

Review & Outlook of the Automotive Sector

Annuar Rahman
ahmad.annuar@midf.com.my
03-2772 1684

Slower TIV & TIP on CNY break and weak demand

Maintain NEUTRAL

HIGHLIGHTS

- The February sales (TIV) and production (TIP) figures were released by MAA yesterday. Both figures were weaker on-year and sequentially as TIV fell -1.6%yoy and -0.4%mom to 50,390 units while TIP figures contracted by -1.5%yoy and -17.1%mom to 46,958 units.
- We believe the decline was partly explained by the Chinese New Year break which fell on 19 Feb 2015 as well as cautious economic outlook dampening consumer sentiment. MAA also attributed the slower sales to consumers adopting the wait-and-see approach in anticipation of lower vehicle prices post-GST imposition in April.
- For the cumulative 2-month period, TIV fell -0.5%yoy to 100,992 units with Toyota being the worst performer followed by Proton. Toyota's vehicle sales over the period fell -37%yoy to just over 9k units (from 14k units) while Proton's unit sales was down by -16%yoy to over 17k units (from 20k units).
- The drop in TIP figures were more dramatic, -1.5%yoy and -17.1%mom to 46,958 units. We believe this was mainly due to the shorter working period following the Chinese New Year break which fell on 19 Feb 2015.
- The disappointment in Toyota and Proton sales volume were partially offset by positive growth for Perodua, Honda, Nissan and Mazda. Perodua posted strong sales which grew +15.7%mom and +19%yoy to 18,589 units.
- Consequently, TIV market share swung in favour of the national makes which garnered 51% market share as opposed to only 47% over the same period in 2014. The strong gain was underpinned by Perodua which cornered 34% of the market while Proton's lacklustre sales saw its share eased to only 17% from 20% in 2014.
- Within the non-national makes, Honda continued to be in the lead, garnering 12% of the market in the first 2 months of the year while Toyota's market share shrunk to just 9% from 14% over the same period in 2014. Nissan's market share remained stable at 8% while Mazda doubled its market share to 2% from just 1% a year ago.
- Our TIV projection of +0.5% growth in 2015 to 670k remains unchanged. The mild growth mainly reflects the softer consumer demand amidst rising living costs ahead of the GST imposition and an unexciting economic outlook. As such we reiterate our NEUTRAL stance on the sector. Nevertheless, we are positive on MBM Resources and Berjaya Auto which benefit from the depressed Yen and strong sales volume of Perodua and Mazda respectively.

Summary of the latest domestic Auto statistics

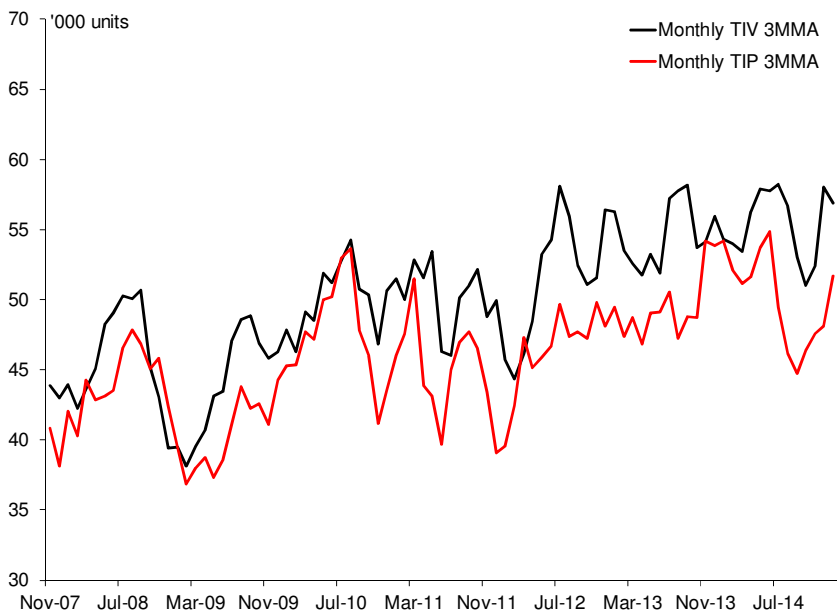
	Feb-15	Jan - Feb 2015	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Feb-14 (%)	ytd (%)	Jan-15 (%)
Malaysia TIV	50,390	100,992	-1.6	-0.4	-0.5			
By make:								
Nationals	26,843	51,810	2.1	7.5	2.1	53.3	53.3	51.3
Non-nationals	23,547	49,182	-5.5	-8.1	-7.8	46.7	48.7	48.7
By segment:								
Passenger vehicles	44,917	89,614	-2.8	0.5	-1.4	89.1	88.7	90.2
Commercial vehicles	5,473	11,378	9.6	-7.3	7.7	10.9	11.3	9.8
Malaysia TIP	46,958	103,612	-1.5	-17.1	0.4			

Source: MAA

MALAYSIA

Easing sales volume. The February 2014 TIV declined -1.6%yoy and -0.4%mom to 50.4k units while TIV for the year-to-February period dropped -0.5% to 100k units. We view the slower sales being attributed to the shorter working period given the Chinese New Year break on 19 Feb 2015. We also believe the slower sales are attributed to softening demand amidst rising living costs and the cautious economic outlook. Meanwhile, MAA attributed the slower sales to consumers holding back purchase in anticipation of lower vehicle sales after the GST imposition in April 2015.

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

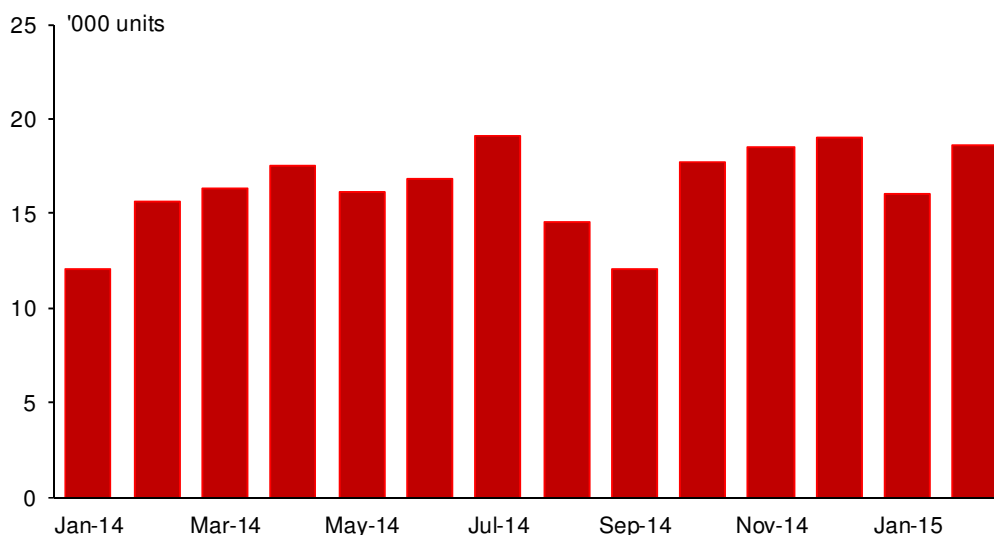


Source: MAA, MIDFR calculations

TIP figures affected by shorter working period. The February TIP saw a dramatic decline of -1.5%yoy and -17%mom to 46,958 units. We are not too concerned as we believe the sharp drop was due to the shorter working month as a result of the Chinese New Year celebration on 19 Feb 2015.

Perodua's blazing trail. Perodua recorded another strong monthly sale in February which exceeded 18k units. The strong sales were attributed to the successful launch of the Perodua Axia and the introduction of the Perodua Myvi facelift in late January.

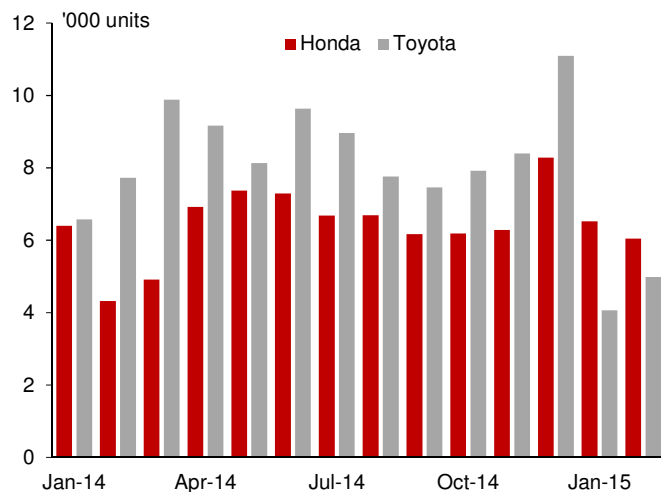
Perodua monthly sales figures since Jan 2014



Source: MAA, MIDFR calculations

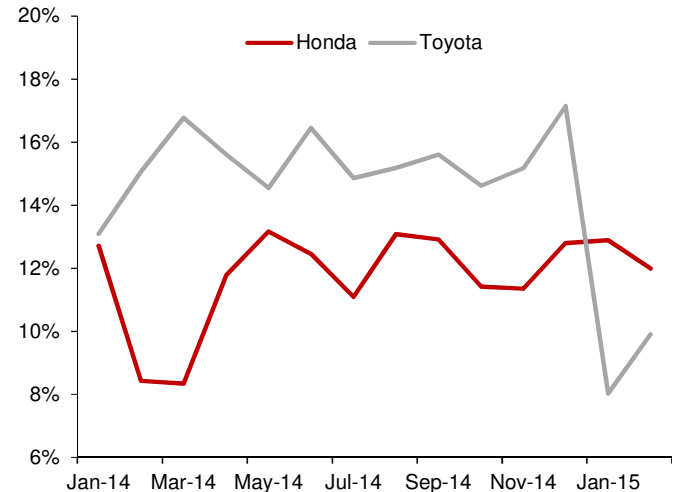
Fall from grace. While Toyota's sales volume has improved +23%mom to 4,990 units, it was down -35%yoy from 7,721 units in Feb 2014. For the year-to-Feb period, sales volume declined -37%yoy to 9,054 units from 14,299 units in 2014, resulting in its market share shrinking to only 9% from 14%. Nevertheless, management recently revised up its sales target for 2015 from 96k to 100k. Apart from the impending launch of the Toyota Camry facelift and hybrid, we believe the Toyota Vios could also see a thorough mid-life enhancement later in the year to remain competitive.

Honda & Toyota monthly sales since Jan 2014



Source: MAA

Honda & Toyota monthly mkt share since Jan 2014



Source: MAA, MIDFR

Honda, the title pretender. The second largest Japanese automaker has seen its sales volume in Malaysia growing from strength to strength. In 2015 thus far, Honda has been the leading non-national brand, garnering 12% of the market to stay ahead of Toyota's 9% share. Honda's sales volume declined -7.4%mom but surged +39.9%yoy to over 6k units, possibly distorted by the CNY break in 2014, while cumulative sales volume over the first 2 months of the year was up by a strong +17%yoy to 12,564 units. Nevertheless, we note that Toyota's market share has mildly rebounded in Feb 2015 although still well below the typical run-rate of 14-16%.

TIV: Breakdown by brands

	Feb-15	Jan - Feb 2015	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Feb-14 (%)	ytd (%)	Jan-15 (%)
Nationals:								
Perodua	18,589	34,656	19.1	15.7	19.1	36.9	36.9	30.5
Proton	8,254	17,154	-22.7	-7.3	-22.7	16.4	16.4	20.9
Total nationals	26,843	51,810	2.1	7.5	2.1	53.3	53.3	51.3
Non-nationals:								
Toyota	4,990	9,054	-35.4	22.8	-36.7	9.9	9.0	15.1
Honda	6,042	12,564	39.9	-7.4	17.3	12.0	12.4	8.4
Nissan	3,782	8,488	9.5	-19.6	6.6	7.5	8.4	6.7
Others	8,733	19,076	-7.4	-15.6	-6.4	17.3	18.9	18.4
Total non-nationals	23,547	49,182	-5.5	-8.1	-7.8	46.7	48.7	48.7
Total TIV	50,390	100,992	-1.6	-0.4	-0.5			

Source: MAA, MIDFR calculations

2015 Outlook. We are NEUTRAL on the sector amidst softer consumer demand which is dampened by uncertainty in the economic outlook. Nevertheless, we are positive on MBM Resources and Berjaya Auto as we see these stocks benefiting from the strong growth in Perodua and Mazda vehicles sales respectively as well as benefiting from the depreciating Yen.

Within our coverage, we have a Buy rating on MBM Resources (MBM) and Berjaya Auto while we remain NEUTRAL on UMW Holdings (UMW) and Tan Chong Motor Holdings (TCM). We also expect FY15 TIV to grow +0.5%yoy to 670k.

Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 24/3 (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	10.98	12.00	856	970	73.3	83.1	(1.2)	13.3	15.0	13.2	40	46	3.6	4.2
TCM	NEUTRAL	3.01	4.00	89	233	13.7	35.7	(67.9)	161.2	22.0	8.4	5	13	1.7	4.3
MBM	BUY	3.26	4.80	145	181	37.2	46.4	5.6	2.5	8.7	7.0	8	9	2.4	2.8
BAUTO	BUY	3.70	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

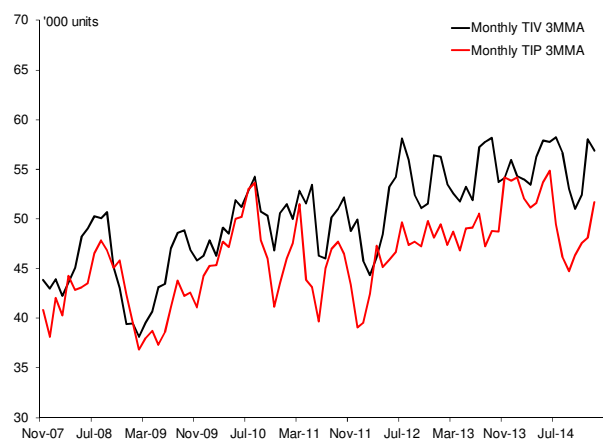
Our top pick is MBM. MBM's share price recently eased after the ringgit weakened against the yen. Nevertheless, the RM/¥100 exchange rate is still below its 2014 average of RM3.10/¥100. We estimate that every $\pm 1\%$ change in the RM/¥100 exchange rate would impact earnings by $\pm 1.6\%$. We see other positives such as: a) the turnaround of MBM's alloy-rim business, OMI, on higher utilisation rate; and b) stronger contribution from Perodua on strong sales from the new Perodua Axia and the recently-launched Perodua Myvi facelift.

REVIEW OF REGIONAL PRODUCTION

Malaysia's TIP softening. Similar to the TIV, Malaysia's TIP figures also trended weaker, contracting by -1.5%yoy and -17.1%mom to 46,958 units. The sharp mom drop, in our view, was due to the shorter working period in the month of February following the CNY celebration on 19 Feb 2015.

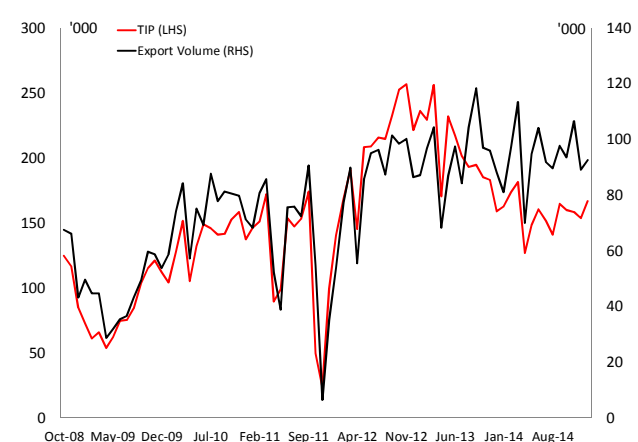
Thai production declines further. Thailand's TIP for 2014 declined -23.5% in 2014 to 1.9mil units from 2.5mil in the previous year. The lower output was partly explained by the political unrest which disrupted production as well as weaker domestic demand following the cessation of government tax incentives for vehicle purchases as well as poor economic outlook.

M'sia: Monthly TIV & TIP 3MMA



Source: MAA

Thai: Monthly TIP and export volume

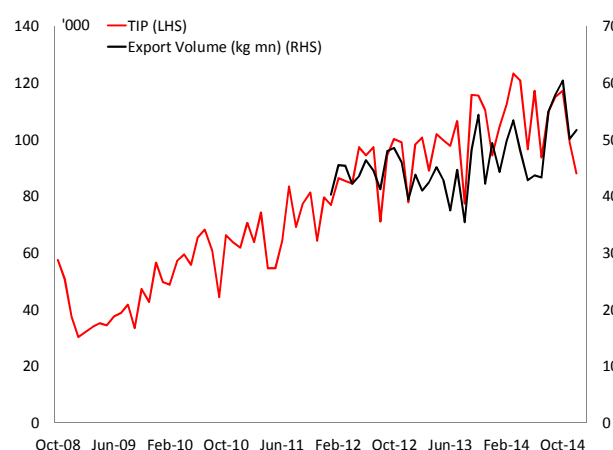


Source: Federation of Thai Industries (FTI), CEIC

Indonesia's TIP remains strong. Indonesia's December TIP fell -6.6%yoy and -11%mom to 88,216 units while full year TIP grew +7.5%yoy to 1.3m units. This was despite -1.8%yoy decline in 2014 TIV to 1.2m units, implying that external demand remains encouraging further underlining Indonesia's emergence as one of the key regional production hubs that could usurp Thailand's position over the longer-term.

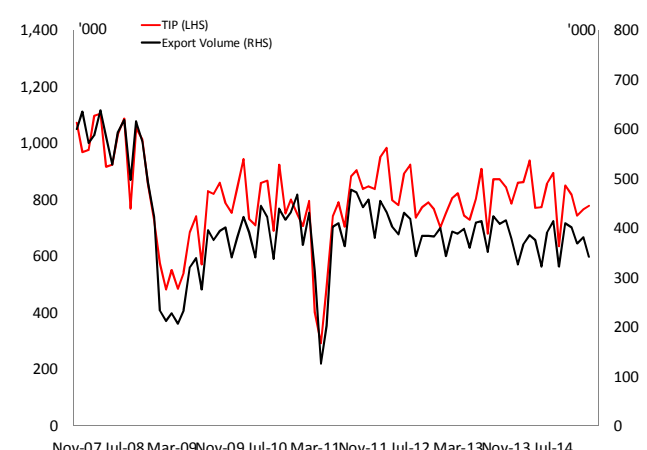
Japan's TIP slowed. Japan's January TIP improved to 777k units from 767k units in Dec 2014. However, it declined by -9.7%yoy. Meanwhile, export volume grew +4.6%yoy but declined -10%mom to 342k units. Meanwhile, the February TIV declined by -14.7%yoy to 482k units amidst the tax increase in the month.

I'sia: 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.