

22 July 2019 | Sector Update

Automotive

Maintain POSITIVE

High base effect creeping in

INVESTMENT HIGHLIGHTS

- **Jun19 TIV registered sharp contraction against high base last year**
- **National cars still outperforming the industry, Perodua raised forecast**
- **Expecting further year-on-year contraction in next 2 months**
- **MBM (TP: RM4.20) and BAUTO (TP: RM2.85) remain our top sector picks**

High base effect. As we had alluded to in the past TIV note, Jun19 TIV contracted 34%yoy to 42,526 units. This is also a steep 30%mom decline. The contraction came off a high base during the tax holiday last year running from Jun18-Aug18. Note however, that the TIV decline in Jun19 exceeded the 28% increase in Jun18. On a month-on-month basis, the decline in TIV was driven by a short working month given Raya festivities. On a year-to-date basis, TIV registered a 2.3% growth, versus our forecast of flattish growth (+0.2%yoy). As of 1H19, TIV accounted for 49% of our full year forecast.

National cars still outperforming industry. National car TIV contracted much less than the industry, declining by an overall 8%yoy versus the industry's 34%. Proton TIV in fact grew by 23%yoy driven by strong take-up of the X70, but has to also be looked at in the context of its weak TIV throughout most of 2018 where Proton's TIV back in Jun18 contracted 15%yoy against the overall industry's 28% increase. Perodua meanwhile, registered a decline of 18%yoy in Jun18.

Perodua raises volume target. Perodua recently raised its forecast 2019 TIV to 235,000 units (from 231,000 units previously), underpinning our investment case of a new record Perodua TIV in FY19 (after having hit its highest TIV in 2018 at 227,243 units). Our FY19F Perodua TIV remains at 241K units, to be driven by the Aruz and potentially another new model year-end.

MBM remains our top pick. We reaffirm our **BUY** call on **MBM (TP: RM4.20)** as a cheap play into Perodua's record TIV. Key catalysts: (1) Strong 6%yoy Perodua TIV expansion (FY19F) on the back of the Aruz to fill up a vacuum in Perodua's model mix (2) A recovery in industry production driven by the new national car launches (3) Disposal of loss making alloy wheel operations. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.

EXHIBIT 1: JUN 2019 TIV SUMMARY

Marques	Jun-18	May-19	Jun-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Jun-18	Jun-19
Proton	6,173	10,611	7,615	23.4%	-28.2%	27,106	43,518	60.5%	9.6%	17.9%
Perodua	19,611	22,945	16,037	-18.2%	-30.1%	117,098	121,782	4.0%	30.4%	37.7%
Toyota	11,482	6,842	5,222	-54.5%	-23.7%	31,709	31,251	-1.4%	17.8%	12.3%
Honda	11,418	10,509	5,386	-52.8%	-48.7%	51,354	44,260	-13.8%	17.7%	12.7%
Nissan	3,008	2,103	1,506	-49.9%	-28.4%	11,926	10,383	-12.9%	4.7%	3.5%
Mazda	1,514	1,060	818	-46.0%	-22.8%	6,696	6,491	-3.1%	2.3%	1.9%
Others	11,296	6,710	5,942	-47.4%	-11.4%	43,825	38,649	-11.8%	17.5%	14.0%
Total	64,502	60,780	42,526	-34.1%	-30.0%	289,714	296,334	2.3%	100.0%	100.0%

Source: MAA, MIDF

BAuto (TP: RM2.85) remains a BUY. From a valuation standpoint, BAuto is cheap at just 10.8x CY19F earnings while dividend yield of 7% is very attractive. Key catalysts: (1) Launch of the CX8 in Oct/Nov19 and CX30 in 2HFY20 (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 new export model beyond the CX8.

VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY18F	CY19F	CY18F	CY19F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	2.54	18.8	22.2	13.5	11.4	4.82	46.7	7.4	2.85	19.6
Tan Chong	NEUTRAL	1.45	18.6	13.9	7.8	10.4	0.34	3.3	2.5	1.65	16.3
UMW	NEUTRAL	5.35	29.2	37.6	18.3	14.2	1.76	12.0	1.8	5.85	11.1
MBM	BUY	2.93	43.1	47.4	6.8	6.2	0.77	9.6	3.9	4.20	47.3
Average					12.9	10.6	1.9	17.9	3.9		

Source: Bloomberg, Companies, MIDF

EXHIBIT 2: JUN 2019 TIV SUMMARY BY VEHICLE TYPE

Segment	Jun-18	May-19	Jun-19	YoY	MoM	YTD18	YTD19	YTD %
Passenger cars	57,744	55,914	38,513	-33.3%	-31.1%	261,043	270,875	3.8%
Commercial vehicles	6,758	4,866	4,013	-40.6%	-17.5%	28,671	25,459	-11.2%
Total	64,502	60,780	42,526	-34.1%	-30.0%	289,714	296,334	2.3%

Source: MAA, MIDF

EXHIBIT 3: JUN 2019 TIV SUMMARY BY VEHICLE TYPE

Segment	Jun-18	May-19	Jun-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Jun-18	Jun-19
National cars	25,784	33,556	23,652	-8.3%	-29.5%	144,204	165,300	14.6%	40.0%	55.6%
Non-nationals	38,718	27,224	18,874	-51.3%	-30.7%	145,510	131,034	-9.9%	60.0%	44.4%
Total	64,502	60,780	42,526	-34.1%	-30.0%	289,714	296,334	2.3%		

Source: MAA, MIDF

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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.