

13 August 2019 | Sector Update

## Automotive

**Downgrade to NEUTRAL**

### ***Preliminary plans for NNCP***

#### **INVESTMENT HIGHLIGHTS**

- **DreamEdge appointed as anchor for New National Car Project, non-equity assistance by Daihatsu Motor**
- **No plans for own plant; Perodua or Toyota plants look like natural surrogates for contract assembly**
- **Near-term, uncertainties will create overhang; higher risk premium likely to be factored into sector valuations**
- **Coupled with our recent downgrade of Tan Chong and UMW, flattish TIV forecast as well as the weakening RM, we downgrade Autos to Neutral.**
- **MBM (TP: RM4.20) and BAUTO (TP: RM2.85) remain our top sector picks**

**Malaysia appoints national car anchor.** MITI (Ministry of International Trade and Industry) announced the appointment of DreamEdge Sdn Bhd (DreamEdge) as the anchor company for the New National Car Project (NNCP) with Daihatsu Motor Company (DMC) providing advanced technology assistance. The NNCP is expected to require "a few hundred million" in investments with a private investor already secured for the project.

**About DreamEdge Sdn Bhd.** DreamEdge (established in 2007) is reported to have been previously majority-owned by MIGHT (Malaysian Industry-Government Group for High Technology), which is under the purview of the Prime Minister's Department. Since early 2017 however, MIGHT only owns a 10% stake in DreamEdge whereas DreamEdge's CEO, Khairil Adri Adnan is now a major shareholder. DreamEdge is essentially an engineering company with over 150 engineers employed, mainly specialising in the automotive industry. DreamEdge has been collaborating with companies in Japan, providing technical and long-term strategic collaboration to support clients focusing on technology innovation, from ideation, prototyping to mass production.

**Launch targeted in 2021.** DreamEdge is expected to showcase an engineering capability model mock-up *by end of the month*, kickstart additional recruitment for the NNCP by mid-Sep19 and come out with its first prototype by Mar20. It expects to launch its first model by Mar21, which is effectively 19 months from now. DreamEdge indicated it is potentially looking at a C-segment sedan as its first model with technology focus on new generation powertrains (e.g. hybrids, advanced internal combustion engine, battery electric vehicle). Other than these, the NNCP will also focus on autonomous technologies, new vehicle ownership models, smart manufacturing and Mobility as a Service (MaaS). DreamEdge expects the model to be "affordable" to Malaysians.

**Daihatsu assistance, but no equity involvement.** The technology collaboration with DMC will not involve DMC taking up any equity stake in DreamEdge. Rather, it may include technology exchange of the platform to be used as well as powertrain development. Finer details of the collaboration are expected to be announced next month. Dream Edge will focus on upper body design, HMI (Human Machine Interface), interiors, NVH (noise vibration and harshness) and R&H (ride & handling) – this is similar to where Perodua is today, designing upper body (for the MyVi) and interiors while the platform and powertrains, which involve very high capex, is sourced from DMC. The Malaysian Government will consider giving tax incentives to participants of the project if they qualify.

**To utilise contract assembly.** The NNCP will not involve any investment into manufacturing plants. Rather, the NNCP will employ contract manufacturing, which minimises capital layout. Assuming the NNCP utilises Daihatsu/Toyota platforms, Perodua's or UMW's existing plants look like natural surrogates.

**Downgrade to NEUTRAL.** The NNCP is still at a preliminary stage with many further details yet to be ironed out. Near-term, uncertainties (in relation to the impact to industry landscape and Government incentives to support the project) will create an overhang, leading to potentially higher risk premium being priced into existing sector plays. Coupled with our recent downgrades of **Tan Chong (NEUTRAL, TP: RM1.65)** and **UMW (NEUTRAL, TP: RM5.85)**, a weakening Ringgit as well as flattish FY19F TIV growth forecast, we tactically downgrade Autos to Neutral from Overweight previously. **MBM (BUY, TP: RM4.20)** and **BAUTO (BUY, TP: RM2.85)** remain our top sector picks.

**MBM remains our top pick.** We re-affirm our **BUY call on MBM (TP: RM4.20)** as a cheap play into Perodua's record TIV. 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) Disposal of loss making alloy wheel operations. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.

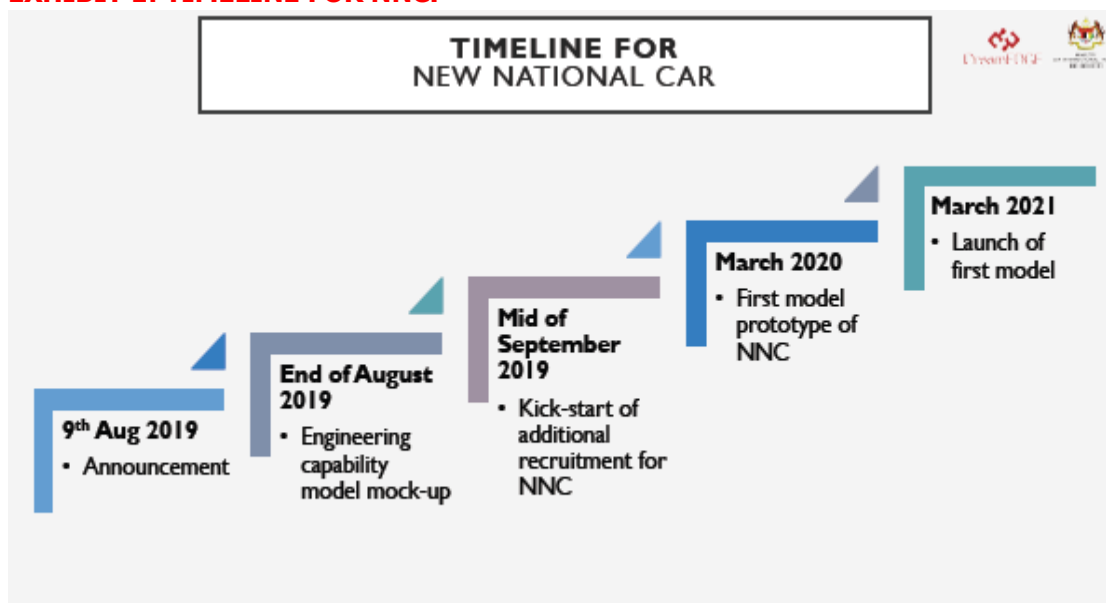
**BAuto (TP: RM2.85) remains a BUY.** From a valuation standpoint, BAuto is cheap at just 10.8x CY19F earnings while dividend yield of 7% is very attractive. Key catalysts: (1) Launch of the CX8 and CX30 in 2QFY20 (2) Dividend outperformance (3) Over 50% increase in FY20F export volumes driven by the CX8 (4) Potential NAP incentives to drive CBU exports (5) Potential localisation of the CX30.

## 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	2.44	18.8	22.2	13.0	11.0	4.82	46.7	7.4	2.85	24.2
Tan Chong (U.R.)	NEUTRAL	1.55	18.6	13.9	8.3	11.1	0.36	3.3	2.5	1.65	9.0
UMW (U.R.)	NEUTRAL	5.20	29.2	37.6	17.8	13.8	1.76	12.0	1.8	5.85	14.3
MBM	BUY	3.25	43.1	47.4	7.5	6.9	0.77	9.6	3.9	4.20	33.2
<b>Average</b>					<b>12.8</b>	<b>10.6</b>	<b>1.9</b>	<b>17.9</b>	<b>3.9</b>		

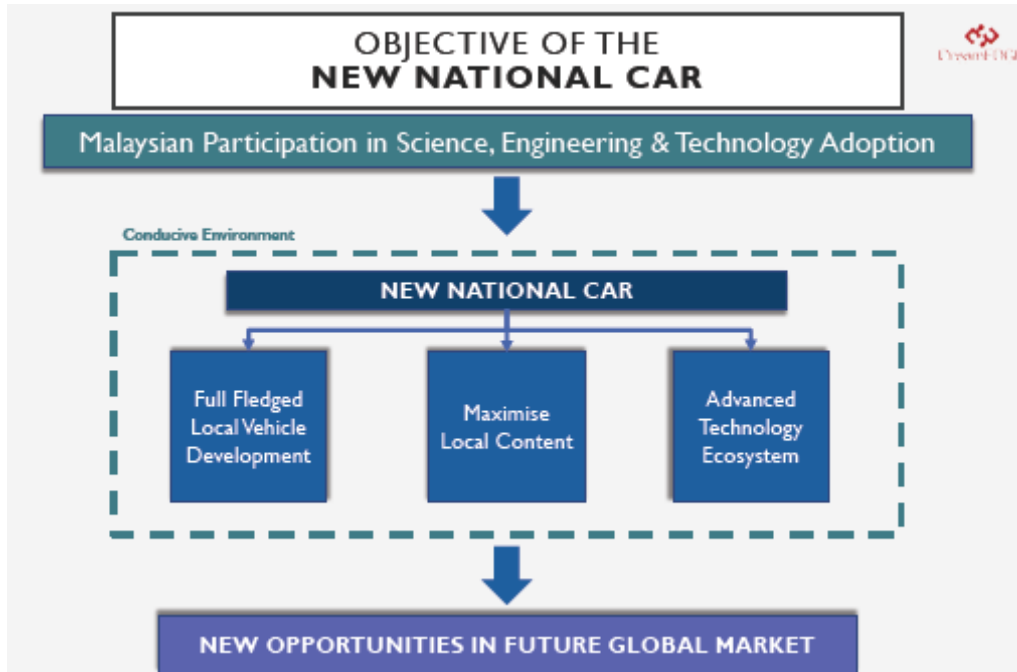
Source: Bloomberg, Companies, MIDF \*U.R. – Under Review

## EXHIBIT 1: TIMELINE FOR NNCP



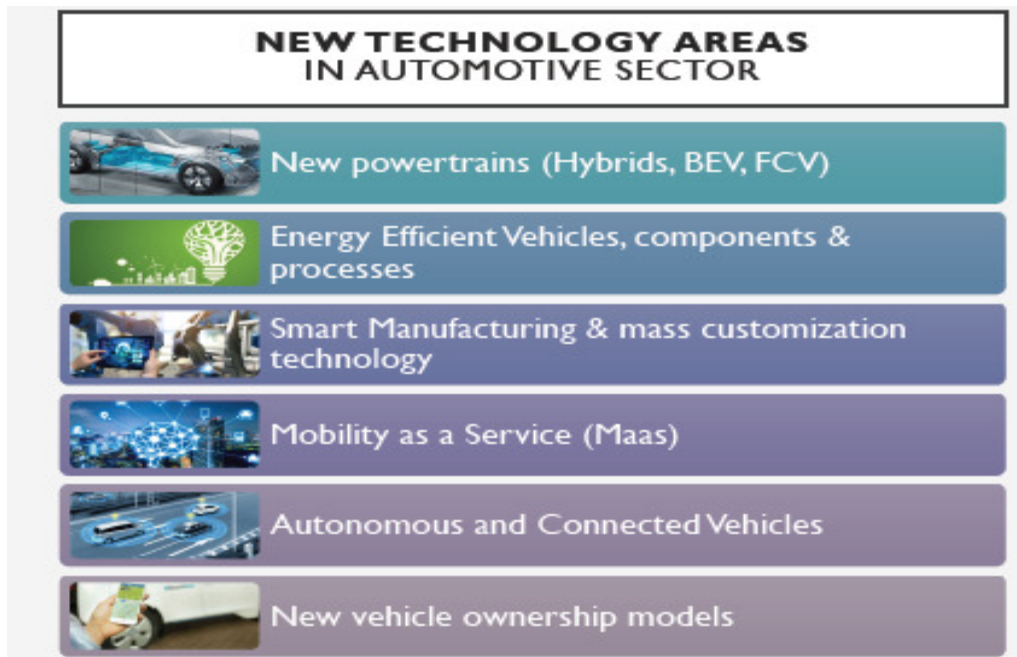
Source: PaulTan.org, MIDF

## EXHIBIT 2: OBJECTIVES OF THE NNCP



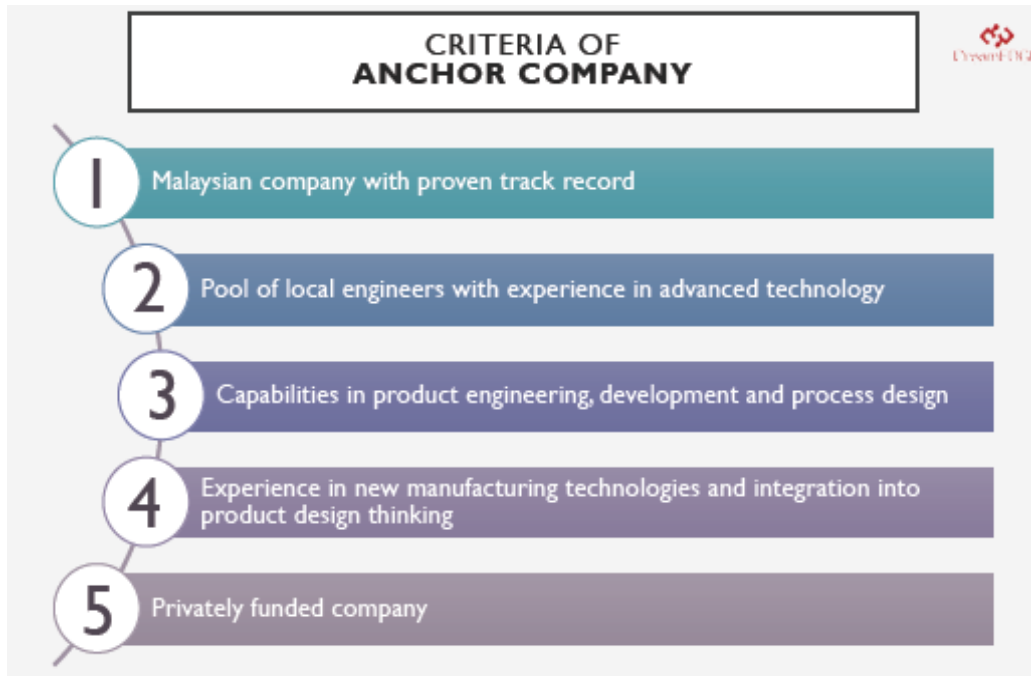
Source: PaulTan.org, MIDF

## EXHIBIT 3: TECHNOLOGY FOCUS OF NNCP



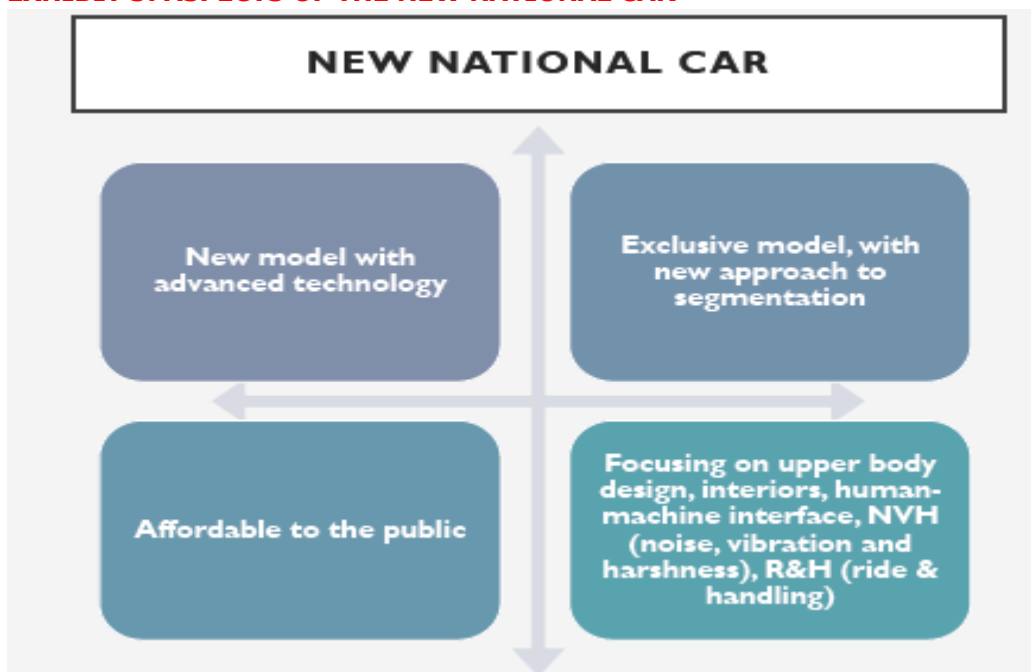
Source: PaulTan.org, MIDF

## EXHIBIT 4: CRITERIAS OF NNCP ANCHOR COMPANY



Source: PaulTan.org, MIDF

## EXHIBIT 5: ASPECTS OF THE NEW NATIONAL CAR



Source: PaulTan.org, 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.