

Review & Outlook of the Automotive Sector

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A pretty good finish to 2014

Maintain NEUTRAL

HIGHLIGHTS

- MAA released the December sales (TIV) and production (TIP) figures yesterday with TIV increasing +6.9%yoy and +16.9%mom to 64,660 units while TIP fell -3.6%yoy but improved sequentially, up +7.7%mom to 51,066 units.
- For the entire 2014, TIV came in at 666,465 units, implying a growth of +1.6%yoy. It was only slightly short of our full-year expectation of 668k units. Meanwhile, the 2014 TIP painted a less rosy picture with production dropped -0.8%yoy to 596,418 units, in what we opine as inventory build-up easing in anticipation of a softer 2015 market.
- As seen throughout the year, the non-national makes dominated the market with 53% share of the TIV from just 49% for the entire 2013. The gains were driven by Toyota and Honda which increased its respective market share by +1.5ppts and +3.8ppt to 15.4% and 11.6%. This was mostly at the expense of Proton which recorded a -3.8ppt drop in market share to 17.4% while Perodua's market share shrank marginally by -0.6ppt to 29.3%.
- The strong TIV growth in 2014 was also driven by Honda and Toyota. Honda posted a record sales volume of 77,495 units (+50%yoy or by 25,951 units) on strong sales of the Honda City which was launched in Mar 2014, and Honda Jazz which was launched in Jul 2014. For Toyota, its strong sales were explained by strong sales of the new Toyota Vios, launched in late 2013, and the new Toyota Altis, launched in Jan 2014.
- Perodua's sales caught up following the launch of the new Perodua Axia in Sept 2014. Prior to the Axia's debut, Perodua's sales was down -4.8% for the first 9 months of 2014. Perodua ended the year with a -0.3%yoy decline.
- Unfortunately, Proton's sales remained weak despite the debut of its highly-anticipated Proton Iriz in late Sept 2014. Nevertheless, the national car maker's monthly sales volume has progressively improved since.
- The 2014 TIV of 666,465 units made up 99.8% of our 668k-unit TIV target and 98% of the Malaysia Automotive Association (MAA)'s 680k-unit target. We believe the slight shortfall was due to some customers deferring delivery into 2015. This was evident with Perodua's passenger car sales which fell -5%mom despite the strong order book for the new Axia.
- We retain our 2015 TIV at 670k units which implies +0.5%yoy growth. While we believe earnings risks are largely priced in, we remain NEUTRAL on the sector with MBM Resources being our top pick.

Summary of the latest domestic Auto statistics

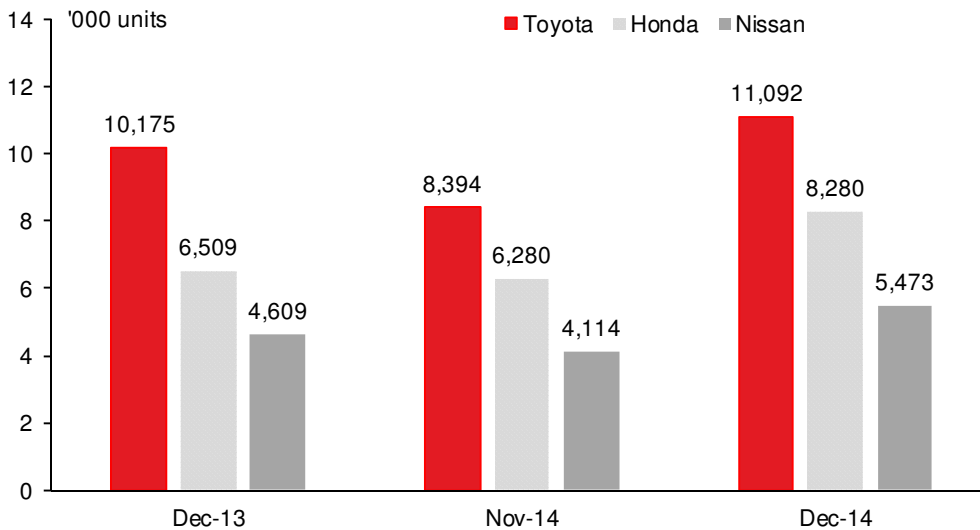
	Dec-14	2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Dec-14 (%)	ytd (%)	Dec-13 (%)
Malaysia TIV	64,660	666,465	6.9	16.9	1.6			
By make:								
Nationals	27,749	311,362	3.8	3.8	-7.0	42.9	46.7	44.2
Non-nationals	36,911	355,103	9.3	29.2	10.6	57.1	53.3	55.8
By segment:								
Passenger vehicles	55,523	588,341	5.8	14.2	2.0	85.9	88.3	86.8
Commercial vehicles	9,137	78,124	14.2	36.6	-1.3	14.1	11.7	13.2
Malaysia TIP	51,066	596,418	-3.6	7.7	-0.8			

Source: MAA

MALAYSIA

Boosted by year-end promotions. The December TIV grew +16.9%mom and +6.9%yoy to 64,660 units driven by strong sales of Toyota and Honda. To a lesser extent, the growth was also boosted by Nissan as we believe aggressive promotions were made to clear out old stocks of the pre-facelifted Almera.

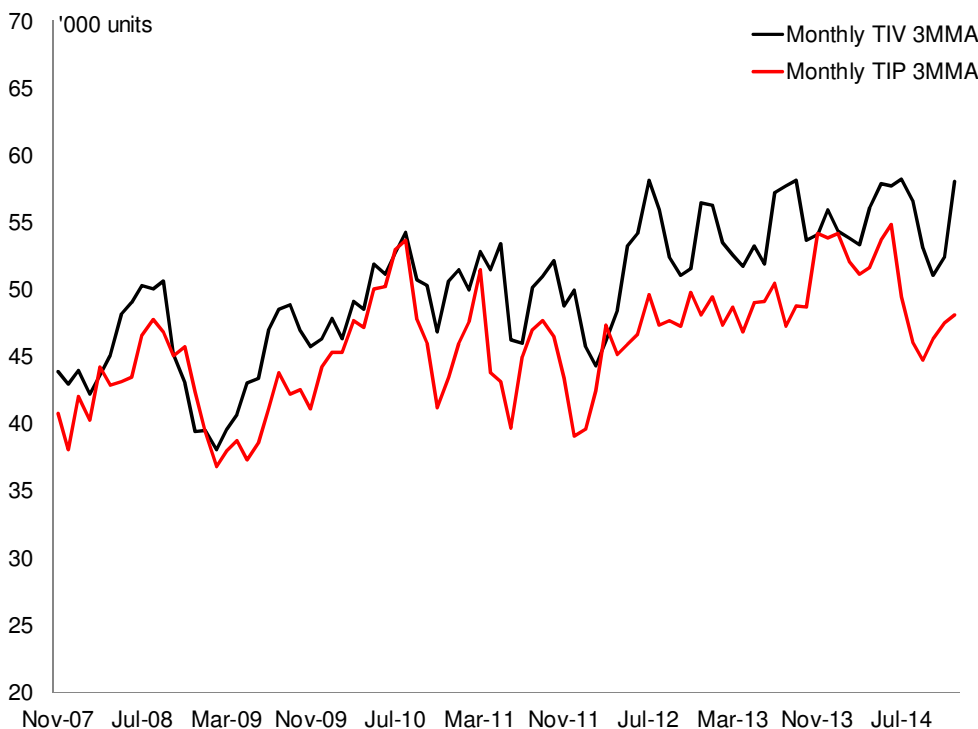
Monthly sales figure of Toyota, Honda and Nissan



Source: MAA, MIDFR calculations

Weak TIP signalling a softer market. While TIP grew +7.7%mom, it fell -3.6%yoy to 51,066 units. We believe this indicates that the industry is less optimistic of 2015 sales outlook amidst higher cost of living and the country's less-optimistic economic outlook.

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



Source: MAA, MIDFR calculations

TIV: Breakdown by brands

	Dec-14	2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Dec-14 (%)	ytd (%)	Dec-13 (%)
Nationals:								
Perodua	19,048	195,579	4.6	2.8	-0.3	29.5	29.3	30.1
Proton	8,701	115,783	2.1	6.1	-16.5	13.5	17.4	14.1
Total nationals	27,749	311,362	3.8	3.8	-7.0	42.9	46.7	44.2
Non-nationals:								
Toyota	11,092	102,704	9.0	32.1	12.6	17.2	15.4	16.8
Honda	8,280	77,495	27.2	31.8	50.3	12.8	11.6	10.8
Nissan	5,473	46,276	18.7	33.0	-12.7	8.5	6.9	7.6
Others	12,066	128,628	-3.2	23.2	2.7	18.7	19.3	20.6
Total non-nationals	36,911	355,103	9.3	29.2	10.6	57.1	53.3	55.8
Total TIV	64,660	666,465	6.9	16.9	1.6			

Source: MAA, MIDFR calculations

Honda was the star performer. While Toyota remained in pole position amongst non-national brands, Honda was the star performer in 2014. The latter's market share grew by +3.8ppts to 11.6% with 77k units sold in the year. We believe the surge in Honda's sales volume was premised on timely launches of the new Honda City in Mar 2014 and the new Honda Jazz in Jul 2014, which were both complemented with attractive pricing strategy.

2015 Outlook. Despite the strong end to 2014, we are NEUTRAL on the sector as we expect new vehicle sales in 2015 to remain soft amidst rising living cost and Malaysia's less-optimistic economic outlook. As such, we expect TIV to grow +0.5% to 670k units, well below the forecast of 700k units by the Malaysia Automotive Institute (MAI). The softer market could also lead to competition intensifying especially within medium-priced vehicles, thus potentially diluting margins.

Our recommendations. Within our coverage, we call a BUY on MBM which is also our top pick for the sector. Furthermore, we are NEUTRAL on UMW Holdings (UMW) and Tan Chong Motor Holdings (TCM). We see UMW and TCM being net losers of the weakening Ringgit against the Dollar. However, the former is partially mitigated by its Oil & Gas unit while offering decent dividend yields.

Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 21/1 (RM)	TP (RM)	Net Profit (RM'm)		EPS (sen)		EPS Growth (%)		PER (x)		DPS (sen)		Div. Yield (%)	
				FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F
UMW	NEUTRAL	10.70	12.00	856	970	73.3	83.1	(1.2)	13.3	14.6	12.9	40	46	3.7	4.3
TCM	NEUTRAL	3.19	4.00	89	233	13.7	35.7	(67.9)	161.2	23.3	8.9	5	13	1.6	4.1
MBM	BUY	3.03	4.80	145	181	37.2	46.4	5.6	2.5	8.1	6.4	8	12	2.6	4.0

Source: Bloomberg, MIDF Research

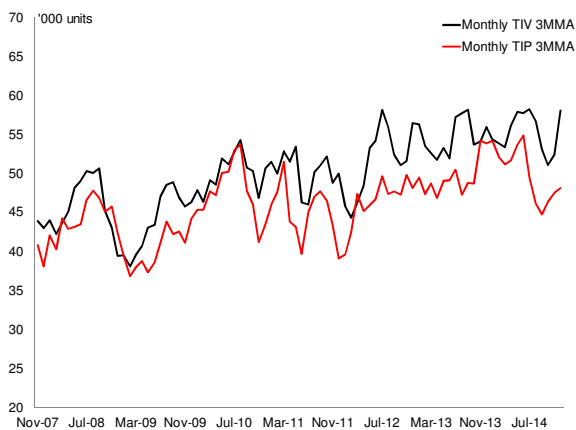
Our top pick is MBM. MBM's share price has recently eased following the strengthening of the Yen which is one of the stock's earnings catalysts. Nevertheless, the RM/¥100 exchange rate is still below its 2014 average of RM3.10/¥100. We estimate that for every ±1% change in the Yen would impact earnings by ±1.6%. We also see other potential positives such as: a) the turnaround of MBM's alloy-rim business, OMI, which should see higher utilisation rate; and b) stronger contribution from associates, Perodua and Hino, which recorded weaker 2014 earnings due to the start-up costs from new manufacturing facilities. Perodua is also expected to see strong sales from the new Perodua Axia and the recently-launched Perodua Myvi facelift.

REVIEW OF REGIONAL PRODUCTION

Malaysia's TIP easing. Contrasting to the strong growth in TIV, we believe the TIP seems to signal a sombre picture. While production figures grew +7.7%mom, it fell -3.6%yoy to 51,066 units while the 2014 TIP declined -0.8%yoy to 596k units. We view the slower December output reflects easing inventory build-up in anticipation of a softer 2015 market

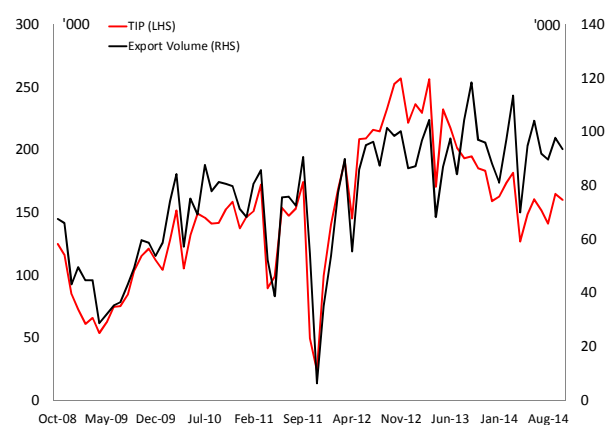
Thai production declined further. Thailand's Total Industry Production (TIP) contracted in October to 159k. Production has fallen after it peaked at 164k in September. Meanwhile, Thailand's October TIV was still weaker on-year but grew mildly by +2.5%mom to 71k units. For the 10-month period, TIV declined -36%yoy to 719k units.

Malaysia: Monthly TIV & TIP 3MMA



Source: MAA

Thai: Monthly TIP and export volume

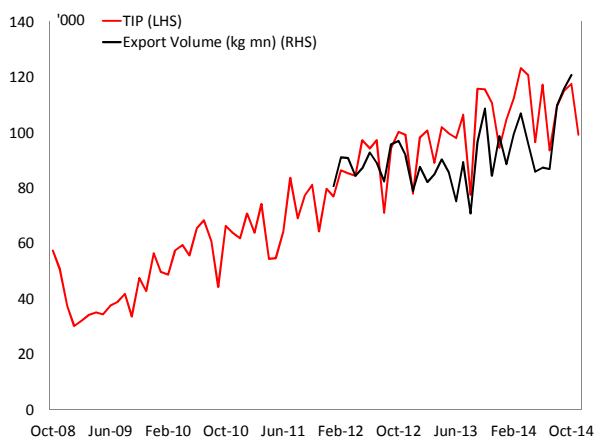


Source: Federation of Thai Industries (FTI), CEIC

Indonesia's TIP remained strong. Indonesia's November TIP contracted -10.3%yoy and -15.7%mom to 99,205 units, the lowest since Jul 2014. We believe this could be a short blip as the country is expected to be one of the key regional production hubs after Thailand.

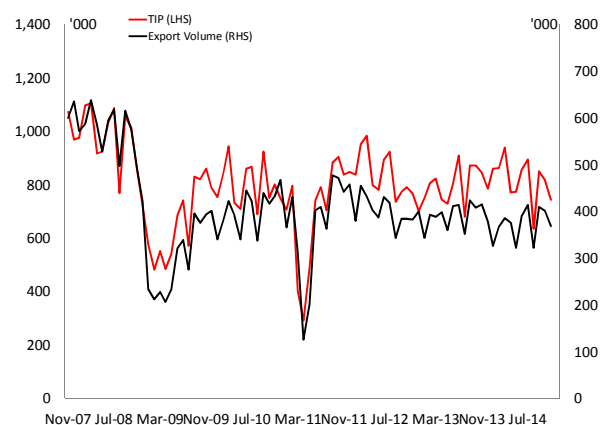
Japan's TIP slowed. Japan's November TIP continued to decline to 743k units after recovering to more than 850k units in September. However, this was still well above the blip in August when TIP declined to as low as 635k units. The export volume trended similar with total volume declining -8.3%mom to 368k units. Meanwhile, Japan's December TIV grew +2.1%yoy and +3.8%mom to over 431k 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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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.