

20 MARCH 2014
MALAYSIA EQUITY



THE AUTO REPORT

Monthly review & outlook of the automotive sector
February 2014 Sales Data

Review & Outlook of the Automotive Sector

TIV up on good performance by the national carmakers

Maintain NEUTRAL

HIGHLIGHTS

- Malaysia:** In February 2014, total industry volume (TIV) on-year growth was higher by 12.6%yoy at 50.7k units. In addition, the TIV rose sequentially by 0.9%mom due in part to better sales performance of national carmakers, namely Perodua and Proton.

We continue to reiterate our NEUTRAL recommendation on the domestic Automotive Sector with an unchanged 2014 TIV forecast of 668,000 units. We keep NEUTRAL on all stocks under our coverage.

- Japan:** TIV growth remained high at +18.4%yoy in February 2014 arguably fuelled by consumers buying ahead of the sales tax increment which is scheduled to take effect in April 2014.
- South Korea:** TIV rebounded from a 4 consecutive months of decline to 2.1%yoy in January 2014 at 107.2k units thanks to improved consumer sentiment, expansion of demand on RV cars and new model release effect.
- Thailand:** In January 2014, TIV plunged -45.5%yoy to 68.5k units as consumers' purchasing decisions was deterred by prolonged political upheaval and uncertain economic conditions.

Summary Sales and Production Data

| | Total Industry Volume | | | | Export Volume | | | | Total Production Volume | | | |
|--------------------------|-----------------------|-----------|----------|---------|---------------|----------|----------|---------|-------------------------|----------|----------|----------|
| | M'sia | Japan | Korea | Thai | M'sia | Japan | Korea | Thai | M'sia | Japan | Korea | Thai |
| 2014/2013 Monthly | | | | | | | | | | | | |
| Feb | 50,718 | 565,170 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 47,680 | n.a. | n.a. | n.a. |
| Jan | 50,273 | 496,105 | 107,150 | 68,508 | n.a. | 326,696 | 256,972 | 81,025 | 55,503 | 860,803 | 368,228 | 162,652 |
| Dec | 60,493 | 423,210 | 124,772 | 113,921 | n.a. | 379,276 | 290,504 | 87,961 | 52,987 | 786,609 | 419,320 | 158,893 |
| 2014 Cumulative | | | | | | | | | | | | |
| Jan-Feb | 100,991 | 1,061,275 | 107,150* | 68,508* | n.a. | 326,696* | 256,972* | 81,025* | 103,183 | 860,803* | 368,228* | 162,652* |
| %YoY | +0.9 | +23.3 | +2.1 | -45.5 | n.a. | -4.9 | -9.6 | -6.9 | +6.4 | +14.2 | -10.3 | -31.1 |

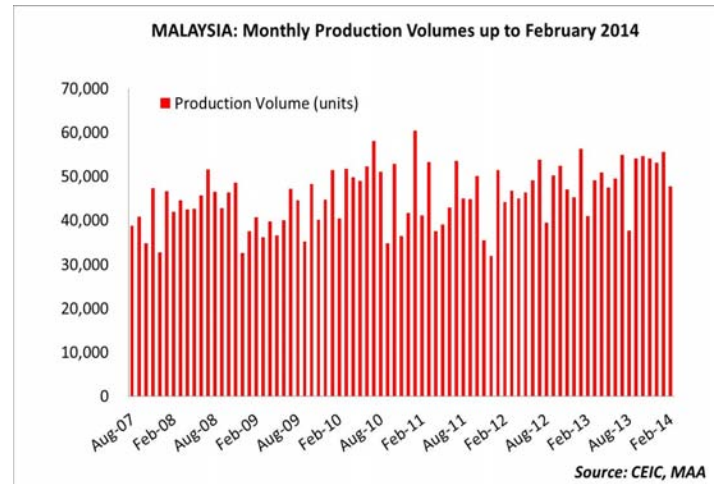
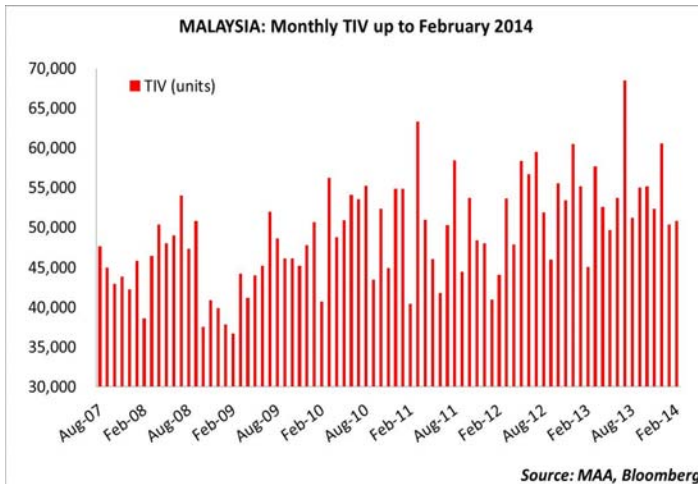
Source: Bloomberg, Malaysian Automotive Association, Japan Automobile Manufacturers Association, Korea Automobile Manufacturers Association, Federation of Thai Industries' Automotive Industry Club

* For Jan-Jan 2014 as the statistics for Feb 2014 has yet to be released

n.a. – not available

MALAYSIA

Total industry volume was higher year-on-year in February 2014. According to the Malaysian Automotive Association (MAA), Total Industry Volume (TIV) was up by 12.6%yoy at 50.7k units in February 2014. Similarly, the TIV rose sequentially by 0.9%mom attributable in part by the better sales performance of national carmakers, namely Perodua and Proton.



Perodua entrenched its overall lead position with higher market share. Perodua entrenched its market lead position in February 2014 as it garnered a bigger market share at 30.8%, vis-à-vis 24.1% in January 2014. The number of units sold by Perodua in February 2014 was 15.6k units, representing an increase of 6.7%yoy. Meanwhile, Proton also recorded an improvement in its market share. The pioneer national carmaker saw its market share climbed to 21.1% in February 2014, a gain of 1.7ppts relative to its share a month ago. It sold more vehicles at 10.7k units, or 4.4%yoy higher than the corresponding period last year.

TIV: National

| | Feb-14 | YoY (%) | Market Share | |
|---------|--------|---------|--------------|------------|
| | | | (%) | MoM (ppts) |
| Perodua | 15,609 | +6.7 | 30.8 | +6.7 |
| Proton | 10,684 | +4.4 | 21.1 | +1.7 |

TIV: Non-national (Top 3)

| | Feb-14 | YoY (%) | Market Share | |
|--------|--------|---------|--------------|------------|
| | | | (%) | MoM (ppts) |
| Toyota | 7,721 | +57.1 | 15.2 | +2.1 |
| Honda | 4,319 | +42.1 | 8.5 | -4.2 |
| Nissan | 3,455 | -9.0 | 6.8 | -2.2 |

Source: MAA

Toyota firmed up its lead position in non-national sphere. The three largest non-national carmakers in February 2014 continued to be Japanese carmakers, namely Toyota, Honda and Nissan. Toyota firmed up its position as the largest non-national marquee with a higher market share of 15.2%. The February 2014 sales of the Japan's largest automaker jumped 57.1%yoy at 7.7k units. Honda retained the fourth spot in February 2014, controlling 8.5% of the market. The carmaker sold 4.3k units in the review month which was 42.1% more than the units it sold in the same month of 2013. Nissan held on to the fifth spot in February 2014 with a market share of 6.8%. Compared to February 2013, the Japanese automaker failed to register growth as it sold fewer vehicles in February 2014 at 3.4k units, or -9.0%yoy.

Among the three main non-national carmakers, Toyota gained market share of 2.1ppts in February 2014 as compared to the earlier month. On the other hand, Honda and Nissan lost -4.2ppts and -2.2ppts respectively.

Forecasts and Recommendations for Bursa-listed companies

Reaffirm 2014 TIV forecast of 668k. While it is a bit too early for a meaningful extrapolation, the annualised year-to-date TIV amount to only 606k vis-à-vis our 2014 TIV forecast of 668k units. Nonetheless we expect vehicle sales to gradually pick up pace in the coming months. The sales outlook for March, for example, is expected to be better due to the longer working days, financial year end (FYE) delivery rush among car companies with FYE March, as well as introduction of new models.

Nonetheless, compared to last year, the growth momentum in 2014 may be relatively muted given the recent round of subsidy rationalization measures, i.e. increase in fuel price, removal of sugar subsidy and increase in electricity tariff, which may result in consumers being more cautious with their spending. In light of these factors, our forecasted 2014 TIV growth is a smaller +1.9%yoy at 668.0k units.

Reiterate NEUTRAL. We maintain NEUTRAL on the Automotive Sector with all stocks under our coverage, namely UMW Holdings Berhad (UMWH), MBM Resources Berhad (MBM) and Tan Chong Motor Holdings Berhad (TCM) kept on NEUTRAL at RM13.15, RM3.94 and RM6.38 respectively.

Summary Recommendations of Stocks Under Coverage

| Stocks | Rec. | Price at 19/3 (RM) | TP (RM) | Net Profit (RM'm) | | EPS (sen) | | EPS Growth (%) | | PER (x) | | DPS (sen) | | Div. Yield (%) | |
|--------|---------|--------------------|---------|-------------------|---------|-----------|-------|----------------|-------|---------|-------|-----------|-------|----------------|-------|
| | | | | FY13F | FY14F | FY13F | FY14F | FY13F | FY14F | FY13F | FY14F | FY13F | FY14F | FY13F | FY14F |
| UMWH | Neutral | 10.56 | 13.15 | 1,123.9 | 1,157.7 | 98.6 | 102.4 | 15.9 | 3.9 | 10.7 | 10.3 | 42.9 | 46.0 | 4.1 | 4.4 |
| TCM | Neutral | 5.53 | 6.38 | 243.8 | 347.2 | 37.3 | 53.2 | 54.3 | 42.4 | 14.8 | 10.4 | 11.0 | 16.0 | 2.0 | 2.9 |
| MBM | Neutral | 3.25 | 3.94 | 138.6 | 160.1 | 35.5 | 45.0 | (6.5) | 26.9 | 9.2 | 7.2 | 6.0 | 6.5 | 1.8 | 2.0 |

Source: Bloomberg, MIDF Research

JAPAN

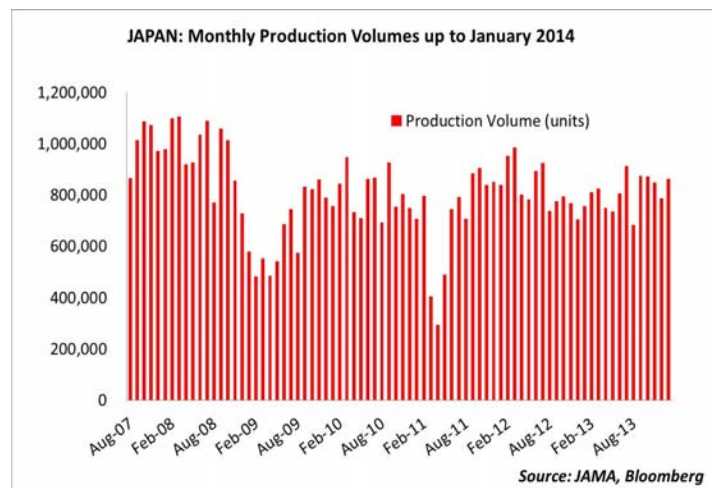
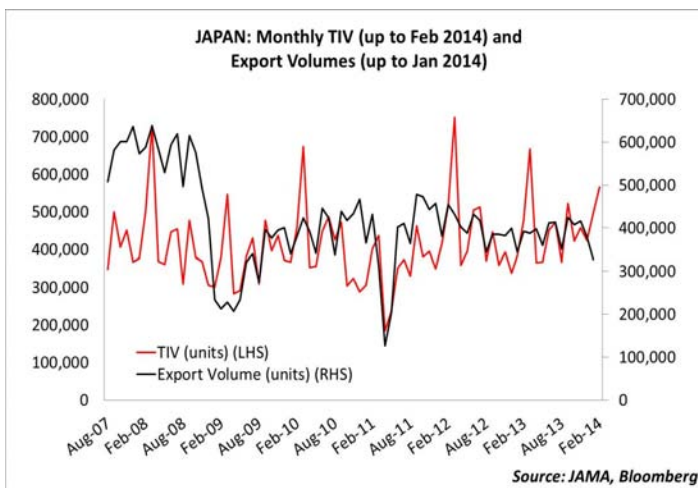
Double digit on-year TIV rise continued on in February 2014. Domestic sales of motor vehicles in February 2014 continued on the double digit rebound as seen in the last 5 months since September last year. The nation's TIV in February 2014 recorded a double-digit growth of +18.4%yoy to 565.2k units. The growth was arguably fuelled by consumers buying ahead of the sales tax increment which is scheduled to take effect in April 2014.

The growth in TIV was duly reflected in the domestic sales of Japan's top three (3) automakers. Japan's reigning number one, Toyota, sold 157.6k units in February 2014 which was +13.4% more than its sales a year ago. Meanwhile, Honda remained in the second place selling 85.9k units domestically, posting a remarkable growth of +29.4%yoy. Meanwhile, Nissan held on to the third spot as it reported a TIV growth of +18.4%yoy to 82.4k units.

Despite the recent higher sales, future demand may decline as the heightened sales pace may not be sustainable. Japan's auto-industry group, JAMA, expects demand for motor vehicles this year to drop by nearly 10% to 4.85m vehicles as sales tax rises by 3%-points to 8% beginning in the second quarter of 2014.

February 2014 export numbers are not yet available, meanwhile, January 2014 exports fell -4.9%yoy. The export numbers for February 2014 have yet to be released. Meanwhile, export growth in January 2014 contracted -4.9%yoy to 326.7k units. Toyota and Mazda remained as Japan's top two exporters respectively while Subaru lost the third spot to Nissan in January 2014. Biggest exporter Toyota shipped out 134.7k units in January 2014, a decline of -9.0%yoy. Mazda in second place showed a healthy 9.0%yoy rise to 69.2k units. The new third placer, Nissan, exported 32.7k units, a drop of -12.6%yoy.

The top three (3) export destinations continue to be North America (-7.6%yoy to 155.8k units), Europe (-9.9%yoy to 54.1k units) and Asia (+9.8%yoy to 53.6k units), with the Asian region fast becoming an increasingly important export destination.



As we await February 2014 production numbers, a +14.2%yoy gain was reported in January 2014. Pending the release of February 2014 production numbers, the country's domestic production in January 2014 gained +14.2%yoy to 860.8k units. All of Japan's top three (3) car producers registered gains in production with volume leader Toyota gaining +5.4%yoy to 293.7k units. Second placer Honda grew by a breathtaking +65.3%yoy to 97.1k while, in third place, Suzuki's output rose +6.2%yoy to 87.9k units.

With the +18.4%yoy TIV growth achieved in February 2014, we expect production numbers in the same month to also continue to register a double digit on-year growth.

SOUTH KOREA

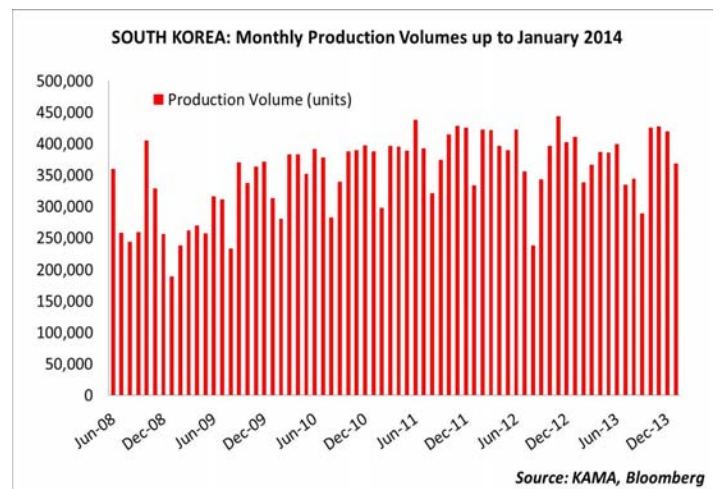
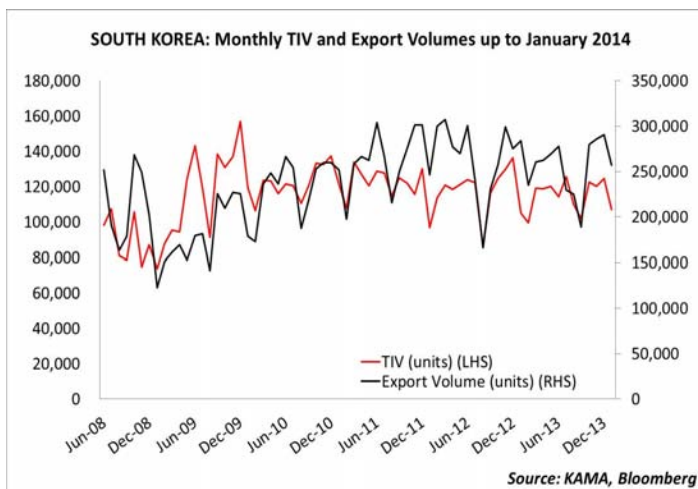
Note: The following discussion is based on revised/updated January 2014 numbers as the Korean Automobile Manufacturers Association (KAMA) has yet to release the figures for February 2014.

January 2014 TIV rose 2.1%yoy. South Korea's on-year TIV growth in January 2014 rebounded from a 4 consecutive months of decline since September last year. The prior months decline was as a result of high base in the last quarter of 2012 during which various tax reductions were given to boost the sales of electric vehicles in South Korea.

According to the KAMA, January 2014 TIV grew 2.1%yoy to 107.2k units thanks to improved consumer sentiment, expansion of demand on RV cars and new model release effect. The TIV sequential growth figure nonetheless dropped -14.1%mom in January 2014 due to seasonal factor.

Exports slumped -9.6%yoy in January 2014. Vehicle exports however declined -9.6%yoy in January 2014 to 257.0k units. KAMA attributed the drop to "the increase of global economic uncertainty in line with US quantitative easing tapering and supply shortage in some major makers".

Moreover, exports generally recorded sequential drop at the start of a year, again due to seasonal factor, with January 2014 figure came in at -11.5%mom. It is also notable that the export volume recorded in December 2013 was the highest in that year.



January 2014 vehicle production tumbled -10.3%yoy. In tandem with the on-year slump in South Korea's export volume, its vehicles production in January 2014 tumbled -10.3%yoy to 368.2k units. It is noteworthy that South Korea's export volume generally represents circa 67-70% of its production figure.

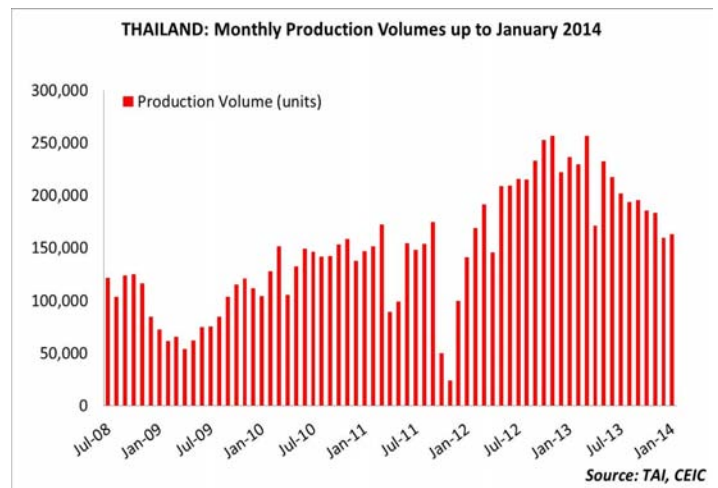
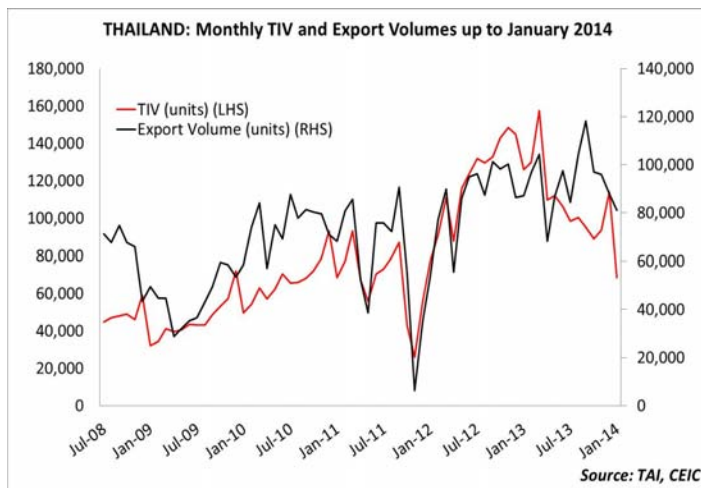
THAILAND

Note: The following discussion is based on January 2014 numbers as the Federation of Thai Industries' Automotive Industry Club (FTI) has yet to release the figures for February 2014.


TIV plunged double-digit in January 2014. According to the FTI, TIV plunged -45.5%yoy to 68.5k units in January 2014. The latest reported TIV was the lowest since the month of December 2011. As was the case during the earlier months, the on-year decline was attributable to the fading-effect of Thailand's First Car Buyers Scheme which ended in December 2012.

Additionally, consumers' purchasing decisions was deterred by prolonged political upheaval and uncertain economic conditions. Besides, tighter loan approvals by financial institutions were an added obstacle.

On top of the above factors, the FTI is also worried that a forecast drought amidst falling crop prices may hurt domestic car sales in 2014.



Exports declined -6.9%yoy. Thailand's export volume declined on-year with 81.0k units of vehicle shipped out in January 2014, representing a contraction of -6.9%yoy. The drop was arguably reflective of the softening consumer demands from the countries around the region.

January 2014 vehicle production extended declines, diving -31.1%yoy. Meanwhile, vehicle production in Thailand extended its declines into January 2014. A total production volume of 162.6k units was recorded during the review month, -31.1%yoy lower than in January 2013. The number of vehicles produced in January 2014 represents the sixth consecutive month of output falling at below 200k units. 

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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. |