehicle Type**

Segment	Aug-18	Jul-19	Aug-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Aug-18	Aug-19
National cars	27,305	28,514	29,197	6.9%	2.4%	203,441	223,011	9.6%	41.7%	57.1%
Non-nationals	38,246	22,339	21,951	-42.6%	-1.7%	220,289	175,324	-20.4%	58.3%	42.9%
<b>Total</b>	<b>65,551</b>	<b>50,853</b>	<b>51,148</b>	<b>-22.0%</b>	<b>0.6%</b>	<b>423,730</b>	<b>398,335</b>	<b>-6.0%</b>		

Source: MAA, MIDFR

**PEER COMPARISON TABLE**

Companies	Rating	Shr Price (RM)	PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY18	CY19F					
Bermaz Auto	BUY	2.27	12.1	10.2	4.82	40.8	7.8	2.85	33.4
Tan Chong	NEUTRAL	1.48	8.0	11.8	0.34	2.9	2.7	1.50	4.1
UMW	NEUTRAL	5.04	17.2	16.2	1.64	10.5	1.5	5.35	7.7
MBM	BUY	4.11	9.5	7.9	0.87	10.6	5.6	4.55	16.4

Source: Company MIDFR

**Table 4: Perodua Facelift Axia Variants**

**On the road prices...**



The advertisement displays five Perodua Axia variants arranged in two rows. The top row features three cars: a white hatchback (E MT), a dark blue hatchback (G AT and GXtra AT), and a white hatchback with red accents (SE AT). The bottom row features two cars: a red hatchback (STYLE AT) and a red hatchback with black accents (AV AT). A person's hand holding a microphone is visible on the right side of the image.

Variant	On the road price (RM)
E MT	RM 24,090
G AT	RM 33,490
GXtra AT	RM 34,990
SE AT	RM 38,890
STYLE AT	RM 38,890
AV AT	RM 43,190

Source: PaulTan, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.