

Review & Outlook of the Automotive Sector

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Moderation after the festive season

Maintain NEUTRAL

HIGHLIGHTS

- MAA released Malaysia's auto sales (TIV) and production (TIP) figures for August last Friday. TIV figure moderated to 51,125 units after a strong showing in July. Meanwhile, TIP figure picked up to 43,784 units but still below the monthly run-rate seen in 1H 2014 of 53k units.
- The August TIV moderated to 51,125 units, down -15.2%mom, but was flat on-year. The sharp pullback from July was explained by sales figures normalising after the delivery rush before the Hari Raya celebration.
- Over the 8-month period, TIV grew +2.7% to 444,534 units. The cumulative growth has moderated from the +3% growth in the year-to-July period and even further off from the high of +6.3% in 1H14 period. We believe this was due to buyers holding up purchases running up to the general election in May 2013 which dampened TIV in 1H13.
- Meanwhile, TIP figure in August grew considerably by +16.6%yoy to 43,784 units and +6.8%mom. The growths were driven by the longer working period whereby the working period in August 2013 was punctuated by the Hari Raya break in 8th and 9th August 2013 while Hari Raya in 2014 fell in the last week of July.
- Honda and Toyota remained the top performer while Proton and Nissan continued to flounder. On the other hand, Perodua's sales were stable. Honda was the only high-volume brand that matched its July sales figure while most of the industry moderated. Proton and Nissan were the two worst performers with its sales volumes continued to slide.
- The cumulative TIV figure for the 8-month period stood at 444,534 units, constituting 67% of our 2014 TIV target of 668k units and 65% of the Malaysia Automotive Association (MAA) 2014 target of 680k units. In our view, the auto sales look largely unimpeded by the gradual hikes in hire-purchase financing rates. However, we believe this could be due to the aggressive promotional exercises incentivising purchases which have led to margins dilution, evident in the sector's 1H 2014 results performance. As such, our Neutral call on the sector remains.

Summary of the latest domestic Auto statistics

	Aug-14	Jan - Aug 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Aug-14 (%)	ytd (%)	ytd (ppts)
Malaysia TIV	51,125	444,534	0.0	-15.2	2.7			
By make:								
Nationals	23,196	210,899	-9.6	-23.1	-5.5	45.4	47.4	-4.1
Non-nationals	27,929	233,635	9.8	-7.2	11.3	54.6	52.6	4.1
By segment:								
Passenger vehicles	44,898	395,255	-0.3	-16.2	3.4	87.8	88.9	0.7
Commercial vehicles	6,227	49,279	2.9	-6.9	-3.3	12.2	11.1	-0.7
Malaysia TIP	41,012	358,904	-25.1	-23.5	3.0			

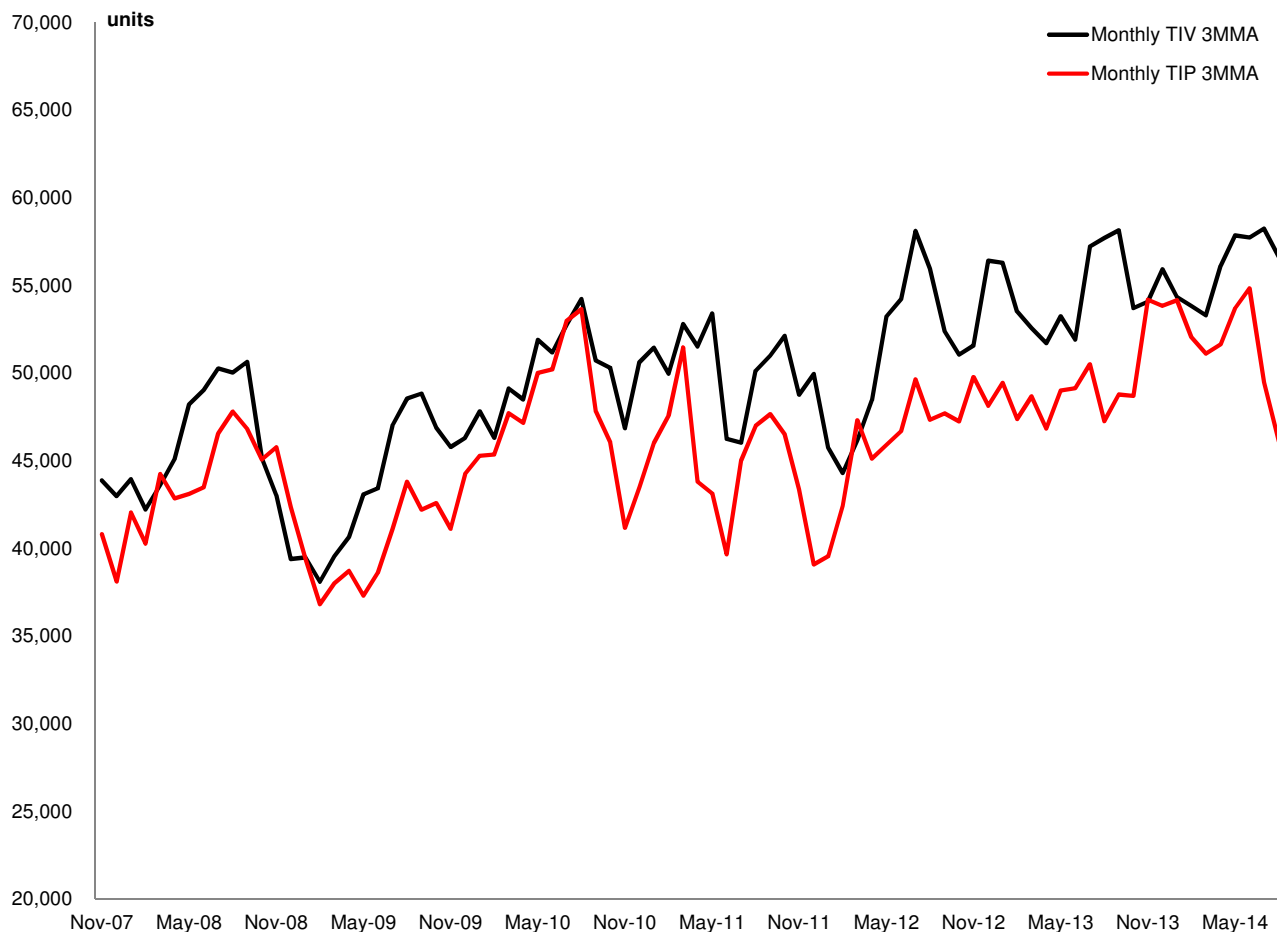
Source: MAA

MALAYSIA

TIV figure in August 2014 moderated to more normal levels. The TIV for August 2014 was flat year-on-year and declined -15.2%mom to 51.1k units while the TIV for the 8-month period grew +2.7% to 444.5k units. The month-on-month decline was understandable after the delivery rush in July to be made in time for the Hari Raya celebration. However, this was below the monthly run-rate of 55.6k for the first eight months of 2014.

TIP figures picked up in August 2014. On the contrary, the August TIP figure painted a brighter picture as the industry produced 43,784 units, up +16.6%yoy and +6.8%mom while the 8-month production grew +4.4% to 402.7k units. We opine this was due to longer working period in the month whereby the working period in August 2013 was punctuated by the Hari Raya celebration which fell on 8th and 9th August while Hari Raya celebration was in the last week of July 2014.

Monthly TIV and TIP figures on 3 Months Moving Average (MMA) up to August 2014



Source: MAA

Honda and Toyota were the top performers. Amongst the high-volume brands, only Honda matched its July unit sales possibly due to the Honda Jazz which debuted in mid-July. The brand also continued to see stronger year-on-year sales due to new model launches. Meanwhile, Toyota's sales grew by a staggering +55.5%yoy to 7,762 units in August alone but this was amplified by the low base effect. Recall that Toyota's August 2013 sales volume was impacted by the run-out of the old Toyota Vios pending the debut of its replacement in October 2013.

Proton and Nissan continued to flounder. Proton and Nissan continued to see poor sales performance. The national car maker posted only 8.6k units as sales fell -27%yoy and -22%mom while the decline in its year-to-date sales widened to -11.2% over the 8-month period vis-à-vis -8.9% during the 7-month period this year. Despite two new model launches at end April 2014 and in early June 2014, Nissan's sales volume continued to slide (-27.6%yoy, -17.7%mom).

The decline in year-to-date unit sales widened to -18.5% in August from -17.2% in the first seven months of the year.

Perodua's performance mixed. Perodua's sales performance was mixed. While volume grew +5%yoy to 14,585 units, it declined -24%mom and sales volume in the 8-month period fell -1.3% to 128.2k units.

National brands' market share remained under pressure. The market share between the national and non-national brands in August have swung in favour of non-nationals which dominated 55% of the market. For the cumulative period, the market continued to be dominated by the non-national makes which garnered 53% of the market due to the surge in Honda's sales and the recovery in Toyota's.

TIV: Breakdown by Nationals and Non-nationals brands

	Aug-14	Jan - Aug 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Aug-14 (%)	ytd (%)	ytd (ppts)
Nationals:								
Perodua	14,585	128,203	5.2	-23.8	-1.3	28.5	28.8	-1.2
Proton	8,611	82,696	-27.0	-22.0	-11.2	16.8	18.6	-2.9
Total nationals	23,196	210,899	-9.6	-23.1	-5.5	45.4	47.4	-4.1
Non-nationals:								
Toyota	7,762	67,844	55.5	-13.4	16.1	15.2	15.3	1.8
Honda	6,689	50,577	24.7	0.1	52.0	13.1	11.4	3.7
Nissan	3,156	29,106	-27.6	-17.7	-18.5	6.2	6.5	-1.7
Others	10,322	86,108	-3.7	-2.6	4.4	20.2	19.4	0.3
Total non-nationals	27,929	233,635	9.8	-7.2	11.3	54.6	52.6	4.1
Total TIV	51,125	444,534	0.0	-15.2	2.7			

Source: MAA

August figures moderating, expect pickup from new models

8-month TIV made up 67% of 2014F forecast. Malaysia's 8-month TIV grew +2.7% to 444.5k units, moderating from +6.3% in 1H14 and +3% in the 7-month period this year. This constituted 67% of our 2014F target of 668k units which assumes a +1.9% TIV growth from 2013. There is a risk to our TIV target being exceeded as new models are launched towards year-end although we believe this could be partially offset by tighter lending approvals.

Reiterate NEUTRAL. We are currently NEUTRAL on the Automotive sector. While the TIV outlook is expected to be buoyant given the sound domestic economy, we believe aggressive competition may lead to margin pressures for some of the companies under our coverage. The valuation and recommendation of our stocks coverage are as follow:

Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 19/9 (RM)	TP (RM)	Net Profit (RM'm)		EPS (sen)		EPS Growth (%)		PER (x)		DPS (sen)		Div. Yield (%)	
				FY13	FY14F	FY13	FY14F	FY13	FY14F	FY13	FY14F	FY13	FY14F	FY13	FY14F
UMWH*	Neutral	12.44	13.15	681	1,158	58.0	102.4	-31.8	76.6	21.4	12.1	44.0	46.0	3.6	3.7
TCM	Buy	4.60	5.55	251	150	37.3	23.0	44.7	-45.9	12.3	20.0	15.3	8.1	3.3	1.8
MBM	Buy	2.84	3.90	139	160	35.6	33.7	0.9	-5.5	8.0	8.4	6.0	8.0	2.1	2.8

*currently under review

Source: Bloomberg, MIDF Research

REVIEW OF REGIONAL PRODUCTION

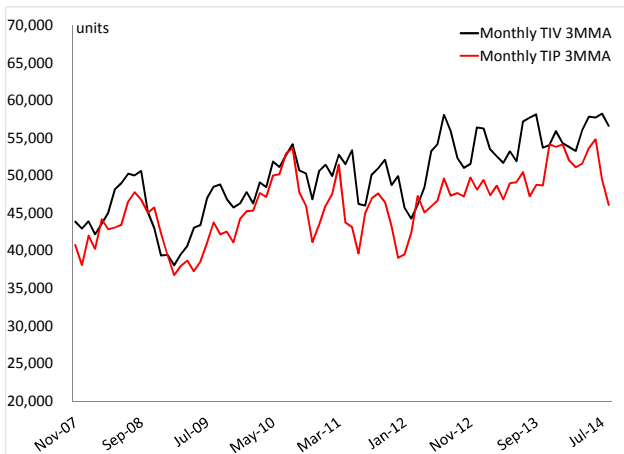
Thailand production on a declining trend. Thailand's Total Industry Production (TIP) contracted in August, down -27%yoy and -7%mom to 140,797 units. This was the second consecutive months that production output has fallen after it peaked at 160k units in June. We expect sales volume to rebound in coming months as more clarity in the domestic economic outlook help boost consumer sentiment. Thailand's TIV as at July remained under pressure, down -29.2%yoy and -5.8%mom to 69.5k units while year-to-date TIV fell -39.2% to 510.4k units.

Malaysia's TIP rebounded... Despite lacklustre sales of national makes, Malaysia's TIP in August rebounded to 43,784 units (+16.6%yoy, +6.8%mom) due to longer working days in the month. We also believe that the growing CKD activities provided good support to local parts makers.

...and so did Indonesia's. Indonesia's TIP rebounded in August +41.5%yoy and +17.1%mom to 109.6k units. This was largely in line with the seasonal trend seen in Malaysia which was impacted by the Hari Raya celebration. However, production volume remained below the pre-Hari Raya break levels.

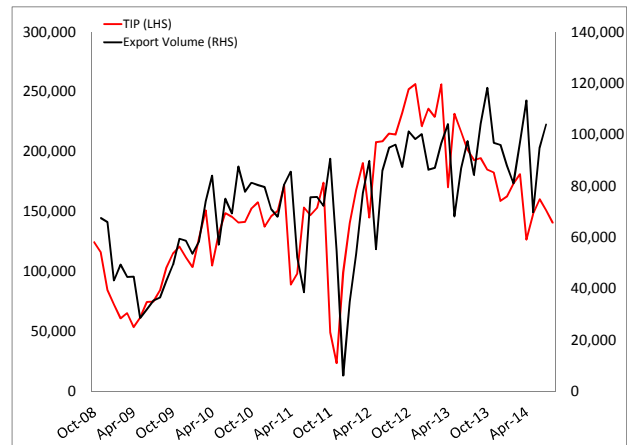
Japan's TIP down on-year but improved sequentially. Despite Japan's TIP declining -1.7%yoy in July, export volume remained flat. The decline in TIP was in line with the softening TIV which fell -2.5%yoy to 460k units in July 2014.

Malaysia: Monthly TIV & TIP 3MMA



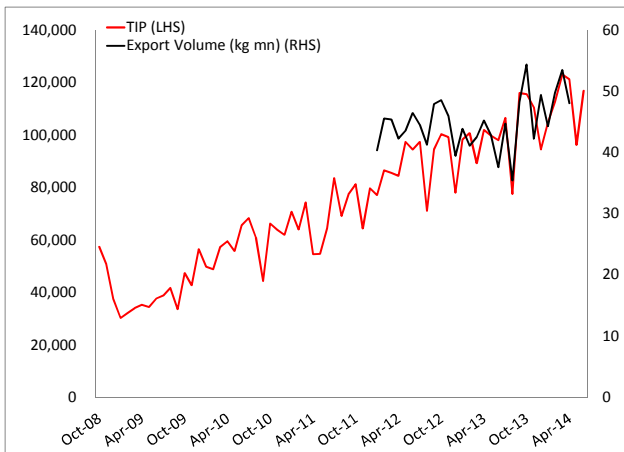
Source: MAA

Thailand: Monthly TIP and export volume



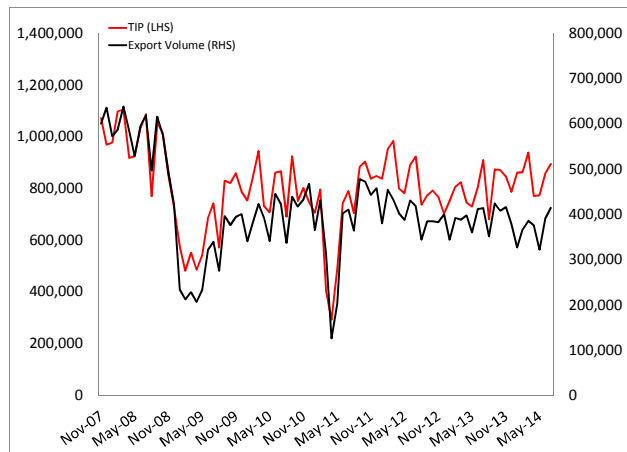
Source: Federation of Thai Industries (FTI), CEIC

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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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.