

08 May 2019 | Sector Update

Automotive

Maintain POSITIVE

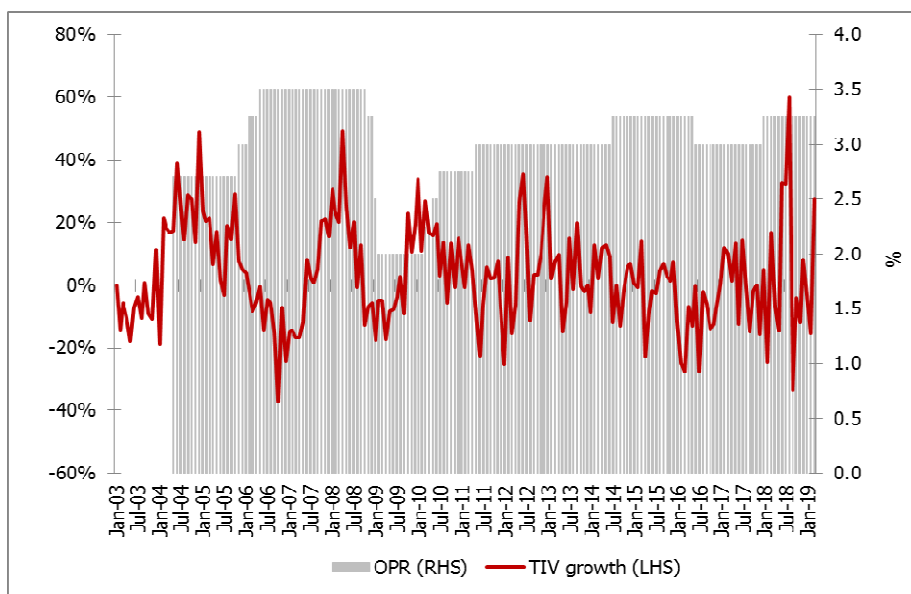
Implications of an OPR cut

INVESTMENT HIGHLIGHTS

- **Two pronged-impact from OPR cut on autos**
- **Potentially improved consumer spend**
- **Earnings could be offset by weaker forex**
- **MBM (BUY, TP: RM4.20) and BAuto (BUY, TP: RM2.85) remain our top sector pick**

Potentially improved consumer-spend. Bank Negara Malaysia made the decision to cut OPR by 25bps to 3% yesterday. TIV growth historically had an inverse relationship with OPR. An OPR hike historically had a dampening impact on TIV growth and vice versa if OPR is cut (see Exhibit 1) given improved consumer spending and basically, lower hire purchase rates. As of 1Q19, the auto sector registered a year-to-date growth of 6% driven mainly by new national car SUV launches. Against an inflated base, especially in 3Q18, we however, forecast flattish 0.2% 2019 TIV growth at this point (pre-OPR hike).

EXHIBIT 1: HISTORICAL INVERSE RELATIONSHIP BETWEEN OPR AND TIV GROWTH



Source: MAA, MIDF

Could be offset by weaker forex. Despite potentially stronger consumer spending (and potential upside to TIV forecast), auto players' margins could be negatively impacted by a potentially weaker Ringgit as a result of the OPR cut. Of the players under our coverage, Tan Chong is most sensitive to forex movements – every 1% change in USD:RM impacts our FY19F by 12%. This is followed by UMW (3% change to earnings for every 1% change in USD and JPY) and Bermaz Auto (1.4% change for every 1% change in JPY:RM). BAuto's exposure to the JPY is mainly via its CBU purchases which make up ~30% of Mazda TIV. CKD models are purchased in Ringgit from 30%-owned Mazda Malaysia Sdn Bhd (which does absorb the forex volatility). MBM is least sensitive to forex changes as earnings comprise mainly of Perodua which entails highly localised (>90%) models. Our recent chat with players suggests up to a quarter of forex hedging. Our base case for FY19F forex currently stands at USD:RM4.05 and JPY:RM3.70.

We maintain our POSITIVE view on autos premised on a national car offensive with new model launches which plugs the gaps in their model mix resulting in structural market share expansion; with Perodua as one of the key proxies to this theme other than Proton. TIV growth so far this year had largely been driven by Proton (+42%ytd) and Perodua (+9.2%ytd) (see Exhibit 3).

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

EXHIBIT 2: EARNINGS SENSITIVITY TO FOREX CHANGES

	FY19F earnings impact for every 1% change in USD/JPY
UMW Holdings	2.9%
Tan Chong	11.8%
Bermaz Auto	1.4%
MBM Resources	0.7%

Source: Companies, MIDF

MBM remains our top pick. We reaffirm our BUY call on **MBM (TP: RM4.20)** as a cheap play into Perodua's TIV expansion. 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. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.

EXHIBIT 3: MARCH 2019 TIV SUMMARY

Marques	Mar-18	Feb-19	Mar-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Mar-18	Mar-19
Proton	4,203	5,283	6,136	46.0%	16.1%	12,843	18,281	42.3%	8.4%	11.2%
Perodua	20,738	17,249	23,286	12.3%	35.0%	55,568	60,659	9.2%	41.5%	42.5%
Toyota	5,158	4,690	5,899	14.4%	25.8%	12,683	13,722	8.2%	10.3%	10.8%
Honda	9,049	5,998	8,677	-4.1%	44.7%	24,182	22,190	-8.2%	18.1%	15.8%
Nissan	2,000	1,108	2,050	2.5%	85.0%	5,310	5,166	-2.7%	4.0%	3.7%
Mazda	1,125	696	1,010	-10.2%	45.1%	3,439	3,311	-3.7%	2.3%	1.8%
Others	7,712	4,814	7,718	0.1%	60.3%	21,115	19,735	-6.5%	15.4%	14.1%
Total	49,985	39,838	54,776	9.6%	37.5%	135,140	143,064	5.9%	100.0%	100.0%

Source: MAA, MIDF

Maintain BUY on BAuto at unchanged SOP-derived **TP of RM2.85**. 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 localisation of the CX30.

VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
		(RM)	CY18F	CY19F	CY18F	CY19F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	2.37	18.8	22.2	12.6	10.7	4.82	46.7	7.4	2.85	27.7
Tan Chong	BUY	1.62	18.6	15.2	8.7	10.6	0.38	3.5	2.5	1.80	13.6
UMW	NEUTRAL	5.60	29.2	37.6	19.1	14.9	1.76	12.6	1.8	6.15	11.7
MBM	BUY	2.95	43.1	47.4	6.8	6.2	0.77	9.6	3.9	4.20	46.3
Average					12.9	10.6	1.9	18.1	3.9		

Source: Bloomberg, Companies, MIDF

Hafriz Hezry
 hafriz.hezry@midf.com.my
 03-2173 8392

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (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 (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

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.