

21 July 2016 | Sector Update

## Automotive

**Maintain NEUTRAL**

### *Festive driven strength, MAA slashes forecast*

#### INVESTMENT HIGHLIGHTS


- **June TIV driven by typical festive season purchases, expect July sales to weaken**
- **MAA slashed TIV forecast by 11% to 580K despite national car-centric launches this year**
- **Festive season plant closures and heavily incentivised sales may impact near-term sector margins**
- **Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick and we remain NEUTRAL on UMW (TP: RM5.60/share)**

**Festive driven strength.** As we had anticipated in the last TIV update, June sales saw further sequential strength driven by festive season purchases and the new Perdana launch. June TIV registered at 57,358 units, flattish (-0.1%yoy), but a strong 29% improvement month-on-month. June numbers compares favourable against last month's -14%yoy. However, we expect July numbers to weaken given the long festive holidays (Raya fell on 6<sup>th</sup> July this year versus 17<sup>th</sup> July in 2015) and plant closures. Auto plants are typically closed 1-2 weeks for Raya festivities.

**Further cuts possible.** YTD TIV of 275K, if annualised, works out to around 550K (accounting for just 88% of our FY16F) and suggests possibilities of further cuts despite new launches by the national car makers in the high volume B-segment that may provide a kicker to TIV towards the later part of the year. We had recently cut our FY16F TIV forecast to 626k (versus MAA's earlier forecast of 650K) and we see further potential downside at this point. The MAA in its half yearly review in conjunction with the June TIV release had also slashed its 2016 TIV forecasts quite radically to 580K from the earlier 650K, implying a 13%yoy contraction.

**National cars gained market share.** Proton's market share gain was pretty significant (i.e. from 11.4% in May to 12.1% in June) following the launch of the new Perdana. Perodua also saw market share gain from 34.4% to 34.9% over the same period. The strong response for national cars is typical during the usual pre-Raya purchasing rush, which is normally accompanied by short-term market share gains. Nonetheless, national cars are expected to show further improvements in market share given new launches that are national car-centric this year, e.g. the Proton Saga and Persona replacement, the Proton Perdana replacement and the Perodua Bezza. Proton is also scheduled to launch a Suzuki based compact model by end of the year.

**Still cautious on margins.** Festive promotions had been on-going for some time and we do not expect all the incremental volume to flow down to bottomline as part of these will be offset by higher marketing costs and buyer/dealer incentives. On top of this, the usual festive season plant closures will impact sector margins in 3Q16. That said we stick to our view that TIV year-on-year performance has more or less reached a bottom, but a concrete inflection point has yet to be established.

**Maintain NEUTRAL on autos.** Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick with the following 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, on top of diesel variants of the CX5, Mazda 6 and Mazda 2, (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. 

## EXHIBIT 1: JUNE 2016 TIV SUMMARY

Marques	Jun-15	May-16	Jun-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Jun-15	Jun-16
Proton	9,267	5,064	6,961	-24.9%	37.5%	50,206	35,727	-28.8%	16.1%	12.1%
Perodua	16,475	15,247	20,044	21.7%	31.5%	108,502	97,370	-10.3%	28.7%	34.9%
Toyota	8,979	6,141	6,803	-24.2%	10.8%	38,796	27,249	-29.8%	15.6%	11.9%
Honda	8,668	5,659	9,254	6.8%	63.5%	43,596	39,654	-9.0%	15.1%	16.1%
Nissan	3,765	3,106	4,254	13.0%	37.0%	23,294	21,148	-9.2%	6.6%	7.4%
Mazda	1,350	1,194	1,295	-4.1%	8.5%	6,582	7,346	11.6%	2.4%	2.3%
Others	8,933	7,905	8,747	-2.1%	10.7%	51,204	46,612	-9.0%	15.6%	15.2%
<b>Total</b>	<b>57,437</b>	<b>44,316</b>	<b>57,358</b>	<b>-0.1%</b>	<b>29.4%</b>	<b>322,180</b>	<b>275,106</b>	<b>-14.6%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

## EXHIBIT 2: JUNE 2016 TIV SUMMARY BY SEGMENT

Segment	Jun-15	May-16	Jun-16	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	50,695	38,336	50,981	0.6%	33.0%	286,403	244,583	-14.6%
Commercial vehicles	6,742	5,980	6,377	-5.4%	6.6%	35,777	30,523	-14.7%
<b>Total</b>	<b>57,437</b>	<b>44,316</b>	<b>57,358</b>	<b>-0.1%</b>	<b>29.4%</b>	<b>322,180</b>	<b>275,106</b>	<b>-14.6%</b>

Source: MAA, MIDFR

## EXHIBIT 3: JUNE 2016 TIV SUMMARY BY SEGMENT

Segment	Jun-15	May-16	Jun-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Jun-15	Jun-16
National cars	25,742	20,311	27,005	4.9%	33.0%	158,708	133,097	-16.1%	44.8%	47.1%
Non-nationals	31,695	24,005	30,353	-4.2%	26.4%	163,472	142,009	-13.1%	55.2%	52.9%
<b>Total</b>	<b>57,437</b>	<b>44,316</b>	<b>57,358</b>	<b>-0.1%</b>	<b>29.4%</b>	<b>322,180</b>	<b>275,106</b>	<b>-14.6%</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	2.31	18.9	20.4	12.2	11.3	4.5	40.2	7.4	2.50	15.6
Tan Chong	NEUTRAL	1.94	5.2	8.1	37.3	24.0	0.6	2.7	0.0	U.R.	N/A
UMW	NEUTRAL	5.76	13.2	15.9	43.6	36.2	1.0	5.0	0.9	5.60	-1.9
<b>Sector average</b>					<b>31.1</b>	<b>23.8</b>	<b>2.0</b>	<b>16.0</b>	<b>2.8</b>		

Source: Bloomberg, Companies, MIDFR \*UR: Under Review

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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.