

20 August 2015 | Sector Update

## AUTOMOTIVE

*Aggressive promotion to stimulate sales*

**Maintain NEUTRAL**

### HIGHLIGHTS

- Industry's TIV year-on-year performance declined for fourth straight months in July 2015 by -2.7%yoy to 58,646 units. On a brighter note, the sequential sales performance improved for third consecutive months by +2.1%mom during the month under review, partly due to spill-over of the aggressive Hari Raya festive season sales campaign.
- We attribute the decline in the year-on year TIV figures to the subdued consumer confidence and hangover effect of the implementation of new tax regime in April 2015. While the new Goods and Service Tax (GST) led to lower price levels across the board, we believe that consumer's confidence has yet to return after relieving a period of uncertainties arising from the new consumption tax as well as some negative sentiment towards current economic climate. According to Malaysia Institute of Economic Research (MIER), the Consumer Sentiment Index (CSI) had fallen for the third consecutive quarters to 71.7 in 2Q15.
- 7MCY15's TIV declined -3.2% to 380,830 units with Toyota being the worst performer followed by Proton. Sales for Toyota over the period weakened -22.4% to 45k units whilst Proton's sales went down by -17.6% to 61k units.
- Steady performance was delivered by Perodua, Honda, Nissan and Mazda with each registering growth for Jan-July 2015 period of +11.3%, +18.6%, +5.8% and +16.9% respectively. Perodua maintained its lion's share of the nationals market at 33% and Honda reinforced its leadership of the non-nationals segment at 14% for 7MCY15.
- We maintain our TIV growth target of +0.5% to 670k units for 2015. We anticipate the market to normalize in light of higher living costs and uncertain economic conditions which may adversely affect consumer confidence on big-ticket items, thus offsetting any gains made from lower price levels. Hence we maintain our NEUTRAL call on the auto sector.

### Summary of the latest domestic Auto statistics

	Jul-15	Jan - July2015	Growth (%)			Jul-15 (%)	ytd (%)	Jul-14 (%)
			YoY	MoM	Ytd			
<b>Malaysia TIV</b>	<b>58,646</b>	<b>380,830</b>	<b>-2.7</b>	<b>2.1</b>	<b>-3.2</b>			
<b>By make:</b>								
Nationals	28,824	187,532	-4.5	12.0	-0.1	49.1	49.2	50.1
Non-nationals	29,822	193,298	-0.9	-5.9	-3.2	50.9	50.8	54.1
<b>By segment:</b>								
Passenger vehicles	52,636	339,039	-1.8	3.8	-3.2	89.8	89.0	88.9
Commercial vehicles	6,010	41,791	-10.2	-10.9	-2.9	10.2	11.0	11.1
<b>Malaysia TIP</b>	<b>40,655</b>	<b>368,319</b>	<b>-0.9</b>	<b>-20.8</b>	<b>2.5</b>			

Source: MAA, MIDFR

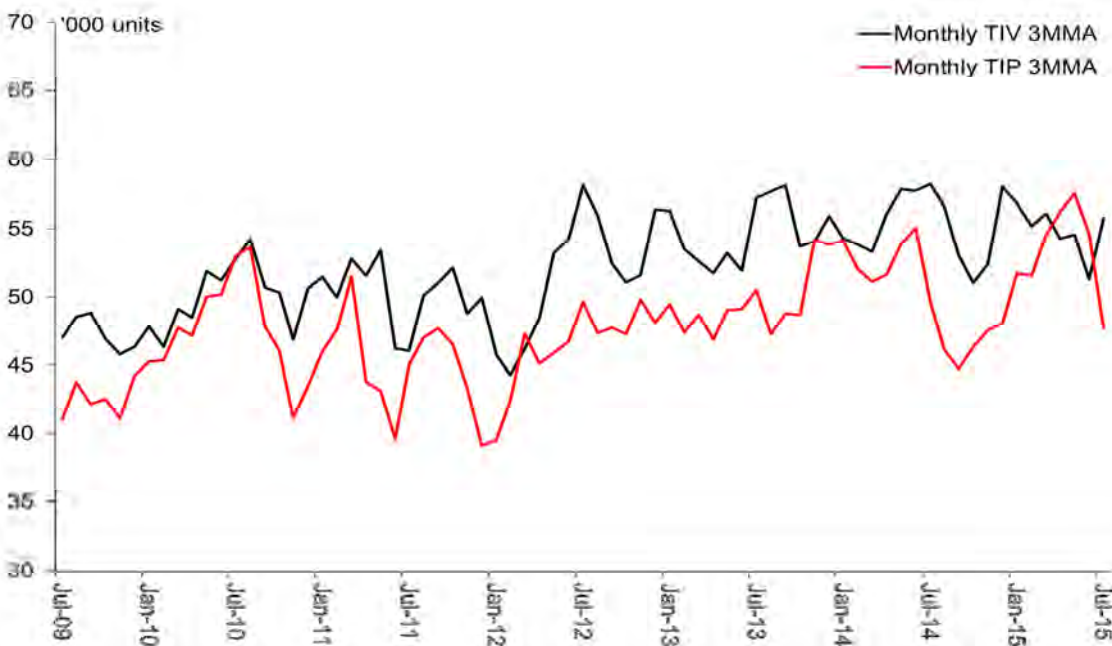
## MALAYSIA

**Aggressive promotional to drive sales.** While sequential TIV was up by +2.1% moms in July 2015, TIV for the month under review nonetheless declined -2.7%yoy to 59k units. We believe the strong sequential performance can be attributed to the aggressive promotional campaign undertaken by industry players to stimulate sales. We foresee the trend of aggressive promotional campaign to continue moving forward as automakers seek to maintain their respective market shares.

On year-to-date basis, the industry had a weak performance for the first seven months of the year with sales volume declined by -3.2%yoy to 381k units. The uninspiring performance could be attributed to the fragile consumer confidence resulting from the implementation of a new consumption tax regime in April 2015 and uncertainties surrounding the current economic climate. According to MIER, the CSI had fallen for the third consecutive quarters to 71.7 in 2Q15. MIER attributed the fall in consumer confidence to (i) more consumers experiencing financial deterioration, (ii) gloomy financial and job outlook, and (iii) inflationary anxieties remain high.

We opine that consumers would remain cautious on their big ticket items purchases in light of uncertainties brought upon by the current economic climate and thus require the industry players to keep their promotional campaign going, in order to generate more sales for the rest of 2015.

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



Source: MAA, MIDFR calculations

**Decline in Perodua sales.** Perodua's sales volume declined -6.0%yoy to 16k in July 2015. We are of the view that this was partly due to the fading of sales momentum from Axia and Myvi facelifts and lacking of immediate catalyst in the form of new launches to spur sales. Whilst Perodua was the only automakers in the top-6 that failed to registered growth on monthly basis in June 2015, the automaker registered 9% growth on monthly basis in July 2015 which we believe due to the momentum of Hari Raya sales.

**Honda and Mazda garnered more market share.** Honda and Mazda registered stellar performance in July 2015 after recorded +26.3%yoy and 36.4%yoy to 8k and 1k units respectively. Honda maintained its lead at the front of the non-national pack, maintaining a market share of 14% for 7MCY15. We expect the automaker to continue riding on the strong sales volume for HR-V compact SUV and CR-V facelift this year. On the other hand, Toyota lost further market shares in July 2015 with its sales slipped -11.9%yoy to 7k units.

## TIV: Breakdown by brands

	Jul-15	Jan - July2015	Growth (%)			July-15 (%)	ytd (%)	July-14 (%)
			YoY	MoM	Ytd			
<b>Nationals</b>								
Perodua	17,957	126,459	-6.2	9.0	11.3	30.6	33.2	31.8
Proton	10,867	61,073	-1.6	17.3	-17.6	18.5	16.0	18.3
Total nationals	28,824	187,532	-4.5	12.0	-0.1	49.1	49.2	50.1
<b>Non-nationals</b>								
Toyota	7,308	46,104	-11.9	-18.6	-22.4	12.5	12.1	13.8
Honda	8,443	52,039	26.3	-2.6	18.6	14.4	13.7	11.1
Nissan	4,165	27,459	8.5	10.6	5.8	7.1	7.2	6.4
Mazda	1,333	7,915	36.4	-1.3	16.9	2.3	2.1	1.6
Others	8,573	59,781	-16.7	-4.0	-6.0	14.6	15.7	17.1
<b>Total non-nationals</b>	<b>29,822</b>	<b>193,298</b>	<b>-0.9</b>	<b>-5.9</b>	<b>-3.2</b>	<b>50.9</b>	<b>50.8</b>	<b>54.1</b>
<b>Total TIV</b>	<b>58,646</b>	<b>380,830</b>	<b>-2.7</b>	<b>2.1</b>	<b>-3.2</b>			

Source: MAA, MIDFR

**2015 Outlook.** We are maintaining our NEUTRAL view on the sector as we anticipate market to normalise in light of higher living costs and uncertain economic conditions which may adversely affect consumer confidence on big-ticket items, thus offsetting any gains made from lower price levels. We further believe the trend of aggressive promotional campaign to continue going forward. We remain positive on MBM Resources and Berjaya Auto as we foresee these stocks to directly benefit from the strong sales growth for both Perodua and Mazda vehicles respectively. Amongst our coverage, we have a BUY call on MBM Resources ("MBM") and Berjaya Auto while we maintain NEUTRAL on UMW Holdings ("UMW") and Tan Chong Motor Holdings ("TCM"). We continue to expect FY15 TIV to grow +0.5%yoy to 670k.

## Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 19/8 (RM)	TP (RM)	Net Profit (RM'm)		EPS (sen)		EPS Growth (%)		PER (x)		DPS (sen)		Div. Yield (%)	
				FY14	FY15F	FY14	FY15F	FY14	FY15	FY14	FY15F	FY14	FY15F	FY14	FY15F
UMW	NEUTRAL	8.80	9.73	658	780	56.3	66.8	0.7	18.7	16	13	41	37	4.7	4.2
TCM	NEUTRAL	2.46	3.20	106	233	16.2	35.7	(62.0)	120.4	15	7	5	13	2.0	5.3
MBM	BUY	3.09	4.80	145	181	37.2	46.4	5.6	2.5	8	7	8	9	2.6	2.9
BAUTO	BUY	1.99	3.30	129	225	12.0	14.0	129	17	17	14	5	6	2.5	3.0

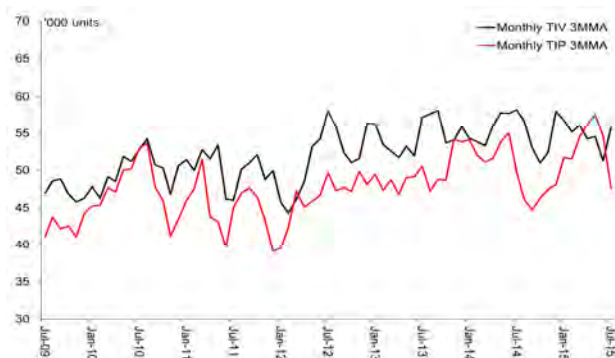
Source: Bloomberg, MIDF Research

## REVIEW OF REGIONAL AUTO SECTORS

**Production for Malaysia declined in July 2015.** July 2015's TIP for Malaysia declined -20.8%mom to 41k units which we attribute to the high base factor in June 2015 of which TIP increased due to factors like post-GST inventory replenishment and anticipation of seasonal festive sales.

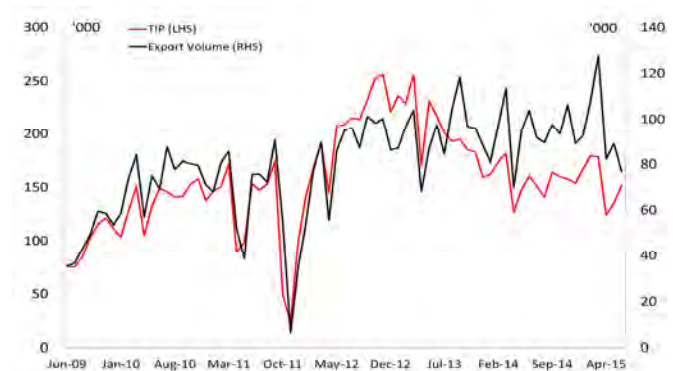
**Thai's TIV remain sluggish.** As domestic car sales for 1HCY1515 slumped by -16.3%yoy to 369k units, the Federation of Thai Industries is set to cut its TIV forecast for 2015 by an approx. 10% over previous year's performance of 881k units amidst slow economic recovery and tighter approval rates for hire-purchase loans due to high household debt. On the flipside, exports grew 2.9% to 580k units.

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



Source: MAA

**Thai: Monthly TIP and export volume**

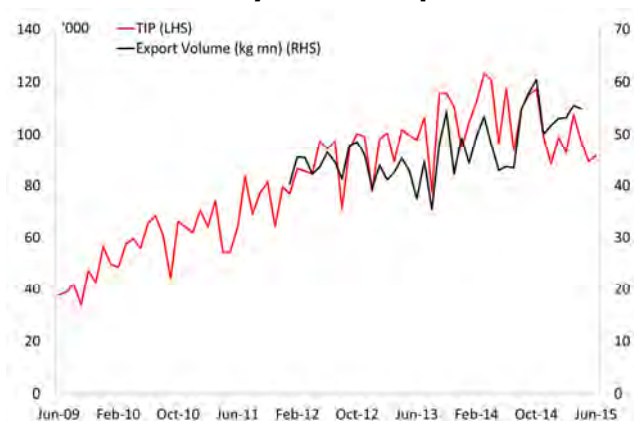


Source: Federation of Thai Industries (FTI), CEIC

**Uninspiring sales in Indonesia.** Sales for Indonesian automakers in 1HCY15 slid -18.2%yoy to 526k units as the rupiah continued its decline against the dollar, thus resulting in weaker purchasing power and a cautious consumer outlook. As the economy produced its weakest showing in over five years at 4.71% growth rate for 1Q15, coupled with rising inflation, these concerns have led the Association of Indonesian Automotive Industries (GAIKINDO) to cut TIV forecast from 1.2m units to 1-1.1m units for 2015. Meanwhile, TIP volume eased -14.5%yoy to 577k units.

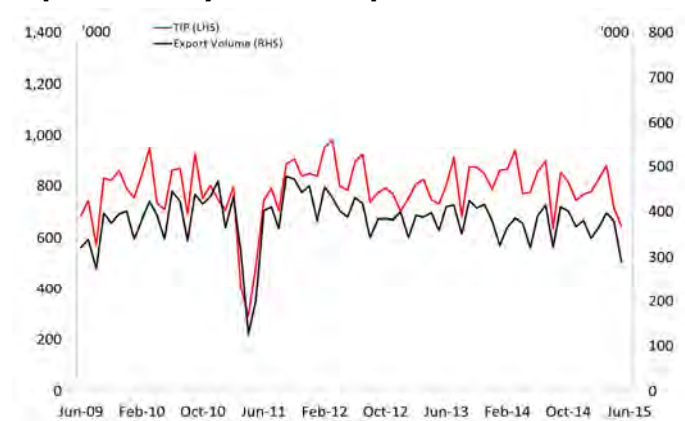
**Japanese TIV to slow.** Japan's Jan-May 2015 TIV eased -11%yoy to 2,676k units as fears over the short-term economic outlook led Japan Automobiles Manufacturers Association (JAMA) to anticipate a decline of 5% for the upcoming months. Meanwhile, TIP figures for Jan-May declined -8.8%yoy to 3838k units.

**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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### 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.