

22 September 2016 | Sector Update

Automotive

Maintain NEUTRAL

Contraction narrows in August

INVESTMENT HIGHLIGHTS

- **TIV contraction narrows to -2%yoy in August**
- **Recovery off an exceptionally weak July 2016**
- **TIV should improve further in coming months given aggressive new launches of volume models**
- **Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick**

Contraction eased in August. The contraction in TIV narrowed to -2%yoy in August 2016 at 52,312 units (vs. year-to-date contraction of -15%). August TIV also represents a 23%mom recovery off an exceptionally weak base in July 2016, which was impacted by a short working month and plant closures given the Raya festivities.

Perodua TIV driven by new Bezza, but production contracted. Other than Mazda (+50%mom), Perodua drove the month-on-month growth registering a 41%mom increase driven by maiden full month contribution and a pick-up in deliveries of the new Bezza. Perodua's market share increased to 41% (for August specifically) though this could be temporary given the initial hype for the Bezza and given that this is prior to Proton's new launches since late August. Notably however, Perodua production actually contracted -14%mom to 15,570 units in August. Mazda TIV meanwhile, recovered from a 5-week long shutdown of the Inokom plant to facilitate paintshop upgrading works. Mazda production normalised to ~1200 units in August from 513 units in July and around 200 units in June.

Persona to reflect in September numbers. While Proton's numbers also improved, we think the Persona's contribution (Proton launched the Persona on 23rd August) was minimal in August and the improvement was driven mainly by underlying recovery. Nonetheless, the Persona has managed to garner up to 8,000 bookings within a month of launch, which is well ahead of its 3,000-4,000/month sales target.

Keeping our TIV forecast. Year-to-date TIV of 370,252 units, if annualised, accounts for 94% of our FY16F TIV of 593,302 units. Our forecast implies an -11%yoy contraction relative to the -15%ytd. We stick to our numbers as TIV should improve further in the coming months given several new volume model launches in the A and B segments by year end, especially by Proton. After the Persona, Proton is scheduled to launch the new Saga and a rebadged version of the Suzuki Ertiga by year end.

Earnings remain depressed, balance sheet deteriorating. TIV numbers asides, earnings for auto companies under our coverage have deteriorated as sales have been driven by aggressive campaigns and outright discounting, while the Ringgit remains relatively weak at RM4.41 for the USD and RM4.09 for the JPY(x100). We still expect UMW and Tan Chong to report losses for both FY16F and FY17F. Notwithstanding the improvements in August, TIV numbers reported by the respective companies so far are in-line with our expectations.

Maintain NEUTRAL on autos. Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick. Key share price catalysts over the next 12 months: (1) Attractive dividend yield of 7% underpinned by solid net cash which accounts for 14% of market cap and strong FCFE yield of 10% (FY17F), (2) Further market share wins driven by new launches, i.e. the CKD Mazda 6 and diesel variants of the CX5, Mazda 2 and Mazda 6, (3) Recovery in manufacturing earnings (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) after the launch of the facelift CX5, and (4) Value unlocking from the potential listing of BAuto Philippines. Ex-cash, BAuto trades at just 10x CY17F earnings.

UMW remains a NEUTRAL (with a negative bias) at unchanged TP of RM5.30/share. UMW Oil & Gas will see further earnings pressure in 2H16 as the number of idle rigs has increased from 4 to 6 out of a total of 8 rigs. UMW's auto division should also see some weakness in 3Q16 as the impact of the new Hilux fizzles out while the run-out of several end-of-life models will impact margins negatively. Our forecast losses for FY16F/17F are below consensus' net profit estimates of RM217m/RM338m respectively.


Tan Chong also remains a NEUTRAL at unchanged TP of RM1.95/share. Tan Chong's balance sheet is increasingly stretched as a result of the demand downcycle but admittedly share price is already trading at depressed levels. However, there is no significant catalyst in the near-term to move the stock. Our forecast losses are below consensus' FY16F/17F net profit estimates of RM33m/RM51m respectively. 

EXHIBIT 4: AUGUST 2016 TIV SUMMARY BY BRANDS

Marques	Aug-15	Jul-16	Aug-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Aug-15	Aug-16
Proton	9,040	3,866	4,436	-50.9%	14.7%	70,113	44,029	-37.2%	16.9%	8.5%
Perodua	16,589	15,121	21,251	28.1%	40.5%	143,048	133,742	-6.5%	31.0%	40.6%
Toyota	8,101	5,028	6,563	-19.0%	30.5%	54,205	38,840	-28.3%	15.2%	12.5%
Honda	6,853	7,827	8,283	20.9%	5.8%	58,892	55,764	-5.3%	12.8%	15.8%
Nissan	3,705	3,068	3,133	-15.4%	2.1%	31,164	27,349	-12.2%	6.9%	6.0%
Mazda	1,192	686	1,032	-13.4%	50.4%	9,107	9,064	-0.5%	2.2%	2.0%
Others	7,972	6,875	7,614	-4.5%	10.7%	67,749	61,464	-9.3%	14.9%	14.6%
Total	53,452	42,471	52,312	-2.1%	23.2%	434,278	370,252	-14.7%	100.0%	100.0%

Source: MAA, MIDFR

EXHIBIT 5: AUGUST 2016 TIV SUMMARY

Segment	Aug-15	Jul-16	Aug-16	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	47,302	37,647	46,223	-2.3%	22.8%	386,341	328,816	-14.9%
Commercial vehicles	6,150	4,824	6,089	-1.0%	26.2%	47,937	41,436	-13.6%
Total	53,452	42,471	52,312	-2.1%	23.2%	434,278	370,252	-14.7%

Source: MAA, MIDFR

EXHIBIT 6: AUGUST 2016 TIV SUMMARY

Segment	Aug-15	Jul-16	Aug-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Aug-15	Aug-16
National cars	25,629	18,987	25,687	0.2%	35.3%	213,161	177,771	-16.6%	47.9%	49.1%
Non-nationals	27,823	23,484	26,625	-4.3%	13.4%	221,117	192,481	-13.0%	52.1%	50.9%
Total	53,452	42,471	52,312	-2.1%	23.2%	434,278	370,252	-14.7%		

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 (%)
			CY16 F	CY17 F	CY16 F	CY17F					
B.Auto	BUY	2.25	18.9	20.4	11.9	11.0	4.5	40.2	7.4	2.50	18.5
Tan Chong	NEUTRAL	1.84	-12.2	-12.1	-15.1	-15.3	0.5	-1.5	0.0	1.95	6.0
UMW	NEUTRAL	5.75	-10.5	-1.1	-54.6	-532.5	1.1	-0.2	0.5	5.30	-7.3
Sector average					-19.3	-178.9	2.0	12.8	2.6		

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.