

## Review & Outlook of the Automotive Sector

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Malaysia June 2014 TIV growth driven by non-national makes

**Maintain NEUTRAL**

### HIGHLIGHTS

- The MAA released the sales (TIV) numbers for July on Tuesday. The numbers are fairly strong. Vehicle sales in July grew +9.2% yoy and +4.7% mom to 58,561 units while 6-month TIV grew +6.3% yoy.
- The growth was largely driven by Honda, and to a lesser extent, Toyota, which drove the market share gain of non-national makes. Within the national makes, Proton continues to report weak sales, losing market share further although Perodua's sales have gained from strength to strength after a weak start to the year.
- The strong +6.3% growth in Malaysia's 1H 2014 TIV drove sales volume to 333,142 units. This made up 50% of our 2014F TIV target of 668,000 units which implies a +1.9% yoy growth. We are not making any changes as we expect to see some weakness in sales following the central bank's recent hike in OPR. We remain Neutral on the sector as we believe benefits from the strong TIV growth is offset against the weaker Ringgit and competitive market.
- Meanwhile, in the region, the decline in Thailand's TIV persisted in May, further underlining the country's prevalent political and economic uncertainty. However, its TIP painted a more positive outlook, rebounding +16.8% mom albeit production units declining -36.2% yoy. Malaysia's TIP grew largely in line with the regional output despite weak sales by national makes, especially Proton. We believe this reflects the encouraging support for the local parts makers on the back of the growing CKD activities.

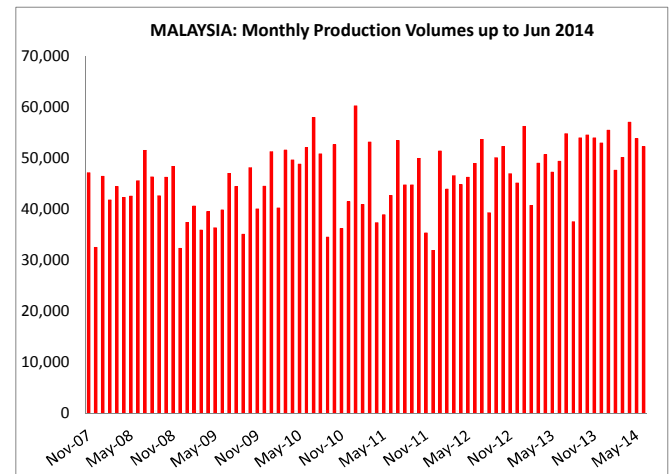
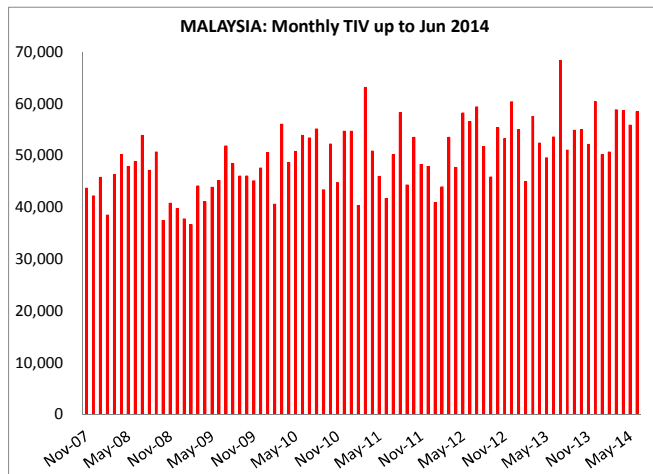
### Summary of the latest domestic and regional Auto statistics

	Jun-14	Jan - Jun 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Jun-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	26,874	157,520	1.2	-0.3	-2.5	45.9	47.3	-4.3
Non-nationals	31,687	175,622	17.1	6.8	15.7	54.1	52.7	4.3
<b>By segment:</b>								
Passenger vehicles	51,898	296,779	9.8	4.1	7.5	88.6	89.1	1.0
Commercial vehicles	6,663	36,363	4.7	9.7	-3.0	11.4	10.9	-1.0
<b>Malaysia TIP</b>	<b>52,309</b>	<b>316,608</b>	<b>5.8</b>	<b>-2.9</b>	<b>7.9</b>			
<b>Regional TIV</b>								
Thailand	69,681	367,112	-38	-5	-42			
Indonesia	110,560	642,323	6	14	7			

Source: MAA, FTI, GAIKINDO, CEIC

## MALAYSIA

**Encouraging TIV and TIP growth in Jun 2014.** The Jun 2014 TIV grew +9.2% yoy and +4.7% mom to 58.6k units while it was up +6.3% over the 6-month period. The strong yoy growths were largely due to the strong pickup in Honda's sales volume, and to a lesser extent, Toyota's on the back of new model launches for both brands in first half of 2014. Meanwhile, TIP grew +5.8% yoy and +7.9% in the first half of 2014 on higher CKD activity but declined -2.9% mom to 52.3k units.



Source: MAA

**Perodua's recovering but Proton continues to languish.** Perodua's sales volume grew +6.7% yoy and +4.4% mom to 16.8k units as it remained the market leader with a slight dip in market share from May to 28.7%. Unfortunately, Proton's sales volume weakened further, declining -6.9 yoy and -0.9% mom to 10k units while its market share fell 1ppt from May to 17.2%.

**National brands continue to lose ground.** The national brands continue to lose ground with the combined market share in 1H 2014 fell -4.3 ppts to 47.3% from 51.6% in the same period last year. We believe this is due to aging models within the national brands as well as the increasingly competitive market landscape.

### TIV: Nationals vs Non-nationals

	Jun-14	Jan - Jun 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Jun-14 (%)	ytd (%)	ytd (ppts)
<b>Nationals:</b>								
Perodua	16,814	94,480	6.7	0.1	-2.5	28.7	28.4	-2.6
Proton	10,060	63,040	-6.9	-0.9	-2.6	17.2	18.9	-1.7
<b>Total nationals</b>	<b>26,874</b>	<b>157,520</b>	<b>1.2</b>	<b>-0.3</b>	<b>-2.5</b>	<b>45.9</b>	<b>47.3</b>	<b>-4.3</b>
<b>Non-nationals:</b>								
Toyota	9,632	51,122	2.9	18.4	16.9	16.4	15.3	1.4
Honda	7,295	37,203	125.7	-1.0	70.1	12.5	11.2	4.2
Nissan	3,519	22,113	-11.3	11.9	-15.1	6.0	6.6	-1.7
Others	11,241	65,184	7.0	1.9	8.4	19.2	19.6	0.4
<b>Total non-nationals</b>	<b>31,687</b>	<b>175,622</b>	<b>17.1</b>	<b>6.8</b>	<b>15.7</b>	<b>54.1</b>	<b>52.7</b>	<b>4.3</b>
<b>Total TIV</b>	<b>58,561</b>	<b>333,142</b>	<b>9.2</b>	<b>4.7</b>	<b>6.3</b>			

Source: MAA

## TIV: By segments

Vehicle segments	Jun-14	Jan - Jun 2014	Growth (%)			Mkt share		
			YoY	MoM	Ytd	Jun-14 (%)	Ytd (%)	Ytd (ppts)
Passenger Vehicles	51,898	296,779	9.8	4.1	7.5	88.6	89.1	1.0
Commercial Vehicles	6,663	36,363	4.7	9.7	-3.0	11.4	10.9	-1.0

Source: MAA

## June numbers keeping pace with our expectations

**6-month TIV made up 50% of 2014F forecast.** Malaysia's TIV in 1H 2014 grew +6.3% over the same period last year to 333.1k units. This accounts for 50% of our full year forecast of 668k units which assumes a +1.9% TIV growth from 2013. We are not making any changes to our TIV target at this juncture as we expect sales volume to soften in 2H 2014 following the recent OPR hike.

While Perodua recently reduced its full year sales target from 197k units to 193k units, the Malaysian Automotive Association (MAA) raised its sales volume forecast to 680k units citing improving economic conditions and aggressive promotional campaigns to drive volume. MAA also indicated that impact from the recent hike in OPR is still uncertain.

**Reiterate NEUTRAL.** We are NEUTRAL on the Automotive sector as we believe the aggressive competition within the industry and weaker Ringgit performance could lead to further margin pressure, offsetting the benefits of the strong TIV growths. 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	11.52	13.15	681	1,158	58.0	102.4	-31.8	76.6	19.9	11.3	44.0	46.0	3.8	4.0
TCM	Neutral	5.40	5.80	251	251	38.4	38.5	58.9	0.2	14.1	14.0	15.8	15.0	2.9	2.8
MBM	Neutral	2.95	3.94	139	160	32.9	45.0	2.2	36.8	9.0	6.6	6.0	6.5	2.0	2.2

\*currently under review

Source: Bloomberg, MIDF Research

## REGIONAL REVIEW

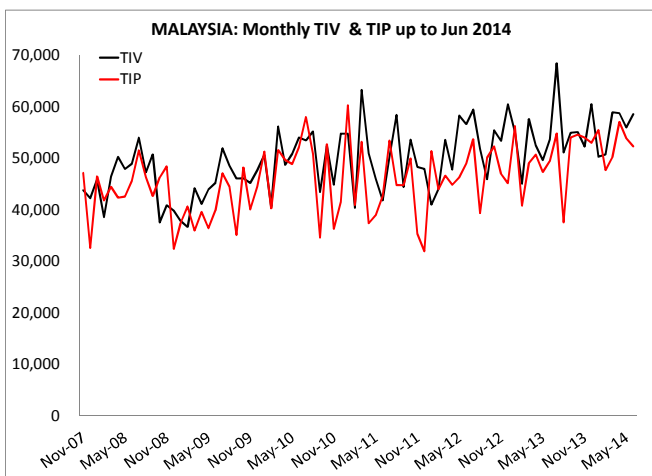
**Thai TIV dampened by uncertain outlook.** Thailand's TIV remains weak after a brief respite in March as the country's political and economic outlook remains uncertain. The TIV figures for Indonesia and Malaysia continue to see encouraging growth in 1H 2014. This is despite Malaysia's high vehicle ownership and Indonesia's less-than-favourable economic condition.

Vehicle segments	Jun-14	Jan - Jun 2014	Growth (%)			Ytd segment mkt share (%)	
			YoY	MoM	Ytd	Passenger	Commercial
Malaysia	58,561	333,142	9.2	4.7	6.3	88.6	11.4
Thailand*	69,681	367,112	-37.7	-4.9	-42.2	41.1	58.9
Indonesia	110,560	642,323	6.0	13.8	6.7	73.4	26.6

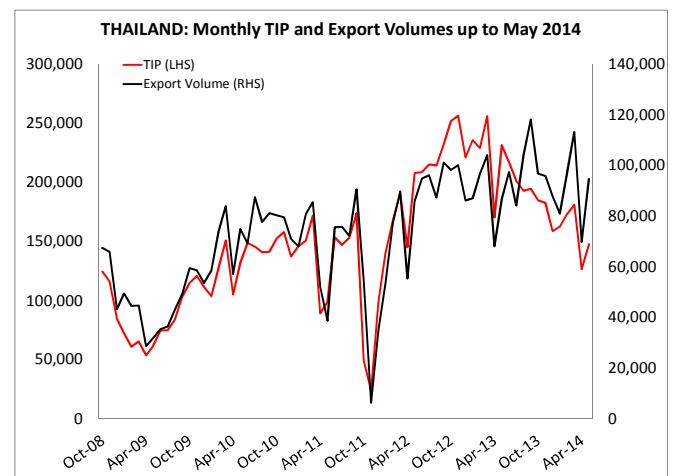
Source: MAA

\*Data is only up to May-14

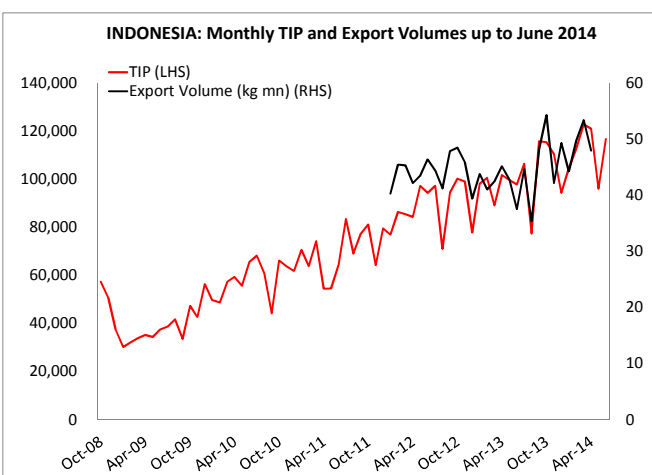
**Malaysia's TIP grew in line with regional output.** The latest Total Industry Production (TIP) reading for Indonesia and Thailand shows some respite in production output from prior month. Indonesia's latest June TIP grew +21.5% mom while Thailand's May TIP was up +16.8% mom after it dipped in April. Despite the weak sales by the national makes, Malaysia's TIP grew in line with regional output, implying growing CKD activities supporting the local parts makers. While the recovery in Thailand's TIP is encouraging, it was still down -36.2% yoy, implying that the impact from the recent political turmoil is still prevalent albeit easing. Japan's TIP grew +6.1% yoy reflecting the positive impact from the economic stimulus as exports eased over the same period.



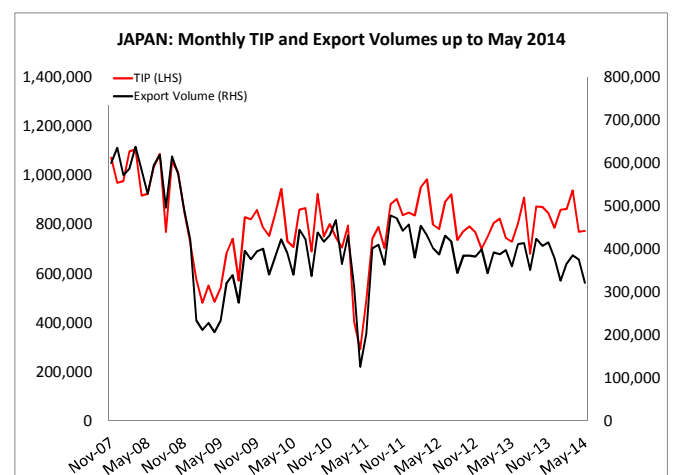
Source: MAA



Source: Federation of Thai Industries (FTI), CEIC



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



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.