

Review & Outlook of the Automotive Sector

Subdued TIV numbers on gloomy demand

Izzat Esa
Ashikin Saiful Bahri
nurul.ashikin@midf.com.my
03-2173 8462

Maintain NEUTRAL

HIGHLIGHTS

- The April sales (TIV) and production (TIP) figures were released by MAA yesterday. While TIV shed -23.1%yoy and -32.9%mom to 45,187 units, TIP figures strengthened +8.0%yoy and 2.6%mom to 61,634 units.
- We attribute the decline in TIV figures to the implementation of a new tax regime in April 2015. While the replacement of the Sales and Service Tax (SST) with Goods and Service Tax (GST) led to lower price levels across the board, we believe that consumer confidence was hit by uncertainties arising from the new consumption tax putting a break on their spending on big ticket items. As such, falling car prices were unable to soften the reduction in TIV volume. While we note a potential 1-3% reduction in price levels for most automakers, an appreciation of the yen against ringgit may cause imported auto parts to be more expensive thus offsetting any savings made from weaker prices for CBU vehicles.
- For 4MCY15, TIV declined -2.4% to 213,493 units with Toyota being the worst performer followed by Proton. Sales for Toyota over the period weakened -33.2% to 22k units (from 33k units) while Proton's sales volume went down by -23.8% to 32k units (from slightly below 43k units).
- Meanwhile, TIP grew +7.1% to 225,331 units for 4MCY15 as automakers replenish their inventories following a stock clearance exercise in the period building up to GST implementation. We may also pin the higher output numbers for April on automakers' expectations of stronger demand in subsequent months as consumers adjust to the new post-GST price levels.
- As Toyota and Proton continued a disappointing string of results, impacts were fairly softened by growth in sales for Perodua, Honda, Nissan and Mazda, with each registering growth rates of +21.4%, +27.3%, +5.0% and +18.6% respectively. While Perodua maintained its lion's share of the nationals market at 35%, Honda retained its leadership of the non-nationals segment at 13% for 4MCY15.
- In view of Perodua posting +21.4% to 74k units for the year-to-April period, market share for TIV went back to the national makes which cornered 50.3% market share relative to non-national makes' at 49.7%. Weaker contributions from Toyota led to national cars attaining a marginal edge over non-national cars.
- Within the non-national segment, Honda maintained its lead ahead of the pack, garnering 13% of the market in the first 4 months of the year with Toyota, Nissan and Mazda coming in at 10%, 8% and 2% respectively.
- We maintain our TIV growth target of +0.5% to 670k units for 2015. We anticipate market to normalize in light of higher living costs and uncertain economic conditions which may adversely affect consumer confidence on big-ticket items, thus offsetting any gains made from lower price levels. Hence we maintain our NEUTRAL call on the sector while maintaining a positive view on MBM Resources and Berjaya Auto as we expect these stocks to benefit from depreciations in Yen.

Summary of the latest domestic Auto statistics

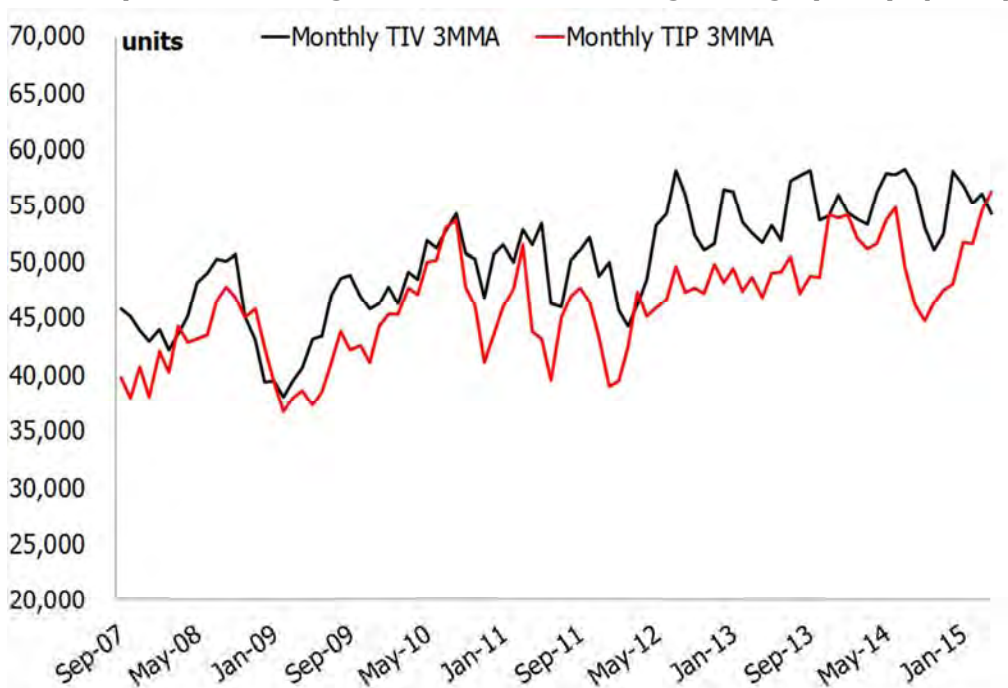
	Apr-15	Jan - April 2015	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	April-15 (%)	ytd (%)	Apr-14 (%)
Malaysia TIV	45,187	213,493	-23.1	-32.9	-2.4			
By make:								
Nationals	22,556	107,391	-18.4	-31.7	2.9	49.9	50.3	47.0
Non-nationals	22,631	106,102	-27.3	-34.0	-7.1	50.1	49.7	53.0
By segment:								
Passenger vehicles	40,902	189,964	-22.1	-31.0	-2.6	90.5	89.0	89.4
Commercial vehicles	4,285	23,529	-31.4	-46.4	-0.4	9.5	11.0	10.6
Malaysia TIP	61,634	225,331	8.0	2.6	7.1			

Source: MAA

MALAYSIA

Shortfall in sales volume. April 2015 TIV declined -23.1%yoy and -32.9%mom to 45k units while TIV for the year-to-April period eased -2.4% to 213k units. We believe the shortfall in sales figures were due to weaker consumer confidence resulting from the implementation of GST in April.

Monthly TIV and TIP figures on 3 Months Moving Average (MMA) up to April 2015

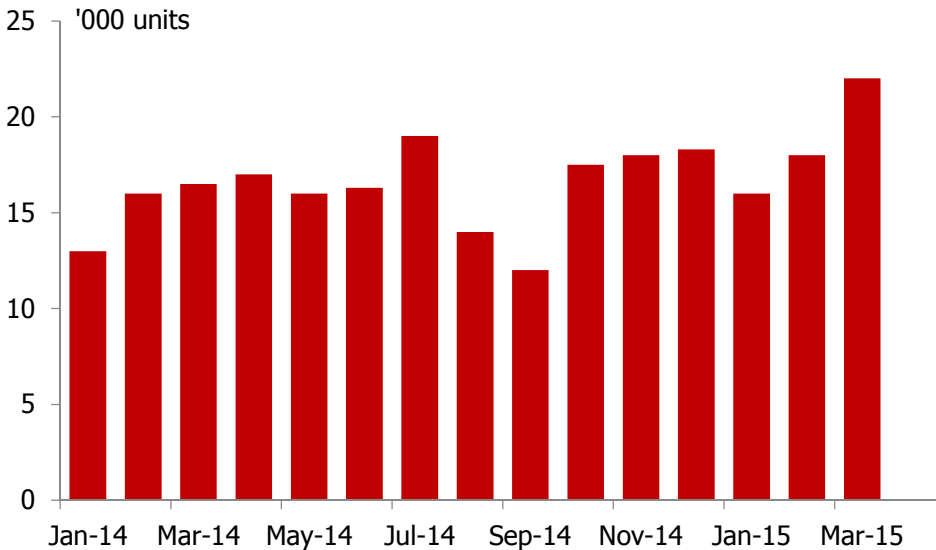


Source: MAA, MIDFR calculations

Higher output to replenish inventories. April 2015's TIP grew +8.0%yoy and +2.6%mom to 62k units, while 4MCY15 figures went up by +7.1% to 225k units. We observe the modest increase as efforts at inventory replenishment at the heel of a stock clearing exercise in the prior month. We may also attribute the output growth to automakers' optimism of a rebound in sales volume in upcoming months after an adjustment period.

Perodua slowing down. While the local-based automaker expanded its TIV figures +0.3%yoy, sales fell -21.8%mom to 17k units. Apart from a slash in prices of up to 1.6% for its cars, we expect momentum from Axia and Myvi facelift to slow down with no immediate catalyst in the form of new launches to spur sales.

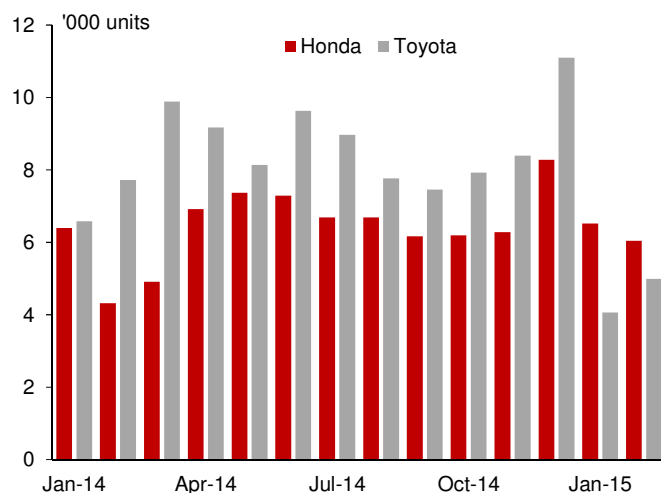
Perodua monthly sales figures since Jan 2014



Source: MAA, MIDFR calculations

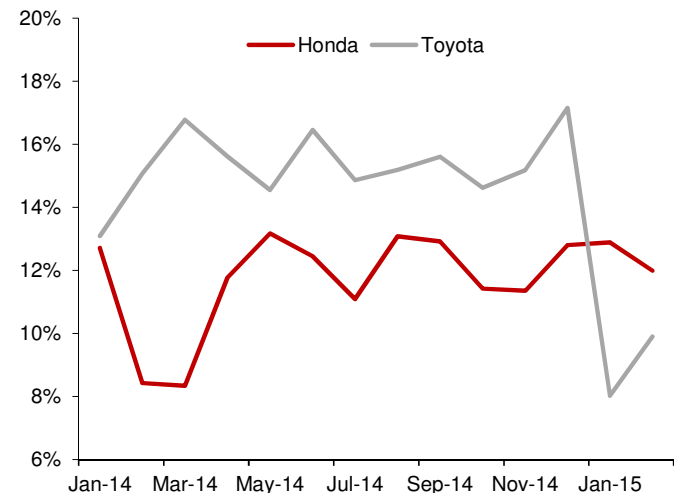
Toyota continued to decline. The Japanese carmaker saw its sales slipped -34.2%yoy and -16.1%mom to slightly over 6k units for April 2015. For the year-to-April period, sales volume eased -33.2% to 22k units. Despite that, Toyota maintained its market share at 10% amidst an industry-wide slump in April. While we note the recent recall of 97k units of Toyota vehicles on Takata airbag issue may affect public perception, we look forward to the launches of locally-assembled Toyota Camry variants and Toyota Rush as indications on whether the carmaker could turn around its fortune.

Honda & Toyota monthly sales since Jan 2014



Source: MAA

Honda & Toyota monthly mkt share since Jan 2014



Source: MAA, MIDFR

Honda remained leader of non-nationals. Honda recorded -5.1%yoy and -31.5% mom declines to 6k units for April 2015, while its year-to-April figures grew 27.3% to 28k units. We attribute the decline in April to weaker consumer confidence post-GST implementation. Honda maintained its lead at the front of the non-national pack, maintaining a market share of 13% for 4MCY15. Benefitting from strong sales volume for HR-V compact SUV and CRV facelift, we may expect public perception to be adversely affected by a recent recall of vehicles due to Takata airbag issue.

TIV: Breakdown by brands

	Apr-15	Jan - April 2015	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Apr-15 (%)	ytd (%)	Apr-14 (%)
Nationals:								
Perodua	17,584	74,737	0.3	-21.8	21.4	38.9	35.0	29.9
Proton	4,972	32,654	-50.7	-52.8	-23.8	11.0	15.3	17.2
Total nationals	22,556	107,391	-18.4	-31.7	2.9	49.9	50.3	47.0
Non-nationals:								
Toyota	6,032	22,273	-34.2	-16.1	-33.2	13.3	10.4	15.6
Honda	6,562	28,707	-5.1	-31.5	27.3	14.5	13.4	11.8
Nissan	3,003	16,229	-14.0	-40.0	5.0	6.6	7.6	5.9
Mazda	705	4,077	-40.4	-53.1	18.6	1.6	1.9	2.0
Others	6,329	34,816	-38.9	-42.5	-11.8	14.0	16.3	17.6
Total non-nationals	45,187	213,493	-23.1	-32.9	-2.4	45,187	213,493	-23.1
Total TIV	45,187	213,493	-23.1	-32.9	-2.4			

Source: MAA, MIDFR calculations

2015's Outlook. We are maintaining our NEUTRAL view on the sector as we anticipate market to normalise in light of higher living costs and uncertain economic conditions which may adversely affect consumer confidence on big-ticket items, thus offsetting any gains made from lower price levels. We remain positive on MBM Resources and Berjaya Auto as we foresee these stocks to benefit from the strong sales growth for Perodua and Mazda vehicles respectively as well as profiting from the weakening Yen. Amongst our coverage, we have a BUY call on MBM Resources ("MBM") and Berjaya Auto while we maintain NEUTRAL on UMW Holdings ("UMW") and Tan Chong Moto Holdings ("TCM"). We continue to expect FY15 TIV to grow +0.5%yoy to 670k.

Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 21/5 (RM)	TP (RM)	Net Profit (RM'm)		EPS (sen)		EPS Growth (%)		PER (x)		DPS (sen)		Div. Yield (%)	
				FY14	FY15F	FY14	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F
UMW	NEUTRAL	10.82	12.00	658	970	56.3	83.1	(1.2)	13.3	15.0	13.2	40	46	3.6	4.2
TCM	NEUTRAL	2.96	4.00	106	233	16.2	35.7	(67.9)	161.2	22.0	8.4	5	13	1.7	4.3
MBM	BUY	3.44	4.80	145	181	37.2	46.4	5.6	2.5	8.7	7.0	8	9	2.4	2.8
BAUTO	BUY	3.92	4.70	129	225	16.2	27.7	166.3	74.8	22.8	13.4	5	12	1.4	3.2

Source: Bloomberg, MIDF Research

Our top pick is MBM. MBM's share price recently rose after the ringgit strengthened against the yen. Nevertheless, the RM/¥100 exchange rate is still below its 2014 average of RM3.10/¥100. We estimate that every ±1% change in the RM/¥100 exchange rate would impact earnings by ±1.6%. We see the turnaround of MBM's alloy-rim business, OMI, on higher utilisation rate as a positive catalyst for the stock.

REVIEW OF REGIONAL PRODUCTION

Production for Malaysia is on the uptrend. TIP figures for the South-East Asian country went up by +8.0%yoy and +2.6%mom to 61,634 units. We observe the growth in output figures to be due to an inventory replenishment exercise by the automakers after an aggressive promotional campaign in the prior month led to stock clearance.

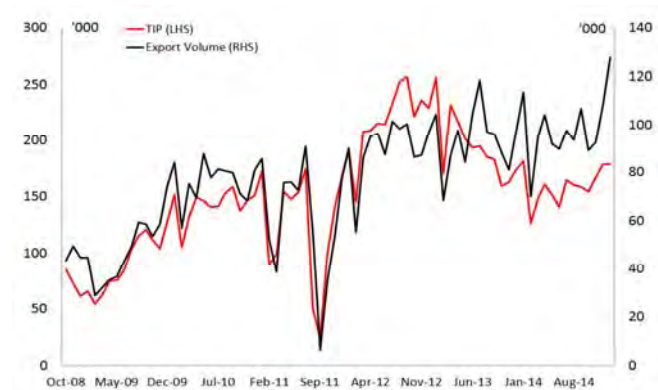
Thai exports' forecasts revised upwards. As domestic car sales for 1Q15 slumped by -11.8%yoy to 197k units, the Federation of Thai Industries is set to cut its TIV forecast for 2015 by an approx. 10% over previous year's performance of 881k units amidst slow economic recovery and tighter approval rates for hire-purchase loans. This has factored into weaker TIP expectations for 2015 as well (2015's 2.03m units vs. 2014's 2.15m units), despite output growing +1.1%yoy to 522k units in 1Q15. On the flipside, exports are anticipated to surge by 10% for the year on stronger worldwide demand for Thai manufactured cars as export figures grew +12.6%yoy to 328k units in 1Q15.

Malaysia: Monthly TIV & TIP 3MMA



Source: MAA

Thai: Monthly TIP and export volume

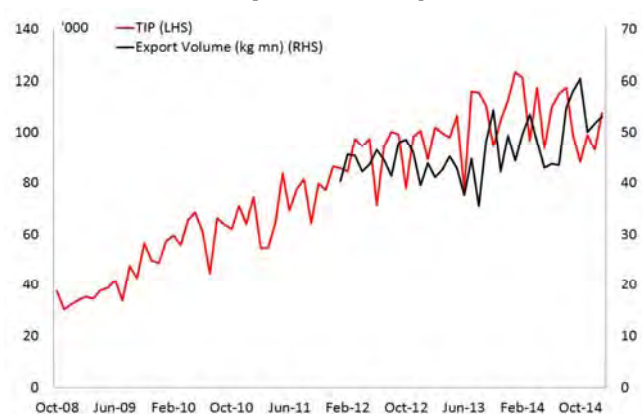


Source: Federation of Thai Industries (FTI), CEIC

Lower expectations for Indonesian sales. Sales for Indonesian automakers in 3MCY15 slid -14.0%yoy to 282k units as the rupiah continued its decline against the dollar, thus resulting in weaker purchasing power and a cautious consumer outlook. As the economy produced its weakest showing in over five years at 4.71% growth rate for 1Q15, concerns have led the Association of Indonesian Automotive Industries (GAIKINDO) to cut TIV forecast from 1.2m units to 1-1.1m units for 2015. Meanwhile, TIP volume eased -12.1%yoy to 299k units.

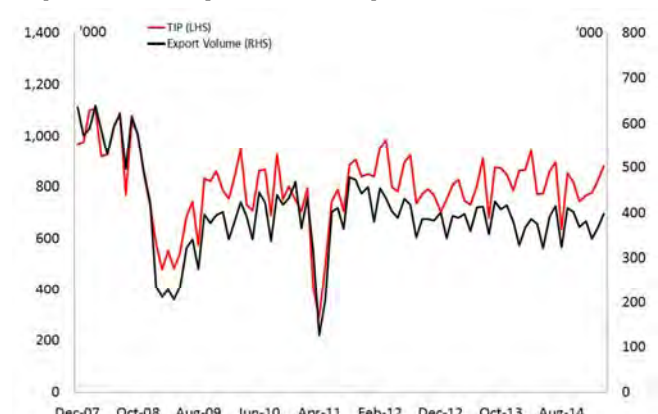
Japanese TIV to slow. Japan's 3MCY15 TIV eased -14.4%yoy to 1,578k units as fears over the short-term economic outlook led Japan Automobiles Manufacturers Association (JAMA) to anticipate a decline of 5% for the upcoming months. TIP figures for 1Q15 declined -6.9%yoy to 2,480k units.

Indonesia: Monthly TIP and export volume



Source: Assoc. of Indonesian Automotive Industries (GAIKINDO), CEIC

Japan: Monthly TIP and export volume



Source: Japan Automobiles Manufacturers Assoc. (JAMA), CEIC

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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.