

# AUTOMOTIVE

**Maintain NEGATIVE**

## Nosedived in March

### KEY INVESTMENT HIGHLIGHTS

- **March TIV registered a deep -59%yoy contraction reflecting initial impact of the Movement Control Order (MCO).**
- **Impact seen across the board with Nissan registering the deepest fall among the key players.**
- **Our 2020F TIV remains at 505K reflecting a 16.5%yoy contraction but there is further downside in the case of a further extension of the MCO or a weaker than expected recovery post-MCO.**
- **Remain NEGATIVE on autos given challenging near-term outlook; our top SELL are UMW (TP: RM1.60) and Tan Chong (RM0.90).**

**Big plunge in March volume.** Auto sales volume contracted significantly in March; TIV registered at just 22,478 units representing a -59%yoy contraction and a -45% fall on a month-on-month basis. This reflects the initial impact of the Movement Control Order (MCO) which was initiated on 18<sup>th</sup> March. The sales weakness was seen across the board with key players such as Proton, Perodua and Honda registering -47%, -63% and -62%yoy contraction respectively. Nissan saw the sharpest contraction with an -84%yoy fall. Year-to-date, TIV totaled 106,428 units representing a -26%ytd contraction. We expect April TIV to worsen given virtually zero sales during the month. The MCO had been extended thrice to the current Phase 4 ending 12<sup>th</sup> May.

**Recap of our forecast.** In our last report ([titled S.O.S.](#)), we had cut our FY20F TIV to 504,580 units in view of the extended MCO and the implications on the macro outlook; we expect CY20F TIV to contract -16.5%yoy assuming a base case of up to Phase 4 MCO, while sector CY20F earnings is expected to contract by -51%. A recovery post-MCO is likely to be pushed out given the implication on job security, wage outlook and consumer sentiment; consumers would have likely shifted into 'survival mode' now with little priority for discretionary spend. Players such as Tan Chong had reportedly implemented salary cuts for employees and fee reduction for independent directors in response to the slowdown in sales. Absence of support schemes e.g. scrapping program during 2008/09 financial crisis, underpins our more bearish expectations relative to the 2009 downcycle.

**Proposals submitted.** A group of associations comprising the Perodua, Proton, Honda and Toyota Dealers Associations as well as the Federation of Motor and Credit Companies Companies Association of Malaysia is reported to have sent in a memorandum to the MoF. Among the requests included: (1) A Government grant or subsidy to distributors, workshops and after sales service vendors to weather the crisis, (2) removal of duties till end-2020 (3) Reduction or abolishment of corporate tax for at least 6 months (4) Monthly instalments on business loans to be a given a grace period and at a reduced interest rate.

### COMPANY IN FOCUS

#### UMW Holdings Bhd

Maintain **SELL** | Unchanged Target price: RM1.60  
Price @ 29<sup>th</sup> April 2020: RM2.12

- FY20F Toyota TIV recently revised down to 57K (-17%yoy) from 63K following extended MCO directive
- CY20F/21F earnings trimmed by 31%/13%.
- Toyota faces tough year given key competitors' new launch cycle, compounding the impact of a deteriorating macro condition.

#### Share price chart



#### Tan Chong Motor Bhd

Maintain **SELL** | Unchanged Target price: RM0.90  
Price @ 29<sup>th</sup> April 2020: RM1.05

- FY20F TIV recently revised down to 19K (-10%yoy)
- Upcoming 2H20 new Almera launch is a positive catalyst, but timed in a tough operating environment
- Run-out of old Almera to drag post-MCO recovery
- Most sensitive to forex volatility; every 1% change in USD impacts FY20F by 12%

#### Share price chart




## SECTOR VALUATION MATRIX

		Shr. Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY20F	CY21F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	NEUTRAL	1.34	14.0	12.2	2.3	25.7	4.6	1.10	-4.4
Tan Chong	SELL	1.05	NA	NA	0.3	2.3	3.6	0.90	-10.5
UMW Holdings	SELL	2.12	12.7	17.5	0.7	6.3	1.2	1.60	-23.3
MBM Resources	NEUTRAL	2.82	8.0	6.8	0.6	10.2	5.1	2.80	4.3

Source: Company MIDFR

**Tax holiday provided a boost in 2018.** There has yet to be an update since then, but we think a temporary sales tax holiday similar to the one in 2018 could help temporarily lift sales and ease the cash flow crunch faced by the sector. When it was implemented in Jun18-Aug18, the tax holiday drove Jun18/Jul18/Aug18 TIV up by some 28%/41%/27%yoy respectively as consumers rushed to lock in purchases to benefit from the effectively lower purchase price. 2018 TIV ended 3.8% higher and rose to close to the 600K mark after a 2-year contraction in 2016-17.

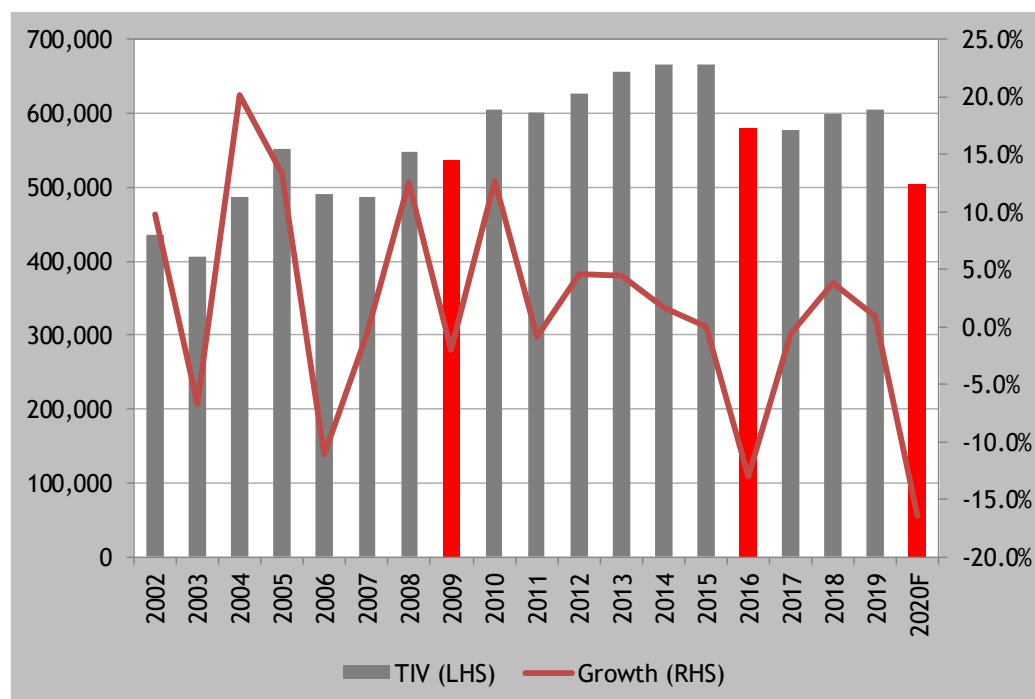
**Recommendation.** We remain NEGATIVE on autos. The sector is likely to be dominated by negative newsflows and datasets over the next few months, at least. Any further extension of the MCO beyond Phase 4 would translate into further downside to our forecasts (to <500K FY20F TIV) and underpins our recent downgrade of the sector. Nonetheless, balance sheets are currently solid with players under coverage attaining either net cash positions (MBM and BAuto) or manageable net gearing of below 40%. Our top SELLS are UMW (TP: RM1.60) and Tan Chong (TP: RM0.90). 

### Exhibit 1: March 2020 TIV Summary

									Market share	
Marques	Mar-19	Feb-20	Mar-20	YoY	MoM	YTD19	YTD20	YTD %	Mar-19	Mar-20
<b>Proton</b>	6,136	9,974	3,277	-46.6%	-67.1%	18,281	21,757	19.0%	12.8%	20.4%
<b>Perodua</b>	23,286	18,895	8,601	-63.1%	-54.5%	60,659	44,977	-25.9%	42.4%	42.3%
<b>Toyota</b>	5,899	3,989	2,779	-52.9%	-30.3%	13,722	10,415	-24.1%	9.6%	9.8%
<b>Honda</b>	8,677	1,759	3,281	-62.2%	86.5%	22,190	11,100	-50.0%	15.5%	10.4%
<b>Nissan</b>	2,050	1,045	331	-83.9%	-68.3%	5,166	2,747	-46.8%	3.6%	2.6%
<b>Mazda</b>	1,010	1,102	521	-48.4%	-52.7%	3,311	2,723	-17.8%	2.3%	2.6%
<b>Others</b>	7,718	4,351	3,688	-52.2%	-15.2%	19,725	12,709	-35.6%	13.8%	11.9%
<b>Total</b>	54,776	41,115	22,478	-59.0%	-45.3%	143,054	106,428	-25.6%	100.0%	100.0%

Source: MAA, MIDFR

## Exhibit 2: Historical TIV Trend



Source: MAA, MIDFR

## Exhibit 3: Historical TIV and Forecasts

	2015	2016	2017	2018	2019	2020F
Proton	102,175	72,290	70,991	64,744	100,183	86,157
Perodua	213,307	207,110	204,887	227,243	240,341	209,464
Toyota	93,760	63,757	69,492	65,551	69,091	57,467
Honda	94,902	91,830	109,511	102,282	85,418	72,605
Nissan	47,235	40,706	27,154	28,610	21,239	19,139
Mazda	14,325	12,493	9,730	16,038	11,651	10,973
Others	100,927	91,939	84,870	94,130	76,364	48,773
<b>Total</b>	<b>666,631</b>	<b>580,125</b>	<b>576,635</b>	<b>598,598</b>	<b>604,287</b>	<b>504,580</b>
<b>Market Share</b>						
Proton	15.33%	12.46%	12.31%	10.82%	16.58%	17.08%
Perodua	32.00%	35.70%	35.53%	37.96%	39.77%	41.51%
Toyota	14.06%	10.99%	12.05%	10.95%	11.43%	11.39%
Honda	14.24%	15.83%	18.99%	17.09%	14.14%	14.39%
Nissan	7.09%	7.02%	4.71%	4.78%	3.51%	3.79%
Mazda	2.15%	2.15%	1.69%	2.68%	1.93%	2.17%
Others	15.14%	15.85%	14.72%	15.73%	12.64%	9.67%
<b>Growth</b>						
Proton	-11.8%	-29.2%	-1.8%	-8.8%	54.7%	-14.0%
Perodua	9.1%	-2.9%	-1.1%	10.9%	5.8%	-12.8%
Toyota	-8.1%	-32.0%	9.0%	-5.7%	5.4%	-16.8%
Honda	22.5%	-3.2%	19.3%	-6.6%	-16.5%	-15.0%
Nissan	1.9%	-13.8%	-33.3%	5.4%	-25.8%	-9.9%
Mazda	25.9%	-12.8%	-22.1%	64.8%	-27.4%	-5.8%
Others	-14.4%	-8.9%	-7.7%	10.9%	-18.9%	-36.1%
<b>Total</b>	<b>0.0%</b>	<b>-13.0%</b>	<b>-0.6%</b>	<b>3.8%</b>	<b>1.0%</b>	<b>-16.5%</b>

Source: MAA, MIDFR

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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.