

21 November 2016 | Sector Update

# Automotive

**Maintain NEUTRAL**

## *Driving over potholes*

### INVESTMENT HIGHLIGHTS

- **TIV contraction widened but looks temporary**
- **Proton continues to charge on with market share gains post-Saga launch**
- **Currency volatility remains a key risk to sector earnings**
- **Bermaz Auto (BUY, TP: RM2.70/share) is our top sector pick**

**TIV worsened in October.** At 47,879 units, October TIV contracted 14%yoy and weakened further (-0.4%mom) against Sep 2016 TIV. The weakness looks temporary as it is possibly due to wait and see among consumers ahead of Budget 2017. Rumours were rife prior to the budget announcement that a First Car Buyer Scheme would be implemented. However, it turned out that an incentive scheme offered was specifically targeted for purchase of the Iriz and for Uber driving purposes. While we don't think year end sales campaigns this time around will be much more aggressive than the current state in the market given the weak Ringgit, we think Nov 2016 could nonetheless gain some grounds given better clarity for buyers post-Budget 2017.

**Proton charges on.** Proton saw further gains in market share following the launch of the Saga end September. The group bucked industry trends registering a 26%mom growth in TIV, while market share advanced to 16% from 13% in September and 9% in August. Proton is scheduled to launch a Proton compact MPV soon (a rebadged version of the Suzuki Ertiga) which will mark its final model launch this year. The model is positioned to compete against the Alza and the Sienta in terms of dimensions and space but exact specifications are not forthcoming yet. The Alza generates circa 3K-4K monthly volumes.


YTD, TIV registered at 466,218 units (-14%ytd) and if annualised, is still largely short of estimates accounting for 94% of our 2016 forecast. We see possible cuts to our numbers but to be fair, most in the market would have already discounted the weak 2016 numbers. In fact, it creates a perfect backdrop for a 2017 recovery off a very weak base in 2016 and given full year impact of the national car launches which were mainly towards late 3Q16. In the past 12 months, sector market cap has shrunk by 31% as sector earnings swung into losses dragged mainly by UMW and Tan Chong. Valuations for both the stocks are largely supported by book value.

**Currency volatility.** The weak Ringgit is still a significant risk factor for autos going forward. The temporary strength in USD will raise import cost for auto players but the JPY weakness seen post US elections is positive for select players. UMW's imports are totally denominated in USD, while Tan Chong has around 85% exposure to USD imports with the rest in JPY. Bermaz Auto's imports are denominated 100% in the JPY, but it is only exposed to forex via its CBU imports which accounts for ~30% of sales. Every 1% change in JPY will impact BAuto's FY18F (FYE April) earnings by 2% and Tan Chong by 5% (FY17F). Meanwhile every 1% change in USD will impact UMW's earnings by 116% (FY17F) and Tan Chong's earnings by 21% (FY17F). The extreme sensitivity for Tan Chong and UMW is due to the fact that both companies are close to break-even in terms of profitability, which results in pronounced fluctuations to bottomline from any changes in variables.

**Price hikes looming?** We do not rule out further price hikes by players to offset the impact of forex volatility. Bermaz for one, did not participate in the price hikes in early 2016 as it had previously hedged its JPY exposure at around RM3.60:JPY(x100). However, these were exhausted in Apr 2016 and JPY at current elevated levels are not worth hedging. As such, management is looking to raise pricing for Mazda models across the board next year though the quantum is still uncertain at this juncture. Earlier in the year, peers like Toyota and Honda raised pricing by 3%-7% while Proton raised pricing by around 5%.

**Maintain NEUTRAL on autos.** Berjaya Auto (BUY, TP: RM2.70/share) is still our top sector pick: Key share price catalysts over the next 12 months: **(1) Attractive dividend yield of 7%** underpinned by net cash which accounts for 12% of market cap and solid 10% FCFE yield (FY17F). Listing of Philippines unit will bump yields up further given potential one-off special dividends. **(2) 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 9x CY17F earnings. **(3) 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.

**UMW remains a NEUTRAL** 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 1: OCTOBER 2016 TIV SUMMARY BY BRANDS

Marques	Oct-15	Sep-16	Oct-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Oct-15	Oct-16
Proton	8,026	6,062	7,640	-4.8%	26.0%	86,862	57,731	-33.5%	14.4%	16.0%
Perodua	17,305	17,147	16,148	-6.7%	-5.8%	174,832	167,037	-4.5%	31.0%	33.7%
Toyota	9,000	5,680	5,500	-38.9%	-3.2%	71,097	50,020	-29.6%	16.1%	11.5%
Honda	8,504	7,498	8,204	-3.5%	9.4%	74,915	71,466	-4.6%	15.3%	17.1%
Nissan	3,700	3,049	2,454	-33.7%	-19.5%	38,459	32,852	-14.6%	6.6%	5.1%
Mazda	1,273	1,020	1,004	-21.1%	-1.6%	11,659	11,088	-4.9%	2.3%	2.1%
Others	7,946	7,631	6,929	-12.8%	-9.2%	83,314	76,024	-8.8%	14.3%	14.5%
<b>Total</b>	<b>55,754</b>	<b>48,087</b>	<b>47,879</b>	<b>-14.1%</b>	<b>-0.4%</b>	<b>541,138</b>	<b>466,218</b>	<b>-13.8%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

## EXHIBIT 2: OCTOBER 2016 TIV SUMMARY

Segment	Oct-15	Sep-16	Oct-16	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	49,063	42,644	42,522	-13.3%	-0.3%	480,649	413,982	-13.9%
Commercial vehicles	6,691	5,443	5,357	-19.9%	-1.6%	60,489	52,236	-13.6%
<b>Total</b>	<b>55,754</b>	<b>48,087</b>	<b>47,879</b>	<b>-14.1%</b>	<b>-0.4%</b>	<b>541,138</b>	<b>466,218</b>	<b>-13.8%</b>

Source: MAA, MIDFR

## EXHIBIT 3: OCTOBER 2016 TIV SUMMARY

Segment	Oct-15	Sep-16	Oct-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Oct-15	Oct-16
National cars	25,331	23,209	23,788	-6.1%	2.5%	261,694	224,768	-14.1%	45.4%	49.7%
Non-nationals	30,423	24,878	24,091	-20.8%	-3.2%	279,444	241,450	-13.6%	54.6%	50.3%
<b>Total</b>	<b>55,754</b>	<b>48,087</b>	<b>47,879</b>	<b>-14.1%</b>	<b>-0.4%</b>	<b>541,138</b>	<b>466,218</b>	<b>-13.8%</b>		

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	CY17 F					
B.Auto	BUY	2.11	18.9	20.4	11.2	10.3	4.5	40.2	7.4	2.70	35.4
Tan Chong	NEUTRAL	1.86	-12.2	-12.1	-15.2	-15.4	0.5	-1.5	0.0	1.95	4.8
UMW	NEUTRAL	5.15	-10.5	-1.1	-48.9	-476.9	1.1	-0.2	0.5	5.30	3.4
<b>Sector average</b>			<b>-1.3</b>	<b>2.4</b>	<b>-17.7</b>	<b>-160.7</b>	<b>2.0</b>	<b>12.8</b>	<b>2.6</b>		

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.