

25 July 2017 | Sector Update

Automotive

Maintain OVERWEIGHT

Approaching earnings inflection point

INVESTMENT HIGHLIGHTS

- **Seasonal weakness from Raya holidays**
- **Sector earnings to reach inflection point from 2Q-3Q17**
- **Bermaz Auto (BUY, TP: RM2.60/share) is our top pick for a solid 41% earnings CAGR, attractive 8% yield and value crystallisation of its Philippines unit**
- **UMW is a contrarian BUY (TP: RM7.20/share) as a value play amid a turnaround in earnings, balance sheet deleveraging and early cycle play into EEV-driven structural cost reduction**

Seasonal weakness, growth to resume in July. June TIV was down 12%yoy at 50,275 units (flattish MoM). This was due to the Raya holidays which fell on 24th June this year causing a shorter working month (by circa a week), and also against an exceptionally high base in June last year which reflected a full month of pre-Raya sales campaigns. On a MoM basis there was hardly a decline and we expect the YoY growth to resume in July. On a YTD basis, TIV growth stood at +3.3%. If annualised this is largely within our estimates (accounting for 95% of our 596K target), despite the 1H typically being the much weaker half in terms of volumes. We stick to our +2.7% TIV growth forecast for now.

Inflection point from 2Q-3Q17. Sector earnings should improve from 2Q-3Q17 driven by the TIV improvement of key players (See Exhibit 1) and a stronger Ringgit from Apr17 onwards, though there might be some delay in the impact of the stronger Ringgit kicking in given 1 – 2 months forward purchases by players. Nonetheless, players have generally reduced forward purchases to manage inventory levels, based on our channel checks. All the auto players under our coverage will benefit from the stronger Ringgit i.e. BAuto mainly from the JPY and UMW / Tan Chong from the weaker USD. For BAuto, every 1% change in the JPY will impact FY18F earnings by 3%. For UMW and Tan Chong, every 1% change in the USD will impact FY17F by 6.5% and 35% respectively (Tan Chong is forecasted to register losses in FY17F/18F).

EXHIBIT 1: STRONGER QOQ TIV TRENDS FOR KEY PLAYERS UNDER COVERAGE

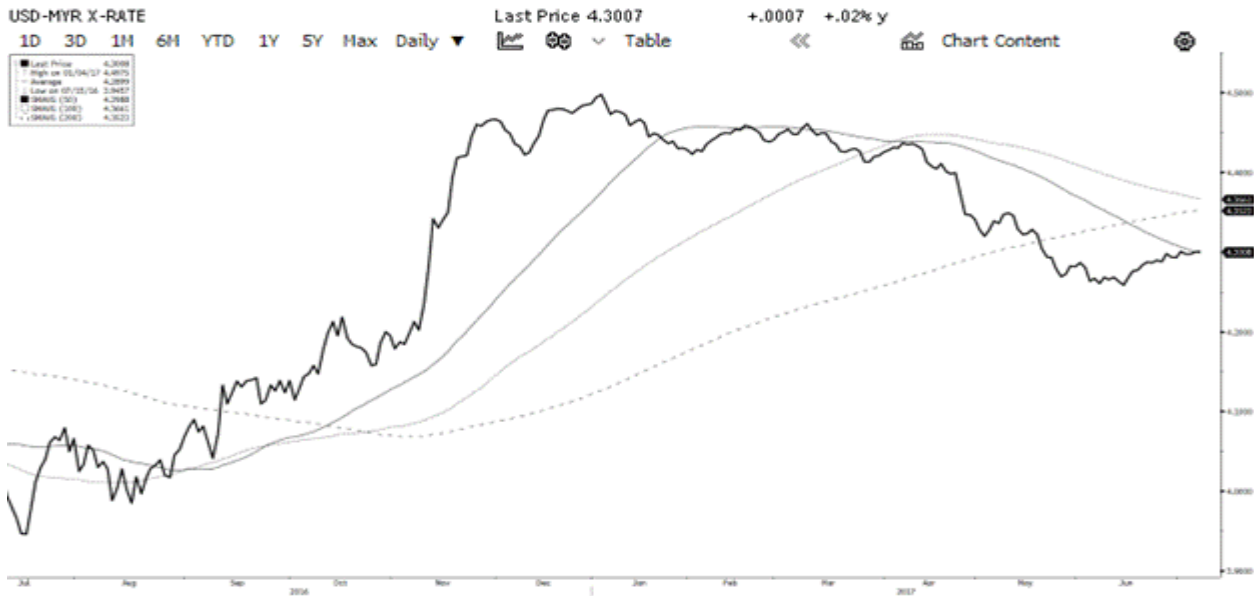
	2QCY16	1QCY17	2QCY17	QoQ	YoY
Proton	16,502	19,376	20,017	3.3%	21.3%
Perodua	50,189	50,265	49,410	-1.7%	-1.6%
Toyota	17,033	16,503	17,220	4.3%	1.1%
Honda	20,877	27,283	25,244	-7.5%	20.9%
Nissan	10,375	5,989	7,548	26.0%	-27.2%
Mazda	3,794	2,082	2,689	29.2%	-29.1%
Others	25,444	19,342	21,493	11.1%	-15.5%

Source: MAA, MIDFR

More importantly, the improved macro environment (which is one of the key thesis behind our recent sector upgrade) should trickle down to discretionary consumer spend more meaningfully going forward. Toyota is expected to launch 4 new facelifts in 2H17 (CH-R and new Camry speculated in FY18F), while Honda has already launched the new CRV and City Hybrid recently. Mazda is expected to launch an all new CX5 (which is its bread and butter model) in Oct17 while Perodua is speculated to come up with a MyVi replacement.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

EXHIBIT 2: RINGGIT STRENGTHENING AGAINST USD



Source: Bloomberg, MIDFR

EXHIBIT 3: RINGGIT STRENGTHENING AGAINST JPY



Source: Bloomberg, MIDFR

BAuto is our top sector pick at unchanged TP of RM2.60/share. Key catalysts over the next 12 months: **(1) A 30% increase in FY18F TIV** driven by launch of the new CX5 in Oct17 and CX9 in Jul17 **(2) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market. **(3) Attractive dividend yield of 8%** underpinned by net cash which accounts for 12% of market cap and solid 8% FCFE yield (FY18F). The listing of BAuto Philippines will bump yields up further given potential one-off special dividends. **(4) Value unlocking from the listing of BAuto Philippines (BAP).** Current market cap attributes practically no value to BAuto's stake in BAP relative to the 16x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 8.6x CY18F earnings. **(5) A stronger Ringgit** against the JPY from Apr17.


UMW remains a contrarian BUY at unchanged TP of RM7.20/share. Key catalysts: (1) Demerger of O&G units will deleverage balance sheet, drive earnings turnaround and allow better focus on core divisions (2) Reversal of prior years' market share loss, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy (3) Redevelopment of UMW's 711 acres Serendah land which will unlock value of the asset – easily worth 39sen/share on our estimates (4) A more than quadrupling of M&E division earnings once its aerospace division reaches full scale production (5) UMW is underowned and at 11.7x FY18F earnings, trades below its historical average PER of 13.5x (6) An underleveraged balance sheet suggests room for acquisitive growth. 

EXHIBIT 4: JUNE 2017 TIV SUMMARY

Marques	Jun-16	May-17	Jun-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Jun-16	Jun-17
Proton	6,961	7,176	7,225	3.8%	0.7%	35,727	39,393	10.3%	12.1%	14.4%
Perodua	20,044	17,211	17,821	-11.1%	3.5%	97,370	99,675	2.4%	34.9%	35.4%
Toyota	6,803	6,072	5,330	-21.7%	-12.2%	27,249	33,723	23.8%	11.9%	10.6%
Honda	9,254	9,153	8,808	-4.8%	-3.8%	39,654	52,527	32.5%	16.1%	17.5%
Nissan	4,254	2,650	2,738	-35.6%	3.3%	21,148	13,537	-36.0%	7.4%	5.4%
Mazda	1,295	900	801	-38.1%	-11.0%	7,346	4,771	-35.1%	2.3%	1.6%
Others	8,747	7,438	7,552	-13.7%	1.5%	46,975	40,835	-13.1%	15.2%	15.0%
Total	57,358	50,600	50,275	-12.3%	-0.6%	275,469	284,461	3.3%	100.0%	100.0%

Source: MAA, MIDFR

EXHIBIT 5: JUNE 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Jun-16	May-17	Jun-17	YoY	MoM	YTD16	YTD17	YTD %
Passenger cars	50,981	45,139	45,339	-11.1%	0.4%	244,946	255,749	4.4%
Commercial vehicles	6,377	5,461	4,936	-22.6%	-9.6%	30,523	28,712	-5.9%
Total	57,358	50,600	50,275	-12.3%	-0.6%	275,469	284,461	3.3%

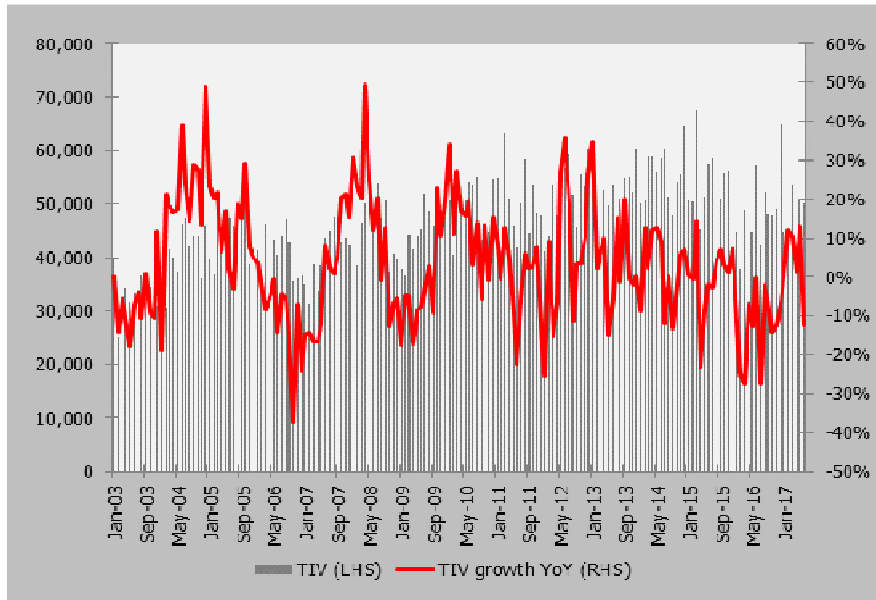
Source: MAA, MIDFR

EXHIBIT 6: JUNE 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Jun-16	May-17	Jun-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Jun-16	Jun-17
National cars	27,005	24,387	25,046	-7.3%	2.7%	133,097	139,068	4.5%	47.1%	49.8%
Non-nationals	30,353	26,213	25,229	-16.9%	-3.8%	142,372	145,393	2.1%	52.9%	50.2%
Total	57,358	50,600	50,275	-12.3%	-0.6%	275,469	284,461	3.3%		

Source: MAA, MIDFR

EXHIBIT 7: HISTORICAL TIV TREND



Source: MAA, MIDFR

VALUATION AND RECOMMENDATION

Company	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY17 F	CY18 F	CY17 F	CY18 F					
B.Auto	BUY	1.93	17.1	20.5	11.3	9.4	4.5	40.2	8.5	2.60	43.2
Tan Chong	NEUTRAL	1.82	-19.8	-16.2	-9.2	-11.3	0.5	-1.5	0.0	1.90	4.4
UMW	BUY	5.82	31.7	48.6	18.4	12.0	0.9	5.4	0.0	7.20	23.7
Sector average					14.8	10.7	2.0	14.7	2.8		

Source: Bloomberg, Companies, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.