

Automotive

Maintain POSITIVE

A peek at the new NAP

INVESTMENT HIGHLIGHTS

- **New NAP to be released Sep19 to focus on Next Generation Vehicles, Mobility and IR4.0**
- **3rd National Car to be incorporated into NAP, initial low volumes a near-term relief for existing national makes**
- **Roadworthiness policy adoption takes voluntary vehicle inspections a step forward**
- **B20 fuel adoption target by 2025**
- **MBM (TP: RM4.20) and BAUTO (TP: RM2.85) remain our top sector picks**

We attended BFM's CEO Forum themed "New Malaysia, New Automotive Policy" yesterday. The Forum featured YB Dr Ong Kian Ming, Deputy Minister of MITI and Datuk Aishah Ahmad President of the Malaysian Automotive Association. Below are key takeaways from the event;

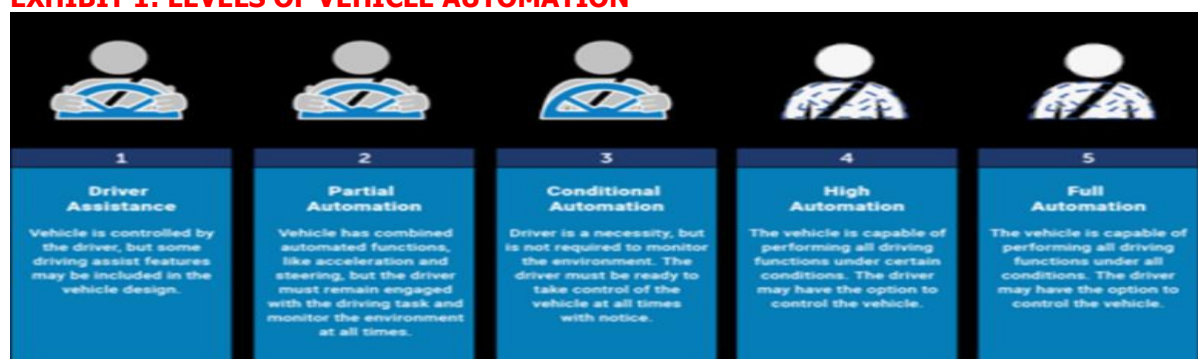
New NAP to focus on three key areas. The new NAP (National Automotive Policy) is targeted to be released in September 2019. The updated policy will focus on three key areas namely: (1) Next Generation Vehicles (NXGV) (2) Mobility as a Service (MaaS) (3) Industrial Revolution 4.0 (IR4.0) incorporation into automotive manufacturing.

What are NXGVs? The new NAP defines NXGVs as vehicles with EEV status and have achieved at least Level 3 Automation which is Conditional Automation (driver is a necessity but is not required to monitor the environment) with a certain timeline targeted to achieve this. During the forum, industry players argued that Level 3 automation is perhaps too ambitious a target and that perhaps a Level 2 automation target (Partial Automation – vehicles have combined automated functions but driver must remain engaged with driving task at all times) would be more realistic as players require time to communicate and strategize with their principals.

Near-term relief for existing national makes? The upcoming 3rd National car (under the purview of MIGHT) will be incorporated into the new NAP. It is initially expected to come out with a prototype and is likely to be focused on EEV and NXGV technologies, while volumes are initially expected to be low – this should provide a temporary relief to the existing national makes which dominate the lowest end (and the highest volume) segment of the market, at least in the near-term. The 3rd National Car is expected to entail high localisation and will fit into the existing ILP framework – incentives/duty rebates for localised parts which existing players are already enjoying.

EEV parameters to be refined. The EEV Program will be maintained but with further refinements to the specifications. The current EEV parameters specify fuel efficiency (based on vehicle segment) as qualification criteria. We understand that the original proposal included carbon emission as part of the parameters, but this had to be excluded given insufficient infrastructure for carbon assessment. NXGV criteria might possibly be part of the refined parameters, we think.

EXHIBIT 1: LEVELS OF VEHICLE AUTOMATION



Source: MITI, MIDF

Roadworthiness policy. The ELV (End-of-Life Vehicle) policy is unlikely to be adopted for now. This was proposed under the previous 2014 NAP but faced backlash among the community, in particular those in the non-urban areas and the B40 segment. In place of the ELV Policy, a voluntary vehicle inspection scheme was introduced. Moving this policy a step further, the new NAP might encompass a roadworthiness policy which requires vehicles older than a certain age to undergo annual vehicle inspections to certify its roadworthiness. Puspakom (owned by DRB-Hicom) currently holds the contract with MoT for vehicle inspection until 2024. During the forum, industry players suggested the certification of more inspection centres (e.g. workshops) to make it more convenient for vehicle owners to undergo such inspections.

Fuel compatibility constraint. A biofuel policy for B20 fuel adoption by 2025 had previously been indicated, but there is the issue of engine compatibility and increased vehicle maintenance, particularly for commercial vehicles. Additionally, the delay in adopting the latest fuel standards e.g. Euro4M Petrol and Euro 5 Diesel is putting constraints on introduction of latest engine technologies into the country given fuel compatibility issues.

EXHIBIT 2: LEVELS OF VEHICLE AUTOMATION

Blending Level	Mandatory Implementation Year
B20	2025
B30	2030

Source: MPI, MIDF

EXHIBIT 3: LEVELS OF VEHICLE AUTOMATION

Fuel Quality Specification	Implementation Year
Euro4M RON97 Petrol	Sep-15
Euro4M RON95 Petrol	Jan-20
Euro5 Diesel	Sep-20
Euro5 Petrol	Sep-25

Source: DOE, MIDF

Air mobility. No, this has nothing to do with the flying car project. However, MITI acknowledges there is the lack of regulations for airspace below a certain level, and that this is more of a pre-emptive policy for future developments.

MBM remains our top pick. We re-affirm our BUY call on MBM (TP: RM4.20) 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) Disposal of loss making alloy wheel operations. 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% is very attractive. Key catalysts: (1) Launch of the CX8 in Oct/Nov19 and CX30 in 2HFY20 (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.

VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY18F	CY19F	CY18F	CY19F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	2.54	18.8	22.2	13.5	11.4	4.82	46.7	7.4	2.85	19.6
Tan Chong	NEUTRAL	1.45	18.6	13.9	7.8	10.4	0.34	3.3	2.5	1.65	16.3
UMW	NEUTRAL	5.35	29.2	37.6	18.3	14.2	1.76	12.0	1.8	5.85	11.1
MBM	BUY	3.23	43.1	47.4	7.5	6.8	0.77	9.6	3.9	4.20	34.0
Average					12.9	10.6	1.9	17.9	3.9		

Source: Bloomberg, Companies, MIDF

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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.