

17 June 2016 | Sector Update

Automotive

Maintain NEUTRAL

Implications from the new Perdana

INVESTMENT HIGHLIGHTS

- New D-segment Perdana positioned within non-national C-segment price points
- Likely to induce uptrading but volume cap limits risk for competitors
- Maintain NEUTRAL on autos given a muted demand outlook and volatile currency trends
- Berjaya Auto (BUY, TP: RM2.50/share) remains our top sector pick and we reiterate NEUTRAL on UMW (TP: RM5.60/share)

Proton finally launches the Perdana. The new D-segment Proton Perdana was launched this week after months of delay, entailing two main variants, i.e. the 2.0 and 2.4 litre models, priced between RM113K-RM139K. The new Perdana is built on the 8th generation Honda Accord platform, with the upper body redesigned but ride & handling largely maintained (as Proton was not allowed to tweak suspension settings nor the steering system of the model). Powertrain and drivetrain still utilise Honda technology, while the interior is also largely taken off the Accord. However, Proton is understood to be working on its own powertrain to be used for the Perdana sometime next year. Proton targets to sell 3,000 units of the new Perdana by year end, implying a monthly volume of 400-500 units.

More likely to induce uptrading. While the Perdana is a D-segment model, its pricing is much closer and in fact overlaps with the non-national C-segment (See Exhibit 2). However, it is notable that this had always been the case in the past, i.e. Proton's C-segment is usually priced at non-national B-segment price points (e.g. Proton Inspira). As such, even though the Perdana is priced at a deep 20%-30% discount to competing D-segment models, e.g. the Camry, Accord, Teana and Mazda 6, we think it is unlikely to induce much downtrading but rather, trigger uptrading from the non-national C-segment, which entails slightly larger industry volume than the D-segment.

EXHIBIT 1A: IMPACT OF INSPIRA LAUNCH MORE PREVALENT ON NON-NATIONAL B-SEGMENT

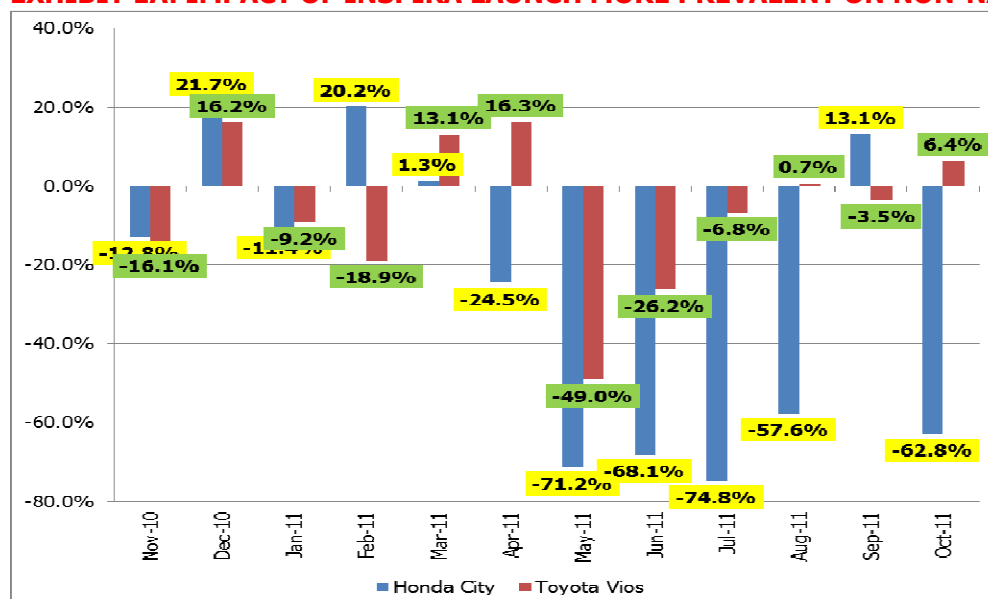
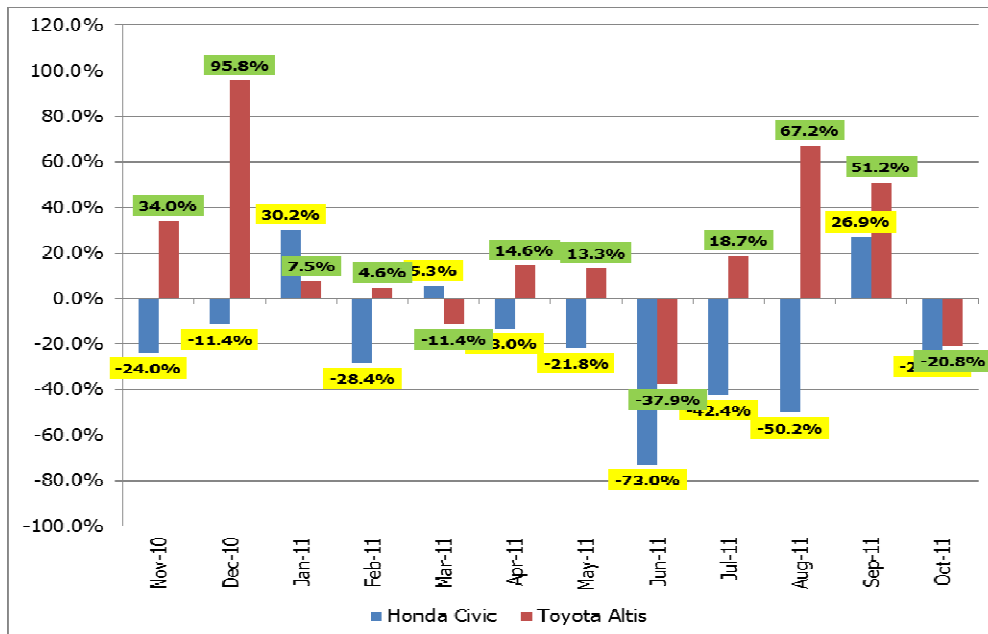


EXHIBIT 1B: IMPACT OF INSPIRA LAUNCH LESS PREVALENT ON NON-NATIONAL C-SEGMENT



Source: MAA, Companies, MIDFR * Charts depict YoY change in volume, Proton Inspira was launched Nov 2010
 ** Post Apr 2011, industry was hit by a supply crisis following the Japan earthquake and Thai floods

Case in point is the launch of Proton Inspira back in 2010. As a recap, the Inspira was a rebadged C-segment Mitsubishi Lancer priced at RM79K-92K and launched in November 2010. The Inspira's price points were closer to the non-national B-segment, i.e. the Vios and City (RM75k-RM90k) than the non-national C-segment (RM110k-RM140k) and had therefore impacted sales of the Vios/City (See Exhibit 1A) more than the C-segment Civic/Altis (See Exhibit 1B).

Mazda most exposed to C-segment. Out of the four key non-nationals, Mazda's C-segment model, i.e. the Mazda 3 has the most sizeable contribution to group TIV (See Exhibit 2). The Mazda 3 contributes some 19% to Mazda TIV versus 2%-8% C-segment contribution for the rest, although absolute volume of the Mazda 3 is much smaller than competitors while its entry level variant is also much cheaper. Meanwhile, the risk of Mazda 6 (D-segment) buyers trading down is unlikely as the Mazda 6 is a CBU (hence subject to full duty cost) and is already priced at a premium to existing competitors such as the Camry, Accord and Teana meaning any price-driven market share loss would have occurred well before the launch of the Perdana.

Limited risk for competitors? The Perdana was developed through a collaboration with Honda to utilise the latter's D-segment platform and as part of the agreement, production volume of the Perdana is capped at 7,000 units annually (an average of 580 units a month) while no export is allowed for the current model utilising Honda's powertrain. This to a large extent limits the risk for competing models and as such, we do not see existing players, including Mazda, being too badly affected by the Perdana. More importantly, the growth in Mazda TIV this year is underpinned by the upcoming CKD CX3, CKD Mazda 6 and diesel variants of the CX5 and Mazda 2.

EXHIBIT 2: MAZDA MOST EXPOSED TO C-SEGMENT

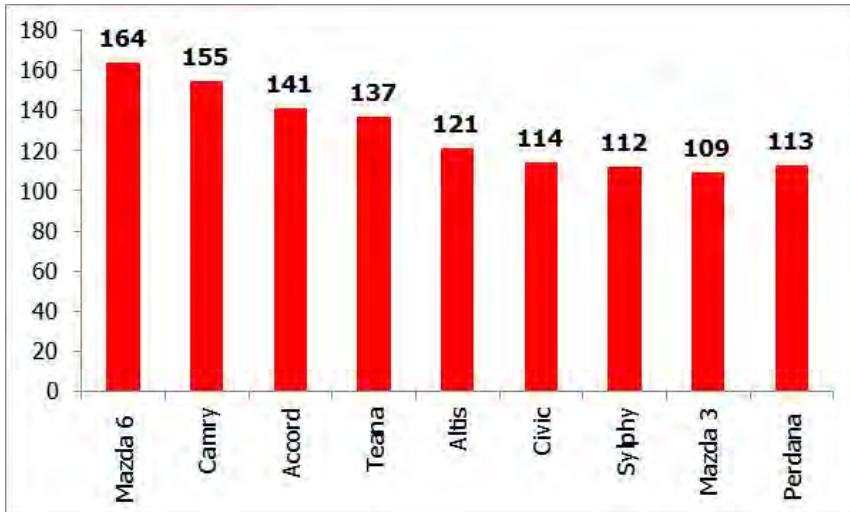
	Average monthly volume (units)	Volume contribution to respective marque	Price Range (RM '000)
D-segment			
Accord	623	8.7%	141-178
Camry	424	7.6%	155-175
Mazda 6 (CBU)	26	2.2%	164-200
Teana	153	3.8%	137-168
Total	1,073		
C-segment			
Mazda 3	221	18.8%	109-125
Civic	445	6.2%	114-136
Altis	453	8.1%	121-147
Sylphy	99	2.4%	112-121
Total	1,218		
Previous gen Perdana	195	2.4%	
Latest Perdana (mgmt. target)	500	5.0%	113-139

Source: MAA, Companies, MIDFR *Average monthly volume is based on latest updated Jan-Apr 2015 sales data

Maintain NEUTRAL on autos. Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick: Key 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 CX3 and CKD Mazda 6, on top of possible diesel variants of the CX5 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 – manufacturing earnings were hit last year by run-out of the previous CX5 model, and (4) Potential value unlocking from the listing of BAUTO Philippines. Ex-cash, BAUTO trades at just 9.7x CY16F earnings.

We remain NEUTRAL on UMW (TP: RM5.60/share). Since our downgrade back in Nov 2015, UMW's share price has fallen >30%. We think share price at current levels has sufficiently priced in the weak FY16F earnings and possibilities of a cash call at UMWOG. Current price is at ~10% discount to FY16F BV (versus historical average PBV of 2x) implying expectations of >RM500m in losses, which looks a tad too pessimistic in our view.

EXHIBIT 3: PERDANA PRICED WITHIN NON-NATIONAL C-SEGMENT RANGE (RM '000)



Source: MAA, Companies, MIDFR *Based on entry level variant price

EXHIBIT 4: THE NEW PROTON PERDANA



Source: PaulTan, MIDFR

EXHIBIT 5: THE NEW PROTON PERDANA



Source: PaulTan, MIDFR

VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY16F	CY17F	CY16F	CY17F					
B.Auto	BUY	2.32	18.9	20.4	12.3	11.4	4.5	40.2	7.4	2.50	15.2
Tan Chong	NEUTRAL	1.95	5.2	8.1	37.5	24.1	0.6	2.7	0.0	2.50 UR	N/A
UMW	NEUTRAL	5.21	13.2	15.9	39.5	32.8	1.0	5.0	0.9	5.60	8.4
Sector avg					29.7	22.7	2.0	16.0	2.8		

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.