

23 February 2017 | Sector Update

## Automotive

**Maintain NEUTRAL**

### *Maiden growth since Dec15*

#### INVESTMENT HIGHLIGHTS


- **January TIV growth, although marginal, is the first seen in the past 12 months**
- **Toyota made a strong comeback registering a 95%yoy growth post EEV-qualified new launches toward late 2016 and off a weak base last year**
- **Bermaz Auto (BUY, TP: RM2.45/share) remains our top pick for company-specific catalysts and special dividends**
- **We recently upgraded UMW to BUY (TP: RM6.00/share) as the stock is undervalued amid a turnaround in earnings, balance sheet deleveraging and management's renewed focus on EEVs for its auto division**

**Finally squeezing out growth.** The auto sector finally managed to squeeze out volume growth, registering a 0.2%yoy increase in January 2017. Even though marginal, this is the first time TIV has registered positive growth in the past 12 months. While too early to call a trend based on January's data, this is definitely a positive indicator. The sharp drop of 31%mom is to be expected as December sales are inflated by year end sales campaigns which occurs every year. We stick to our TIV forecast of a 2% growth but we see selective players staging strong volume growth this year i.e. Toyota (+19%) and Proton (+20%).

**Toyota is back with a vengeance!** After having lost significant market share over the past 2 years i.e. from 15% in 2014 to 14% in 2015 and a further decline to 11% in 2016, Toyota makes a strong comeback regaining some grounds with a 13% market share in January and more importantly, almost doubling its volume year-on-year in January (+95%yoy) to 5,811 units. The strength, we suspect, was driven by launches of the new Vios in October, and the new Innova towards end of the year. Both models qualified for Energy Efficient Vehicle (EEV) incentives (comprising of mainly excise duty rebates) and the new Vios is now priced between RM1,480 and RM3,680 (or circa 2%-4%) cheaper than previously. On top of this, Toyota sales were very weak in Jan16 as Toyota implemented the largest price hike among peers in that period.

**No major price hikes so far.** So far, players have been holding back on price hikes despite the weaker Ringgit. In fact, selective players i.e. Toyota has actually lowered pricing for its Fortuner model by RM16,000 and the Vios which was mentioned above, as all the 3 models it launched throughout 2016 have been qualified for EEV incentives. Bermaz had indicated last year that it intends to raise pricing for its models sometime this year. Tan Chong, while bloated with old inventories might now benefit as it has the flexibility to run down the cheaper old inventories and hold back on purchasing new kits/CBUs at the current inflated USD:RM4.45 rates. In early 2016, key players like Toyota and Honda had already raised pricing by 3%-7% while Proton raised pricing by around 5%.

**Maintain NEUTRAL on autos.** Bermaz Auto (BUY, TP: RM2.45/share) is still our top sector pick: Key share price catalysts over the next 12 months: **(1) Attractive dividend yield of 7%** underpinned by net cash which accounts for 12% of market cap and solid 8% FCFE yield (FY17F). The listing of BAUTO Philippines will bump yields up further given potential one-off special dividends. **(2) 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 9x CY17F earnings. **(3) 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.

**UMW is now a BUY** (see report yesterday) at TP of RM6.00/share. (1) Demerger of O&G units will deleverage balance sheet, drive earnings turnaround and allow better focus on core divisions (2) Reversal of prior years' market share loss given UMW Toyota's renewed focus on EEV models which will drive structural cost reduction and price advantage (3) A more than quadrupling of M&E division earnings once its aerospace division reaches full scale production by FY19F (4) UMW is now underowned and trades at circa 1-standard deviation below historical average PBV of 1.25x. 

## EXHIBIT 1: JANUARY 2017 TIV SUMMARY

Marques	Jan-16	Dec-16	Jan-17	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Jan-16	Jan-17
Proton	7,743	7,223	7,207	-6.9%	-0.2%	7,743	7,207	-6.9%	17.4%	16.1%
Perodua	15,538	24,625	14,203	-8.6%	-42.3%	15,538	14,203	-8.6%	34.8%	31.8%
Toyota	2,980	7,347	5,811	95.0%	-20.9%	2,980	5,811	95.0%	6.7%	13.0%
Honda	5,743	11,461	8,594	49.6%	-25.0%	5,743	8,594	49.6%	12.9%	19.2%
Nissan	3,650	4,804	1,555	-57.4%	-67.6%	3,650	1,555	-57.4%	8.2%	3.5%
Mazda	1,354	603	804	-40.6%	33.3%	1,354	804	-40.6%	3.0%	1.8%
Others	7,583	8,759	6,493	-14.4%	-25.9%	7,583	6,493	-14.4%	17.0%	14.5%
<b>Total</b>	<b>44,591</b>	<b>64,822</b>	<b>44,667</b>	<b>0.2%</b>	<b>-31.1%</b>	<b>44,591</b>	<b>44,667</b>	<b>0.2%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

## EXHIBIT 2: JANUARY 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Jan-16	Dec-16	Jan-17	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	40,000	57,593	40,294	0.7%	-30.0%	40,000	40,294	0.7%
Commercial vehicles	4,591	7,229	4,373	-4.7%	-39.5%	4,591	4,373	-4.7%
<b>Total</b>	<b>44,591</b>	<b>64,822</b>	<b>44,667</b>	<b>0.2%</b>	<b>-31.1%</b>	<b>44,591</b>	<b>44,667</b>	<b>0.2%</b>

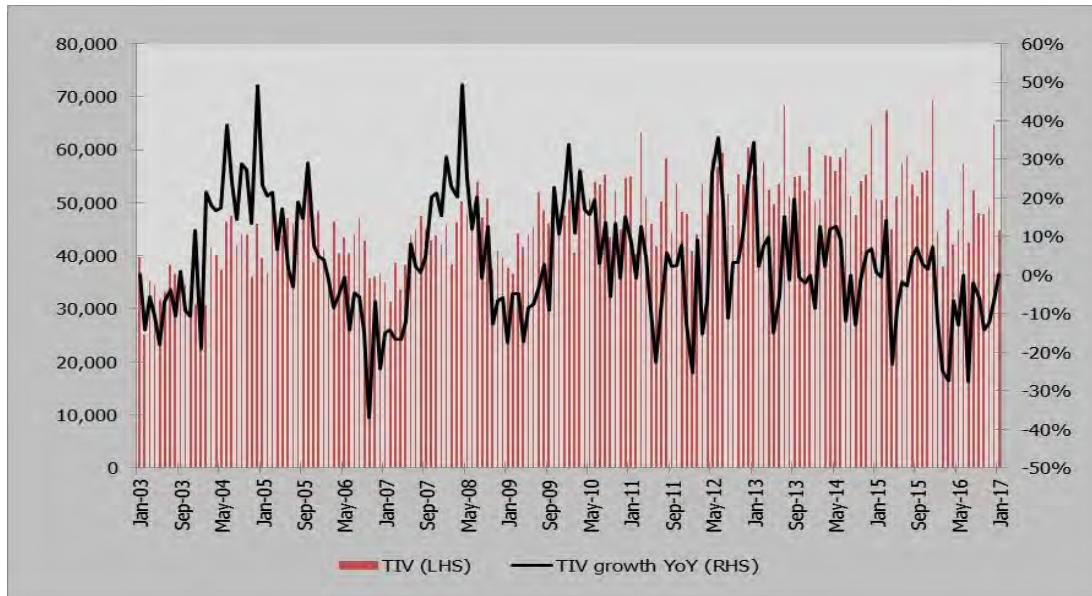
Source: MAA, MIDFR

## EXHIBIT 3: JANUARY 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Jan-16	Dec-16	Jan-17	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Jan-16	Jan-17
National cars	23,281	31,848	21,410	-8.0%	-32.8%	23,281	21,410	-8.0%	52.2%	47.9%
Non-nationals	21,310	32,974	23,257	9.1%	-29.5%	21,310	23,257	9.1%	47.8%	52.1%
<b>Total</b>	<b>44,591</b>	<b>64,822</b>	<b>44,667</b>	<b>0.2%</b>	<b>-31.1%</b>	<b>44,591</b>	<b>44,667</b>	<b>0.2%</b>		

Source: MAA, MIDFR

## EXHIBIT 4: 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 (%)
			CY16 F	CY17 F	CY16 F	CY17 F					
B. Auto	BUY	2.05	14.5	20.0	14.1	10.3	4.5	40.2	7.0	2.45	26.5
Tan Chong	NEUTRAL	1.78	-11.2	-25.5	-15.9	-7.0	0.5	-1.5	0.0	1.90	6.7
UMW	BUY	5.44	-16.1	-4.5	-33.8	-120.9	1.1	-0.2	0.0	6.00	10.3
<b>Sector average</b>					<b>-11.8</b>	<b>-39.2</b>	<b>2.0</b>	<b>12.8</b>	<b>2.3</b>		

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.