

22 August 2019 | Sector Update

Automotive

Maintain NEUTRAL

Pulling on the brakes for now

INVESTMENT HIGHLIGHTS

- **Second consecutive month of decline brought year-to-date TIV to a contraction**
- **National cars still outperforming the industry**
- **Expecting further contraction next month, but TIV forecast on track**
- **Maintain NEUTRAL on the sector; MBM (TP: RM4.20) and BAuto (TP: RM2.85) remain our sector picks**

Second month of contraction. Jul19 TIV registered a 26%yoy contraction to 50,853 units, off a high base last year. This is the 2nd consecutive month of year-on-year contraction following June's 34%yoy contraction. Compared to Jun19, TIV partly recovered by 19.6%mom (against a sequential contraction of 30%mom in Jun19) given a longer working month. Additionally, plants typically undergo shut downs during the Raya period which fell in Jun19. On a year-to-date basis, TIV is now down by 3.1% versus our forecast of flat growth (+0.2%yoy) this year. As of 7M19, TIV is well in-line accounting for 58% of our full year forecast.

Proton outperformed, off a weak base. The fall in TIV was seen across the board with the exception of Proton which recorded a 6%yoy growth, though this ought to be taken in context with Proton's weak numbers last year – Proton's 2018 TIV of 64,744 units was the lowest in at least the past decade, relative to, for example, record (or near record) numbers for Perodua, Honda and Mazda, which were in part, driven by the tax holiday incentives running from Jun18-Aug18. Overall, the national cars are still outperforming the industry, with collective market share standing at 56.1% (vs. 46.6% last year).

MBM remains our top pick. We reaffirm our BUY call on MBM (TP: RM4.20) as a cheap proxy to Perodua's record TIV run. 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. MBM yesterday announced a more aggressive dividend policy of a minimum 60% payout which translates to attractive yields of 7%, while its 2Q19 results outperformed consensus – these are catalysing a strong valuation re-rating of the stock.

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 in Oct/Nov19 and CX30 in 2HFY20 (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 1: JULY 2019 TIV SUMMARY

Marques	Jul-18	Jun-19	Jul-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Jul-18	Jul-19
Proton	8,102	7,615	8,590	6.0%	12.8%	35,208	52,108	48.0%	11.8%	16.9%
Perodua	23,830	16,037	19,924	-16.4%	24.2%	140,928	141,706	0.6%	34.8%	39.2%
Toyota	9,130	5,222	5,660	-38.0%	8.4%	40,839	36,911	-9.6%	13.3%	11.1%
Honda	12,808	5,386	7,534	-41.2%	39.9%	64,162	51,794	-19.3%	18.7%	14.8%
Nissan	3,303	1,506	2,003	-39.4%	33.0%	15,229	12,386	-18.7%	4.8%	3.9%
Mazda	1,200	818	1,002	-16.5%	22.5%	7,896	7,493	-5.1%	1.8%	2.0%
Others	10,092	5,942	6,140	-39.2%	3.3%	53,917	44,789	-16.9%	14.7%	12.1%
Total	68,465	42,526	50,853	-25.7%	19.6%	358,179	347,187	-3.1%	100.0%	100.0%

Source: MAA, MIDF

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	2.45	18.8	22.2	13.1	11.0	4.82	46.7	7.4	2.85	23.7
Tan Chong	NEUTRAL	1.48	18.6	12.6	8.0	11.8	0.34	2.9	2.8	1.50	4.1
UMW (U.R.)	NEUTRAL	5.24	29.2	37.6	17.9	13.9	1.76	12.0	1.8	5.85	13.4
MBM	BUY	4.00	43.1	47.4	9.3	8.4	0.77	9.6	7.1	4.20	12.1
<i>Average</i>					<i>13.4</i>	<i>11.1</i>	<i>1.9</i>	<i>17.8</i>	<i>4.7</i>		

Source: Bloomberg, Companies, MIDF

U.R.: Under Review

EXHIBIT 2: JULY 2019 TIV SUMMARY BY VEHICLE TYPE

Segment	Jul-18	Jun-19	Jul-19	YoY	MoM	YTD18	YTD19	YTD %
Passenger cars	61,211	38,513	46,189	-24.5%	19.9%	322,254	317,064	-1.6%
Commercial vehicles	7,254	4,013	4,664	-35.7%	16.2%	35,925	30,123	-16.2%
Total	68,465	42,526	50,853	-25.7%	19.6%	358,179	347,187	-3.1%

Source: MAA, MIDF

EXHIBIT 3: JULY 2019 TIV SUMMARY BY VEHICLE TYPE

Segment	Jul-18	Jun-19	Jul-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									Jul-18	Jul-19
National cars	31,932	23,652	28,514	-10.7%	20.6%	176,136	193,814	10.0%	46.6%	56.1%
Non-nationals	36,533	18,874	22,339	-38.9%	18.4%	182,043	153,373	-15.7%	53.4%	43.9%
Total	68,465	42,526	50,853	-25.7%	19.6%	358,179	347,187	-3.1%		

Source: MAA, 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.