

22 April 2019 | Sector Update

Automotive

Maintain POSITIVE

Looking like a strong 1Q19

INVESTMENT HIGHLIGHTS

- **Strong growth in March 2019 TIV**
- **National car offensive sustained driven by SUV launches**
- **Non-nationals led by Toyota and Nissan**
- **MBM (TP: RM4.20) remains our top pick, followed by BAuto (TP: RM2.85) and Tan Chong (TP: RM1.80)**

Strong start to the year. March 2019 TIV (total industry volume) grew 9.6%yoy to 54,776 units. This was led mainly by the national marques which are riding on their recent SUV model launches. On a year-to-date basis, TIV grew 6% against our forecast of a flattish 0.5% growth. Year-to-date TIV of 143,064 units, if annualised, accounts for 96% of our full year forecast of 599K units.

National car offensive sustained. Proton TIV grew 46%yoy to 6136units in Mar19 driven by the X70, launched in Dec18 and which saw maiden contribution in Jan19. Proton's growth was also against a weak base in last year, which saw Proton registering the weakest TIV in the past decade. Perodua grew 12%yoy (+35%mom) to 23,286 units driven by the Aruz. Order backlog is sizeable at an estimated 10K units. The Aruz is being produced by Perodua at a rate of 2000-3000/month, implying 3-5 months waiting list. Collectively, national cars grew 18%yoy in Mar19 while market share increased to 54% from 50% a year ago.

Weak performance from non-national performance. The non-national segment saw flattish growth of 1%yoy led by Toyota (+14%yoy) and Nissan (+2.5%yoy). Toyota benefitted from the recent launch of the Vios and Rush while the all new Yaris (B-segment hatchback) launched last week underpins further growth in the near future. Honda and Mazda saw TIV reduction of 4%yoy and 10%yoy respectively. Mazda's decline came on the back of a strong base last year as the current generation CX5 was launched in Oct17. Mazda currently entails outstanding bookings of 1500 units, which is around a month of production. Most of the bookings tied to Mazda's SST-rebate promo had been delivered in Jan19.

MBM remains our top pick. We reaffirm our BUY call on MBM (TP: of 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 1: 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

BAuto (TP: RM2.85) remains a BUY. Key catalysts over the next 12 months:

- (1) **A 17%-30%yoy Mazda TIV growth (FY19F)** coupled with margin expansion driven by full year impact of new CX5
- (2) **Ringgit strength** against the JPY. CKD models (75% of TIV) is purchased in RM, insulating BAuto from forex volatility.
- (3) **A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given export market expansion to South East Asia (ex-Vietnam) and re-acceleration in production for the domestic market.
- (4) **Launch of the CKD CX8** towards 4QCY19
- (5) **Attractive dividend yield of 7%** - net cash accounts for 10% of market cap coupled with solid 9% FCFE yield (FY19F). Our payout assumption is capped at 80% vs. historical 80%-113% payout.

Tan Chong (BUY; TP: RM1.80) is a deep value play into a fundamental earnings turnaround. Despite Almera volumes facing potential impact from launch of the Aruz, the Almera is not really a profitable model anymore given kit costing at much higher USD:MYR rates back in 2010 (when the Ringgit stood at circa RM3.20:USD). Tan Chong's earnings turnaround in the past 12 months has largely been driven by new launches, particularly the new Serena Hybrid. Having seen share price fall some 40% in the past 24 months, Tan Chong now trades at just 0.3x FY19F PBV (which is lower than even its historical trough PBV of 0.5x). Key catalysts: (1) Resumption of new model launches – in which costing is pegged to latest USD:MYR rates (2) Narrowing in losses from Indochina operations.

VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY18F	CY19F	CY18F	CY19F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	2.30	16.7	20.1	13.7	11.4	5.00	35.2	7.2	2.85	31.1
Tan Chong	BUY	1.60	15.2	17.3	10.5	9.2	0.37	1.1	2.1	1.80	14.6
UMW	NEUTRAL	5.60	29.2	37.6	19.2	14.9	0.98	5.4	1.8	6.15	11.6
MBM	BUY	3.00	43.1	47.4	7.0	6.3	0.43	5.5	4.4	4.20	44.4
Average					13.3	10.9	1.7	11.8	3.9		

Source: Bloomberg, Companies, MIDF

EXHIBIT 2: MARCH 2019 TIV SUMMARY BY VEHICLE TYPE

Segment	Mar-18	Feb-19	Mar-19	YoY	MoM	YTD18	YTD19	YTD %
Passenger cars	39,982	36,749	50,101	25.3%	36.3%	121,096	131,114	8.3%
Commercial vehicles	10,003	3,089	4,675	-53.3%	51.3%	14,044	11,950	-14.9%
Total	49,985	39,838	54,776	9.6%	37.5%	135,140	143,064	5.9%

Source: MAA, MIDF

EXHIBIT 3: MARCH 2019 TIV SUMMARY BY VEHICLE TYPE

									Market share	
Segment	Mar-18	Feb-19	Mar-19	YoY	MoM	YTD18	YTD19	YTD %	Mar-18	Mar-19
National cars	24,941	22,532	29,422	18.0%	30.6%	68,411	78,940	15.4%	49.9%	53.7%
Non-nationals	25,044	17,306	25,354	1.2%	46.5%	66,729	64,124	-3.9%	50.1%	46.3%
Total	49,985	39,838	54,776	9.6%	37.5%	135,140	143,064	5.9%		

Source: MAA, MIDF

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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.