

25 November 2016 | Sector Update

## Automotive

*Maintain* **NEUTRAL**

### *Proton forays into compact MPVs*

#### INVESTMENT HIGHLIGHTS

- **Ertiga marks an expansion in Proton's model offering**
- **Indicative volumes of 1,500/month looks realistic**
- **Past two launches have been yielding results for Proton**
- **Bermaz Auto (BUY, TP: RM2.70/share) is still our top sector pick**

**Final model offensive for 2016.** Proton launched the Proton Ertiga yesterday, which marks its fourth and final model launch for the year. The Ertiga is a B-segment MPV which, in terms of dimensions, competes with Perodua's Alza mainly, as well as the Toyota Avanza and Toyota Sienta. It complements Proton's Exora which is positioned as a C-segment MPV priced at RM67K-83K. At a price range of RM58K-65K, the Ertiga flows right below the Exora's price points and overlaps directly with the Alza (See Exhibit 1). The Avanza is priced within the Exora's price segment while the Sienta is a premium CBU model priced around RM90K.

#### EXHIBIT 1: ERTIGA PRICE COMPARISON VERSUS KEY PEERS

Perodua Alza	RM	Proton Ertiga	RM	Toyota Avanza	RM
1.5S (M) - solid	52,332				
1.5S (M) - metallic	52,832				
1.5 S (A) - solid	55,332				
1.5 S (A) - metallic	55,832				
1.5 SE (M) - solid	56,332	1.4 Executive (M)	58,800		
1.5 SE (M) - metallic	56,832	1.4 Executive (A)	61,800		
1.5 SE (A) - solid	59,332				
1.5 SE (A) - metallic	59,832	1.4 Executive Plus (A)	64,800		
1.5 Advanced (A) - solid	64,932				
1.5 Advanced (A) - metallic	65,432				
				1.3 E (M)	71,538
				1.5 E (A)	78,200
				1.5 G (A)	80,900
				1.5 S (A)	83,210

Source: Companies, MIDFR

**Giving the Alza a run for its money.** The Ertiga is powered by a 1.4 litre engine (with 5-speed manual or 4-speed torque converter automatic) versus the Alza's 1.5 litre engine which entails higher horse power and slightly higher torque (See Exhibit 3). However, the Ertiga entails much larger boot space (i.e. 135 litre vs. the Alza's 83 litre) and generally larger dimensions and ground clearance. This is typical of Proton's MPV offering e.g. the Exora which offers competitive space relative to peers in the segment such as the Innova or the Grand Livina but yet is powered by a smaller engine i.e. 1.6 litre versus the Grand Livina's 1.8 litre and Innova's 2.0 litre engines.

**An outright rebadge.** The Ertiga is an outright rebadge of the Suzuki Ertiga which has its assembly hub in Indonesia and is rated with a 4-star ASEAN NCAP. The model sits on a stretched Swift platform and it is understood that very little, if at all, re-engineering was allowed on the model based on Proton's collaborative agreement with Suzuki. CKD kits will be imported from Indonesia and Proton will do the assembly at the Tanjung Malim plant. The Ertiga qualifies for EEV (Energy Efficient Vehicle) status as it entails fuel consumption of just 6.0litres per 100km against a vehicle kerb weight of 1,185kg, and Proton is marketing the model as the first EEV-qualified B-segment MPV in the country.

## EXHIBIT 2: ERTIGA COMPARISON VERSUS PEERS (DIMENSION)

Model	Length (mm)	Width (mm)	Height (mm)	Wheelbase (mm)	Ground Clearance
Proton Ertiga	4,265	1,695	1,685	2,740	185
Proton Exora	4,592 (+327)	1,809 (+114)	1,691 (+6)	2,730 (-10)	155 (-30)
Perodua Alza	4,270 (+5)	1,695	1,620 (-65)	2,750 (+10)	155
Toyota Sienta	4,235 (-30)	1,695	1,695 (+10)	2,750 (+10)	170 (-15)
Toyota Avanza	4,190 (-70)	1,660 (-35)	1,695 (+10)	2,655 (-85)	200 (+15)
Honda BR-V	4,456 (+191)	1,735 (+40)	1,666 (-16)	2,662 (-78)	210 (+25)
Nissan Grand Livina	4,485 (+220)	1,685 (-10)	1,595 (-90)	2,600 (-140)	180 (-5)

Source: PaulTan, MIDFR

## EXHIBIT 3: ERTIGA COMPARISON VERSUS PEERS (POWERTRAIN)

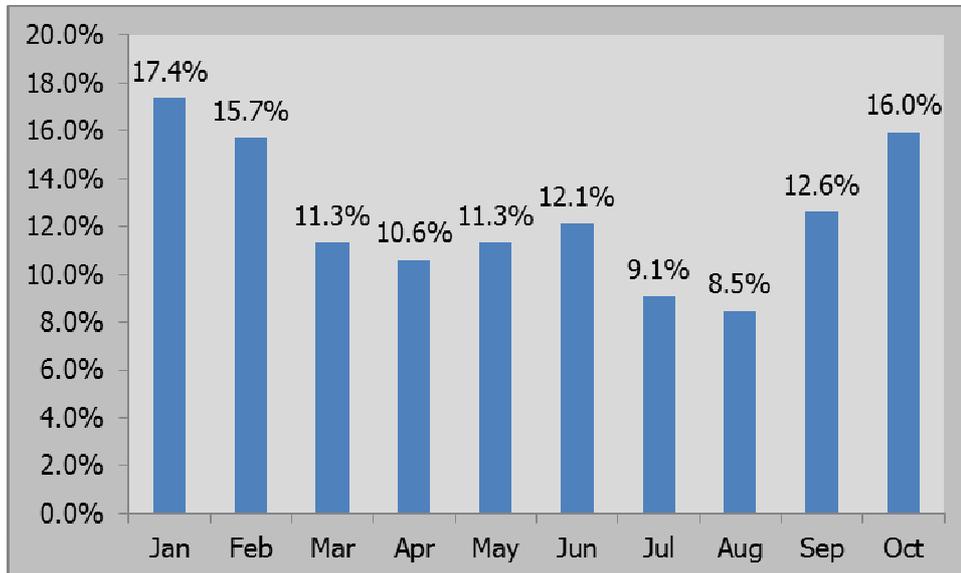
Model	Engine (cc)	Power (hp)	Torque (Nm)	Fuel tank (l)	Weight (kg)
Proton Ertiga	1,373	91	130	45	1,185
Proton Exora	1,561	138 (+47)	205 (+75)	55 (+10)	1,480 (+295)
Perodua Alza	1,495	105 (+14)	136 (+6)	42 (-3)	1,160 (-25)
Toyota Sienta	1,496	106 (+15)	140 (+10)	42 (-3)	1,325 (+140)
Toyota Avanza	1,496	104 (+13)	136 (+6)	45	1,155 (-30)
Honda BR-V	1,497	118 (+27)	145 (+15)	42 (-3)	1,210 (+25)
Nissan Grand Livina	1,598	104 (+13)	150 (+20)	52 (+7)	1,245 (+60)

Source: PaulTan, MIDFR

**Target volumes.** While target volumes from Proton are not forthcoming yet at this juncture, Suzuki Indomobil Sales in Indonesia had previously indicated that it will be exporting 1,500units/month of the Ertiga's CKD kits to Malaysia for Proton. Annualised, this would account for 15% of Proton's average 3-year annual TIV of 118,880 units. We don't think the numbers are too far fetched as the Alza generates monthly volumes of 3,500 – 4,500 while the Exora generates volumes of 1,700 – 2,200units a month.

**Model launches are yielding results.** Proton's market share dropped to as low as 8.5% this year but since the launch of the Persona and Saga in the past 2 months, market share had rebounded to the latest 16% in October. Proton's market share is basically back to 2014-15 levels of 15%-17%. More importantly, the Ertiga is an entirely new model segment and expands Proton's reach compared to the Persona and Saga which are model replacements, which is why the Ertiga is an important part of Proton's offensive this year and suggests possibility of further market share expansion in the coming months.

## EXHIBIT 4: PROTON MARKET SHARE REBOUNDED SINCE AUG 2016



Source: MAA, MIDFR

**Maintain NEUTRAL on autos.** Berjaya Auto (BUY, TP: RM2.70/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 10% FCFE yield (FY17F). Listing of Philippines unit 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 RM5.30/share. UMW Oil & Gas will see further earnings pressure in 2H16 as the number of idle rigs has increased from 4 to 6 out of a total of 8 rigs. UMW's auto division should also see some weakness in 3Q16 as the impact of the new Hilux fizzles out while the run-out of several end-of-life models will impact margins negatively. Our forecast losses for FY16F/17F are below consensus' net profit estimates of RM217m/RM338m respectively.

**Tan Chong also remains a NEUTRAL** at unchanged TP of RM1.95/share. Tan Chong's balance sheet is increasingly stretched as a result of the demand downcycle but admittedly share price is already trading at depressed levels. However, there is no significant catalyst in the near-term to move the stock. Our forecast losses are below consensus' FY16F/17F net profit estimates of RM33m/RM51m respectively. 

**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	2.11	18.9	20.4	11.2	10.3	4.5	40.2	7.4	2.70	35.4
Tan Chong	NEUTRAL	1.86	-12.2	-12.1	-15.2	-15.4	0.5	-1.5	0.0	1.95	4.8
UMW	NEUTRAL	5.15	-10.5	-1.1	-48.9	-476.9	1.1	-0.2	0.5	5.30	3.4
<b>Sector average</b>			<b>-1.3</b>	<b>2.4</b>	<b>-17.7</b>	<b>-160.7</b>	<b>2.0</b>	<b>12.8</b>	<b>2.6</b>		

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.