

AUTOMOTIVE

Maintain NEUTRAL

Flattish 2019 growth but 2020 TIV to remain >600K

KEY INVESTMENT HIGHLIGHTS

- **2019 TIV closes at 604,287 units, a flattish 1%yoy growth but breached 600K mark for first time since 2015**
- **Still anticipating flattish 0.2%yoy TIV growth in 2020 on the back of flat-to-weaker GDP growth expectation coupled with weaker year-on-year Ringgit expectation, notwithstanding yesterday's OPR cut**
- **CKD open market valuation scope expanded, but differential in duties payable by OEMs to be temporarily exempted till year-end, no decision yet beyond 2020**
- **Maintain NEUTRAL on autos; MBM (BUY, TP: RM4.55) and BAuto (BUY, TP: RM2.70) remain our top sector picks**

Breaches 600K mark for 2019. TIV registered at 54,482 units in Dec19, representing a 14%yoy growth and 4%mom increase (sequential growth is driven by the typical year-end sales campaigns). This brings 2019 TIV to 604,287 units (+1%yoy). This is the first time TIV has breached the 600K mark since 2015.

Anticipating flattish growth this year. The 2019 TIV was slightly higher (by 0.7%) than our 2019 TIV forecast of 600K units. Our 2020 TIV growth forecast is maintained at +0.2%yoy, but given the higher 2019 base, now stands at 605,375 units. This is slightly more conservative than MAA's 2020 TIV forecast of 607K units.

National cars drove the growth. Proton was the strongest performer in 2019, growing by 55%yoy to 100,183 units. Its market share improved from 11% in 2018 to 17% in 2019. Perodua was the next best performer, growing by 6%yoy to a record 240,341 units in 2019. Performances of the national cars were largely driven by launches of their maiden SUV models i.e. Proton X70 and Perodua Aruz, both within the C-segment. For 2020, both the national cars are expected to launch their maiden B-segment SUV models.

Changes to duty mechanism. The open market value (OMV) which is used as the base to calculate duties for CKD (completely knocked down) models now covers a larger scope (including dealer margins, contract assembly charges and royalties) under a Federal Government Gazette released in Dec19. As such, duties payable by OEMs are technically higher than previously given that there is no change in duty rates itself. An indicative increase of 4% was reported, for some CKD models.

A temporary relief? However, given a last minute change of plans (according to news reports), an exemption for the differential in duties payable by OEMs has been given by the MoF (Ministry of Finance), though this is only valid for a period of one year up till December 2020. This means there will be no change in OEMs' effective duty costs till end of this year. The next course of action beyond this timeline has yet to be decided. The MoF had earlier clarified that should there be any increase in duties (and ultimately car prices); the increase will be gradual and not as high as 15%-25% reported in recent newsflows.

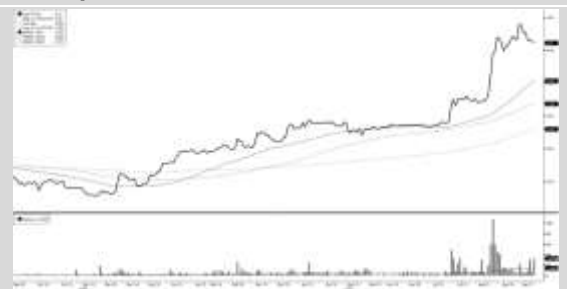
COMPANY IN FOCUS

MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.55
Price @ 22nd January 2020: RM3.95

- Potential beneficiary of the fuel subsidy program as demand could gravitate towards small capacity models.
- Cheapest proxy to Perodua at just 7x CY20F earnings, attractive 6% yield

Share price chart



Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM2.70
Price @ 22nd January 2020: RM1.98

- Volumes to be catalyzed by launch of the CX8, facelift CX5 and CX30 in 2QFY20
- Solid dividend yields of 8.1%, net cash accounts for 7% of market cap, trades at just 10x CY20F earnings

Share price chart



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PEER COMPARISON TABLE

		Shr Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY19F	CY20F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	2.02	11.3	10.6	4.2	29.8	8.1	2.70	41.7
Tan Chong	NEUTRAL	1.36	17.9	11.6	0.3	2.7	2.9	1.40	5.9
UMW Holdings	NEUTRAL	4.26	14.8	12.8	1.3	10.4	1.9	4.50	7.6
MBM Resources	BUY	3.98	7.7	7.2	0.8	10.7	6.3	4.55	20.6
Sector average			12.9	10.6	1.6	13.4	4.8		

Source: Company MIDFR

OPR cut. As we had forecasted, Bank Negara Malaysia (BNM) cut the OPR (overnight policy rate) by 25bps to 2.75% yesterday. This should be positive for underlying auto demand but sector earnings is expected to be offset by a weaker Ringgit as an implication. Nonetheless, the OPR cut had been anticipated by our economics team, hence the resultant GDP growth forecast and ultimately, our 2020 TIV growth forecasts. To recap, we forecast the Ringgit to weaken to an average of USD:RM4.18 this year from USD:RM4.15 last year.

Demand could gravitate towards smaller capacity models. The delayed fuel subsidy program which is anticipated to take effect sometime this year could drive a gradual shift in demand towards smaller engine capacity models going forward. To recap, the fuel subsidy program entails specific vehicle criteria: 1) Ownership of a car/motorcycle with a valid road tax 2) Car owned entails 1.6 litre engine capacity or if it is >1.6 litre, is >10 years of age 3) Motorcycle owned is 150cc and below or if >150cc, is above 7 years of age 4) Maximum limit of vehicle ownership is 2 cars and 2 motorcycles. The subsidy rate for qualified BSH (Bantuan Sara Hidup) recipient is RM30/month for car owners or RM12/month for motorcycle owners. The subsidy for non-BSH recipients is set at 30sen/litre up to a maximum of 100 litre/month for cars and 40 litres/month for motorcycles, whereby qualified vehicle owners will be given a "Kad95" and the subsidy received is based on actual usage at the pump.

MBM remains our top pick. We maintain our BUY on MBM at unchanged TP of RM4.55. At just 7x FY20F earnings coupled with an attractive 6.7% yield, MBM remains a cheap proxy to Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Key catalysts: (1) Launch of Perodua's new B-segment SUV in FY20F (2) A recovery in industry production driven by the new national car launches (3) Disposal of OMI Alloy assets. Risk to our call is weaker than expected demand and a weaker than expected Ringgit.


BAuto (TP: RM2.70) remains a BUY. Key catalysts: (1) Launch of the CX8, facelift CX5 and CX30 in 2QFY20-3QFY20 (2) Dividend outperformance (3) Over 50% increase in FY20F export volumes driven by the CX8 (4) Potential NAP incentives to drive CBU exports (5) Potential introduction of a 3rd CKD model (6) Potential brand expansion riding on Inokom's enlarged capacity and BAuto's solid balance sheet. 

Table 1: December 2019 TIV Summary

									Market share	
Marques	Dec-18	Nov-19	Dec-19	YoY	MoM	YTD18	YTD19	YTD %	Dec-18	Dec-19
Proton	5,598	9,643	11,117	98.6%	15.3%	64,744	100,183	54.7%	10.8%	16.6%
Perodua	18,402	20,422	18,357	-0.2%	-10.1%	227,243	240,341	5.8%	38.0%	39.8%
Toyota	4,310	6,956	8,046	86.7%	15.7%	65,551	69,091	5.4%	10.9%	11.4%
Honda	8,021	6,694	7,235	-9.8%	8.1%	102,282	85,418	-16.5%	17.1%	14.1%
Nissan	2,870	1,730	2,124	-26.0%	22.8%	28,610	21,239	-25.8%	4.8%	3.5%
Mazda	1,451	803	901	-37.9%	12.2%	16,038	11,651	-27.4%	2.7%	1.9%
Others	7,536	6,336	7,062	-6.3%	11.5%	94,130	76,364	-18.9%	15.7%	12.6%
Total	48,188	52,584	54,842	13.8%	4.3%	598,598	604,287	1.0%	100.0%	100.0%

Source: MAA, MIDFR

Table 2: December 2019 TIV Summary by Vehicle Type

Segment	Dec-18	Nov-19	Dec-19	YoY	MoM	YTD18	YTD19	YTD %
Passenger cars	42,426	47,754	49,318	16.2%	3.3%	533,198	550,182	3.2%
Commercial vehicles	5,762	4,830	5,524	-4.1%	14.4%	65,400	54,105	-17.3%
Total	48,188	52,584	54,842	13.8%	4.3%	598,598	604,287	1.0%

Source: MAA, MIDFR

Table 3: December 2019 TIV Summary by Vehicle Type

Segment	Dec-18	Nov-19	Dec-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Dec-18	Dec-19
National cars	24,000	30,065	29,474	22.8%	-2.0%	291,987	340,524	16.6%	48.8%	56.4%
Non-nationals	24,188	22,519	25,368	4.9%	12.7%	306,611	263,763	-14.0%	51.2%	43.6%
Total	48,188	52,584	54,842	13.8%	4.3%	598,598	604,287	1.0%		

Source: MAA, MIDFR

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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 <i>rise</i> 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 <i>fall</i> 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.