

19 July 2018 | Sector Update

Automotive

Maintain POSITIVE

A triple boost in June

INVESTMENT HIGHLIGHTS

- **Solid June TIV growth**
- **Toyota regained pole position in non-national segment**
- **Cautious of bottlenecks and post-tax holiday impact**
- **Bermaz Auto (BUY, TP: RM2.70/share) is our top pick for a solid 35% earnings CAGR and attractive 7% yield, followed by UMW (BUY, TP: RM7.11), Tan Chong (BUY, TP: RM2.05) and MBM (BUY, TP: RM3.20)**

Solid June TIV. June TIV registered at 64,502 units and was only ~7% shy of a historical record of 69K. June TIV represented a massive 50%mom growth and was up 28%yoy. The strength was driven by: (1) Pent-up demand from buyers holding back purchases since mid-May in anticipation of the 3-month GST/SST-free period from 1st June (2) Typical pre-Raya sales strength and campaigns (3) Purchases brought forward to benefit from the tax holiday period. We anticipate similar strength into July and August, and expect production to register a meaningful increase in July. For June, total industry production (TIP) dipped 10%mom given a typical 2 week closure during Raya for annual maintenance.

Toyota regained pole position for non-nationals. Toyota TIV was more than five times higher sequentially at 11,482 units and was more than double on year-on-year basis. For the first time in a couple of years, Toyota regained its position as the largest non-national with a 17.8% market share, overtaking Honda by a tiny margin. We gather that Toyota currently entails a 2-3 months waiting list. UMW Toyota has ample capacity to ramp up production at the existing Shah Alam plant (90K annual capacity on 2-shift), by extending working hours and stretching working days into weekends as well as increase kit supply from Thailand to meet the demand.

Mazda TIV almost doubled year-on-year. Mazda was the second strongest performer in June. Mazda TIV was up 146%mom and grew some 89%yoy. Our checks suggest that Mazda has a massive waiting list (especially for the new CX5) which extends into next year. Bermaz Auto has ample production capacity here, but kits are sourced directly from Japan, although there is the possibility of clawing back some export volumes to meet the temporary spike in domestic demand. Mazda's plants in Hiroshima and Yamaguchi were temporarily impacted by the Japan floods, but had resumed operations last week. BAuto currently has sufficient inventories up till end July. Assuming no further disruption to Mazda Japan's production, we do not see much impact for August supplies to Malaysia. However, given the already long waiting list, we suspect BAuto might selectively extend a tax rebate (or its equivalent) beyond the tax holiday period in order to avoid cancellations if it cannot meet all the bookings by mid-September.

National cars lost market share. Perodua saw sales volume contract sequentially as sales in May was inflated given a pre-tax holiday GST rebate by Perodua from mid-May 2018. Proton saw a strong 50%mom growth but sales were actually down 15% on a year-on-year basis. Overall though, the national cars saw market share contract to 40% as bulk of the sales growth in June went to the non-nationals.

MAA cautious on post-tax holiday impact. The Malaysia Automotive Association (MAA) had revised down its 2018F forecast to 585K (+1.5%yoy) from 590K earlier. The MAA is turning cautious of the post-tax holiday impact which, as we had highlighted yesterday, might see replacement buyers returning to the market prematurely, and the market would dry up post Sept 15th. MAA's revised forecast is pretty close to ours of 586K. We leave our numbers unchanged at this juncture.

BAuto (TP: RM2.70) remains our top sector pick. Key catalysts over the next 12 months:

- (1) **A 17%-30%yoy Mazda TIV growth (FY19F)** coupled with margin expansion driven by full year impact of new CX5
- (2) **Ringgit strength** against the JPY
- (3) **A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given export market expansion to South East Asia (ex-Vietnam) and re-acceleration in production for the domestic market.
- (4) **Launch of the CKD CX8** in mid-CY19F
- (5) **Attractive dividend yield of 7%** - net cash accounts for 10% of market cap coupled with solid 9% FCFE yield (FY19F). Our payout assumption is capped at 80% vs. historical 80%-113% payout.

Our contrarian BUY on UMW (TP: RM7.11) is re-affirmed. Key catalysts: (1) **A deleveraged balance sheet post UMWOG demerger** allows room for acquisitive growth and resumption of dividend payouts; (2) **Successful acquisitions of Perodua stake from PNB and MBM** are strong share price catalysts (3) **Reversal of prior years' market share loss**, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy (4) **Redevelopment of UMW's 830 acres Serendah land** which will unlock value of the asset – easily worth 40sen/share on our estimates (5) **A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production.

MBM Resources (BUY, TP: RM3.20) is a cheap proxy to Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Attractive 39%yoy earnings growth (FY18F) for less than half FY18F BV and on the back of a lean balance sheet (9% net gearing). Key catalysts: (1) Strong growth in Perodua TIV on the back of the new MyVi and potentially a new SUV to fill up a vacuum in its model mix (2) A recovery in industry production driven by new national car launches.

Tan Chong is also our non-consensus BUY (TP: RM2.05) as a deep value play into the sector's earnings recovery driven by the strong Ringgit and a bottoming in market share. Having seen share price fall some 40% in the past 24 months, Tan Chong now trades at just 0.4x FY18F PBV (which is lower than even its historical trough PBV of 0.5x) amid a potential turnaround in earnings over the next few years. Key catalysts include: (1) Resumption of new model launch from FY18F (2) Narrowing in losses from Indochina operations.

EXHIBIT 1: JUNE 2018 TIV SUMMARY

Marques	Jun-17	May-18	Jun-18	YoY	MoM	YTD17	YTD18	YTD %	Market share	
									Jun-17	Jun-18
Proton	7,225	4,091	6,173	-14.6%	50.9%	39,393	27,106	-31.2%	14.4%	9.6%
Perodua	17,821	21,980	19,611	10.0%	-10.8%	99,675	117,098	17.5%	35.4%	30.4%
Toyota	5,326	2,027	11,482	115.6%	466.5%	33,719	31,709	-6.0%	10.6%	17.8%
Honda	8,808	8,046	11,418	29.6%	41.9%	52,527	51,354	-2.2%	17.5%	17.7%
Nissan	2,738	2,038	3,008	9.9%	47.6%	13,537	11,926	-11.9%	5.4%	4.7%
Mazda	801	616	1,514	89.0%	145.8%	4,771	6,696	40.3%	1.6%	2.3%
Others	7,552	4,185	11,296	49.6%	169.9%	40,835	43,825	7.3%	15.0%	17.5%
Total	50,271	42,983	64,502	28.3%	50.1%	284,457	289,714	1.8%	100.0%	100.0%

Source: MAA, MIDF

EXHIBIT 2: JUNE 2018 TIV SUMMARY BY VEHICLE TYPE

Segment	Jun-17	May-18	Jun-18	YoY	MoM	YTD17	YTD18	YTD %
Passenger cars	45,339	40,221	57,744	27.4%	43.6%	255,749	261,043	2.1%
Commercial vehicles	4,932	2,762	6,758	37.0%	144.7%	28,708	28,671	-0.1%
Total	50,271	42,983	64,502	28.3%	50.1%	284,457	289,714	1.8%

Source: MAA, MIDF

EXHIBIT 3: JUNE 2018 TIV SUMMARY BY VEHICLE TYPE

Segment	Jun-17	May-18	Jun-18	YoY	MoM	YTD17	YTD18	YTD %	Market share	
									Jun-17	Jun-18
National cars	25,046	26,071	25,784	2.9%	-1.1%	139,068	144,204	3.7%	49.8%	40.0%
Non-nationals	25,225	16,912	38,718	53.5%	128.9%	145,389	145,510	0.1%	50.2%	60.0%
Total	50,271	42,983	64,502	28.3%	50.1%	284,457	289,714	1.8%		

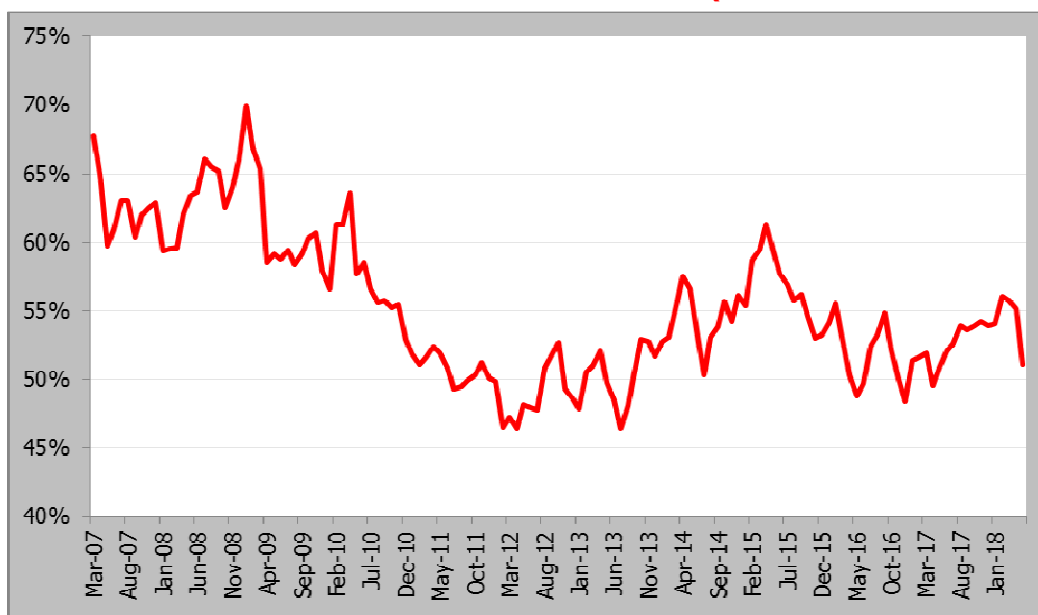
Source: MAA, MIDF

VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY18F	CY19F	CY18F	CY19F					
Bermaz Auto	BUY	2.26	16.7	20.1	13.5	11.2	4.9	35.2	7.1	2.70	26.6
Tan Chong	BUY	1.82	3.1	9.0	59.6	20.2	0.4	1.1	1.8	2.05	14.4
UMW	BUY	6.40	31.7	47.5	20.2	13.5	1.1	5.4	2.4	7.11	13.5
MBM	BUY	2.37	25.9	31.5	9.2	7.5	0.5	5.5	3.0	3.20	38.0
Average					14.3	10.7	1.7	11.8	3.6		

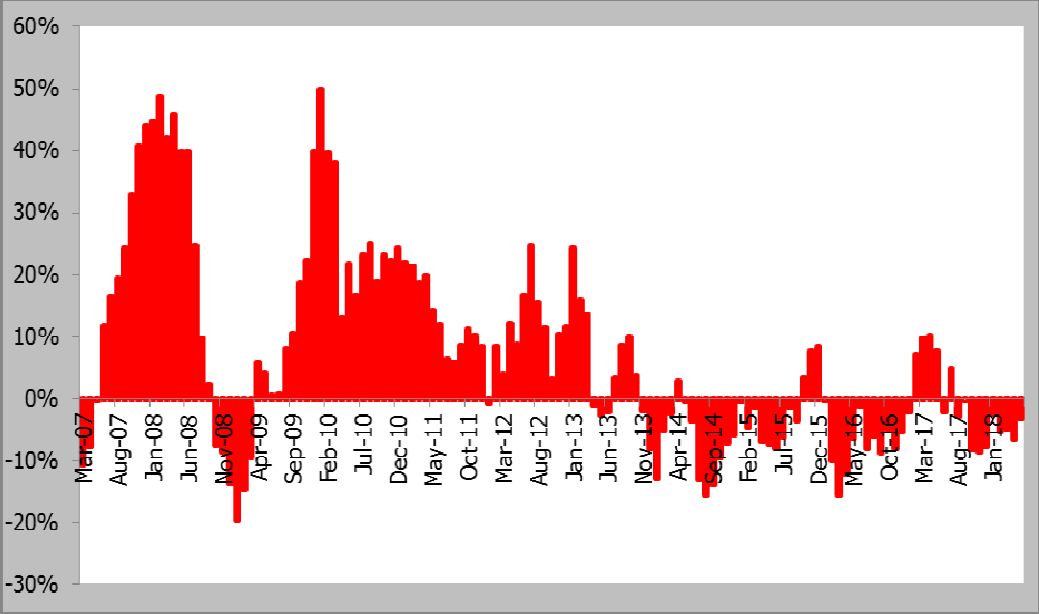
Source: Bloomberg, Companies, MIDF

EXHIBIT 4: HIRE PURCHASE LOAN APPROVAL RATE (3-MTH MOVING AVERAGE)



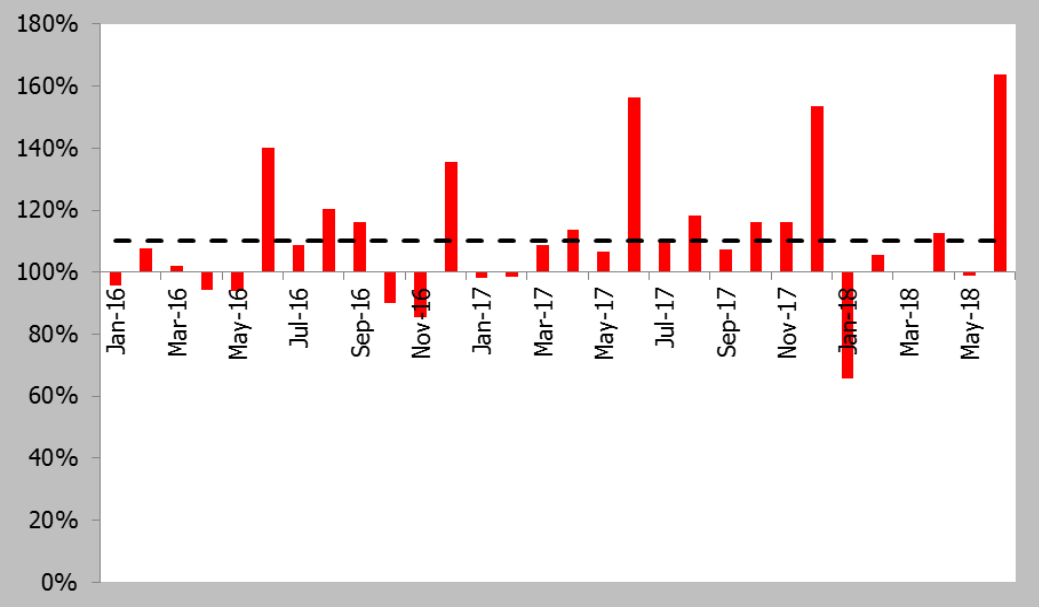
Source: BNM, MIDF

EXHIBIT 5: HIRE PURCHASE LOAN APPLICATION GROWTH (3-MTH MOVING AVERAGE)



Source: BNM, MIDF

EXHIBIT 6: SALES-TO-PRODUCTION RATIO SPIKED IN JUNE AS PRODUCTION FELL BEHIND SALES



Source: MAA, 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.