

# AUTOMOTIVE

**Maintain POSITIVE**

## Hitting the Inflection Point

### KEY INVESTMENT HIGHLIGHTS

- **Perodua registers strong 33%yoy growth in June TIV and almost triples sequentially; marks an important inflection point in volume trends. As bellwether of the auto industry, this should signal the trend for sector-wide TIV to be announced later this month.**
- **Post tax-holiday announcement, Bermaz has also seen almost a tripling in daily bookings vs. post-MCO levels. Similarly, UMW and Tan Chong seeing early signs of improvements, coupled with increased showroom traffic.**
- **Our FY20F conservatively assumes a 7.8K/month incremental TIV 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**
- **Our contrarian POSITIVE on autos is reaffirmed; 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.**

**Rocketing back to pre-pandemic levels.** Perodua reported a 33%yoy growth in June TIV at 21,250 units, reflecting maiden (half-month) impact of the tax-holiday incentive announced under the recent PENJANA stimulus package. Perodua's June TIV almost tripled compared to the 7,886 units registered in May 2020, which had already marked a strong sequential rebound versus weak April TIV (impacted by the Movement Control Order (MCO)). The strong June numbers underpin our bullish turn on autos in our recent thematic piece ([Inflection Point Brought Forward](#)) following announcement of the sales tax-holiday which commenced on 15th June. Car prices have generally been reduced by between 2% - 7% (3%-6% for Perodua) given savings from the sales tax exemption incentive. As bellwether of the auto industry, we expect Perodua's strong June performance to signal the trend for sector-wide June TIV to be announced later this month. 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. For the meantime, we stick to our FY20F target of 554K units, which represents an 8.3%yoy contraction.

**Early signs of improvement.** Mirroring Perodua's June performance, channel checks with selective industry players in recent weeks also indicate early signs of sales improvement after the tax holiday announcement under the PENJANA stimulus package on 5<sup>th</sup> June. BAuto (Mazda distributor) for example, saw a strong rebound in daily bookings post the automotive tax-holiday announcement; 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 week immediately after the announcement, implying an almost doubling in daily bookings against pre-pandemic levels and a tripling against the post-MCO daily bookings. At certain points in fact, BAuto's daily bookings hit some 99 units/day (triple even pre-pandemic daily booking levels). Discussions (and briefings) with UMW (Toyota, Perodua) and Tan Chong (Nissan) also suggested indications of sales improvements coupled with improved showroom traffic.

### COMPANY IN FOCUS

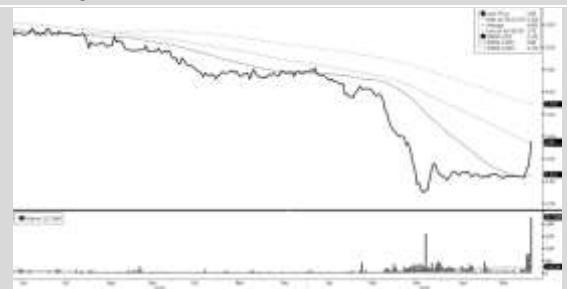
#### UMW Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM3.40

Price @ 1<sup>st</sup> July 2020: RM2.55

- Potential earnings turnaround from 3Q20 onwards from a recovery in auto sales volume
- Launch of two mass-market CKD models in 2H20 an important volume catalyst
- M&E division is a bright spot, Trent 7000 fan case production to commence from 4Q20

#### Share price chart



#### Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM1.95

Price @ 1<sup>st</sup> July 2020: RM1.47

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

#### Share price chart



## SECTOR VALUATION MATRIX

		Shr. Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY20F	CY21F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	1.47	11.3	8.3	2.8	25.7	8.7	1.95	41.3
Tan Chong	NEUTRAL	1.10	(17.6)	9.6	0.3	2.3	3.6	1.15	8.2
UMW Holdings	BUY	2.55	16.0	13.3	0.8	6.3	1.2	3.40	34.6
MBM Resources	BUY	3.26	8.2	6.9	0.7	10.2	5.8	3.80	22.4

Source: Company MIDFR

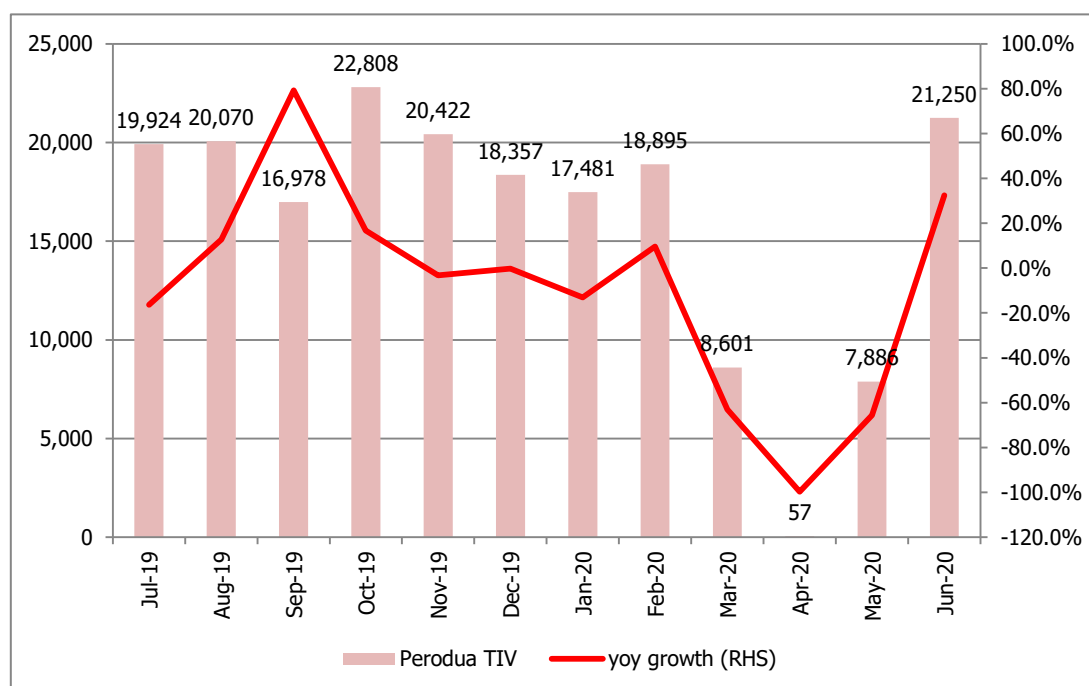
**Converting the cash into spending.** It is difficult to ascertain if this strong trend is sustainable as we are still in the early stages of the 6.5-month-long tax holiday, but these early trends are definitely very encouraging. Notwithstanding dented consumer sentiment given the impact of lockdown measures to contain the Covid-19 pandemic, 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 (Hire Purchase loans are traditionally fixed rate loans locked in at the point of approval, though floating rate Hire Purchase loans have been made available in recent years), are strong catalysts to drive a rebound in vehicle-buying sentiment.

**Recommendation.** Our contrarian POSITIVE on autos is reaffirmed. BAuto (TP: RM1.95) and UMW (BUY, TP: RM3.40) remain our top sector picks.

**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: Perodua TIV Rebounded to Pre-Pandemic Levels in June



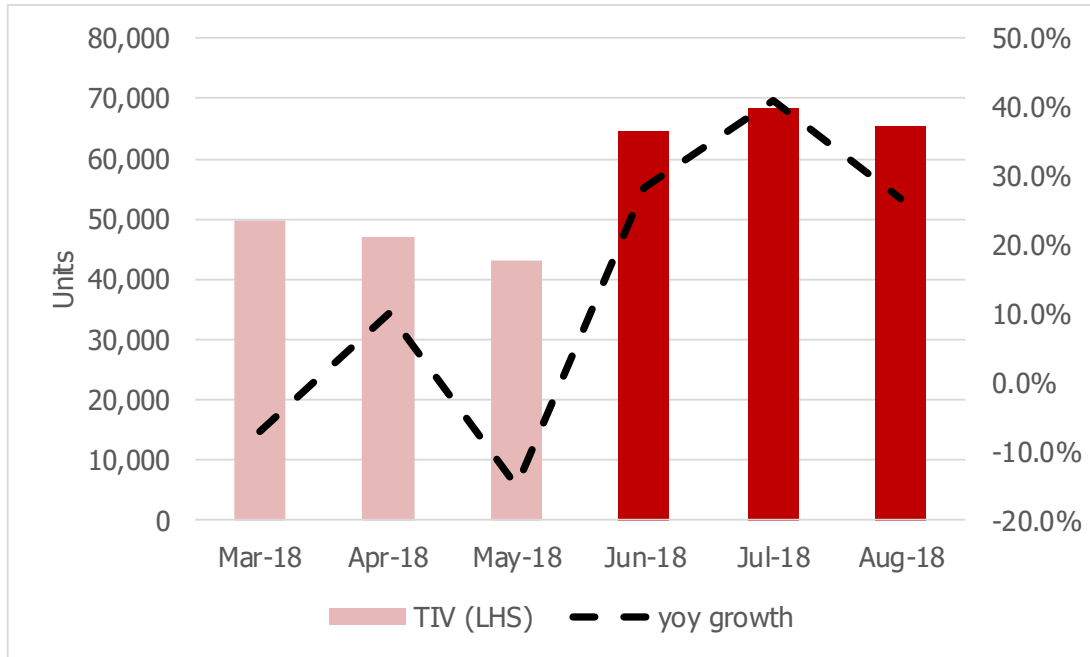
Source: MAA, Company, MIDFR

**Exhibit 2: A Recap of May 2020 TIV**

Marques	May-19	Apr-20	May-20	YoY	MoM	YTD19	YTD20	YTD %	Market share	
									May-19	May-20
Proton	10,611	22	5,676	-46.5%	>100%	35,903	27,455	-23.5%	14.1%	21.2%
Perodua	22,945	57	7,886	-65.6%	>100%	105,745	52,920	-50.0%	41.7%	40.9%
Toyota	6,842	13	3,425	-49.9%	>100%	26,029	13,853	-46.8%	10.3%	10.7%
Honda	10,509	27	2,678	-74.5%	>100%	38,874	13,805	-64.5%	15.3%	10.7%
Nissan	2,103	8	625	-70.3%	>100%	8,877	3,380	-61.9%	3.5%	2.6%
Mazda	1,060	0	503	-52.5%	>100%	5,673	3,226	-43.1%	2.2%	2.5%
Others	6,710	14	2,167	-67.7%	>100%	32,697	14,890	-54.5%	12.9%	11.5%
<b>Total</b>	<b>60,780</b>	<b>141</b>	<b>22,960</b>	<b>-62.2%</b>	<b>&gt;100%</b>	<b>253,798</b>	<b>129,529</b>	<b>-49.0%</b>	<b>100.0%</b>	<b>100.0%</b>

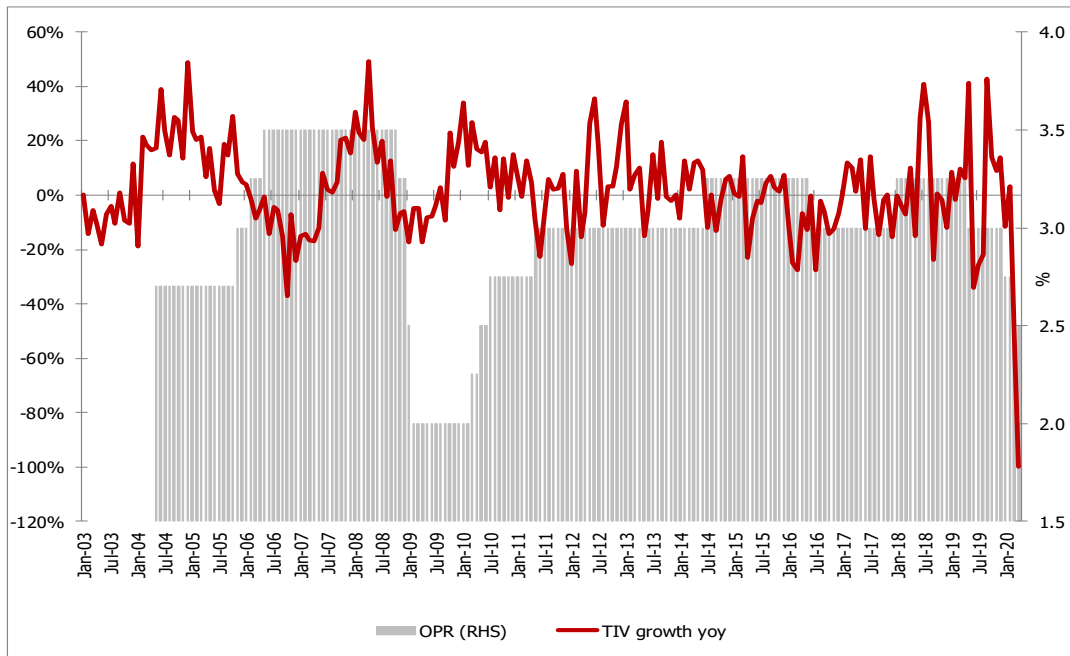
Source: MAA, MIDFR

**Exhibit 3: Significant TIV improvement during Jun18-Aug18 Tax-Holiday Period**



Source: MAA, MIDFR

**Exhibit 4: Positive Impact of Low Interest Rate on TIV Growth Historically**



Source: MAA, Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.