

22 July 2016 | Sector Update

## Automotive

**Maintain NEUTRAL**

### *Perodua keeps sales targets*

#### INVESTMENT HIGHLIGHTS

- **Bezza bookings now account for 27% of target**
- **Perodua conservatively keeps sales target and flags possible cannibalisation**
- **Near-term possible wait-and-see among buyers in anticipation of new Saga and Iriz sedan**
- **Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick and we remain NEUTRAL on UMW (TP: RM5.60/share)**

**Bookings have risen.** The Perodua Bezza was officially launched yesterday. The number of bookings has increased to 4,028 units (after 5 days of opening the model up for bookings) from 1,200 units from our last report (after 2 days of opening up the model for bookings). The 4,028 unit bookings account for 27% of Perodua's booking target for the Bezza for the first month of launch. Out of the orders received, 50% was for its 1.3 litre Advance variant, 35% for its 1.3 litre Premium X variant and the rest for the 1 litre variants, i.e. demand for the higher 1.3 litre variants (priced between RM43K-51K) were slightly higher at 85% of total bookings vs. the initial 82% estimate.

**Focus is on domestic market.** Perodua is reported to have set a capacity of 7,000 units a month for the Bezza at the new Perodua Global Manufacturing (PGM) plant which is also producing the Axia. The PGM plant (100K/annum capacity on single-shift) is now running on 2-shifts to accommodate production of the Axia (circa 110K/year) and Bezza (estimated at around 84K a year). Management indicated that current production capacity is mainly to meet domestic demand first and that studies are still being undertaken for potential exports of the model, either under the Perodua or the Daihatsu badge. The MyVi is currently exported to Indonesia under the Daihatsu Sirion badge but volumes are still small, i.e. 1%-2% of total volumes. Our channel checks a few days ago suggest a mid-term target of exports accounting for around 5% of volumes.

**Perodua keeps sales target.** Despite the buzz and the aggressive sales target (10,000/month for the first 3 months and 7600/month normalised sales thereafter) for the Bezza, Perodua is maintaining its sales target of 216,000 units for 2016. Management highlighted risks of possible cannibalisation, especially for the ageing MyVi model which currently generates an estimated 6,000-7,000 unit sales/month, accounting for 34% of Perodua TIV. As we had highlighted in an earlier report, the Saga only generates around 3,000-3,500 monthly sales (around 4,500/month back in 2014) while Proton's Iriz 1.3 litre model, which is Proton's only A/B segment model overlapping pricing of the Bezza, is only generating sales volume of around 500 units a month. Fresh entry level buyers are unlikely to be significant given the Bezza's premium pricing as discussed above. Simple mathematics suggests that almost half of Bezza's volume could come from cannibalisation of Perodua's own sales.

**"Wait and see" in the near-term?** Proton is scheduled to release the Persona replacement (a sedan version of the Iriz which will likely have similar dimensions as the Bezza) and the Saga replacement by end of the year. For the family car buyers, Proton's upcoming Suzuki rebadge model (a compact model) could also likely trigger a delay in purchases by consumers and lead to a wait-and-see attitude among buyers in the near-term. Our channel checks however suggest that the "Iriz sedan" is targeted for much lower monthly volumes of around 2000 units a month.

## EXHIBIT 1: BEZZA MAINLY POSITIONED IN MYVI / IRIZ PRICE POINTS


Perodua Axia	RM	Proton Saga	RM	Perodua Bezza	RM	Perodua MyVi	RM	Proton Iriz	RM
1.0 Std E M solid	24,437								
1.0 Std E M metallic	24,837								
1.0 Std G M solid	32,127								
1.0 Std G M metallic	32,527	Saga FLX 1.3 Manual solid	33,970						
1.0 Std G A solid	35,127	Saga FLX 1.3 Manual mtlc	34,420						
1.0 Std G A metallic	35,527								
1.0 Spec Ed M solid	36,637								
1.0 Spec Ed M metallic	37,037	Saga FLX 1.3 CVT solid	37,630	Bezza 1.0 manual	37,300				
1.0 Spec Ed A solid	39,637	Saga FLX 1.3 CVT mtlc	38,088	Bezza 1.0 auto	39,300				
1.0 Spec Ed A metallic	40,037								
1.0 Advance A solid	41,967					1.3 Std G MT	40,862		
1.0 Advance Ed A metallic	42,377			Bezza 1.3 manual	42,800		41,262	1.3 Std MT	41,520
						1.3 Std G AT	43,862		41,970
				Bezza 1.3 auto premium	44,800		44,262	1.3 Std CVT	44,450
									44,900
								1.3 Exec MT	45,760
									46,210
								1.3 Exec CVT	48,680
						1.5 SE MT	49,968		49,130
				Bezza 1.3 auto advance	50,800		50,368	1.6 Exec MT	53,140
						1.5 SE AT	52,968		53,590
							53,368	1.6 Exec CVT	56,080
						1.5 Adv AT	57,968		56,530
							58,368		

Source: MAA, Companies, MIDFR \*Green shades marks key models with overlapping price points

Note: Over 80% of Bezza's sales expected to be derived from the 1.3 Premium and Advance variants

**MBMR (Not Rated, FY16F PE: 10x)** is a pure play into Perodua (via its effective 23% stake in the latter) as MBM is now almost entirely reliant on Perodua's earnings to drive its bottomline. Secondly, its auto part units benefit from supplies to Perodua, i.e. Hirotako for airbags and seatbelts and OMI for wheel supplies. Thirdly, MBM is one of the largest Perodua dealers in the country (via 52% owned Daihatsu Malaysia Sdn Bhd) and should benefit from Perodua's sales improvement.

**UMW (NEUTRAL, TP: RM5.60/share)** is an alternative play into Perodua albeit at a pricier entry (1x FY16F PBV, 43x FY16F PER), while the possible earnings improvement at Perodua is diluted as Perodua is estimated to account for just 38% of UMW's bottomline (FY15). Nevertheless, given the weakness expected at 57%-owned UMW Oil & Gas and 51%-owned UMW Toyota this year, Perodua's contribution to bottomline could rise exponentially (up to 87% of FY16F bottomline on our estimates), albeit this will be very much temporary.

**Maintain NEUTRAL on autos.** Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick. Its key share price catalysts over the next 12 months are (1) Attractive dividend yield of 7% underpinned by solid net cash which accounts for 14% of market cap and strong FCFE yield of 10% (FY17F), (2) Further market share wins driven by new launches, i.e. the CKD Mazda 6 and diesel variants of the CX5, Mazda 2 and Mazda 6, (3) Recovery in manufacturing earnings (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) after the launch of the facelift CX5, and (4) Potential value unlocking from the listing of BAuto Philippines. It is also notable that, ex-cash, BAuto trades at just 9.7x CY16F earnings. 

## 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	2.31	18.9	20.4	12.2	11.3	4.5	40.2	7.4	2.50	15.6
Tan Chong	NEUTRAL	1.94	5.2	8.1	37.3	24.0	0.6	2.7	0.0	U.R.	N/A
UMW	NEUTRAL	5.63	13.2	15.9	43.6	36.2	1.0	5.0	0.9	5.60	-0.5
<b>Sector average</b>					<b>31.1</b>	<b>23.8</b>	<b>2.0</b>	<b>16.0</b>	<b>2.8</b>		

Source: Bloomberg, Companies, MIDFR; Note: U.R. - Under Review

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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.