

21 August 2017 | Sector Update

Automotive

Maintain OVERWEIGHT

Look beyond the noises

INVESTMENT HIGHLIGHTS

- **July TIV up 14%yoy**
- **Sequential performance impacted by temporary glitch in registration system, carry over deliveries to boost August TIV**
- **Bermaz Auto (BUY, TP: RM2.55/share) is our top pick for a solid 41% earnings CAGR, attractive 6.5% yield and value crystallisation of Philippines unit**
- **UMW remains a contrarian BUY (TP: RM7.20/share) as a value play amid a turnaround in earnings, balance sheet deleveraging and early cycle play into EEV-driven structural cost reduction**

Resumes growth trend. After a 12%yoy fall in June (due to a short working month and against a high base last year), the auto sector resumed its growth trend registering a 14%yoy jump to 48,553 units in July. This would have been stronger if not for a temporary glitch in the online registration system, which also drove a 3%mom decline. We expect sequential improvement in August given carry over deliveries from July and normalisation of the long Raya holidays.

YTD growth underpins our sector upgrade. On a YTD basis, TIV growth stood at +4.7%, exceeding our FY17F TIV growth of 2.7%. If annualised the YTD TIV is largely within our estimates (accounting for 96% of our 596K target), despite the 1H typically being the much weaker half in terms of volumes. We stick to our +2.7% TIV growth forecast for now, but note of possible upside given an expected pick up in new launches in 2H and a seasonally stronger TIV in 4Q.

Non-nationals turning more aggressive. So far this year, Honda (+29%ytd) and Toyota (+22%ytd) are leading industry growth. Given the strong performance, Honda will be launching two additional models on top of the four (i.e. BRV, Jazz Hybrid, City Hybrid, CRV) that were planned and already launched. Toyota is launching 4 facelifts i.e. the Vios, Fortuner, Hilux and Innova models in 2H17. Toyota has also opened registration of interest for the popular CH-R model (B-segment SUV, competes with the CX3 and HRV) and is currently touring the Klang Valley to showcase the model prior to an expected launch in 1H18. The new Camry and the CH-R are likely to be Toyota's key models for FY18F. On the national car front, Perodua is speculated to launch the new MyVi in 2H17.

EXHIBIT 1: STRONGER QOQ TIV TRENDS FOR KEY PLAYERS UNDER COVERAGE

| | 2QCY16 | 1QCY17 | 2QCY17 | QoQ | YoY |
|----------------|---------------|---------------|---------------|--------------|--------|
| Proton | 16,502 | 19,376 | 20,017 | 3.3% | 21.3% |
| Perodua | 50,189 | 50,265 | 49,410 | -1.7% | -1.6% |
| Toyota | 17,033 | 16,503 | 17,220 | 4.3% | 1.1% |
| Honda | 20,877 | 27,283 | 25,244 | -7.5% | 20.9% |
| Nissan | 10,375 | 5,989 | 7,548 | 26.0% | -27.2% |
| Mazda | 3,794 | 2,082 | 2,689 | 29.2% | -29.1% |
| Others | 25,444 | 19,342 | 21,493 | 11.1% | -15.5% |

Source: MAA, MIDFR

EXHIBIT 2: TOYOTA CH-R



Source: Various, MIDFR

EXHIBIT 3: NEW-GENERATION TOYOTA CAMRY



Source: Various, MIDFR

Mazda TIV to pick up from October. Mazda TIV has been weak so far this year as its bread-and-butter model, the CX5 (which accounts for 43% of Mazda TIV) is reaching end-of-life prior to launch of the new generation model in late September, which should drive a strong rebound in Mazda's performance. Additionally, production for the Mazda 3 should re-accelerate once CKD kit supplies for the GVC Mazda 3 commences from end August.

Inflection point from 2Q-3Q17. Sector earnings should improve sequentially from 2Q-3Q17 driven by the TIV improvement of key players (See Exhibit 1) and a stronger Ringgit from Apr17 onwards, though there might be some delay in benefits of the stronger Ringgit kicking in given 1 – 2 months forward purchases by players. Nonetheless, players have generally reduced forward purchases to manage inventory levels, based on our channel checks. All the auto players under our coverage will benefit from the stronger Ringgit i.e. BAuto mainly from the weaker JPY and UMW / Tan Chong from the weaker USD. For BAuto, every 1% change in the JPY will impact FY18F earnings by 3%. For UMW and Tan Chong, every 1% change in the USD will impact FY17F by 6.5% and 35% respectively (Tan Chong is forecasted to register losses in FY17F/18F). More importantly, the improved macro environment (which is one of

the key thesis underpinning our recent sector upgrade) should trickle down to discretionary consumer spend more meaningfully going forward.

EXHIBIT 4: RINGGIT STRENGTHENING AGAINST USD



Source: Bloomberg, MIDFR

EXHIBIT 5: RINGGIT STRENGTHENING AGAINST JPY



Source: Bloomberg, MIDFR

BAuto is our top sector pick at unchanged TP of RM2.60/share. Key catalysts over the next 12 months: **(1) A 30%yoy increase in FY18F TIV** driven by launch of the new CX5 in Oct17 and CX9 in Jul17 **(2) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market. **(3) Attractive dividend yield of 8%** underpinned by net cash which accounts for 12% of market cap and solid 8% FCFE yield (FY18F). The listing of BAuto Philippines will bump yields up further given potential one-off special dividends. **(4) Value unlocking from the listing of BAuto Philippines (BAP).** Current market cap attributes practically no value to BAuto's stake in BAP relative to the 16x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 8.6x CY18F earnings. **(5) A stronger Ringgit** against the JPY from Apr17.


UMW remains a contrarian BUY at unchanged TP of RM7.20/share. Key catalysts: **(1) Demerger of O&G units** deleverages balance sheet, drives UMW back into the black and allows better focus on core divisions **(2) Reversal of prior years' market share loss**, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy **(3) Redevelopment of UMW's 711 acres Serendah land** which will unlock value of the asset – easily worth 39sen/share on our estimates **(4) A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production **(5) UMW is underowned** and at 11.7x FY18F earnings, trades below its historical average PER of 13.5x **(6) An underleveraged balance sheet** suggests room for acquisitive growth. 

EXHIBIT 6: JULY 2017 TIV SUMMARY

| Marques | Jul-16 | Jun-17 | Jul-17 | YoY | MoM | YTD16 | YTD17 | YTD % | Market share | |
|--------------|---------------|---------------|---------------|--------------|--------------|----------------|----------------|-------------|---------------|---------------|
| | | | | | | | | | Jul-16 | Jul-17 |
| Proton | 3,866 | 7,225 | 5,954 | 54.0% | -17.6% | 39,593 | 45,347 | 14.5% | 9.1% | 12.3% |
| Perodua | 15,121 | 17,821 | 18,920 | 25.1% | 6.2% | 112,491 | 118,595 | 5.4% | 35.6% | 39.0% |
| Toyota | 5,028 | 5,330 | 5,543 | 10.2% | 4.0% | 32,277 | 39,266 | 21.7% | 11.8% | 11.4% |
| Honda | 7,827 | 8,808 | 8,576 | 9.6% | -2.6% | 47,481 | 61,103 | 28.7% | 18.4% | 17.7% |
| Nissan | 3,068 | 2,738 | 2,518 | -17.9% | -8.0% | 24,216 | 16,055 | -33.7% | 7.2% | 5.2% |
| Mazda | 686 | 801 | 701 | 2.2% | -12.5% | 8,032 | 5,472 | -31.9% | 1.6% | 1.4% |
| Others | 6,875 | 7,552 | 6,341 | -7.8% | -16.0% | 53,850 | 47,176 | -12.4% | 16.2% | 13.1% |
| Total | 42,471 | 50,275 | 48,553 | 14.3% | -3.4% | 317,940 | 333,014 | 4.7% | 100.0% | 100.0% |

Source: MAA, MIDFR

EXHIBIT 7: JULY 2017 TIV SUMMARY BY VEHICLE TYPE

| Segment | Jul-16 | Jun-17 | Jul-17 | YoY | MoM | YTD16 | YTD17 | YTD % |
|---------------------|---------------|---------------|---------------|--------------|--------------|----------------|----------------|-------------|
| Passenger cars | 37,647 | 45,339 | 43,524 | 15.6% | -4.0% | 282,593 | 299,273 | 5.9% |
| Commercial vehicles | 4,824 | 4,936 | 5,029 | 4.2% | 1.9% | 35,347 | 33,741 | -4.5% |
| Total | 42,471 | 50,275 | 48,553 | 14.3% | -3.4% | 317,940 | 333,014 | 4.7% |

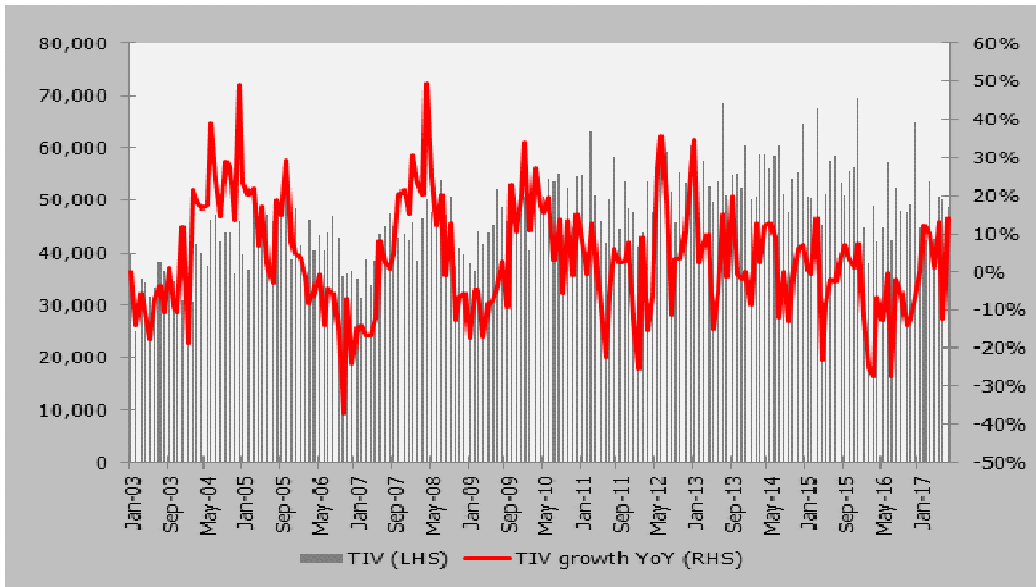
Source: MAA, MIDFR

EXHIBIT 8: JULY 2017 TIV SUMMARY BY VEHICLE TYPE

| Segment | Jul-16 | Jun-17 | Jul-17 | YoY | MoM | YTD16 | YTD17 | YTD % | Market share | |
|---------------|---------------|---------------|---------------|--------------|--------------|----------------|----------------|-------------|--------------|--------|
| | | | | | | | | | Jul-16 | Jul-17 |
| National cars | 18,987 | 25,046 | 24,874 | 31.0% | -0.7% | 152,084 | 163,942 | 7.8% | 44.7% | 51.2% |
| Non-nationals | 23,484 | 25,229 | 23,679 | 0.8% | -6.1% | 165,856 | 169,072 | 1.9% | 55.3% | 48.8% |
| Total | 42,471 | 50,275 | 48,553 | 14.3% | -3.4% | 317,940 | 333,014 | 4.7% | | |

Source: MAA, MIDFR

EXHIBIT 9: HISTORICAL TIV TREND



Source: MAA, MIDFR

VALUATION AND RECOMMENDATION

| Company | Rating | Shr Price (RM) | EPS (sen) | | PE (x) | | P/BV (x) | ROE (%) | Div Yield (%) | Target Price (RM) | Total Upside (%) |
|-----------------------|---------|----------------|-----------|--------|-------------|-------------|------------|-------------|---------------|-------------------|------------------|
| | | | CY17 F | CY18 F | CY17 F | CY18 F | | | | | |
| B.Auto | BUY | 1.88 | 17.1 | 20.5 | 11.0 | 9.2 | 4.1 | 40.2 | 7.1 | 2.55 | 42.7 |
| Tan Chong | NEUTRAL | 1.68 | -19.8 | -16.2 | -8.5 | -10.4 | 0.4 | -1.5 | 0.0 | 1.90 | 13.1 |
| UMW | BUY | 5.70 | 31.7 | 48.6 | 18.0 | 11.7 | 1.0 | 5.4 | 0.0 | 7.20 | 26.3 |
| Sector average | | | | | 14.5 | 10.5 | 1.8 | 14.7 | 2.8 | | |

Source: Bloomberg, Companies, MIDFR

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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. |