

# Automotive

*Maintain* **POSITIVE**

## *Positioning for Perodua's record TIV*

### INVESTMENT HIGHLIGHTS

- The Aruz plugs an important gap in Perodua's model mix, forecasted to hit record TIV this year
- Positioned to take share off non-national B-segment sedan and MPV; Honda, Nissan volumes likely to be most impacted
- MBM is cheapest and most leveraged play into this theme, followed by UMW
- MBM (TP: RM3.80) is our new top pick, followed by BAUTO (TP: RM2.70) and UMW (TP: RM6.60)

**Perodua's maiden SUV model.** Perodua's maiden SUV model, the Aruz, was launched yesterday. The Aruz is a 7-seater SUV and is available in two variants, priced at RM73K and RM78K. The model is based off the Rush platform, but with a redesigned interior and tweaks to exterior design. Both the Aruz and the Rush are produced at the Perodua Manufacturing Sdn Bhd plant. The Aruz's 1.5 litre engine is shared with the MyVi and Rush. Perodua is targeting sales of 2000-2500 units a month. At a conservative 24K annual volume, the Aruz is estimated to account for 10% of Perodua's FY19F TIV. Some 2200 bookings have been collected since order-taking commenced on 3<sup>rd</sup> January.

**Why is the Aruz important?** The Aruz plugs an important gap in Perodua's model mix after having been absent from the SUV segment since 2009. The Aruz is now Perodua's highest priced model - previously, the Alza was its highest, priced at RM51,490-RM62,690. Given the large ~RM10K gap in price points within a price sensitive segment, we think the Aruz is unlikely to cannibalise the Alza in a big way. More importantly, the Aruz fills a vacuum in the <RM80K SUV segment - the Aruz would be the cheapest 7-seater SUV from the mainstream brands to be available in the market giving Perodua a strong advantage. The Haval H1 (5-seater SUV from a Chinese brand), although entailing cheaper pricing of RM59K-RM72K, has not really been selling in the market and is not a direct competitor given its much smaller size.

**Non-national B-segment to see increased competition.** Based on the Aruz's price points of RM73K-RM78K, we expect the non-national B-segment as well as the lower-end MPV/crossover segment to be impacted by increased competition. Of the three major non-national players, we think Honda will be impacted the most followed by Nissan and Toyota (See Exhibit 2).

### EXHIBIT 1: KEY NON-NATIONAL MODELS WITH OVERLAPPING PRICE POINTS WITH THE ARUZ

Brand/Model	Variants	Price Range (RM)	Estimated monthly TIV (units)
<b>Toyota</b>			
Vios	1.5J	77,200	426
Avanza	1.3E / 1.5E	73,800-80,500	274
<b>Honda</b>			
BRV	1.5E	80,989	335
City	1.5S / 1.5E	73,836-79,955	1880
Jazz	1.5S / 1.5E	70,242-76,316	962
<b>Nissan</b>			
Almera	1.5E / 1.5VL	69,888-79,888	808
Total - Toyota			700
Total - Honda			3,177
Total - Nissan			808
<b>Grand Total</b>			<b>4,685</b>
<b>Perodua Aruz</b>	<b>1.5X / 1.5AV</b>	<b>72,900-77,900</b>	<b>2,000-2,500</b>

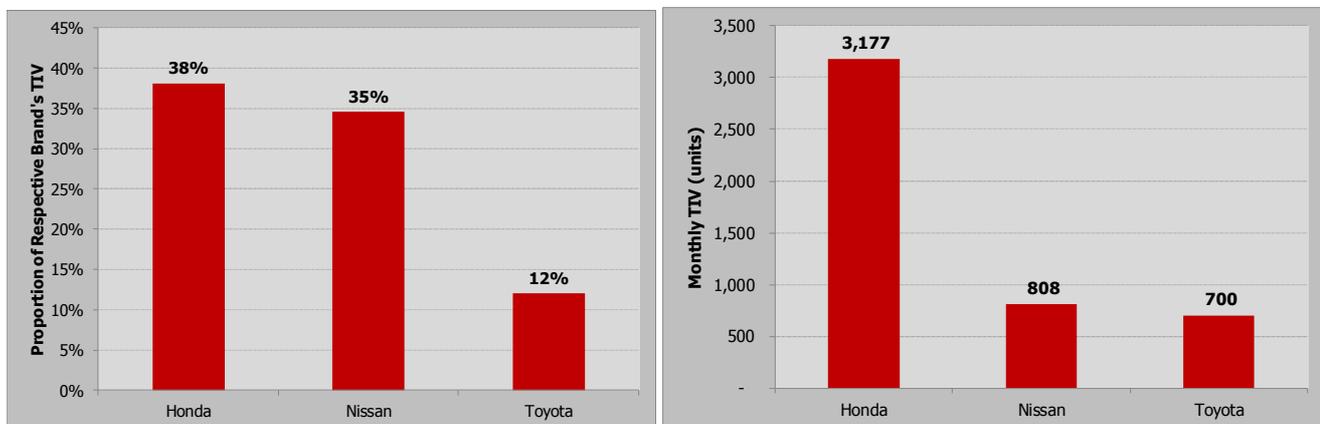
Source: MAA, MIDF

Of the models in Honda's line-up, variants of the BRV, City and Jazz overlaps with the Aruz's pricing (we use RM70K-RM80K as a range) and these models account for 38% of Honda's TIV. For Nissan, the Almera is the main model that will be impacted by the Aruz, estimated to account for 30%-35% of Nissan TIV.

For the new Vios, Toyota has done away with the manual version which sat at the lowest end of the previous generation Vios' price range. For the latest generation, the cheapest Vios model (1.5J Auto) is priced at RM77K (the only model that overlaps with the Aruz), while the rest are priced >RM81K. Certain variants of the Avanza are priced at RM74K-80K and could be impacted too. But overall, Toyota's models that could see increased competition from the Aruz account for just 12% of its TIV. All the models mentioned above generate estimated monthly volumes of 4,685 units collectively, a sufficiently large potential market versus the Aruz's monthly sales target of 2,000-2,500 units.

Proton's Exora (RM65K-RM72K) and Suprima (RM76K) models too, entail overlapping price points with the Aruz. The latter entails small volumes but the Exora generates monthly volumes of 261 units, 5% of Proton's monthly TIV.

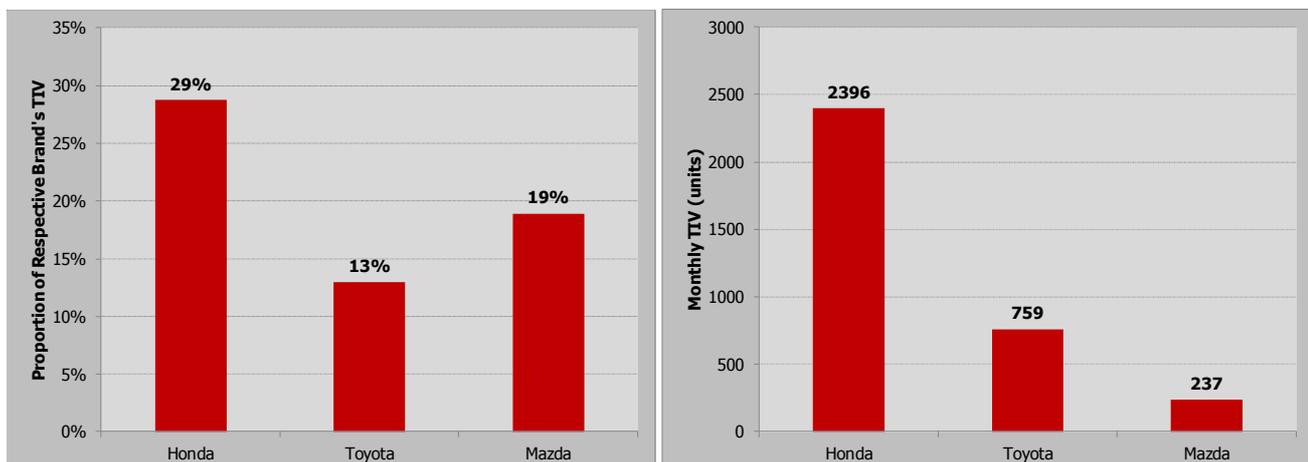
## EXHIBIT 2: ARUZ-AFFECTED MODELS' CONTRIBUTION TO THE MAJOR NON-NATIONALS' TIV



Source: MAA, MIDF

**Differing battlegrounds.** Proton's X70 entails very different price points of RM100K-RM124K. We see little competition between the two SUVs. We expect the X70 to encroach into the share of non-national B-segment SUVs, C-segment sedans and C-segment MPVs. Of the 3 key non-national players, Honda could be impacted the most. The X70 overlaps with the Civic and HRV's price points and these models account for as much as 29% of Honda's TIV. Mazda's Mazda 3 model and the CX3 could be impacted – they account for 19% of Mazda TIV. For Toyota, the Innova and Altis models overlap in pricing with the X70 and these models account for 13% of Toyota TIV (See Exhibit 3). That said, the Innova is a 7-seater people mover and the X70 is not exactly a substitute given its smaller size and seating capacity (5-seater).

## EXHIBIT 3: X70-AFFECTED MODELS' CONTRIBUTION TO THE MAJOR NON-NATIONALS' TIV



Source: MAA, MIDF

## EXHIBIT 4: KEY NON-NATIONAL MODELS WITH OVERLAPPING PRICE POINTS WITH THE X70

Brand/Model	Variants	Price Range (RM)	Estimated monthly TIV (units)
<b>Honda</b>			
Civic	1.8S / 1.5TC / 1.5TC-P	108,165-128,631	1,248
HRV	1.8E / 1.8V	101,365-110,818	1,148
<b>Toyota</b>			
Innova	2.0E MT / 2.0E AT / 2.0G / 2.0X	107,280-132,400	520
Altis	1.8E / 1.8G	120,000-123,000	239
<b>Mazda</b>			
Mazda 3	2.0SDN (GL) / 2.0SDN High / 2.0HB	106,995-124,469	100
CX3	2.0 2WD	128,159	137
Total - Honda			2,396
Total - Toyota			759
Total - Mazda			237
<b>Grand Total</b>			<b>3,392</b>
<b>Proton X70</b>	Std / Exec. / Exec. AWD / Premium	<b>99,800-123,800</b>	<b>3,000-4,000</b>

Source: MAA, MIDF

**Perodua TIV to hit new record.** Separately, our FY18F Perodua TIV is raised to 227,240 units (+11%yoy), well exceeding our earlier target, though the outperformance was partly driven by temporary strength from the Jun-Aug tax holiday period and is not sustainable. We have revised our FY19F Perodua TIV higher to 241K units (from 219K previously), representing 6%yoy growth, after factoring in the Aruz. FY19F should see Perodua TIV hitting a new record after hitting a new high in FY18F.

**Plays into this theme.** UMW Holdings and MBM Resources have 38% and 22.6% effective stakes in Perodua respectively. Of the two, MBM is a cheaper play into Perodua's structural TIV growth from the Aruz, trading at just 6x FY19F PER (earnings revised up in this report). Furthermore, MBM provides more earnings leverage into the play as Perodua accounts for >90% of MBM's earnings. MBM's other units such as its Perodua dealership (via 51%-owned Daihatsu Malaysia Sdn Bhd) as well as its parts manufacturing units are spillover beneficiaries of the Aruz.

That said, UMW had always traded at a premium to MBM historically. Perodua is estimated to account for 50% of UMW's FY19F earnings while 51% owned UMW Toyota (UMWT) is expected to benefit from its new Bukit Raja plant, which will enable UMWT to plug significant gaps in its model mix, particularly in the B-segment hatchback and both the B-segment and C-segment SUV. The new Vios will be the first model to rollout of the plant, expected in 1Q19 followed by possibly, the Yaris hatchback.

**FY18F TIV revised up.** We revise up our FY18F TIV to 595K units (from 586K units earlier) but leave our FY19F TIV unchanged at 599K units, representing flattish year-on-year growth off an inflated base in FY18. The revision to our FY18F TIV is to reflect the stronger than expected demand during the tax holiday period, which was temporary.

**Earnings adjustments.** We raised MBM's FY18F/19F earnings by 16%/19% to reflect the higher Perodua TIV forecast – we are now 10%/16% above consensus. Meanwhile, UMW's FY18F/19F earnings are raised 1%/9% to reflect the changes to our Perodua TIV forecast, but is partly offset by a reduction in our Toyota TIV forecast.

**MBM is our new top pick.** We reaffirm our BUY call on MBM and raise our sum-of-parts derived TP to RM3.80 (from RM3.15). MBM is our new top pick in the sector as a cheap play into Perodua's TIV expansion. Key catalysts: (1) Strong 6%yoy Perodua TIV expansion (FY19F) on the back of the Aruz to fill up a vacuum in Perodua's model mix (2) A recovery in industry production driven by the new national car launches. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.

**UMW is an alternative play into the theme.** Despite the upward earnings revisions, our sum-of-parts derived TP of RM6.60 for UMW remains unchanged as we now peg UMW's auto division earnings to a uniformed 12x PE (vs. higher multiples for Perodua previously). 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 via its new Bukit Raja plant **(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.

**BAuto (TP: RM2.70) remains a BUY.** 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) is 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.

**Tan Chong (BUY; TP: RM2.10)** is a deep value play into a fundamental earnings turnaround. Despite Almera volumes facing potential impact from launch of the Aruz, the Almera is not really a profitable model anymore given kit costing at much higher USD:MYR rates back in 2010 (when the Ringgit stood at circa RM3.20:USD). Tan Chong's earnings turnaround in the past 12 months has largely been driven by new launches, particularly the new Serena Hybrid. Having seen share price fall some 40% in the past 24 months, Tan Chong now trades at just 0.3x FY19F PBV (which is lower than even its historical trough PBV of 0.5x). Key catalysts: (1) Resumption of new model launches – in which costing is pegged to latest USD:MYR rates (2) Narrowing in losses from Indochina operations.

## VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
		(RM)	CY18F	CY19F	CY18F	CY19F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	2.17	16.7	20.1	13.0	10.8	4.72	35.2	7.2	2.70	31.6
Tan Chong	BUY	1.40	10.2	10.6	13.8	13.2	0.42	1.1	2.1	2.10	52.1
UMW	BUY	5.70	31.9	41.7	17.9	13.7	0.99	5.4	3.9	6.60	19.7
MBM	BUY	2.49	38.0	42.3	6.6	5.9	0.43	5.5	4.4	3.80	57.0
<b>Average</b>					<b>12.5</b>	<b>10.1</b>	<b>1.6</b>	<b>11.8</b>	<b>4.4</b>		

Source: Bloomberg, Companies, MIDF

## EXHIBIT 5: 2019 KEY LAUNCHES

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

Source: Company, MIDF

## EXHIBIT 6: PERODUA ARUZ EXTERIOR AND INTERIOR



Source: Various media sources



**5-star ASEAN NCAP Safety Rating**



**6 Airbags**



**Vehicle Stability Control (VSC)**  
The system improves vehicle stability by detecting and reducing skidding.

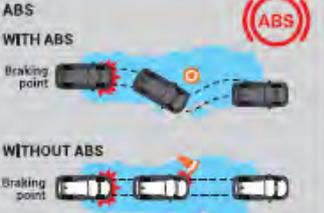


**Hill-start Assist (HSA)**  
Prevents your car from rolling backwards on steep surfaces after the brake is released.



**Traction Control (TRC)**  
Improves safety when driving on slippery roads.

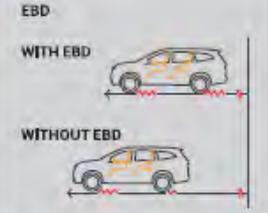
**Anti-lock Braking System (ABS) with Electronic Brake Distribution (EBD) and Brake Assist (BA)**  
The ABS function prevents the tyres from locking when braking, avoiding uncontrollable skids and maintaining steering control.



**ABS WITH ABS**  
Braking point

**WITHOUT ABS**  
Braking point

**EBD**



**WITH EBD**

**WITHOUT EBD**



**Emergency Stop Signal (ESS)**  
ESS automatically activates Hazard Warning Lights during hard braking to alert the drivers of trailing vehicles.



**ISOFIX System**



**Anti-snatch Hook**



**Seat Belt Reminder**  
Driver, Front & Rear Passengers



**One-touch Power Window with Jam Protection**  
Driver Side Only



**Solar & Security Window Film**

Source: Perodua



Multimedia System with Navigation



Semi-bucket Leather Seats



Advanced Safety Assist (A.S.A.) 2.0

- Sporty Roof Rail
- Front Grille with Chrome & Glossy Black Finish
- Backdoor Garnish with Chrome & Glossy Black Finish
- Auto Light Control
- HDMI Port



Integrated Driving Video Recorder (DVR)



'Smart Link' for Android



Fog Lamps with Stylish Bezel



Front Bumper with Silver Painted Diffuser



Rear Bumper with Silver Painted Diffuser

Source: Perodua



Digital Audio System with Bluetooth, USB & MP3



Semi-bucket Fabric Seats



6 Airbags



Charging Ports



Reverse Camera



Push Start/Stop Button



'Eco Idle' System



Solar & Security Window Film



Smart Entry with Smart Key



Built-in Toll Reader

- 5-star ASEAN NCAP Safety Rating
- Vehicle Stability Control (VSC) and Traction Control (TRC)
- Anti-lock Braking System (ABS) with Electronic Brake Distribution (EBD) & Brake Assist (BA)
- Hill-start Assist (HSA)
- Emergency Stop Signal (ESS)
- 17-inch Alloy Rims
- ISOFIX System
- Seat Belt Reminder (Driver, Front & Rear Passengers)
- One-Touch Power Window with Jam Protection (Driver Side)
- Headlamp Levelling Adjuster
- Chrome Inner Door Handles
- Air Conditioner (With Rear Vents)
- Anti-scratch Hook
- Speed-linked Intermittent Front Wiper

Source: Perodua

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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.