

# AUTOMOTIVE

**Maintain POSITIVE**

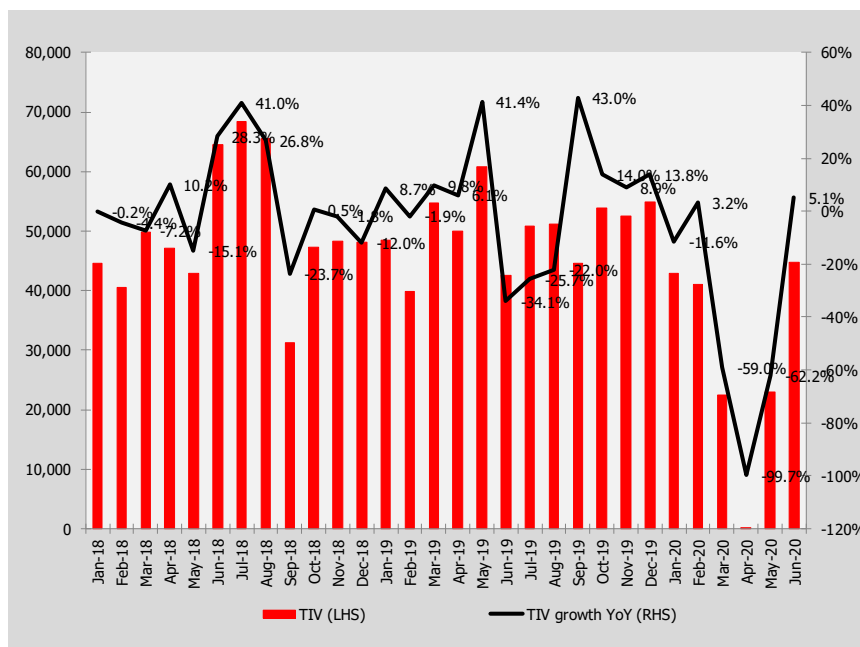
## June TIV rebounds, strongest month so far this year

### KEY INVESTMENT HIGHLIGHTS

- TIV registered its maiden year-on-year growth in June post-lockdowns, indicating a good start to a 2H20 recovery and marking the strongest monthly TIV so far this year
- National cars seem to have taken a relatively large market share, possible downtrading by consumers
- Our non-consensus 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), UMW (BUY, TP: RM3.40) and MBM (BUY, TP: RM3.80) remain our top sector picks.

**Maiden year-on-year growth post-lockdown.** The auto industry registered its maiden year-on-year growth in June, post-MCO which ended in early-May. According to the Malaysian Automotive Association, June TIV registered at 44,695 units, representing a 5.1%yoy growth and an almost doubling on sequential basis (+95%mom). June marks the second month of RMCO (whereby all sectors of the economy have been allowed to open up) and also reflects the maiden, half-month impact of the tax holiday for car purchases. Detailed breakdown of performance by marque will only be available next month, but the national cars seem to have taken a fairly large amount of market share, suggesting possible downtrading by consumers. We would note however, that Perodua launched its own discounting program about a week prior to implementation of the tax holiday on 15<sup>th</sup> June.

**Exhibit 1: TIV rebounded in June 2020**



Source: MAA, MIDFR

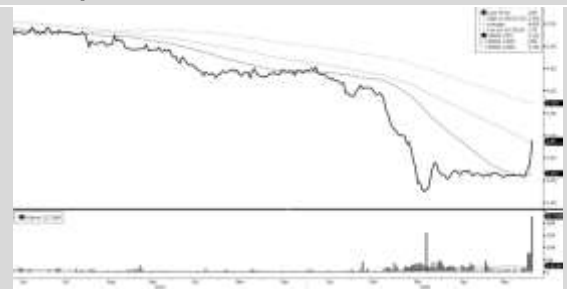
### COMPANY IN FOCUS

#### UMW Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM3.40  
Price @ 28<sup>th</sup> July 2020: RM2.49

- 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 @ 28<sup>th</sup> July 2020: RM1.37

- 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 brand 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	1.37	10.5	7.7	2.6	25.7	9.3	1.95	51.7
Tan Chong	NEUTRAL	1.07	(17.1)	9.3	0.2	2.3	3.7	1.15	11.2
UMW Holdings	BUY	2.49	15.6	13.0	0.8	6.3	1.3	3.40	37.8
MBM Resources	BUY	3.13	7.9	6.6	0.7	10.2	6.0	3.80	27.5

Source: Company, MIDFR

**Underpins a stronger 2H20.** The recovery in 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% given savings from the sales tax exemption incentive. As we had highlighted in our recent sector upgrade, the 3-month tax-holiday in 2018 lifted TIV during the period by ~21K/month (+32% against pre-tax holiday levels), relative to our conservative assumption of a 7.8K/month increase against our base FY20F assumption from the 2H20 tax-holiday. For the meantime, we stick to our FY20F target of 554K units, which represents an 8.3%yoy contraction.

**Converting the cash into spending.** These early trends of a recovery are 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 (the 6-month loan moratorium and i-Lestari program involve direct cash injection to consumers and accounted for more than half of the earlier, Prihatin stimulus package) (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, in our opinion.

**Recommendation.** Our non-consensus 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 2: June 2020 TIV Summary

Marques	Jun-19	May-20	Jun-20	YoY	MoM	YTD19	YTD20	YTD %	Market share	
									Jun-19	Jun-20
Proton	7,615	5,676	9,623	26.4%	69.5%	43,518	37,078	-14.8%	17.9%	21.5%
Perodua	16,037	7,886	21,250	32.5%	169.5%	121,782	74,170	-39.1%	37.7%	47.5%
Toyota	5,222	3,425	4,417	-15.4%	29.0%	31,251	18,270	-41.5%	12.3%	9.9%
Others	13,652	5,973	9,405	-31.1%	57.5%	99,773	44,706	-55.2%	32.1%	21.0%
<b>Total</b>	<b>42,526</b>	<b>22,960</b>	<b>44,695</b>	<b>5.1%</b>	<b>94.7%</b>	<b>296,324</b>	<b>174,224</b>	<b>-41.2%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR \*Based on official releases from MAA and selective companies

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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.