

19 August 2016 | Sector Update

Automotive

Maintain NEUTRAL

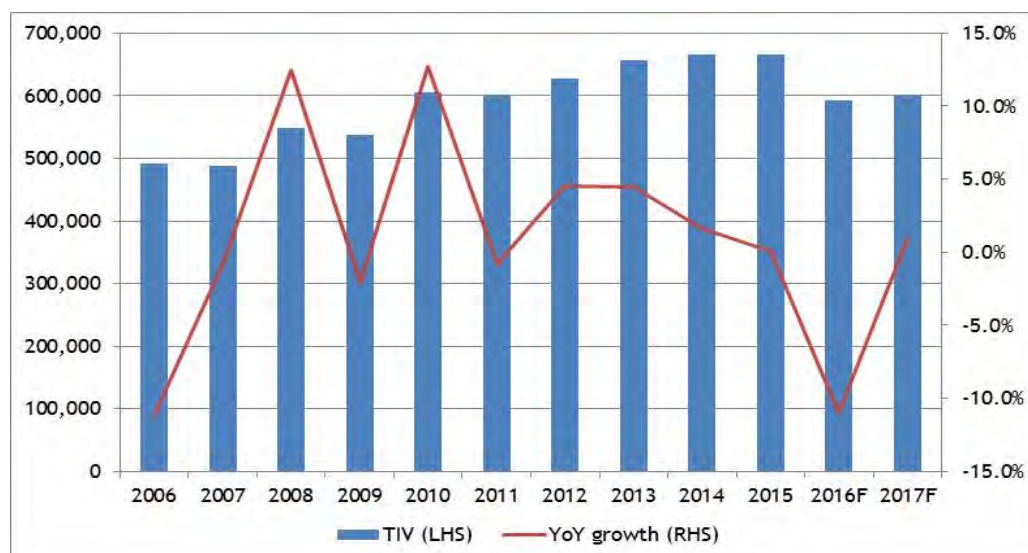
Facing the stark reality

INVESTMENT HIGHLIGHTS

- We trim our 2016F TIV by 5% to 593K and now expect an 11%yoy contraction (vs. 6% previously).
- Notwithstanding seasonality, July TIV weakened significantly year-on-year (YoY) despite new launches.
- Underlying demand recovery remains weak and loan approval rates continue to deteriorate despite a 9% year-to-date (YTD) contraction in car loan applications.
- Bermaz Auto (BUY, TP: RM2.50) is still our top sector pick. UMW (NEUTRAL, TP: RM5.30) and Tan Chong (NEUTRAL, TP: RM1.95) earnings are trimmed in this report.

2016 TIV trimmed. We trim our 2016 TIV forecast by 5% to 593K units from 626K earlier. We now expect FY16F TIV to contract 11% in FY16F (from -6% previously). Notwithstanding a pick-up in new launches in 2H16, underlying demand recovery has been tepid, while loan approval rates remains depressed. For companies under coverage, our TIV downgrade impacts our projections for UMW and Tan Chong (further details in this report). After also rolling forward our valuation base to FY17F, our TP for UMW is trimmed to RM5.30/share (from RM5.60/share) and Tan Chong to RM1.95/share (from RM2.50/share).

EXHIBIT 1: TIV NOW EXPECTED TO REGISTER A SHARPER DECLINE IN 2016F



Source: MAA, MIDFR

TIV likely to have weakened significantly in July. Our channel checks indicate possibilities of significant weakness in July TIV. Although there is the seasonal impact of a festive month slowdown, we expect TIV to see 2-digit contraction even on a year-on-year basis and despite launch of the Bezza in the same month. Secondly, the impact of new launches earlier in 2Q16 seems to have fizzled off pretty quickly. Bookings for the Hilux (Toyota's 2nd largest volume generator) has dwindled to just above 1,000 units from up to 4,000 units when the replacement model was

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launched in Apr 2016. From an earnings standpoint, we do not rule out further sales incentive-driven margin erosion in 3Q16 given run-outs of several key models in the market ahead of replacement or facelift model launches in 4Q16.

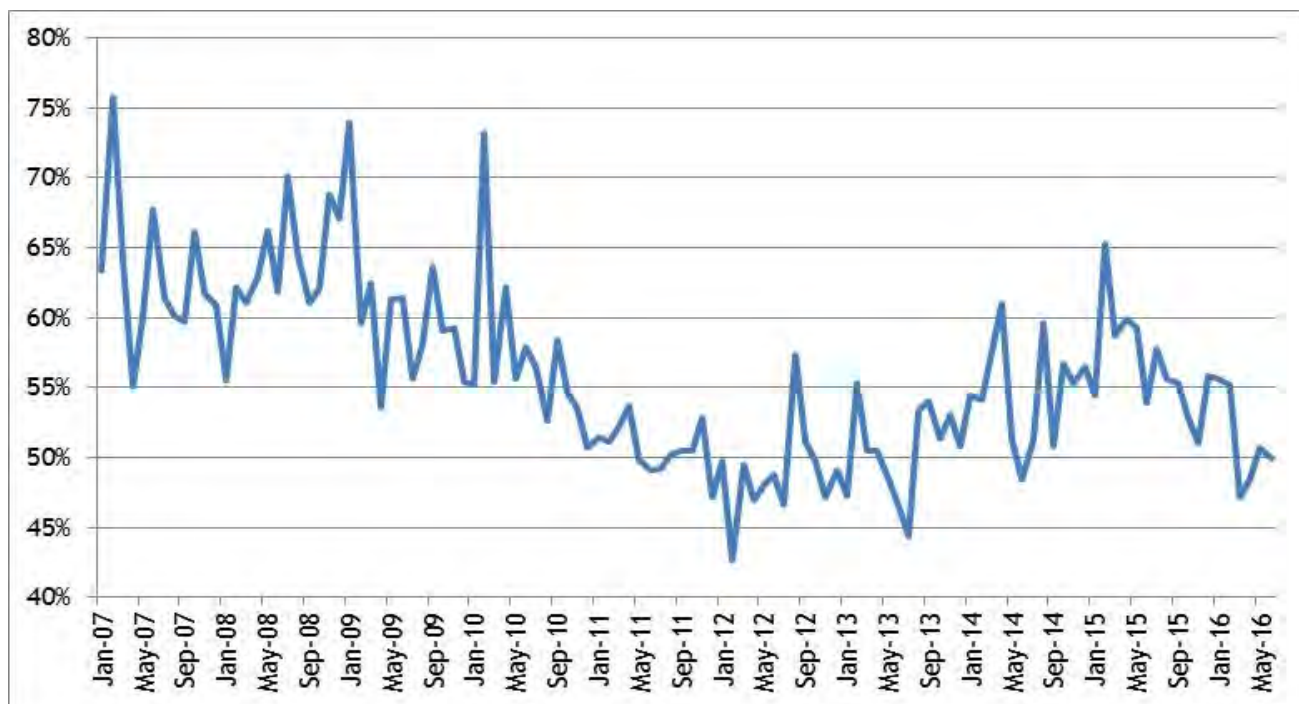
EXHIBIT 2: DETAILED BREAKDOWN OF 2016 TIV FORECAST

	2013	2014	2015	2016F
Proton	138,683	115,783	102,175	81,740
Perodua	196,071	195,579	213,307	216,340
Toyota	91,185	102,035	93,760	72,232
Honda	51,544	77,495	94,902	88,259
Nissan	53,156	46,352	47,235	43,170
Mazda	9,197	11,382	14,325	14,989
Others	115,957	117,839	100,927	76,572
Total	655,793	666,465	666,631	593,302

Source: MAA, MIDFR

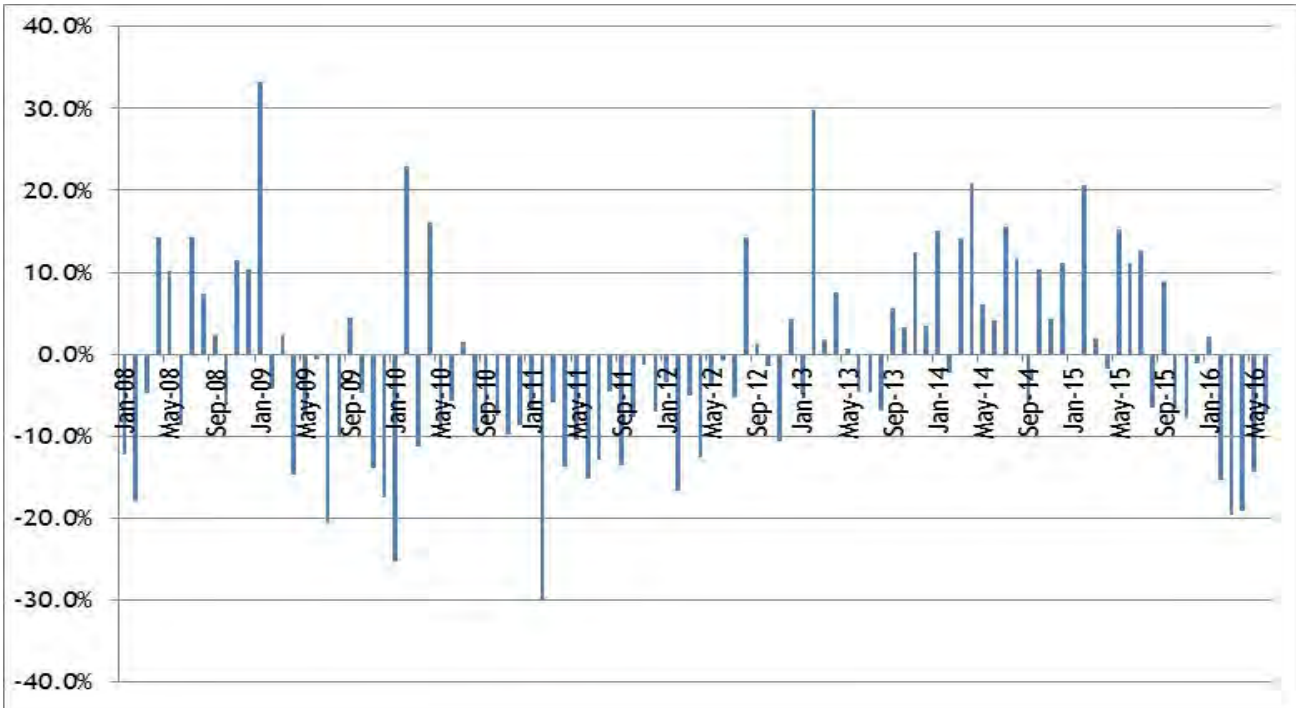
Loan approval rates deteriorating despite contraction in applications. Passenger car loan approval rates have been dwindling in the past five years (See Exhibit 3) and now range in the 49%-50% level. These fare poorly relative to the 60%-75% levels seen prior to 2010 and in fact, current approval rates are similar to those seen in 2012 when the responsible lending guidelines were first introduced by Bank Negara. More importantly, it is not just approval rates that have deteriorated but also the rate of loan applications itself. Loan applications have been largely contracting since 2013 (See Exhibit 5). YTD loan applications have already dropped by some 9%, reflecting still weak underlying demand.

EXHIBIT 3: CAR LOAN APPROVAL RATE DETERIORATING



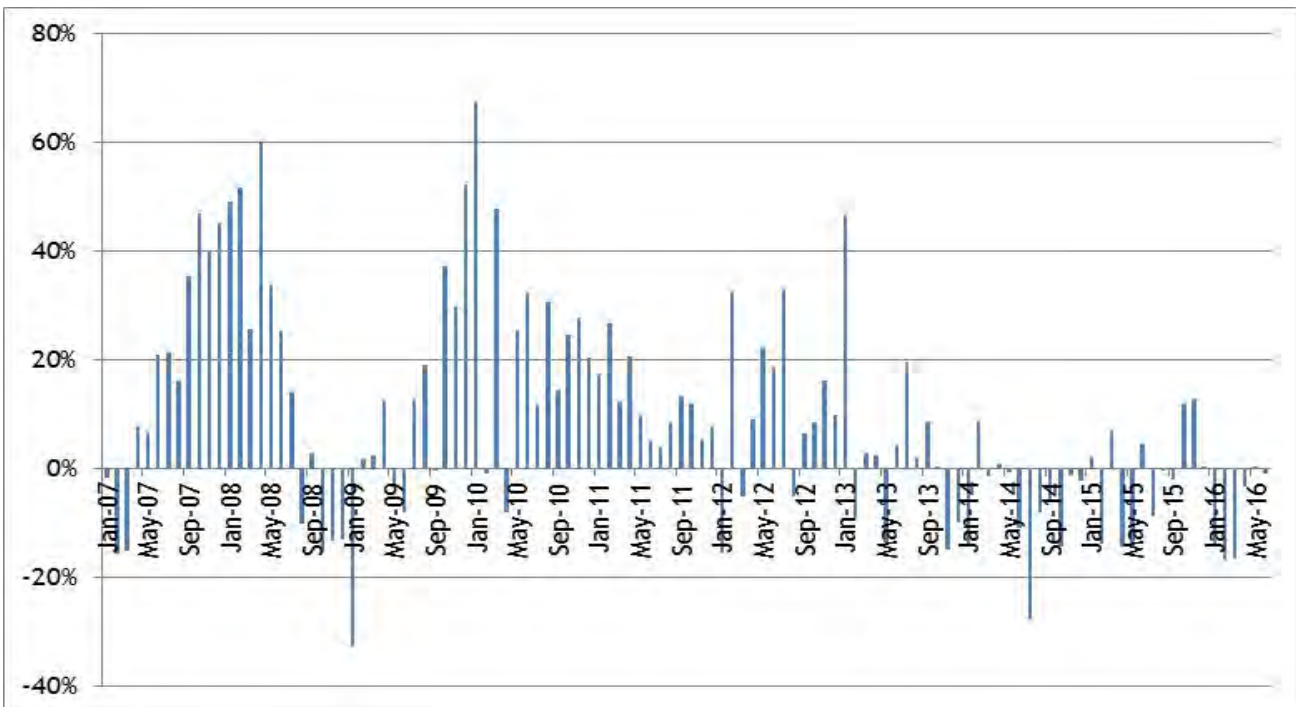
Source: BNM, MIDFR

EXHIBIT 4: CAR LOAN APPROVAL RATE (YOY GROWTH/CONTRACTION)



Source: BNM, MIDFR

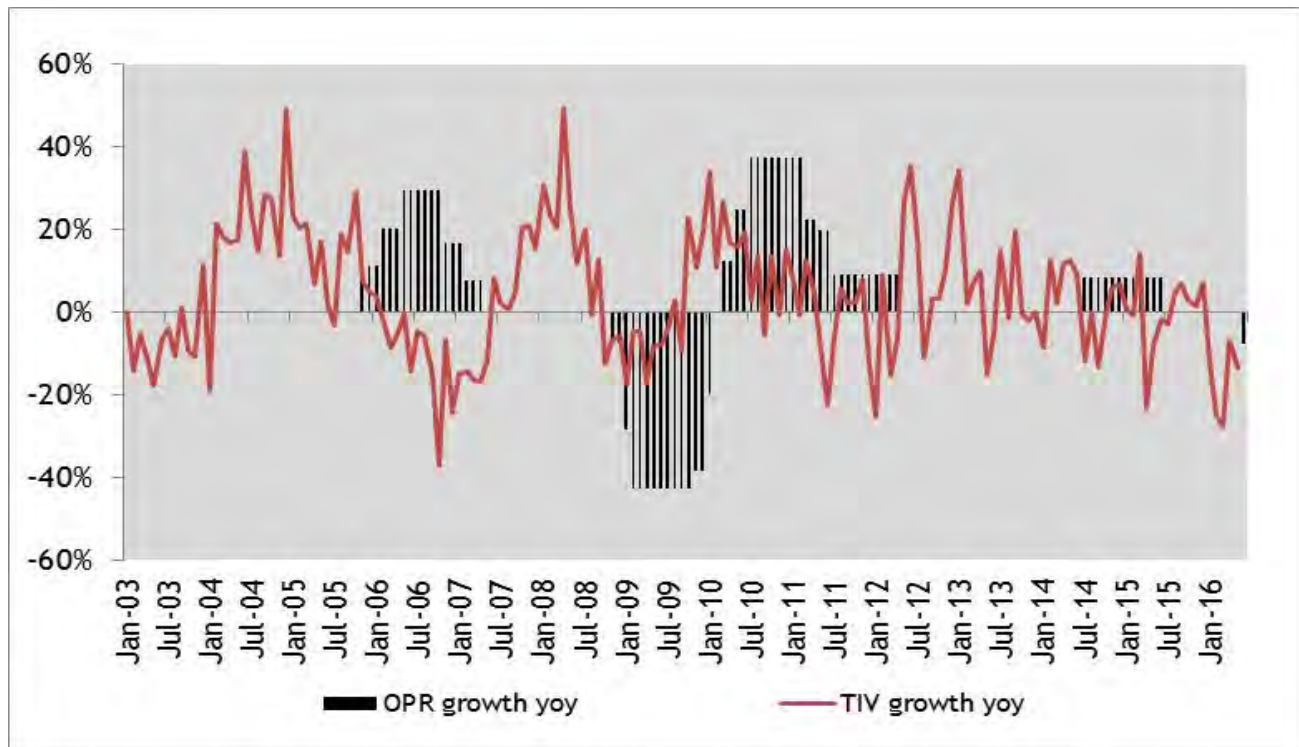
EXHIBIT 5: CAR LOAN APPLICATION GROWTH (YOY) DETERIORATING TOO...



Source: BNM, MIDFR

OPR cuts historically had a positive impact on car sales (See Exhibit 6), but prior cuts that had an impact on TIV entailed well more than 50bps reduction. Additionally, this has to be taken in context with the current high household debt to GDP of 89% relative to the 60%-75% levels during past OPR cuts (i.e. 2008-09).

EXHIBIT 6: HISTORICAL OPR CUTS IMPACTED TIV BUT INVOLVED >50BPS CUTS



Source: BNM, MAA, MIDFR

NEW LAUNCHES TO PICK UP IN 2H16

Proton launching an offensive. The Persona is scheduled to be launched on 23rd August. It is priced cheaper than the base Iriz model as it is an offshoot of the same platform (hence cost savings), but is available only in 1.6 litre variants. The Persona's price points overlaps with the Bezza's 1.3 premium and advance variants' pricing (these two variants account for >80% of the Bezza's sales). Notably, the Iriz is one of Proton's most "specced"-up models with push-start, ABS, ESC. On top of these, the Persona will also come with an ECO mode indicator, which is a first for Proton. It is uncertain if the Persona qualifies for EEV as the CVT variant achieves 6.1 litre/100km fuel efficiency, just short of the 6litre/100km required for the 1001-1250kg kerb weight (B-segment) category (the Persona entails a kerb weight starting from 1100kg). Nonetheless, the Persona is a 1.6 litre model after all whereas most models in this segment entail smaller engine capacities. The power-to-weight ratio itself is a performance value proposition to consumers, in our opinion.

EXHIBIT 7: NEW PERSONA PRICE RANGE RELATIVE TO PEERS

Perodua Axia	RM		Perodua Bezza	RM		Perodua MyVi	RM		Proton Iriz	RM		Proton Persona	RM
1.0 Std E M solid	24,437												
1.0 Std E M metallic	24,837												
1.0 Std G M solid	32,127												
1.0 Std G M metallic	32,527												
1.0 Std G A solid	35,127												
1.0 Std G A metallic	35,527												
1.0 Spec Ed M solid	36,637												
1.0 Spec Ed M metallic	37,037		Bezza 1.0 manual	37,300									
1.0 Spec Ed A solid	39,637		Bezza 1.0 auto	39,300									
1.0 Spec Ed A metallic	40,037												
1.0 Advance A solid	41,967					1.3 Std G MT	40,862						
1.0 Advance Ed A metallic	42,377		Bezza 1.3 manual	42,800			41,262		1.3 Std MT	41,520			
						1.3 Std G AT	43,862			41,970			
			Bezza 1.3 auto premium	44,800			44,262		1.3 Std CVT	44,450			
										44,900			
									1.3 Exec MT	45,760			
												Persona 1.6 (lowest)	47,000
									1.3 Exec CVT	48,680			
										49,130			
			Bezza 1.3 auto advance	50,800		1.5 SE MT	49,968		1.6 Exec MT	53,140			
							50,368			53,590			
						1.5 SE AT	52,968						
							53,368		1.6 Exec CVT	56,080			
						1.5 Adv AT	57,968			56,530			
							58,368						
												Persona 1.6 (highest)	61,000

Source: MAA, Companies, MIDFR *Green shades marks key models with overlapping price points with the new Persona

This will be followed by a slew of new Proton launches. The new Saga is reported to be launched in September followed by a rebadged Suzuki model (reported to be the Suzuki Ertiga MPV) in October. The Ertiga in turn is a likely competitor for Toyota's soon to be launched Sienta MPV (CBU from Indonesia). Both entail largely the same dimension (the Ertiga is only 30mm longer and 10mm taller) but the Sienta is sold in 1.5 litre variants while the Ertiga is available in Indonesia in 1.4 litre variants.

But no change to our forecast for Proton at this juncture. Despite the aggressive launches by Proton, our forecast Proton TIV of 81,740 units for 2016 already look pretty aggressive considering 1H16 actual Proton TIV of just 35,727 units (just 43% of our full year forecast) and considering that the uplift from the new models to be launched over the remaining 3-5 months of the year will have to make up for over 10,000 units shortfall against our forecast if the 1H16 TIV were to be annualised. Our channel checks indicate volume forecasts of around 2,000 units/month for the new Persona, which seems particularly conservative given that the 1st generation Persona used to generate 3000-

4000 monthly volumes during the earlier part of its lifecycle.

Does it still make sense to maintain the MYVi 1.3? The Axia (which is available in 1 litre variants) was launched back in Sep 2014 and since then, contribution of the MyVi has dropped to just 20% of Perodua TIV i.e. 3,200 units/month (from 43% of Perodua TIV or a monthly average of ~7,000 units, prior to Axia). The Axia is only slightly smaller than the MyVi with significant overlaps in pricing particularly against the MyVi's 1.3 litre variants' price range. Post-Bezza launch, we expect a further drop in MyVi sales. The Bezza (mainly sold in 1.3 litre variants) is priced at the high end of the MyVi 1.3 litre price point, and all the way into the MyVi's 1.5 litre variant's price points. Given the possibility of further reduction in MyVi sales going forward, we would not rule out possibilities of the MyVi model (the 1.3 litre model in particular) being relooked at, particularly if volumes fall to levels that no longer justifies production. If this is the case, the impact of the Bezza on Perodua TIV may not be as great as what is being discounted into the related stocks e.g. UMW/MBM, which have since appreciated by 11%/34%.


Toyota launches also to pick-up near-term. Toyota is also slated to launch four models by year end, one of which is an entirely new model i.e. the Sienta (CBU from Indonesia), priced at RM93K-99K and positioned to plug the gap in MPV offering between the Avanza and Innova. However, the Sienta will be brought in as a CBU (hence subject to full excise duties) while volumes targets are still not forthcoming at this juncture. The plant in Indonesia (which UMW Toyota will be importing the Sienta from) has a capacity of 25K units per annum, of which only 20% (or 5,000 units/annum) is allocated for exports to the region. UMW Toyota is also slated to launch three other models i.e. replacement and facelift models (all CKDs) in 4Q16.

CHANGES TO EARNINGS AND RECOMMENDATIONS

UMW (NEUTRAL, TP: RM5.30/share). In line with the cut in our TIV forecast, we trim our FY16F/17F earnings for UMW to net losses of RM123/RM13m to reflect lower Toyota TIV assumptions (cut by 7%/7% to 72,232/77,924 for FY16F/17F). We also factor in lower margin expectations for: (1) Autos in FY16F given possible heavy discounting involving the run-out of three existing models ahead of launches of their replacements and facelifts, (2) A higher idle rig count for UMW Oil & Gas – idle rig count has increased to six from four previously as Naga 1 (semi-submersible) and Naga 7's (jack-up) contracts have expired and have yet to be renewed.

Although we have raised Perodua TIV by 5% to 216k in line with management forecast, we trim margins to reflect the stronger JPY. Perodua itself only has circa 5% exposure to imported content (a mix of USD and JPY) but bear in mind that Perodua's vendors also have exposure to foreign currencies and there is leeway for these vendors to claim for sharp fluctuations in uncontrollable cost e.g., raw material and especially currency. After rolling over our valuation base to FY17F, our BV-based TP for UMW is revised to RM5.30/share (from RM5.60/share). UMW remains a NEUTRAL with a negative bias. Our forecasts are now below consensus net profit estimates of RM217m/RM338m respectively.

Tan Chong (NEUTRAL, TP: RM1.95/share). We also slash Tan Chong's earnings to net losses of RM82m/RM81m over FY16F/17F following our TIV cut (from -RM54m/+RM55m previously). We now expect Nissan TIV of 43,170/43,530 for FY16F/17F, which are 8%/9% lower versus our previous projections. Tan Chong might be one of the more aggressive in the market with product discounting and A&P spending given inflated inventory levels, which will impact cost and margins negatively. Furthermore, Tan Chong has no plans for new model introductions this year despite aggressive new launches by key competitors i.e. Honda, Toyota and Mazda. After rolling over our valuation base to FY17F and taking into account the revised forecasts, our BV-based (pegged to trough valuation of 0.5x PBV) TP for Tan Chong is revised down to RM1.95/share (from RM2.50/share). We keep our NEUTRAL call on Tan Chong. Our forecasts are now below consensus net profit estimates of RM33m/RM51m respectively. Our USD forecast stays at USD1:RM4.00 for both FY16F and FY17F.

Maintain NEUTRAL on autos. 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 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) Potential value unlocking from the listing of BAuto Philippines. Ex-cash, BAuto trades at just 9.7x CY16F earnings. 

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	2.33	18.9	20.4	12.3	11.4	4.5	40.2	7.4	2.50	15
Tan Chong	NEUTRAL	1.94	-12.2	-12.1	-15.9	-16.1	0.5	-1.5	0.0	1.95	1
UMW	NEUTRAL	6.30	-10.5	-1.1	-59.8	-583.4	1.2	-0.2	0.5	5.30	-15
Sector average					-21	-196	2.1	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.