

19 December 2018 | Sector Update

# Automotive

**Maintain POSITIVE**

## *Resilient demand despite forward purchases*

### INVESTMENT HIGHLIGHTS

- Further recovery in November TIV
- Mazda bucked the trend given extensive waiting list, Perodua strongly outperforming
- 2018 could breach our earlier forecast
- Bermaz Auto (BUY, TP: RM2.70/share) and MBM (BUY, TP: RM3.15) are our top picks

**Further recovery in November.** November TIV grew by another 2%mom (but down by 1.8%yoy) to 48,282 units. The build up to the year-end sales campaigns is weaker this time around as sales have been brought forward but we take comfort in the volume resilience despite significant forward purchases during the Jun-Aug tax holiday period.

**YTD basis.** On a year-to-date basis, TIV could beat our earlier forecast. YTD November TIV stood at 550,526 units. If the December clearance campaigns sustains as per past years, there is a chance 2018 TIV could hit or even breach the 600K mark (vs. our forecast of 586K units). However, the outperformance would be mainly due to the temporary tax-holiday in 3Q18 and is not sustainable. We leave our FY19F TIV unchanged at this juncture. Outperformance came from Perodua and Mazda mainly, while Proton, Toyota, Honda and Nissan are actually underperforming our forecasts.

**Perodua strong outperformance.** Perodua showing strong TIV recovery after weak TIV in September growing by another 8%mom and some 27%yoy. Perodua's Sept TIV was impacted by the MyVi production disruption which has since October been rectified. There is a chance Perodua could outperform strongly outperform our 2018 forecast. The D38L SUV is expected to be launched 1Q19 and could drive upside to our FY19F Perodua TIV.

**Mazda bucks the trend.** Mazda too, is strongly outperforming our 2018 forecast, with YTD TIV of 14,587, already 114% of our CY18 Mazda TIV. Mazda saw market share gain to 3.9% in Nov18 from 2.1% last year. With a strong 8K units order backlog moving into Jan19, Mazda's strong performance looks sustainable. Strong performance is mainly driven by strong demand for the new CX5 launched in October 2017. YTD, Mazda TIV grew by some 62%, well outperforming overall TV growth of 5.5%.

**How long will the hype last?** Proton X70 was officially launched last Wednesday with a price tag of RM99,800-RM123,800. While bookings were pretty strong at over 10K (vs. monthly target of 3K-4K/month) just a month after pre-launch bookings were opened in September, there has not been much development reported since then. The X70 is likely to take share off the HRV mainly and to a certain extent the CX3. The non-national C-segment sedan is also likely to be impacted – Honda Civic commands a large share here.

### EXHIBIT 1: NOVEMBER 2018 TIV SUMMARY

Marques	Nov-17	Oct-18	Nov-18	YoY	MoM	YTD17	YTD18	YTD %	Market share	
									Nov-17	Nov-18
Proton	4,810	5,093	4,820	0.2%	-5.4%	66,189	59,146	-10.6%	9.8%	10.0%
Perodua	16,636	19,528	21,110	26.9%	8.1%	184,707	208,841	13.1%	33.8%	43.7%
Toyota	6,763	4,757	3,835	-43.3%	-19.4%	62,254	61,241	-1.6%	13.8%	7.9%
Honda	10,482	7,246	7,100	-32.3%	-2.0%	98,290	94,261	-4.1%	21.3%	14.7%
Nissan	2,121	2,500	2,507	18.2%	0.3%	24,890	25,740	3.4%	4.3%	5.2%
Mazda	1,010	1,652	1,889	87.0%	14.3%	9,019	14,587	61.7%	2.1%	3.9%
Others	7,362	6,497	7,021	-4.6%	8.1%	76,557	86,710	13.3%	15.0%	14.5%
<b>Total</b>	<b>49,184</b>	<b>47,273</b>	<b>48,282</b>	<b>-1.8%</b>	<b>2.1%</b>	<b>521,906</b>	<b>550,526</b>	<b>5.5%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDF

**BAuto (TP: RM2.70) remains our top sector pick.** 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) are 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** in mid-CY19F
- (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.

**Our contrarian BUY on UMW (TP: RM6.60) is maintained.** Key catalysts: (1) **A deleveraged balance sheet post** UMWOG demerger allows room for acquisitive growth and resumption of dividend payouts (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 830 acres Serendah land** which will unlock value of the asset – easily worth 40sen/share on our estimates (5) **A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production.

At a depressed valuation of 6x FY19F earnings, **MBM Resources (BUY, TP: RM3.15) is a cheap proxy to Perodua's** volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Key catalysts: (1) Strong growth in Perodua TIV on the back of the new MyVi and potentially a new SUV to fill up a vacuum in its model mix (2) A recovery in industry production driven by new national car launches.

**Tan Chong is our non-consensus BUY (TP: RM2.10)** as a deep value play and a fundamental earnings turnaround. Having seen share price fall some 40% in the past 24 months, Tan Chong now trades at just 0.4x FY18F PBV (which is lower than even its historical trough PBV of 0.5x) amid a turnaround in earnings. Key catalysts include: (1) Resumption of new model launch from FY18F (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	2.19	16.7	20.1	13.1	10.9	4.76	35.2	7.1	2.70	30.4
Tan Chong	BUY	1.39	10.2	10.6	13.7	13.1	0.42	1.1	2.2	2.10	53.2
UMW	BUY	5.42	31.7	38.2	17.1	14.2	0.94	5.4	4.0	6.60	25.8
MBM	BUY	2.02	32.7	35.4	6.2	5.7	0.43	5.5	4.4	3.15	60.3
<b>Average</b>					<b>12.1</b>	<b>10.3</b>	<b>1.6</b>	<b>11.8</b>	<b>4.4</b>		

Source: Bloomberg, Companies, MIDF

**EXHIBIT 2: NOVEMBER 2018 TIV SUMMARY BY VEHICLE TYPE**

Segment	Nov-17	Oct-18	Nov-18	YoY	MoM	YTD17	YTD18	YTD %
Passenger cars	43,152	42,364	43,364	0.5%	2.4%	466,602	490,776	5.2%
Commercial vehicles	6,032	4,909	4,918	-18.5%	0.2%	55,304	59,750	8.0%
<b>Total</b>	<b>49,184</b>	<b>47,273</b>	<b>48,282</b>	<b>-1.8%</b>	<b>2.1%</b>	<b>521,906</b>	<b>550,526</b>	<b>5.5%</b>

Source: MAA, MIDF

**EXHIBIT 3: NOVEMBER 2018 TIV SUMMARY BY VEHICLE TYPE**

Segment	Nov-17	Oct-18	Nov-18	YoY	MoM	YTD17	YTD18	YTD %	Market share	
									Nov-17	Nov-18
National cars	21,446	24,621	25,930	20.9%	5.3%	250,896	267,987	6.8%	43.6%	53.7%
Non-nationals	27,738	22,652	22,352	-19.4%	-1.3%	271,010	282,539	4.3%	56.4%	46.3%
<b>Total</b>	<b>49,184</b>	<b>47,273</b>	<b>48,282</b>	<b>-1.8%</b>	<b>2.1%</b>	<b>521,906</b>	<b>550,526</b>	<b>5.5%</b>		

Source: MAA, MIDF

**EXHIBIT 4: 2019 KEY LAUNCHES**

1Q19	2Q19	3Q19	4Q19
New Toyota Vios		Toyota Yaris	Honda Accord
Perodua D38L		Mazda CX8	
Proton X70 (CKD)			

Source: Company, 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.