

AUTOMOTIVE

Maintain NEUTRAL

Potential Catalyst for Small Engine Segment

KEY INVESTMENT HIGHLIGHTS

- **Fuel subsidy program finalized benefitting the Bantuan Sara Hidup (BSH) recipient group - for car owners, qualifying criteria include ownership of cars 1.6 litre and below, or if >1.6 litre, has to be 10 years of age or above**
- **An estimated potential pool of ~3m of BSH recipients currently do not qualify for the fuel subsidy program**
- **Potential switch and gradually more concentrated demand for smaller engine capacity models – national cars Perodua and Proton are potential beneficiaries.**
- **Maintain NEUTRAL on autos; MBM (BUY, TP: RM4.55) and BAuto (BUY, TP: RM2.85) remain our top sector picks**

Fuel subsidy for BSH recipients. The Ministry of Internal Trade and Consumer Affairs (MITCA) has finalized the national fuel subsidy program. The criteria to qualify for the program are: (1) Recipients of Bantuan Sara Hidup (BSH) in Peninsular Malaysia (2) Ownership of a car/motorcycle with a valid road tax (3) Car owned entails 1.6 litre engine capacity or if it is >1.6 litre, is >10 years of age (3) Motorcycle owned is 150cc and below or if >150cc, is above 7 years of age (4) Maximum limit of vehicle ownership is 2 cars and 2 motorcycles. The subsidy rate is RM30/month for car ownership or RM12/month for motorcycle ownership.

Only half of BSH recipients qualify for fuel subsidy? According to the MITCA, there will be an estimated 2.9m recipients of the fuel subsidy program comprising 1.1m motorcycle owners, 1.1m car owners and another 0.7m owners of both cars and motorcycles. Against an estimated BSH recipient pool of 6.2m, this suggests that around half of the current BSH recipients currently do not qualify for the fuel subsidy which could be due to: (1) Non-ownership of cars/motorcycles, (2) Ownership of cars >1.6 litre which are <10 years of age, (3) Ownership of motorcycles >150cc aged <7years. This is potential pool of ~3m.

Any potential swing in demand? Firstly, the fuel subsidy parameters might entice BSH recipients which own cars >1.6 litre (but below 10 years, i.e. still servicing their Hire Purchase loan) to switch to smaller engine capacity models. In the longer run, we anticipate a gradual concentration in demand by first car buyers/converters from 2-wheelers in the BSH recipient group, towards <=1.6 litre models.

Potential beneficiaries? The maximum income for the BSH recipient group is RM4000/month, and assuming a 30% allowable loan commitment, we estimate a maximum allowable monthly loan commitment at RM1200 – this should serve as a yardstick to the expected models that car buyers in the BSH recipient group would be looking at. National car models dominate the lower price/capacity segment of the auto market, e.g. Perodua Axia, Proton Saga, Perodua Bezza (See Exhibit 1) and are expected to be key beneficiaries.

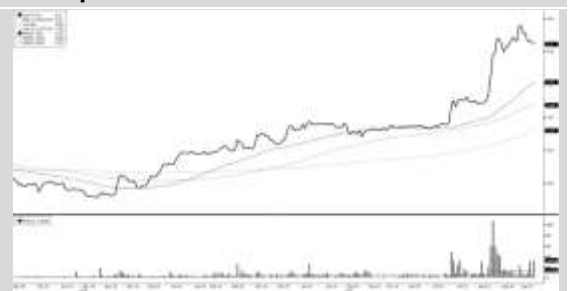
COMPANY IN FOCUS

MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.55
Price @ 20th September 2019: RM3.99

- Perodua TIV grew 13%yoy; outperformed the sector in Aug19
- Facelift Axia has garnered 5,000 units pre-launch bookings, on track to hit record TIV in FY19F
- Cheapest proxy to Perodua at just 8x CY19F earnings, attractive 6% yield

Share price chart



Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM2.85
Price @ 20th September 2019: RM2.21

- Volumes to be catalyzed by launch of the CX8, facelift CX5 and CX30 in 2QFY20
- Expect to sustain record FY18 TIV in FY19F
- Solid dividend yields of 7.4%, net cash accounts for 7% of market cap, trades at just 10.8x CY19F earnings

Share price chart



Exhibit 1: Key Models <=1.6 litre in the Market vs. Estimated Monthly Installment

Brand	Model	Engine Capacity (litre)	Estimated Mthly Instalment (RM)	Avg. Price (RM)
Perodua	Axia	1.0	270	22,990
Proton	Saga	1.3	386	32,800
Perodua	Bezza	1.0/1.3	406	34,490
Proton	Iriz	1.3/1.6	432	36,700
Proton	Persona	1.6	501	42,600
Perodua	MyVi	1.3/1.5	503	42,790
Kia	Picanto	1.2	554	47,079
Perodua	Alza	1.5	605	51,490
Proton	Ertiga	1.4	668	56,773
Proton	Exora	1.6	703	59,800
Proton	Preve	1.6	718	61,090
Nissan	Almera	1.5	760	64,639
Honda	Jazz	1.5	826	70,242
Toyota	Yaris	1.5	834	70,888
Perodua	Aruz	1.5	857	72,900
Honda	City	1.5	868	73,836
Mazda	Mazda 2	1.5	878	74,670
VW	Polo	1.6	891	75,730
Toyota	Vios	1.5	908	77,200
Kia	Rio	1.4	928	78,888
Toyota	Avanza	1.5	947	80,500
Honda	BR-V	1.5	952	80,989
Nissan	Grand Livina	1.6/1.8	967	82,194
VW	Vento	1.2/1.6	1,005	85,430
Nissan	X-Gear	1.6	1,056	89,800
Toyota	Rush	1.5	1,094	93,000
Kia	Ioniq	1.6	1,175	99,888
Toyota	Sienta	1.5	1,198	101,900
Kia	Cerato	1.6	1,222	103,888
Honda	Civic	1.5/1.8	1,272	108,165
Honda	CRV	1.5/2.0	1,617	137,469
VW	Beetle	1.2	1,834	155,994
BMW	118i	1.5	2,220	188,800
BMW	318i	1.5	2,385	202,800
Mercedes	A200	1.3	2,680	227,888

Source: MAA, MIDFR, Various

MBM remains our top pick. We reaffirm our BUY call on MBM (TP: RM4.55) as a cheap play into Perodua's record TIV. Furthermore, Perodua is one of the beneficiaries of potentially more concentrated demand for smaller engine capacity models by the BSH recipient group going forward. 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, (3) Attractive dividend yield of 6%, (4) Disposal of alloy wheel plant assets, (5) Improvement in 2H19 earnings from elimination of OMIA (OMI Alloy) losses. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.


BAuto (TP: RM2.85) remains a BUY. From a valuation standpoint, BAuto is cheap at just 10.8x CY19F earnings while dividend yield of 7.4% is very attractive. Key catalysts: (1) Launch of the CX8, facelift CX5 and CX30 in 2QFY20, (2) Dividend outperformance, (3) Over 50% increase in FY20F export volumes driven by the CX8, (4) Potential NAP incentives to drive CBU exports, (5) Potential introduction of a new export model beyond the CX8. 

Exhibit 2: Estimated Maximum Loan Commitment for BSH Group

Max. Monthly Gross Income (RM)	4,000
Max. Loan Commitment	30%
Max. Loan Commitment (RM)	1,200

Source: KPDNHEP, MIDFR

Exhibit 3: August 2019 TIV Summary

Marques	Aug-18	Jul-19	Aug-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Aug-18	Aug-19
Proton	9,501	8,590	9,127	-3.9%	6.3%	44,709	61,235	37.0%	14.5%	17.8%
Perodua	17,804	19,924	20,070	12.7%	0.7%	158,732	161,776	1.9%	27.2%	39.2%
Toyota	8,795	5,660	5,415	-38.4%	-4.3%	49,634	42,326	-14.7%	13.4%	10.6%
Honda	10,789	7,534	7,577	-29.8%	0.6%	74,951	59,371	-20.8%	16.5%	14.8%
Nissan	3,501	2,003	1,707	-51.2%	-14.8%	18,730	14,093	-24.8%	5.3%	3.3%
Mazda	1,948	1,002	1,003	-48.5%	0.1%	9,844	8,496	-13.7%	3.0%	2.0%
Others	13,213	6,140	6,249	-52.7%	1.8%	67,130	51,038	-24.0%	20.2%	12.2%
Total	65,551	50,853	51,148	-22.0%	0.6%	423,730	398,335	-6.0%	100.0%	100.0%

Source: MAA, MIDFR

PEER COMPARISON TABLE

Companies	Rating	Shr Price (RM)	PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY18	CY19F					
Bermaz Auto	BUY	2.21	12.1	10.2	4.82	40.8	7.8	2.85	33.4
Tan Chong	NEUTRAL	1.48	8.0	11.8	0.34	2.9	2.7	1.50	4.1
UMW	NEUTRAL	5.04	17.2	16.2	1.64	10.5	1.5	5.35	7.7
MBM	BUY	4.11	9.5	7.9	0.87	10.6	5.6	4.55	16.4

Source: Company MIDFR

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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.