17 October 2018 | Sector Update

Automotive

***Maintain* POSITIVE**

Demand normalisation

INVESTMENT HIGHLIGHTS

- **September TIV contraction reflects demand normalisation**
- **Mazda bucked the trend given extensive waiting list, Perodua hit by production issues**
- **National cars prepping for an offensive**
- **Bermaz Auto (BUY, TP: RM2.70/share) remains our top pick for a solid 35% earnings CAGR and attractive 7% yield**

TIV contracted in September. TIV in September fell 52%mom to 31,241 units as sales normalised off an inflated base throughout June-August. TIV was also down 24%yoy, reflecting the impact of forward purchases on current demand. On YTD basis, TIV registered at 454,971 units, up 7% against the same period last year.

Demand normalization. Despite car price falling by 2%-3% post-SST (for CKD models, due to IAF adjustments mainly), we still broadly expect demand to normalize after an exceptionally strong Jun-Aug period; (1) Purchases have been brought forward as consumers took advantage of the tax-holiday period (2) Most auto players have already, or are close, to hitting full year targets, suggesting little reason to embark on the typical year-end sales campaigns. We expect the market to dry up in 4Q18 before normalizing in 1Q19.

Mazda bucked the trend. Weakness in September was seen across the board, but on yoy basis, Mazda still managed to register a 65%yoy growth. Firstly, this is because the new CX5 was only launched in October last year and secondly, BAuto had already locked in bookings (7K-8K units) lasting up till end of the year. This means BAuto is likely to buck the industry's normalising trends over the next few months. All other major non-national marques saw declines both yoy and mom.

Perodua hit by MyVi production issues. Among the national cars, Perodua weakened quite significantly (-34%yoy), but this is partly due to issues with its MyVi production line – we understand the issue is being rectified (requires key production components to be sent overseas) and the MyVi line is targeted to be up and running again in October-November. Proton saw sales fall 52%mom but was flattish yoy against a low base last year.

National cars prepping for an offensive. Having said that, both national cars are expected to launch a major offensive in FY19F via their respective SUV launches. Proton's X70 is expected to be launched in Nov18 (CBU variants) while locally assembled variants are expected from mid-2019. Perodua is likely to time its SUV launch close to Proton X70 CKD. The X70 (for the CBUs, sold in 4 variants, all with 1.8 litre turbo engines) is reported to have a price range of RM90K-RM120K, positioning it to take share off the non-nationals in the: (1) Top of the line B-segment e.g. High-spec Toyota Vios, high-spec Honda City, Mazda 2 (2) Low spec C-segment models e.g. lower variants of Honda Civic, Toyota Altis, Mazda 3 (3) B-segment SUVs- mainly the Honda HRV and to a certain extent the Mazda CX3. Perodua was earlier scheduled to launch its maiden SUV (based off the Daihatsu Terios) in 4Q18 but had delayed this to 1Q19-2Q19. We expect Perodua's SUV to be more competitively priced as it seeks to compete against the CKD version of the X70. Our channel checks suggest volume expectations for both Proton X70 and Perodua SUV is quite similar.

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 maintained. 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 vacum 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: RM2.10) 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: SEPTEMBER 2018 TIV SUMMARY

									Market share	
Marques	**Sep-17**	**Aug-18**	**Sep-18**	**YoY**	**MoM**	**YTD17**	**YTD18**	**YTD %**	**Sep-17**	**Sep-18**
Proton	4,498	9,501	4,524	0.6%	-52.4%	56,296	49,233	-12.5%	11.0%	14.5%
Perodua	14,355	17,804	9,471	-34.0%	-46.8%	151,580	168,203	11.0%	35.0%	30.3%
Toyota	4,323	8,795	3,015	-30.3%	-65.7%	49,290	52,649	6.8%	10.6%	9.7%
Honda	7,906	10,789	4,964	-37.2%	-54.0%	78,742	79,915	1.5%	19.3%	15.9%
Nissan	2,153	3,501	2,003	-7.0%	-42.8%	20,759	20,733	-0.1%	5.3%	6.4%
Mazda	728	1,948	1,202	65.1%	-38.3%	7,002	11,046	57.8%	1.8%	3.8%
Others	6,993	13,213	6,062	-13.3%	-54.1%	62,012	73,192	18.0%	17.1%	19.4%
Total	**40,956**	**65,551**	**31,241**	**-23.7%**	**-52.3%**	**425,681**	**454,971**	**6.9%**	**100.0%**	**100.0%**

Source: MAA, MIDF

EXHIBIT 2: SEPTEMBER 2018 TIV SUMMARY BY VEHICLE TYPE

Segment	Sep-17	Aug-18	Sep-18	YoY	MoM	YTD17	YTD18	YTD %
Passenger cars	36,503	55,772	27,022	-26.0%	-51.5%	381,782	405,048	6.1%
Commercial vehicles	4,453	9,779	4,219	-5.3%	-56.9%	43,899	49,923	13.7%
Total	**40,956**	**65,551**	**31,241**	**-23.7%**	**-52.3%**	**425,681**	**454,971**	**6.9%**

Source: MAA, MIDF

EXHIBIT 3: SEPTEMBER 2018 TIV SUMMARY BY VEHICLE TYPE

									Market share	
Segment	**Sep-17**	**Aug-18**	**Sep-18**	**YoY**	**MoM**	**YTD17**	**YTD18**	**YTD %**	**Sep-17**	**Sep-18**
National cars	18,853	27,305	13,995	-25.8%	-48.7%	207,876	217,436	4.6%	46.0%	44.8%
Non-nationals	22,103	38,246	17,246	-22.0%	-54.9%	217,805	237,535	9.1%	54.0%	55.2%
Total	**40,956**	**65,551**	**31,241**	**-23.7%**	**-52.3%**	**425,681**	**454,971**	**6.9%**		

Source: MAA, MIDF

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	1.95	16.7	20.1	11.7	9.7	4.2	35.2	8.0	2.70	46.5
Tan Chong	BUY	1.56	3.1	9.0	51.1	17.3	0.4	1.1	1.9	2.10	36.5
UMW	BUY	4.38	31.7	47.5	13.8	9.2	0.8	5.4	3.6	7.11	65.9
MBM	BUY	2.08	25.9	31.5	8.0	6.6	0.5	5.5	3.4	3.20	57.2
Average					***11.2***	***8.5***	***1.5***	***11.8***	***4.2***		

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 *rise* 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 *fall* 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.