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Automotive Sector | MAA July Statistics

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## Muted impact from OPR hike

**Maintain NEUTRAL**

### HIGHLIGHTS

- MAA released the sales (TIV) and production (TIP) figures for July on Tuesday. The TIV figure was strong, with 60,267 vehicle sales were recorded in the month while TIP softened to 41,012 units.
- TIV declined sharply by -11.9% yoy but grew +2.9% mom, while increasing +3% for the 7-month period to 393,409 units. The sharp pullback vs July 2013 was due to the high base; July 2013 TIV stood at a staggering 68,431 units. We believe the latter was boosted by the pent up sales prior to the election in May as well as the seasonally strong sales running up to the Hari Raya celebration on 8<sup>th</sup> and 9<sup>th</sup> August 2013.
- Meanwhile, TIP figures in July softened considerably by -25.1% yoy and -23.5% mom while it grew + 3% to 358,904 units for the 7-month period. We believe the softer July figures were due to shorter working period for the month as Hari Raya celebration in 2014 was on the 28<sup>th</sup> and 29<sup>th</sup> July – the last week of the month.
- Honda was the only brand which recorded year-on-year sales growth while the industry-wide sales decline was led by Proton, and to a lesser extent, Nissan. The anomaly in Honda's sales trend is largely explained by strong demand for the Honda City, launched recently in April 2014.
- The cumulative TIV figure of 393,409 units constituted 59% of our 2014 TIV target of 668,000 units and 58% of the Malaysia Automotive Association (MAA) 2014 target. The continued growth in monthly TIV is encouraging, in our view, as market demand does not seem to be impacted by the central bank's recent hike in OPR. This could also be due to the aggressive promotional exercise which might lead to margin dilutions. Our Neutral call on the sector remains for now.

### Summary of the latest domestic Auto statistics

	Jul-14	Jan - Jul 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Jul-14 (%)	ytd (%)	ytd (ppts)
<b>Malaysia TIV</b>	<b>58,561</b>	<b>333,142</b>	<b>9.2</b>	<b>4.7</b>	<b>6.3</b>			
<b>By make:</b>								
Nationals	30,183	187,703	-15.6	12.3	-4.9	50.1	47.7	-4.0
Non-nationals	30,084	205,706	-7.9	-5.1	11.5	49.9	52.3	4.0
<b>By segment:</b>								
Passenger vehicles	53,578	296,779	13.3	7.4	7.5	88.9	75.4	3.2
Commercial vehicles	6,689	36,363	5.2	10.1	-3.0	11.1	9.2	-0.6
<b>Malaysia TIP</b>	<b>41,012</b>	<b>358,904</b>	<b>-25.1</b>	<b>-23.5</b>	<b>3.0</b>			

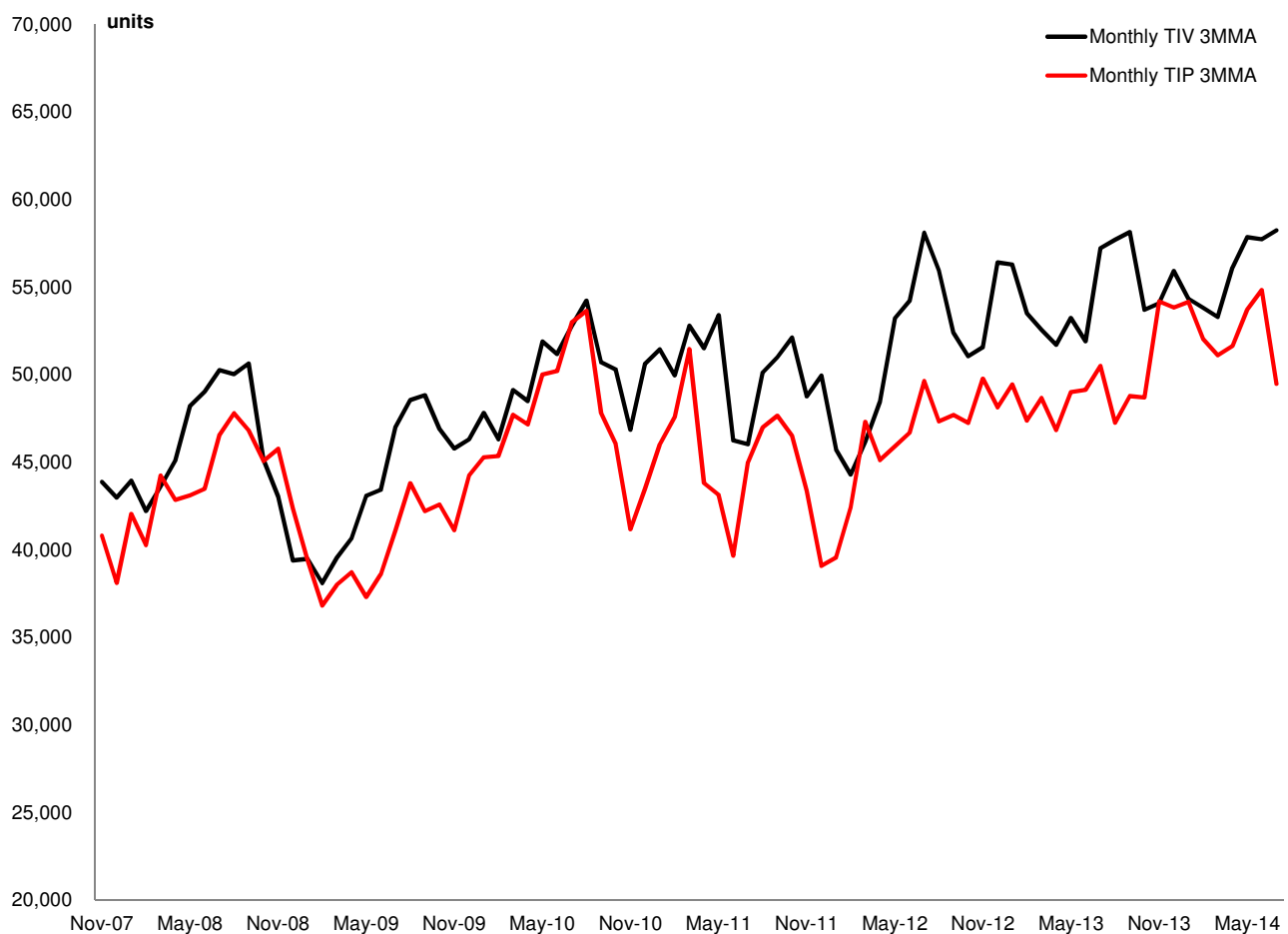
Source: MAA

## MALAYSIA

**Encouraging TIV figures for July 2014.** The July 2014 TIV declined -11.9% yoy but grew +2.9% mom to 60.3k units while TIV for the 7-month figure rose +3% to 393.4k units. The year-on-year decline was distorted by the unusually strong sales in July 2013. Recall that July 2013 sales figures were boosted by pent up demand running up to the general election in May 2013 as well as the typical seasonal sales running up to the Hari Raya celebration in early August 2014.

**TIP figures eased in July 2014.** The TIP figures in July painted a different picture as the industry only produced 41,012 units, lower by -25.1% yoy and -23.5% mom. However, production for the 7-month period grew +3% to 358,904 units. We think this could be due shorter working period for the month of July following the Hari Raya celebration which fell on the 28<sup>th</sup> and 29<sup>th</sup> July – the last week of the month.

### TIV and TIP figures (3- month moving average - MMA) up to July 2014



Source: MAA

**The outlier named Honda and the impressive Perodua.** Honda was the only major brand which recorded sales growth of +10.7%yoy to 6,685 units due to sustained sales momentum of the new City; sales moderated by -8.4%mom from June. Meanwhile, Perodua's sales declined the least amongst major brands by only -0.1% yoy drop while it grew +13.8% mom to 19,138 units. We believe the encouraging performance was due to the newly-launched variant, the Myvi XT, which debuted in Apr 2014.

**Parity between nationals and non-nationals.** In the month of July, the market share between the national and non-national brands was evenly split. We believe this could be viewed positively as the auto industry does not seem to draw

any impact from the central bank's OPR hike during the month. Nevertheless, we think it is still too early to draw any conclusions on this. For the cumulative period, the market continues to be dominated by the non-national makes which garner 52.3% of the market due to the surge in Honda's sales and the recovery in Toyota's.

**Encouraging recovery in Nissan's sales volume.** Following our recent report on Tan Chong Motor, published on 15 Aug 2014, we are heartened by the encouraging pickup in Nissan's sales volume which grew +9% mom to 3,837 units while its market share inched up further to 6.4% in July from 6% and 5.6% in June and May 2014 respectively.

## TIV: Nationals vs Non-nationals

	Jul-14	Jan - Jul 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Jul-14 (%)	ytd (%)	ytd (ppts)
<b>Nationals:</b>								
Perodua	19,138	113,618	-0.1	13.8	-2.1	31.8	28.9	-1.5
Proton	11,045	74,085	-33.6	9.8	-8.9	18.3	18.8	-2.5
<b>Total nationals</b>	<b>30,183</b>	<b>187,703</b>	<b>-15.6</b>	<b>12.3</b>	<b>-4.9</b>	<b>50.1</b>	<b>47.7</b>	<b>-4.0</b>
<b>Non-nationals:</b>								
Toyota	8,960	60,082	-7.8	-7.0	12.4	14.9	15.3	1.3
Honda	6,685	43,888	10.7	-8.4	57.3	11.1	11.2	3.8
Nissan	3,837	25,950	-27.7	9.0	-17.2	6.4	6.6	-1.6
Others	10,602	75,786	-8.5	-5.7	5.7	17.6	19.3	0.5
<b>Total non-nationals</b>	<b>30,084</b>	<b>205,706</b>	<b>-7.9</b>	<b>-5.1</b>	<b>11.5</b>	<b>49.9</b>	<b>52.3</b>	<b>4.0</b>
<b>Total TIV</b>	<b>60,267</b>	<b>393,409</b>	<b>-11.9</b>	<b>2.9</b>	<b>3.0</b>			

Source: MAA

## July figures show no sign of OPR hike impact

**7-month TIV made up 58% of 2014F forecast.** Malaysia's TIV in the year-to-July period grew +3%, moderating from +6.3% in 1H 2014, to 393.4k units. This accounts for 58% of our full year forecast of 668k units which assumes a +1.9% TIV growth from 2013. While the OPR hike in July does not seem to have any impact on vehicle sales, we are retaining our TIV target at this juncture.

**Reiterate NEUTRAL.** We are currently NEUTRAL on the Automotive sector. While the industry outlook in TIV-terms is expected to be buoyant given the sound domestic economy, we believe aggressive competition might lead to margin pressures for some of the companies under our coverage. The valuations and recommendations of our coverage are summarised as follow:

## Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 12/7 (RM)	TP (RM)	Net Profit (RM'm)		EPS (sen)		EPS Growth (%)		PER (x)		DPS (sen)		Div. Yield (%)	
				FY13	FY14F	FY13	FY14F	FY13	FY14F	FY13	FY14F	FY13	FY14F	FY13	FY14F
UMWH*	Neutral	12.30	13.15	681	1,158	58.0	102.4	-31.8	76.6	21.2	12.0	44.0	46.0	3.6	3.7
TCM	Buy	5.19	6.05	251	258	37.3	39.5	44.7	39.5	13.9	13.1	13.8	17.9	2.6	3.4
MBM*	Neutral	2.88	3.94	139	160	32.9	45.0	2.2	25.3	8.8	6.4	6.0	6.5	2.1	2.3

\*currently under review

Source: Bloomberg, MIDF Research

## REVIEW OF REGIONAL PRODUCTION

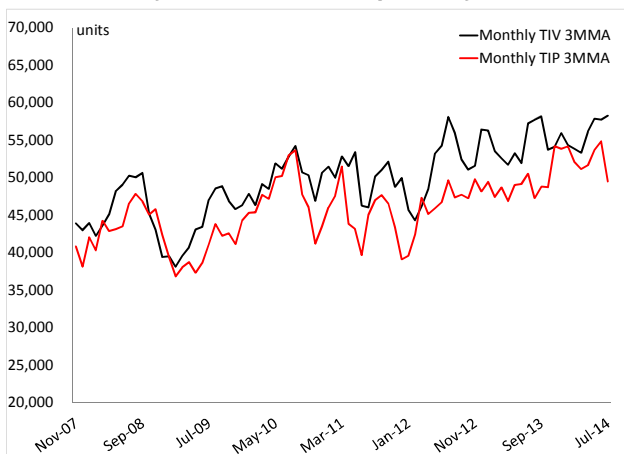
**Thailand production output rebounded.** Thailand's Total Industry Production (TIP) for June was encouraging. After figures sequentially improved in the first 3 months of 2014, production contracted by -30%mom in April. It has since rebounded in June by +16.8%mom to 148,011 units although the level is lower than before the sharp decline in April. We think the rebound reflects the strong TIV growths in regional markets as seen with the +9yoy growth in exports.

**Malaysia's TIP staged strong growth.** Despite the lackluster sales of national makes, Malaysia's June TIP grew in line with the regional output up +5.8% yoy. We believe this implies that the growing CKD activities are providing good support to the local parts makers. The July TIP posted a sharp decline but we believe this was due to the shorter working period in the month.

**Indonesia's TIP corrected sharply.** Indonesia's TIP corrected sharply in June +19.3%yoy. The uptrend was in line with the TIV growth which increased +6%yoy despite the high financing costs and less than favourable economic conditions.

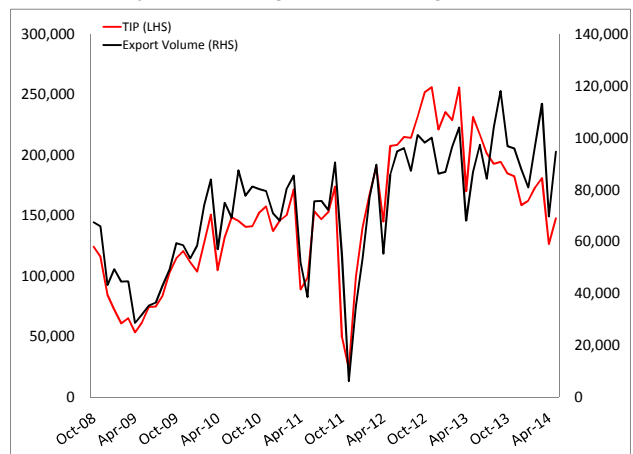
**Japan's TIP corrected sharply.** Japan's TIP grew in line with the monthly trend in export volume. Industry production rose +6.6%yoy despite flattish TIV growth of +0.4% yoy to 452,555 units in June 2014.

**M'sia: Monthly TIV & TIP 3MMA up to July 2014**



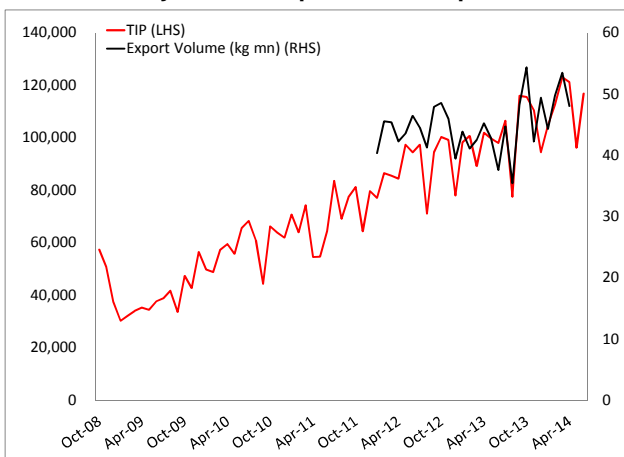
Source: MAA

**Thai: Monthly TIP and export volume up to June 2014**



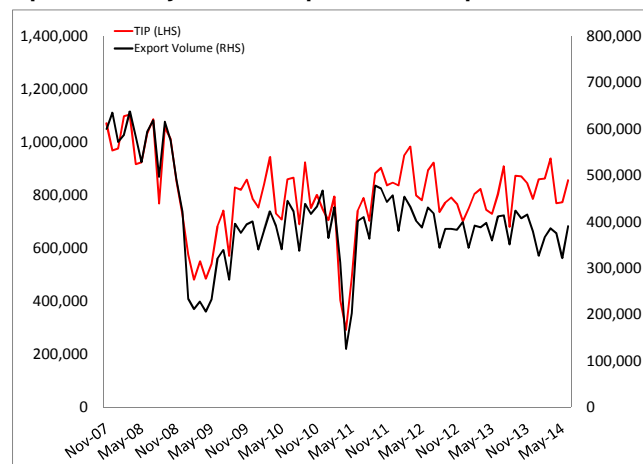
Source: Federation of Thai Industries (FTI), CEIC

**Indon: Monthly TIP and export volume up to June 2014**



Source: Assoc. of Indonesian Automotive Industries (GAIKINDO), CEIC

**Japan: Monthly TIP and export volume up to June 2014**



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.