

13 April 2017 | Sector Update

Automotive

Maintain NEUTRAL

Duty hike reversed


INVESTMENT HIGHLIGHTS

- **Excise duty hike for MPVs <1.5 litre reversed**
- **Players also instructed to reverse price hikes which resulted from earlier duty hike**
- **Bermaz Auto (BUY, TP: RM2.50/share) remains our top pick for company-specific catalysts and special dividends**
- **UMW remains a contrarian BUY (TP: RM6.50/share) as the stock is undervalued amid a turnaround in earnings, balance sheet deleveraging and management's renewed focus on EEVs for its auto division**

Duty hike reversed. Hot on the heels of the announcement of price hikes by industry players affected by the increase in excise duty - from 60% to 65% for small MPVs (>1.5 litre engine capacity), the Customs Department, yesterday announced, essentially a reversal in decision to reduce excise duties, back to 60% from 65%, effective April 13th 2017.

Price hikes to be reversed as well. As a recap (refer to sector report dated 12th April), effective 11th April 2017, Toyota raised pricing for the Avanza by RM3700 – RM4000, the Sienta by RM4000 and the Rush by RM4990 – RM6000, in reaction to the duty hike gazetted in the 31st March 2017 Order. Our chat with Honda dealers in town also suggested that pricing of the BRV might be increased by RM4000 effective 1st May. However, given the reversal in decision on the duty hike, players are also expected to reverse the decision to raise pricing, as instructed by the Customs Department.

No change to our call or sector view. **Bermaz 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 9%** underpinned by net cash which accounts for 12% of market cap and solid 8% FCFE yield (FY17F). The listing of BAuto Philippines 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. **(4) Launch of the new CX5 and new CX9** which will drive a recovery in volumes and margins.

UMW remains a contrarian BUY at unchanged TP of RM6.50/share. (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 given UMW Toyota's renewed focus on EEV models which will drive structural cost reduction and price advantage (3) A more than quadrupling of M&E division earnings once its aerospace division reaches full scale production (4) UMW is now underowned and at 12x FY18F earnings, trades below its historical average PER of 13.5x. 

VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Company	Rating	(RM)	CY16 F	CY17 F	CY16 F	CY17 F	(x)	(%)	(%)	Price (RM)	Upside (%)
B. Auto	BUY	2.05	17.1	20.5	12.0	10.0	4.5	40.2	8.6	2.50	30.6
Tan Chong	NEUTRAL	1.80	-19.8	-16.2	-9.1	-11.1	0.5	-1.5	0.0	1.90	5.6
UMW	BUY	6.10	31.7	48.6	19.2	12.5	0.9	-0.2	0.0	6.50	6.6
Sector average					15.6	11.3	2.0	12.8	2.9		

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.