

AUTOMOTIVE

Maintain NEUTRAL

A Boon for Small Capacity Models

KEY INVESTMENT HIGHLIGHTS

- **Fuel subsidy program initially targeted the Bantuan Sara Hidup (BSH) recipient group - for car owners, qualifying criteria include ownership of cars 1.6 litre and below, or if >1.6 litre, has to be 10 years of age or above**
- **Under Budget 2020, target group expanded to include non-BSH recipients with same vehicle qualifying criteria**
- **Potential switch and gradually more concentrated demand for smaller engine capacity models – national cars Perodua and Proton are potential key beneficiaries.**
- **Maintain NEUTRAL on autos; MBM (BUY, TP: RM4.55) and BAuto (BUY, TP: RM2.85) remain our top sector picks**

KEY MEASURES FOR THE AUTO SECTOR UNDER BUDGET 2020:

- **The Fuel Subsidy Program** that was initially announced by KPDNHEP (Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna) recently was targeted for the BSH (Bantuan Sara Hidup) recipient group – which involves ~2.9m vehicle owners (comprising 1.1m cars).
- The key qualifying criteria are:
 - 1) Ownership of a car/motorcycle with a valid road tax
 - 2) Car owned entails 1.6 litre engine capacity or if it is >1.6 litre, is >10 years of age
 - 3) Motorcycle owned is 150cc and below or if >150cc, is above 7 years of age
 - 4) Maximum limit of vehicle ownership is 2 cars and 2 motorcycles. The subsidy rate for qualified BSH recipient is RM30/month for car ownership or RM12/month for motorcycle ownership.
- **However, under Budget 2020, the scheme is expanded to include non-BSH recipient**, with a similar vehicle criteria. All luxury vehicles will not be qualified.
- The subsidy for non-BSH recipient is set at 30sen/litre up to a maximum of 100 litre/month for cars and 40 litres/month for motorcycles. Qualified vehicle owners will be given a "Kad95" and the subsidy received is based on actual usage at the pump.
- The fuel subsidy scheme is only applicable if RON95 Automated Price Mechanism is above RM2.08/litre. No subsidy will be given if RON95 price falls below RM2.08/litre.
- The Government is allocating RM2.2b for the fuel subsidy program.
- **50% excise duty exemption for qualified CKD vehicles** for purchase by tour operators.

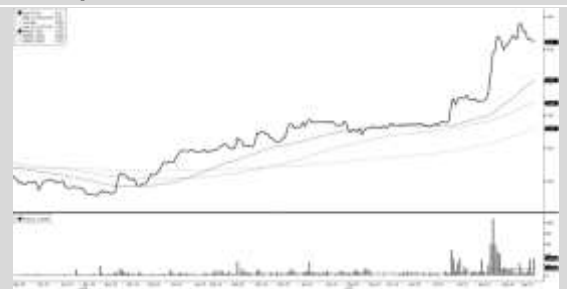
COMPANY IN FOCUS

MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.55
Price @ 11th October 2019: RM3.99

- Positioned well to capitalize on potential switching to lower capacity models
- 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 @ 11th October 2019: RM2.19

- 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



ANALYST (S)

HAFRIZ Hezry

hafriz.hezry@midf.com.my

03 -2173 8392

Exhibit 1: Key Models <=1.6 litre in the Market vs. Estimated Monthly Installment

Brand	Model	Engine Capacity (litre)	Estimated Mthly Instalment (RM)	Avg. Price (RM)
Perodua	Axia	1.0	270	22,990
Proton	Saga	1.3	386	32,800
Perodua	Bezza	1.0/1.3	406	34,490
Proton	Iriz	1.3/1.6	432	36,700
Proton	Persona	1.6	501	42,600
Perodua	MyVi	1.3/1.5	503	42,790
Kia	Picanto	1.2	554	47,079
Perodua	Alza	1.5	605	51,490
Proton	Ertiga	1.4	668	56,773
Proton	Exora	1.6	703	59,800
Proton	Preve	1.6	718	61,090
Nissan	Almera	1.5	760	64,639
Honda	Jazz	1.5	826	70,242
Toyota	Yaris	1.5	834	70,888
Perodua	Aruz	1.5	857	72,900
Honda	City	1.5	868	73,836
Mazda	Mazda 2	1.5	878	74,670
VW	Polo	1.6	891	75,730
Toyota	Vios	1.5	908	77,200
Kia	Rio	1.4	928	78,888
Toyota	Avanza	1.5	947	80,500
Honda	BR-V	1.5	952	80,989
Nissan	Grand Livina	1.6/1.8	967	82,194
VW	Vento	1.2/1.6	1,005	85,430
Nissan	X-Gear	1.6	1,056	89,800
Toyota	Rush	1.5	1,094	93,000
Kia	Ioniq	1.6	1,175	99,888
Toyota	Sienta	1.5	1,198	101,900
Kia	Cerato	1.6	1,222	103,888
Honda	Civic	1.5/1.8	1,272	108,165
Honda	CRV	1.5/2.0	1,617	137,469
VW	Beetle	1.2	1,834	155,994
BMW	118i	1.5	2,220	188,800
BMW	318i	1.5	2,385	202,800
Mercedes	A200	1.3	2,680	227,888

Source: MAA, MIDFR, Various

OUR VIEWS:

Demand could gravitate towards smaller capacity models. As highlighted in our recent sector report dated *8th Oct 2019*, and further underpinned by expansion of the target group to include non-BSH vehicle owners under Budget 2020, we think demand could gradually gravitate towards lower capacity models going forward. For the car market, the lower priced (and <1.6 litre engine capacity) segment in the market is largely dominated by Perodua and Proton along with a few key Japanese and Korean models such as the Mazda 2, Kia Picanto/Rio, Nissan Almera, Honda Jazz/City/BRV and Toyota Vios/Yaris/Avanza/Rush/Sienta. Luxury models are not qualified for the subsidy scheme though this has yet to be clearly defined (perhaps, to be based on a certain price ceiling).

Large pool of potential "switchers". The scheme is expected to immediately benefit a total of over 8m vehicle owners (including 2.9m under the BSH-recipient group). Against a total private car population of 12.8m and a total private car-plus-private motorcycle population of 25.5m in Peninsular Malaysia (based on JPJ statistics as of end-1Q19), this suggests a relatively large pool of potential consumers that may switch to lower capacity models.

National cars are key beneficiaries. The national cars (Perodua and Proton) are potentially key beneficiaries, other than the key Japanese marques Toyota (**UMW - NEUTRAL, TP: RM5.35**), Nissan (**Tan Chong – NEUTRAL, TP: RM1.50**) and Mazda (**Bermaz Auto - BUY, TP: RM2.85**). **MBM (BUY, TP: RM4.55)**, via its 22.6% stake, is a key proxy to Perodua, which accounts for >60% of group earnings.

MBM remains our top pick. We reaffirm our BUY call on **MBM (TP: RM4.55)** as a cheap play into Perodua's record TIV. Furthermore, Perodua is one of the beneficiaries of potentially more concentrated demand for smaller engine capacity models going forward. 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. 

Exhibit 2: 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%
Total	65,551	50,853	51,148	-22.0%	0.6%	423,730	398,335	-6.0%	100.0%	100.0%

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	2.19	11.7	9.9	4.82	40.8	8.1	2.85	38.3
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	3.99	9.3	7.7	0.87	10.6	5.8	4.55	19.8

Source: Company MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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