

21 FEBRUARY 2014
MALAYSIA EQUITY



THE AUTO REPORT

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

Review & Outlook of the Automotive Sector

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TIV down on past promotions and purchase postponements

Maintain NEUTRAL

HIGHLIGHTS

- **Malaysia:** In January 2014, total industry volume (TIV) on-year growth was down -8.7%yoy at 50.3k units. In addition, the TIV slumped sequentially by -16.9%mom due in part to the aggressive year-end promotional campaigns with heavy discounting by car companies given out in December 2013. Additionally, it seems that consumers are tightening their belt in view of the recent increase in prices of some goods and services hence the postponement of their car purchases.
- 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 +29.4%yoy in January 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 December 2013, year-on-year domestic sales remained in the negative growth territory due to the effects of the high base in 2012 during which Thailand had its First-Car Buyers Scheme.

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												
Jan	50,273	496,105	107,150	n.a.	n.a.	n.a.	256,052	n.a.	55,503	n.a.	368,243	n.a.
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
Nov	52,252	457,369	120,037	93,483	n.a.	415,997	286,073	96,006	54,003	846,151	426,740	182,818
2014 Cumulative												
Jan-Jan	50,273	496,105	107,150	n.a.	n.a.	n.a.	256,052	n.a.	55,503	n.a.	368,243	n.a.
%YoY	-8.7	+29.4	+2.1	n.a.	n.a.	n.a.	-9.9	n.a.	-1.3	n.a.	-10.3	n.a.

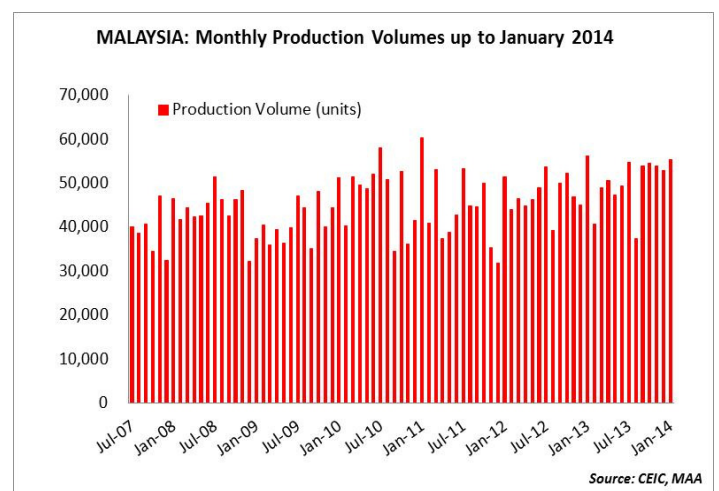
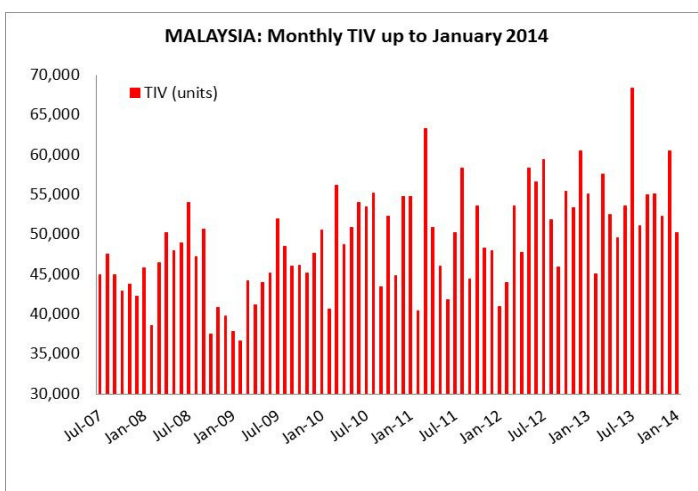
Source: Bloomberg, Malaysian Automotive Association, Japan Automobile Manufacturers Association, Korea Automobile Manufacturers Association, Federation of Thai Industries' Automotive Industry Club

n.a. – not available

MALAYSIA

Total industry volume was down year-on-year in January 2014. According to the Malaysian Automotive Association (MAA), Total Industry Volume (TIV) was down by -8.7%yoy at 50.3k units in January 2014. Similarly, the TIV dropped sequentially by -16.9%mom due in part to the aggressive year-end promotional campaigns with heavy discounting by car companies given out in the final month of 2013. As a result, many bookings were concluded in December itself.

Additionally, it may be argued that consumers are tightening their belt in view of the recent increase in prices of some goods and services hence the postponement of their car purchases. Besides that, more stringent loan conditions instituted by Bank Negara Malaysia may have resulted in difficulties for some purchasers to get hire purchase financing.



Proton reclaimed the second spot it lost in December 2013... Perodua remained the market leader in January 2014 despite its lower share of the market at 24.1%, vis-à-vis 30.1% in December 2013. The number of units sold by Perodua in January 2014 was 12.1k units, representing a decline of -23.4%yoy. Meanwhile, Proton reclaimed the second position it lost to Toyota in December 2013. The pioneer national carmaker saw its market share climbed to 19.4% in January 2014, a gain of 5.3ppts relative to its share a month ago. Nevertheless it sold fewer vehicles at 9.7k units, or -20.0%yoy lower, than the corresponding period last year.

TIV: National

	Jan-14	YoY (%)	Market Share	
			(%)	MoM (ppts)
Perodua	12,091	-23.4	24.1	-6.0
Proton	9,735	-20.0	19.4	+5.3

TIV: Non-national (Top 3)

	Jan-14	YoY (%)	Market Share	
			(%)	MoM (ppts)
Toyota	6,578	-5.5	13.1	-3.7
Honda	6,393	+58.1	12.7	+1.9
Nissan	4,508	-19.5	9.0	+1.4

Source: MAA

...and Toyota is relegated back to third place. The three largest non-national carmakers in January 2014 continued to be Japanese carmakers, namely Toyota, Honda and Nissan. Toyota is relegated back to the third spot overall but remained the largest non-national marquee with 13.1% market share. The January 2014 sales of the Japan's largest automaker declined -5.5%yoy at 6.6k units. Honda retained the fourth spot in January 2014, controlling 12.7% of the market. The carmaker sold 6.4k units in January 2014 which was +58.1% more than the units it sold in the same month of 2013. Nissan held on to the fifth spot in January 2014 with a market share of 9.0%. Compared to January 2013, the Japanese automaker failed to register growth as it sold fewer vehicles in January 2014 at 4.5k units, or -19.5%yoy.

Among the three main non-national carmakers, Honda and Nissan gained market shares of +1.9ppts and +1.4ppts respectively, while Toyota lost -3.7ppts.

Forecasts and Recommendations for Bursa-listed companies

Reiterate 2014 TIV forecast of 668k. Compared to last year, 2014 may be rather quiet given our expectation that the year will see launches being mostly of refreshed models rather than growth-propelling brand new ones. Furthermore, the recent round of subsidy rationalization measures, i.e. increase in fuel price, removal of sugar subsidy and increase in electricity tariff, may result in consumers being more cautious with their spending. The knee-jerk impact of consumers' belt tightening can arguably be seen in the latest January 2014 figures which fell -8.7%yoy. In light of these factors, our forecasted 2014 TIV growth is a smaller +1.9%yoy. This would amount to a TIV forecast of 668.0k units in respect of 2014.

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 20/2 (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	11.80	13.15	1,123.9	1,157.7	98.6	102.4	15.9	3.9	12.0	11.5	42.9	46.0	3.6	3.9
TCM	Neutral	5.55	6.38	243.8	347.2	37.3	53.2	54.3	42.4	14.9	10.4	11.0	16.0	2.0	2.9
MBM	Neutral	3.45	3.94	138.6	160.1	35.5	45.0	(6.5)	26.9	9.7	7.7	6.0	6.5	1.7	1.9

Source: Bloomberg, MIDF Research

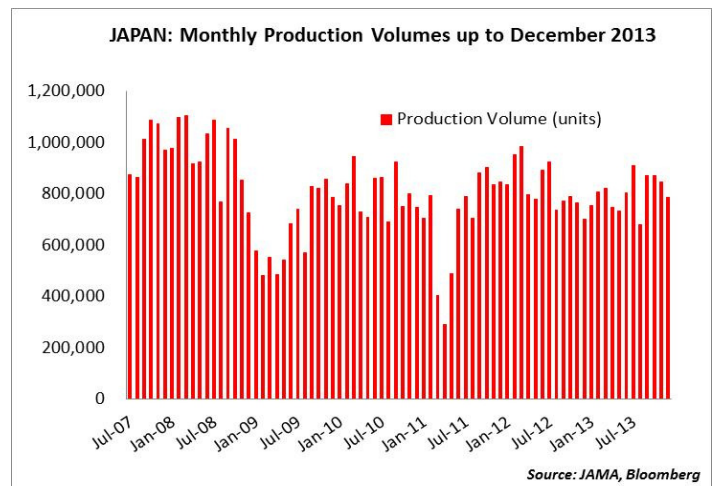
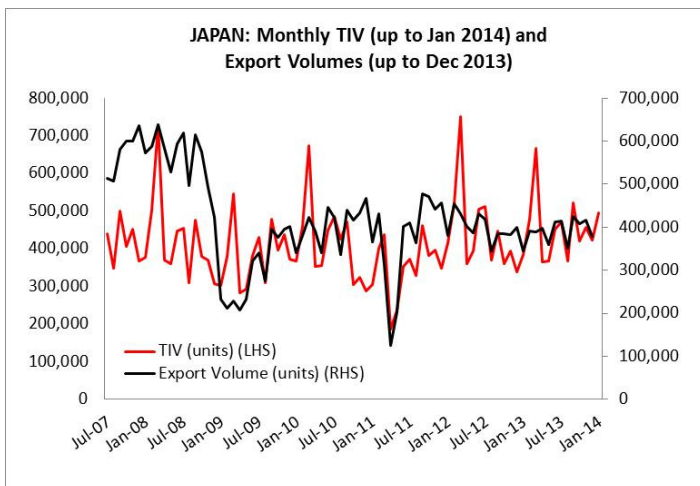
JAPAN

TIV experienced yet another double digit on-year rise in January 2014. Domestic sales of vehicles in January 2014 continued on the double digit rebound as seen in the last 4 months since September last year. A remarkable +29.4%yoy growth to 496.1k units was recorded in the nation's TIV in January 2014. The growth was arguably fuelled by consumers buying ahead of the sales tax increment which is scheduled to take effect in April 2014. Additionally, as in the period from September to December 2013, the recent January leap also came as the high base period ended upon the expiry of the subsidies for eco-friendly vehicles in the third quarter of 2012.

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 129.1k units in January 2014 which was +19.5% more than its sales a year ago. Meanwhile, Honda continued to reign in second place selling 91.5k units domestically, posting a breathtaking growth of +64.4%yoy. Meanwhile, Nissan regained the third spot from Daihatsu as it reported a TIV growth of +19.6%yoy to 67.5k units.

While January 2014 export numbers are not yet available, December 2013 exports fell -5.1%yoy. The export numbers for January 2014 have yet to be released. However, export growth in December 2013 contracted -5.1%yoy to 379.3k units. Japan's main exporters remain unchanged with Toyota, Mazda and Subaru retaining the top three (3) spots. Biggest exporter Toyota shipped out 145.9k units in December 2013, a decline of -4.5%yoy. Mazda in second place showed a slight -0.7%yoy drop to 65.2k units. On the other hand, in third spot, Subaru gained a hefty +42.7%yoy to 46.2k units.

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 January 2014 production numbers, a +12.0%yoy gain was reported in December 2013. Pending the release of January 2014 production numbers, the country's domestic production in December 2013 advanced +12.0%yoy to 786.6k units. Two out of three (3) Japan's largest car producers registered gains in production volumes with Toyota gaining +3.7%yoy to 234.5k units and Honda grew by a whopping +56.2%yoy to 93.7k. Meanwhile, Nissan's output contracted -5.8%yoy to 82.5k units.

With the +29.4%yoy TIV growth achieved in January 2014, we expect production numbers in the same month to also continue to register a double digit on-year growth.

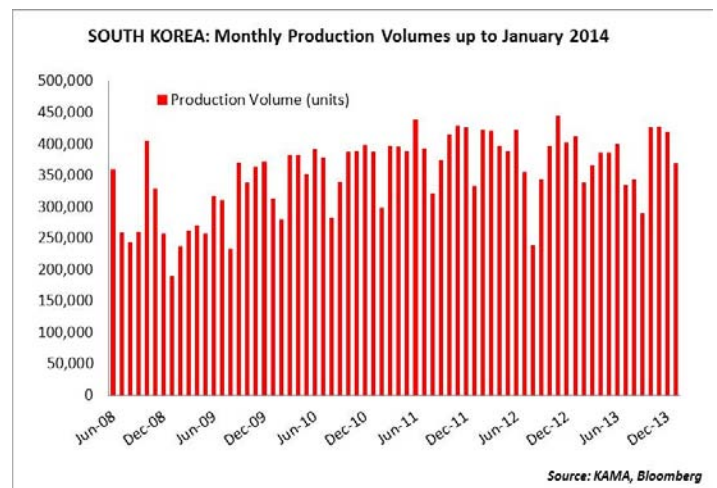
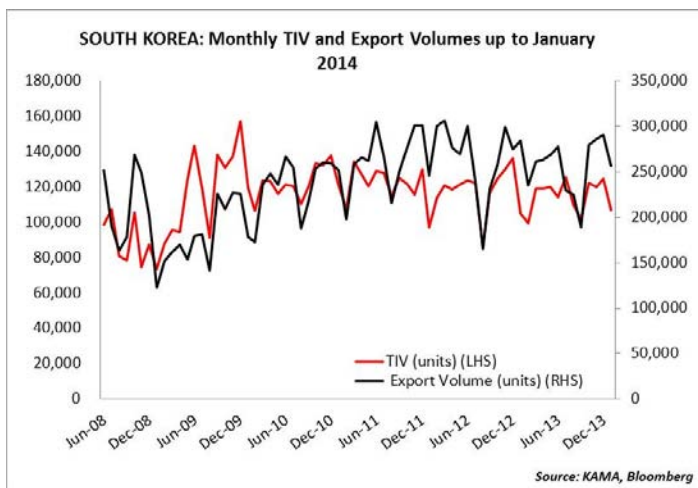
SOUTH KOREA

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 Korea Automobile Manufacturers Association (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 -9.9%yoy in January 2014. Vehicle exports however declined -9.9%yoy in January 2014 to 287.6k 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 -11.9%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.

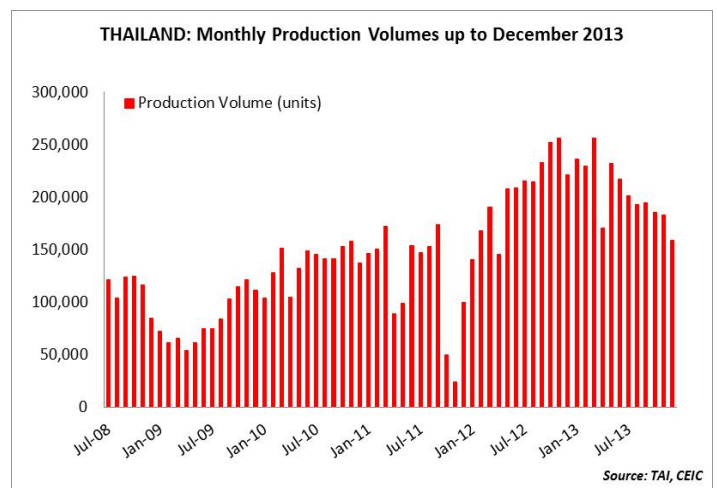
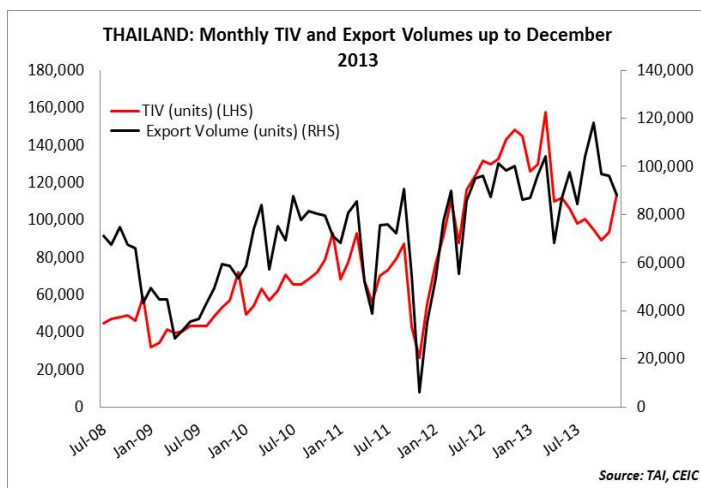
THAILAND

Note: The following discussion is based on the revised/updated December 2013 numbers as the Federation of Thai Industries' Automotive Industry Club (FTI) has yet to release the figures for January 2014.

TIV plunged -21.3%yoy in December 2013. According to the FTI, TIV plunged -21.3%yoy to 113.9k units in December 2013. The TIV reported was nonetheless higher than the previous eight months, making it the highest monthly TIV registered in second quarter of 2013 onwards. As was the case during the earlier months, the on-year decline continued to be as the result of being compared to a higher base a year ago which was lifted by Thailand's First Car Buyers Scheme (Scheme).

Given that the Scheme ran from 16 September 2011 to 31 December 2012, the high base in 2012 will continue to weigh on the TIV growth numbers only until December 2013.

On a cumulative basis, Thailand's 2013 TIV retreated -7.4%yoy to 1.33m units.



Meanwhile exports increased 1.9%yoy. Thailand's export volume rose on-year with 88.0k units of vehicle shipped out in December 2013, representing a growth of 1.9%yoy. The increase was possibly on the recovery of the Thai Baht beginning October 2013 following its low in September 2013.

December 2013 vehicle production extended declines, diving -28.2%yoy. Meanwhile, vehicle production in Thailand extended its declines into December 2013. A production volume of 158.9k units was recorded in December 2013, -28.2%yoy lower than in December 2012. The number of vehicles produced in December 2013 represents the fifth 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.