

18 January 2017 | Sector Update

Automotive

Maintain NEUTRAL

Perodua signalling a cautious outlook

INVESTMENT HIGHLIGHTS

- **Perodua forecasts 2% industry sales growth**
- **Perodua TIV however expected to contract in 2017**
- **Currency volatility remains a key sector risk in the near-term**
- **Bermaz Auto (BUY, TP: RM2.45/share) is our top pick for company-specific catalysts and special dividends**

Perodua forecasted to lose market share. According to news reports this morning, Perodua is projecting total industry volume (TIV) to rise by a mild 2% this year to 590,000 units. This is very much in line with our projection of 589,003 units. However, Perodua itself is targeting sales volume of just 202,000 units, implying a 2%yoy drop and a reduction in market share to 34% (from an estimated 35%-36% in 2016), which management attributes to a tough market and stiff competition. This underpins our earlier view that consensus had been too optimistic on volume growth from the Bezza (with Perodua TIV being forecasted to rise well above 210K from FY17F onwards) as it comes partly from cannibalisation of existing models such as the ageing MyVi model, while massive bookings that were seen for the Bezza were derived prior to Proton's aggressive new model introductions later in the year.

Mild recovery expected in 2017. We had in our 2017 sector outlook, trimmed our 2016 TIV forecast to 576,636 units in anticipation of weak year-end sales campaign. The actual 2016 TIV are expected to be released tomorrow. The 2% growth we are expecting in 2017F comes off an exceptionally weak base after having contracted 14% in 2016. Additionally, 2017 will be driven largely by full year impact of the introduction of new national car models from end 3Q16 as well as Toyota's new Vios in October. Most of the volume model launched by key players were done in 2016, while Honda's City is only due of replacement in 2018/19, though there could be facelifts in the near-term. Key new launches to look out for in 2017 could be: (1) the Perodua MyVi which is due for a replacement (though we hear variants may differ from the current line-up, if any) (2) Mazda's new CX5 (which is Mazda's bread and butter model accounting for half of volumes) and the new CX9 (3) Kia Rio (B-segment), Carnival (MPV) and Optima (D-segment). Tan Chong is still not firm on when it will start to launch new Nissan models after having frozen new launches since 2016.

Currency volatility. The weak Ringgit is still a significant risk factor for autos going forward. The strength in USD will raise import cost for auto players but the JPY weakness seen post-US elections is positive for select players such as Bermaz Auto and to a certain extent, Perodua. UMW's imports are totally denominated in USD, while Tan Chong has around 85% exposure to USD imports with the rest in JPY. Bermaz Auto's imports are denominated 100% in the JPY, but it is only exposed to forex via its CBU imports which accounts for ~30% of sales. Every 1% change in JPY will impact BAuto's FY18F (FYE April) earnings by 2% and Tan Chong by 5% (FY17F). Meanwhile every 1% change in USD will impact UMW's earnings by 116% (FY17F) and Tan Chong's earnings by 21% (FY17F). The extreme sensitivity for Tan Chong and UMW is due to the fact that both companies are close to break-even in terms of profitability, which results in pronounced fluctuations to bottomline from any changes in variables.

Price hikes looming? While most players are giving vague views on model pricing for 2017, we do not rule out further price hikes by players to offset the impact of forex volatility if the current weakness in the Ringgit sustains. Bermaz for one, did not participate in the price hikes in early 2016 as it had previously hedged its JPY exposure at around RM3.60:JPY(x100). However, these were exhausted in Apr 2016 and management is now looking to raise pricing for Mazda models across the board though the quantum is still uncertain at this juncture. In early 2016, peers like Toyota and Honda 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 remains a NEUTRAL** at unchanged TP of RM5.15/share while **Tan Chong also remains a NEUTRAL** at unchanged TP of RM1.90/share. 

EXHIBIT 1: MIDF TIV FORECASTS

	2013	2014	2015	2016F	2017F
Proton	138,683	115,783	102,175	71,523	85,827
Perodua	196,071	195,579	213,307	207,100	209,935
Toyota	91,185	102,035	93,760	64,382	75,964
Honda	51,544	77,495	94,902	88,259	89,141
Nissan	53,156	46,352	47,235	38,510	39,488
Mazda	9,197	11,382	14,325	14,552	15,236
Others	115,957	117,839	100,927	92,310	73,442
Total	655,793	666,465	666,631	576,636	589,033
Market Share					
Proton	21.1%	17.4%	15.3%	12.4%	14.6%
Perodua	29.9%	29.3%	32.0%	35.9%	35.6%
Toyota	13.9%	15.3%	14.1%	11.2%	12.9%
Honda	7.9%	11.6%	14.2%	15.3%	15.1%
Nissan	8.1%	7.0%	7.1%	6.7%	6.7%
Mazda	1.4%	1.7%	2.1%	2.5%	2.6%
Others	17.7%	17.7%	15.1%	16.0%	12.5%
Growth					
Proton	-1.7%	-16.5%	-11.8%	-30.0%	20.0%
Perodua	3.7%	-0.3%	9.1%	-2.9%	1.4%
Toyota	-13.3%	11.9%	-8.1%	-31.3%	18.0%
Honda	47.5%	50.3%	22.5%	-7.0%	1.0%
Nissan	46.6%	-12.8%	1.9%	-18.5%	2.5%
Mazda	45.2%	23.8%	25.9%	1.6%	4.7%
Others	1.1%	1.6%	-14.4%	-8.5%	-20.4%
Total	4.5%	1.6%	0.0%	-13.5%	2.2%

Source: MAA, MIDFR

VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Company	Rating	(RM)	CY16 F	CY17 F	CY16 F	CY17F	(x)	(%)	(%)	Price (RM)	Upside (%)
B.Auto	BUY	2.09	14.5	20.0	14.4	10.5	4.5	40.2	7.0	2.45	24.2
Tan Chong	NEUTRAL	1.78	-11.2	-25.5	-15.9	-7.0	0.5	-1.5	0.0	1.90	6.7
UMW	NEUTRAL	4.62	-13.8	-13.8	-33.5	-33.5	1.1	-0.2	0.5	5.15	12.0
Sector average			-3.5	-6.4	-11.7	-10.0	2.0	12.8	2.5		

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.