

# AUTOMOTIVE

**Maintain POSITIVE**

## Has the engine started?

### KEY INVESTMENT HIGHLIGHTS

- **Improvements in daily bookings already setting in strongly based on our chat with selective industry players yesterday**
- **Bermaz saw almost a tripling in daily bookings compared to post-MCO levels. Similarly, UMW seeing early signs of improvement in booking levels**
- **Our projections conservatively assume a 7.8K/month increase against our base FY20F TIV forecast over the 6.5-month tax-holiday period relative to the 2018 tax-holiday which lifted TIV by ~21K/month**
- **Reaffirm our non-consensus POSITIVE on autos; sector set to see an inflection point from 3Q20 onwards from a strong combination of tax-holiday-induced demand, robust consumer liquidity and a low interest rate environment; BAuto (BUY, TP: RM1.95) and UMW (BUY, TP: RM3.40) remain our top sector picks.**

**Has the engine started?** Our channel checks with selective industry players yesterday suggested possible early signs of improvement in sales. BAuto for example saw a strong rebound in daily bookings post the automotive tax-holiday announcement on Friday last week. To give a feeler, pre-pandemic daily bookings stood at 30-40/day (in-line with 900-1200 monthly sales), while post-MCO daily bookings declined to 20-25/day. However, daily bookings ballooned to around 60/day in the earlier part of this week, implying an almost doubling in daily bookings against pre-pandemic levels and a tripling against the post-MCO daily bookings. The new price list for Mazda has yet to be officially released, but we understand that the CX5 and CX8 CKDs will see a 3.4%-3.9% price reduction (this is before taking into account dealer discounts). Our chat with UMW meanwhile, suggests that UMW Toyota is also definitely seeing improvements in daily bookings, though detailed numbers are not forthcoming yet at this juncture.

**Do not underestimate the power of the cash now in consumers' pockets.** It is difficult to ascertain if this strong trend is sustainable as we are still in the early stages of the 6.5-month-long tax holiday, but these early trends are definitely very encouraging. Notwithstanding damaged consumer sentiment given the impact of lockdown measures to contain the pandemic, we re-iterate that the strong combination of: (1) Tax-holiday induced demand; (2) Robust liquidity created for consumers from various stimulus measures which transfers massive amounts of cash into consumer's pockets (e.g. via EPF contribution reductions, EPF Account-2 withdrawals, 6-month loan moratorium); (3) a low interest rate environment (HP loans are traditionally fixed rate loans locked in at the point of approval, though floating rate HP loans have been made available in recent years), are strong catalysts to drive a rebound in vehicle-buying sentiment. As we had highlighted in our recent sector upgrade, the 3-month tax-holiday in 2018 lifted TIV during the period by ~21K/month, relative to our conservative assumption of a 7.8K/month increase from the 2H20 tax-holiday.

**Recommendation.** We reaffirm our non-consensus **POSITIVE** on autos. **BAuto (TP: RM1.95)** and **UMW (BUY, TP: RM3.40)** remain our top sector picks.

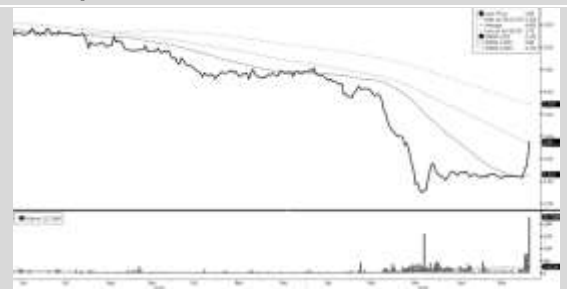
### COMPANY IN FOCUS

#### UMW Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM3.40  
Price @ 10<sup>th</sup> June 2020: RM3.07

- FY20F/21F earnings revised up by 26%/10% in line with upward TIV revision (for both Toyota and Perodua) in our recent sector upgrade
- M&E division is a bright spot, Trent 7000 fan case production to commence from 4Q20
- Potential catalyst from all new RAV4 or CKD CHR

#### Share price chart



#### Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM1.95  
Price @ 10<sup>th</sup> June 2020: RM1.52

- FY21F earnings now projected to more than double year-on-year
- Third CKD model a potential near-to-mid term catalyst
- Strong balance sheet (net cash of RM95m) positions group well for potential expansion

#### Share price chart



## SECTOR VALUATION MATRIX

Companies	Rating	Shr. Price (RM)	PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY20F	CY21F					
Bermaz Auto	BUY	1.48	11.4	8.4	2.8	25.7	8.6	1.95	40.2
Tan Chong	NEUTRAL	1.16	(18.5)	10.1	0.3	2.3	3.4	1.15	2.5
UMW Holdings	BUY	2.89	18.2	15.1	0.9	6.3	1.1	3.40	18.9
MBM Resources	BUY	3.43	8.6	7.3	0.7	10.2	5.5	3.80	16.3

Source: Company MIDFR

**Bermaz Auto (BUY, TP: RM1.95).** Key catalysts: (1) Strong earnings rebound from 1QFY21 onwards; (2) Potential introduction of a 3<sup>rd</sup> CKD model; (3) Potential brand expansion riding on Inokom's capacity expansion and BAuto's solid balance sheet; (4) Potential NAP incentives to drive CBU exports.

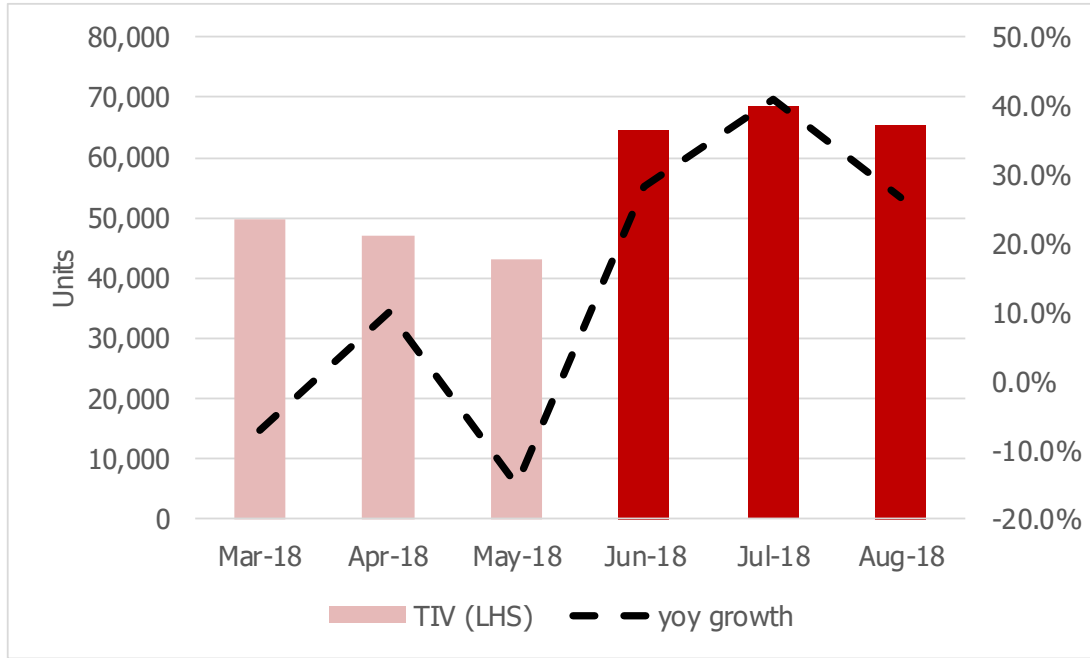
**UMW (BUY, TP: RM3.40).** Key catalysts: (1) A turnaround in group earnings from 3Q20 driven mainly by the automotive division; (2) Potential launches of mass market/CKD SUV models; (3) Commencement of Trent 7000 fan case assembly in 4Q20.

### Exhibit 1: Price Reduction During 2018 Tax-Holiday (Sample Models & Make)

Make	Model	Pricing (RM)			Difference vs SST		Difference vs GST	
		GST-based	SST-based	No-Tax	Price (RM)	%	Price (RM)	%
Mazda	CX5 2.0 GL 2WD	135,266	132,390	127,654	4,736	-3.6%	7,612	-5.6%
Mazda	CX5 2.0 GLS 2WD	149,266	148,214	140,861	7,353	-5.0%	8,404	-5.6%
Mazda	CX5 2.5 GLS 2WD	161,657	160,004	152,573	7,431	-4.6%	9,084	-5.6%
Nissan	X-Trail 2.0 2WD	137,000	133,800	129,290	4,510	-3.4%	7,710	-5.6%
Nissan	X-Trail 2.5 4WD	159,200	153,800	150,255	3,545	-2.3%	8,945	-5.6%
Nissan	Serena Hybrid 2.0 Highway Star	135,500	131,800	127,875	3,925	-3.0%	7,625	-5.6%
Nissan	Serena Hybrid 2.0 Premium Highway Star	147,500	143,800	139,196	4,604	-3.2%	8,304	-5.6%
Nissan	Almera 1.5 E AT	72,200	69,800	68,130	1,670	-2.4%	4,070	-5.6%
Nissan	Almera 1.5 VL AT	82,000	79,800	77,375	2,425	-3.0%	4,625	-5.6%
Honda	Jazz 1.5S	72,510	70,242	68,422	1,820	-2.6%	4,088	-5.6%
Honda	Jazz 1.5E	78,540	76,316	74,110	2,206	-2.9%	4,430	-5.6%
Honda	City 1.5S	75,930	73,836	71,648	2,188	-3.0%	4,282	-5.6%
Honda	City 1.5E	82,030	79,955	77,403	2,552	-3.2%	4,627	-5.6%
Honda	BRV 1.5E	83,210	80,989	78,516	2,473	-3.1%	4,694	-5.6%
Honda	BRV 1.5V	90,010	87,701	84,931	2,770	-3.2%	5,079	-5.6%
Honda	CRV 1.5 TC 2WD	155,700	150,992	146,904	4,088	-2.7%	8,796	-5.6%
Honda	CRV 1.5 TC 4WD	161,600	156,732	152,470	4,262	-2.7%	9,130	-5.6%
Toyota	Vios 1.5G AT	87,980	87,280	83,016	4,264	-4.9%	4,964	-5.6%
Toyota	Vios 1.5S AT	93,980	93,200	88,677	4,523	-4.9%	5,303	-5.6%
Toyota	Innova 2.0 E AT	115,800	115,280	109,287	5,993	-5.2%	6,513	-5.6%
Toyota	Innova 2.0 G AT	123,800	123,400	116,834	6,566	-5.3%	6,966	-5.6%
Toyota	Innova 2.0 X AT	132,800	132,400	125,324	7,076	-5.3%	7,476	-5.6%
Perodua	MyVi 1.3 Std-G AT	46,300	44,590	43,694	896	-2.0%	2,606	-5.6%
Perodua	MyVi 1.3 Premium X AT	48,300	46,590	45,581	1,009	-2.2%	2,719	-5.6%
Perodua	Bezza 1.3 Premium X AT	43,342	41,890	40,904	986	-2.4%	2,438	-5.6%
Perodua	Bezza 1.3 Advance AT	49,177	47,790	46,409	1,381	-2.9%	2,768	-5.6%

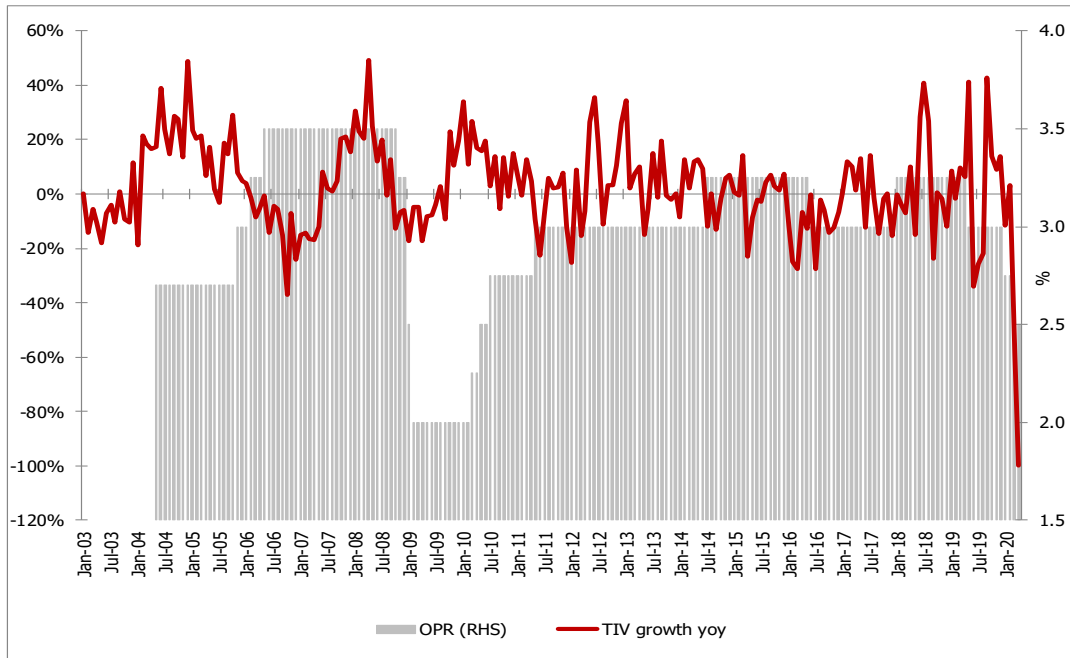
Source: Paul Tan, MIDFR

**Exhibit 2: Significant TIV improvement during Jun18-Aug18 Tax-Holiday Period**



Source: Paul Tan, MIDFR

**Exhibit 3: Positive Impact of Low Interest Rate on TIV Growth Historically**



Source: Paul Tan, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.