

21 October 2016 | Sector Update

Automotive

Maintain NEUTRAL

Proton's back in the game

INVESTMENT HIGHLIGHTS

- **TIV contraction widened again to -6%yoy and also fell -8%mom versus August 2016**
- **August was artificially lifted by spill over deliveries, particularly for Perodua**
- **Proton volumes gaining traction after new Persona in August and new Saga in September**
- **Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick**

TIV contraction widened again in September registering a -6%yoy fall. September TIV of 48,919 units is also -8%mom lower than the previous month – we would bear in mind that August was lifted mainly by Perodua but this was temporary given spill over deliveries from a shorter working month in July, particularly after launch of the Bezza in mid-July. Perodua sales normalised in September at 17,147 units and were the key drag to the industry's month-on-month performance. Nonetheless, we had highlighted in our previous monthly TIV note that Perodua's production dropped to just ~16K units despite its August TIV registering at ~21K units, signalling a possible normalisation in sales – hence the weaker month-on-month numbers should not come entirely as a surprise.

On top of this, key competitor Proton launched its offensive with the Persona replacement in August and has so far garnered pretty good bookings of over 15,000 units (within 2 months of launch) - this is well ahead of Proton's internal 3,000-4,000 monthly sales target. The lowest variant Persona is priced similarly to the highest spec Bezza but the Persona comes with 1.6 litre engine capacities and all models come with 5-star ASEAN NCAP rating (5-star ASEAN NCAP only available for highest variant Bezza). As a result of the Persona launch in late August, Proton TIV improved sequentially registering a +37%mom growth to 6,062 units, well outperforming the industry's -8%mom contraction while market share increased to 13% from 8%-9% levels in the prior 2 months. Proton should continue to register improvements in October given an even bigger boost from the new Saga which was launched late September. The Saga has managed to generate some 6,000 bookings in less than 3 weeks of launch and is also Proton's largest volume driver, historically accounting for half of Proton's volume.

Keeping our TIV forecast. Year-to-date TIV of 418,443 units, if annualised, accounts for 94% of our FY16F TIV of 593,302 units. Our forecast implies an 11%yoy contraction relative to the -14%ytd, but we note that this is an improvement versus last month's 15%ytd contraction. We stick to our numbers as TIV should improve further in the coming months given the impact of Proton's new Saga and a rebadged version of the Suzuki Ertiga by year end.

Earnings remain depressed, balance sheet deteriorating. TIV numbers asides, earnings for auto companies under our coverage have deteriorated as sales have been driven by aggressive campaigns and outright discounting, while the Ringgit remains relatively weak at ~RM4.20 to the USD and ~RM4.10 to the JPY(x100). We still expect UMW and Tan Chong to report losses for both FY16F and FY17F.

Maintain NEUTRAL on autos. Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick: Key share price catalysts over the next 12 months: (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) Value unlocking from the potential listing of BAuto Philippines. Ex-cash, BAuto trades at just 10x CY17F earnings.

UMW remains a NEUTRAL at unchanged TP of RM5.30/share. UMW Oil & Gas may 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.

Nonetheless should there be incentives in the form of excise duty exemptions for 1st car buyers (as rumoured in the past few weeks ahead of the Budget 2017 announcement), UMW Toyota could be one of the biggest beneficiaries (refer to our Auto Sector report dated 12th October 2016).


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. 

EXHIBIT 1: SEPTEMBER 2016 TIV SUMMARY BY BRANDS

Marques	Sep-15	Aug-16	Sep-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Sep-15	Sep-16
Proton	8,723	4,436	6,062	-30.5%	36.7%	78,836	50,091	-36.5%	17.1%	12.6%
Perodua	14,479	21,251	17,147	18.4%	-19.3%	157,527	150,889	-4.2%	28.3%	35.6%
Toyota	7,892	6,563	5,680	-28.0%	-13.5%	62,097	44,520	-28.3%	15.4%	11.8%
Honda	7,519	8,283	7,498	-0.3%	-9.5%	66,411	63,262	-4.7%	14.7%	15.6%
Nissan	3,595	3,133	3,049	-15.2%	-2.7%	34,759	30,398	-12.5%	7.0%	6.3%
Mazda	1,279	1,032	1,020	-20.3%	-1.2%	10,386	10,084	-2.9%	2.5%	2.1%
Others	7,619	7,614	7,735	1.5%	1.6%	75,368	69,199	-8.2%	14.9%	16.1%
Total	51,106	52,312	48,191	-5.7%	-7.9%	485,384	418,443	-13.8%	100.0%	100.0%

Source: MAA, MIDFR

EXHIBIT 2: SEPTEMBER 2016 TIV SUMMARY

Segment	Sep-15	Aug-16	Sep-16	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	45,245	46,223	42,644	-5.7%	-7.7%	431,586	371,460	-13.9%
Commercial vehicles	5,861	6,089	5,547	-5.4%	-8.9%	53,798	46,983	-12.7%
Total	51,106	52,312	48,191	-5.7%	-7.9%	485,384	418,443	-13.8%

Source: MAA, MIDFR

EXHIBIT 3: SEPTEMBER 2016 TIV SUMMARY

Segment	Sep-15	Aug-16	Sep-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Sep-15	Sep-16
National cars	23,202	25,687	23,209	0.0%	-9.6%	236,363	200,980	-15.0%	45.4%	48.2%
Non-nationals	27,904	26,625	24,982	-10.5%	-6.2%	249,021	217,463	-12.7%	54.6%	51.8%
Total	51,106	52,312	48,191	-5.7%	-7.9%	485,384	418,443	-13.8%		

Source: MAA, MIDFR

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	2.25	18.9	20.4	11.9	11.0	4.5	40.2	7.4	2.50	18.5
Tan Chong	NEUTRAL	1.84	-12.2	-12.1	-15.1	-15.3	0.5	-1.5	0.0	1.95	6.0
UMW	NEUTRAL	5.75	-10.5	-1.1	-54.6	-532.5	1.1	-0.2	0.5	5.30	-7.3
Sector average					-19.3	-178.9	2.0	12.8	2.6		

Source: Bloomberg, Companies, MIDFR

Hafriz Hezry
 hafriz.hezry@midf.com.my
 03-2173 8392

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.