

## Review & Outlook of the Automotive Sector

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**Mild TIV, encouraging TIP, surprising Toyota**

**Maintain NEUTRAL**

### HIGHLIGHTS

- MAA released the sales (TIV) and production (TIP) figures last week. While TIV only grew +0.7%yoy to 50,602 units, TIP growth was more upbeat, increasing +2.1%yoy to 56,654 units after declining (on yoy basis) over the past 4 months from Sept to Dec 2014.
- The mild increase in January TIV was partly explained by the high-base effect in Jan 2014 which was boosted by the delivery rush running up to the Chinese New Year (CNY) festival on 31 Jan 2014.
- Within the brands, Perodua posted the strongest sales volume growth of +33%yoy to 16,067 units but was mostly offset by Toyota's startling -38%yoy drop in sales to 4,064 units. The decline was mainly due to weak passenger car sales despite mild updates introduced for the Toyota Vios in early Jan 2015. Meanwhile, Nissan, Honda and Mazda posted decent sales growths of 2-10%yoy but Proton's sales declined -9%yoy only managing 8,900 units.
- We were encouraged by the TIP figures which increased +2.1%yoy and +10.9%mom to 56,654 units. We believe the growth was due to inventory build-up following the launch of 5 key locally-assembled models in Jan/early Feb such as the Nissan Almera facelift (early Jan 2015), Honda CR-V (mid Jan 2015), Perodua Myvi facelift (mid Jan 2015), Nissan X-Trail (mid Jan 2015) and Honda HR-V (early Feb 2015). Furthermore, we also understand that all variants of the Proton Iriz have entered production.
- While non-national makes continue to dominate the market, garnering 51% share vs 49% for national makes, the latter's share has improved from 47% in 2014. Overall, sales volume of national makes grew +14%yoy to 24,967 units while non-national sales declined -10%yoy to 25,635 units in January 2015.
- Meanwhile, the latest HP loan approval rate for the Dec 2014 rebounded to 57% compared to Nov 2014: 55% and Dec 2013: 51%. The improvement over Dec 2013 was encouraging given that total loans applied declined -2.3%yoy whereas loans approved grew +8.8%yoy.
- While our 2015F TIV target remains unchanged at 670k units, the increment is mildly revised from +0.3%yoy to +0.5%yoy due to the weaker-than-expected 2014 TIV which fell short of our 668k-unit target by 1,535 units. Meanwhile, our NEUTRAL stance on the sector remains amidst limited catalysts and earnings risks given slower TIV growth and weak ringgit against the dollar. Our sector top pick is MBM Resources which benefits from Perodua's resurgent sales.

### Summary of the latest domestic Auto statistics

	Jan-15	Growth (%)		Mkt Share (%)	
		YoY	MoM	Jan-15	Jan-14
<b>Malaysia TIV</b>	<b>50,602</b>	<b>0.7</b>	<b>-21.7</b>		
<b>By make:</b>					
Nationals	24,967	14.4	-10.0	49.3	43.4
Non-nationals	25,635	-9.9	-30.5	50.7	56.6
<b>By segment:</b>					
Passenger vehicles	44,697	-0.0	-19.5	88.3	88.9
Commercial vehicles	5,905	6.0	-35.4	11.7	11.1
<b>Malaysia TIP</b>	<b>56,654</b>	<b>2.1</b>	<b>10.9</b>		

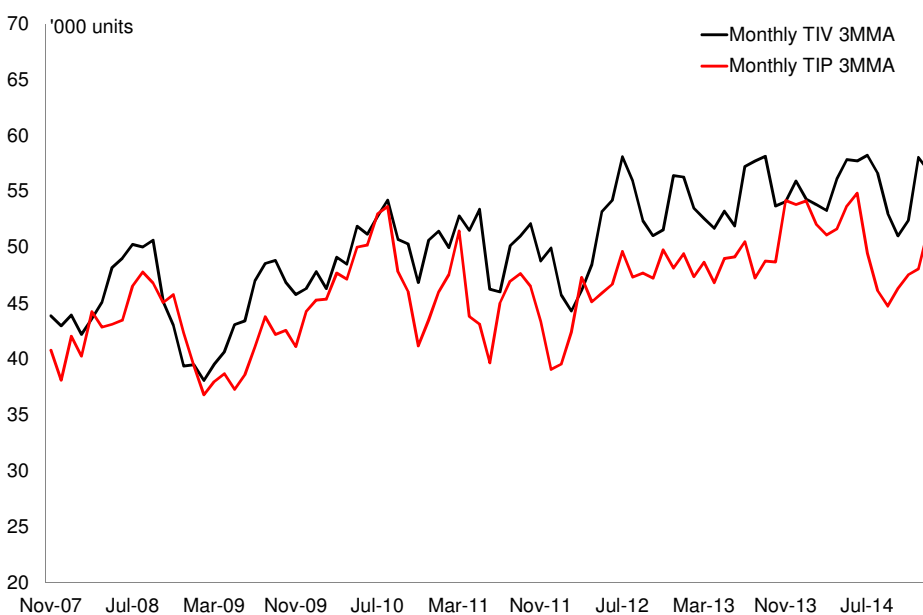
Source: MAA

## MALAYSIA

**Mild growth off a high base.** The mild TIV growth was off a high base in Jan 2014 amidst delivery rush prior to CNY festival on Jan 31, 2014. Sequentially, TIV declined -21.7%mom from 64,660 units in Dec 2014 due to seasonal year-end promotions.

**TIP rebounded on new model launches.** Meanwhile, TIP figures painted a better picture, increasing +2.1%yoy and +10.9%mom to 56,645 units. We believe this could be due to inventory build-up amidst 5 key locally-assembled models debuting in January and early February such as: Nissan Almera facelift, Honda CR-V, Perodua Myvi facelift, Nissan X-Trail, and Honda HR-V. Furthermore, we also note that all variants of the Proton Iriz have now entered production as opposed to just the 1.6CVT Premium and 1.3 Manual in the initial months after it debuted.

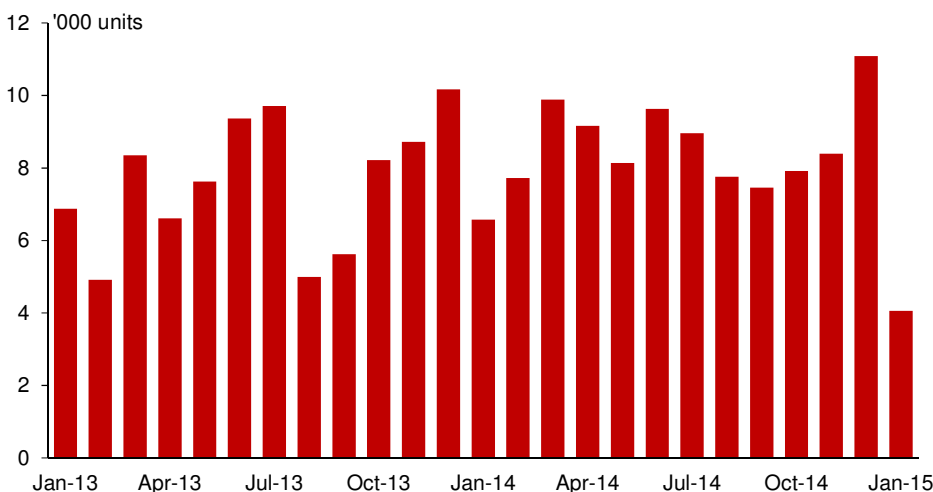
### Monthly TIV and TIP figures on 3 Months Moving Average (MMA) up to Jan 2015



Source: MAA

**Toyota's sales dropped sharply.** Toyota's sales fell sharply by -38%yoy or 2,514 units to only 4,064 units on poor sales of passenger car and pick-up segments. Interestingly, this is despite mild updates introduced for the Toyota Vios and the Toyota Hilux in early January. Toyota's Jan 2015 sales was its weakest monthly sales since Aug 2004 when it sold 3,890 units while average monthly sales in 2014 and 2013 stood at 8,559 units and 7,599 units respectively.

### Toyota's monthly sales figure since Jan 2013 to Jan 2015



Source: MAA

**Aging model and stock management.** We believe that Toyota's unusually weak sales volume was due to: i) weaker sales amidst stiff competition; ii) stock management running up to GST implementation; iii) stock management of Toyota Camry running up its facelift model debuting later in 1H15; and iv) aging model of its pick-up truck, the Hilux which debuted in Malaysia in Mar 2005 but has since gone through several extensive updates since.

**Honda the new non-national champion.** Conversely, Honda's sales remained robust, increasing +13%yoy to 6,244 units just shy of its monthly sales of 6,458 units/month in 2014. Overall, Honda's market share grew to 13% from 12% for entire 2014. We expect the momentum to continue for the rest of 2015 amidst introduction of new models (ie. Honda HR-V) and variants (ie. Honda CR-V 2WD). We expect the Honda Accord facelift model to be launched later this year after it debuted in Sept 2013.

**TIV: Breakdown by brands**

	Jan-15	Growth (%)		Mkt Share (%)	
		YoY	MoM	Jan-15	Jan-14
<b>Nationals:</b>					
Perodua	16,067	32.9	-15.6	31.8	24.1
Proton	8,900	-8.6	2.3	17.6	19.4
<b>Total nationals</b>	<b>24,967</b>	<b>14.4</b>	<b>-10.0</b>	<b>49.3</b>	<b>43.4</b>
<b>Non-nationals:</b>					
Toyota	4,064	-38.2	-63.4	8.0	13.1
Honda	6,522	2.0	-21.2	12.9	12.7
Nissan	4,706	4.4	-14.0	9.3	9.0
Others	10,343	-5.7	-14.3	20.4	21.8
<b>Total non-nationals</b>	<b>25,635</b>	<b>-9.9</b>	<b>-30.5</b>	<b>50.7</b>	<b>56.6</b>
<b>Total TIV</b>	<b>50,602</b>	<b>0.7</b>	<b>-21.7</b>		

Source: MAA, MIDFR calculations

**Maintain NEUTRAL.** We remain NEUTRAL on the sector due to limited catalyst and prevalent earnings risk amidst easing TIV growth drawing impact from the GST imposition in Apr 2015. Within our coverage, we have a BUY rating on MBM Resources (MBM) and NEUTRAL on UMW Holdings (UMW) and Tan Chong Motor Holdings (TCM). We retain our 670k-unit TIV target for FY15 TIV, a slight increase to our growth expectations from +0.3%yoy to +0.5%yoy after FY14 TIV missed our 668k-unit target.

**Summary Recommendations of Stocks Under Coverage**

Stocks	Rec.	Price at 18/2 (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	3.27	4.00	89	233	13.7	35.7	(67.9)	161.2	23.9	9.2	5	13	1.5	4.0
MBM	BUY	3.22	4.80	145	181	37.2	46.4	5.6	2.5	8.7	6.9	8	9	2.5	2.8

Source: Bloomberg, MIDF Research

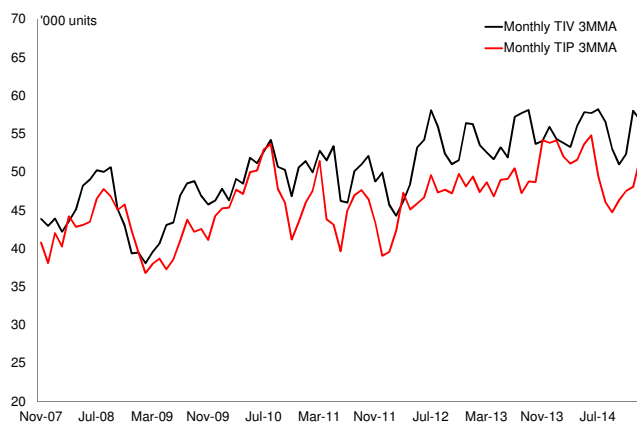
**Our top pick is MBM.** MBM's share price recently eased after the ringgit weakened against the yen. Nevertheless, the RM/¥100 exchange rate is still below its 2014 average of RM3.10/¥100. We estimate that every ±1% change in the RM/¥100 exchange rate will impact earnings by ±1.6%. We see other positives 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.** Malaysia's TIP rebounded in Jan 2015 and posted the first yoy growth in production since Sept 2014. Production figures grew +2.1%yoy and +10.9%mom to 56,654 units. We believe this was due to the debut of 5 locally-assembled models in January and early February while we also understand that all variants of the Proton Iriz are now in production.

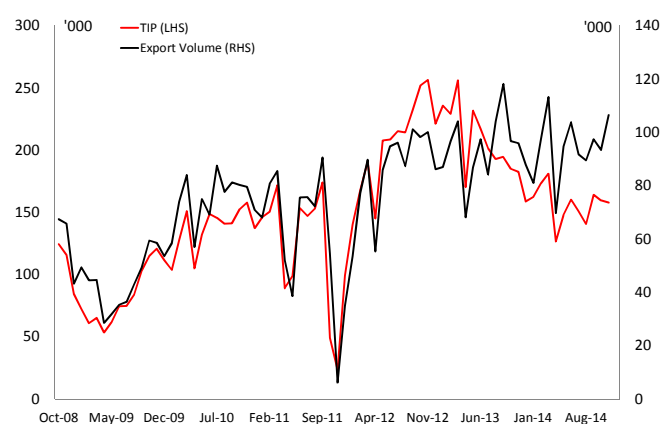
**Thai production declined further.** Thailand's Total Industry Production (TIP) contracted in October to 159k. Production output has fallen after it peaked at 164k in September. Meanwhile, Thailand's October TIV was still weaker on-year but grew mildly by +2.5%mom to 71k units. For the 10-month period,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

**Malaysia: Monthly TIV & TIP 3MMA**



Source: MAA

**Thai: Monthly TIP and export volume**

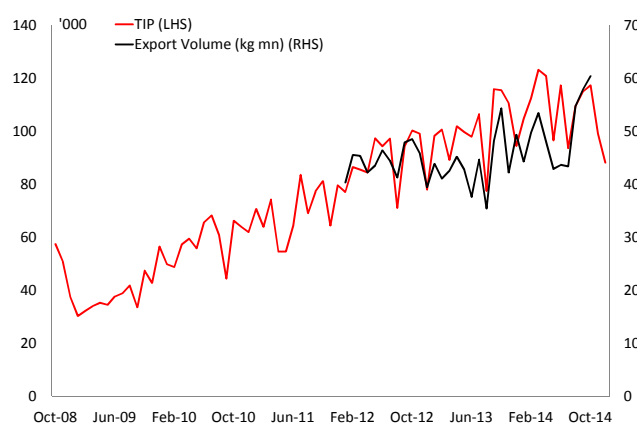


Source: Federation of Thai Industries (FTI), CEIC

**Indonesia's TIP ended weak.** Indonesia's December TIP fell -6.6%yoy and -11%mom to 88,216 units although 2014 TIP grew +7.5%yoy to 1.3m units. This is despite -1.8%yoy decline in 2014 TIV to 1.2m units. While Indonesia's Dec 2014 TIP was weak, full year TIP growth was encouraging, further underlining Indonesia's emergence as one of the key regional production hubs that could usurp Thailand's position over the longer-term.

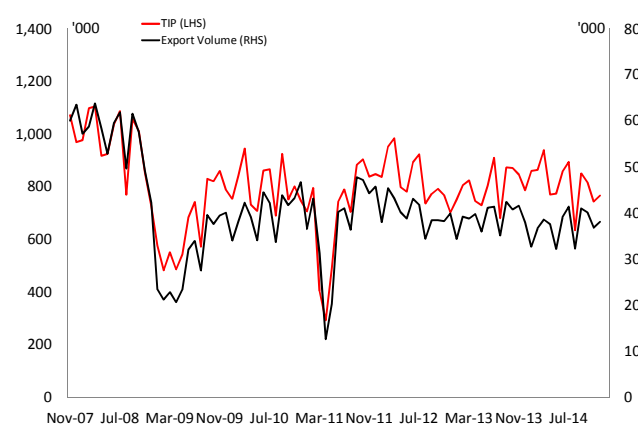
**Japan's TIP slowed.** Japan's December TIP remained weak, -2.5%yoy to 766k units but grew sequentially +3.2%mom while cumulative TIP for 2014 grew +1.5%yoy to 9.8m units. Meanwhile, export volume grew +0.5%yoy and +3.5%mom to 381k units. Meanwhile, Japan's January TIV declined sharply by -19.1%yoy to 401k units amidst the tax increase in the month.

**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.