

29 July 2015 | Sector Update

## AUTOMOTIVE

*Weaker first half overall performance*

**Maintain NEUTRAL**

### HIGHLIGHTS

- Industry's TIV and TIP figures were both down by -1.9%yoy and -4.3%yoy to 57,437 and 51,309 units respectively. Nonetheless, the sequential sales performance improved +12.1%mom during the month under review, partly due to the seasonal impact of Hari Raya sales campaign.
- We attribute the decline in TIV figures to the implementation of a new tax regime in April 2015. While the replacement of the Sales and Service Tax (SST) with 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, and thus putting a break on their spending on big ticket items.
- 1HCY15's TIV declined -3.3%yoy to 322,184 units with Toyota being the worst performer followed by Proton. Sales for Toyota over the period weakened -24.1% to 39k units while Proton's sales went down by -20.4% to 50k units.
- As Toyota and Proton continued a disappointing string of results, impacts were fairly softened by growth in sales for Perodua, Honda, Nissan and Mazda, with each registering growth rates for Jan-June 2015 period of +14.8%, +17.2%, +5.3% and +13.6% respectively. While losing some market share in June 2015, Perodua maintained its lion's share of the nationals market at 34% and Honda retained its leadership of the non-nationals segment at 14% for 1HCY15.
- We maintain our TIV growth target of +0.5% to 670k units for 2015. We anticipate 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 sector.

### Summary of the latest domestic Auto statistics

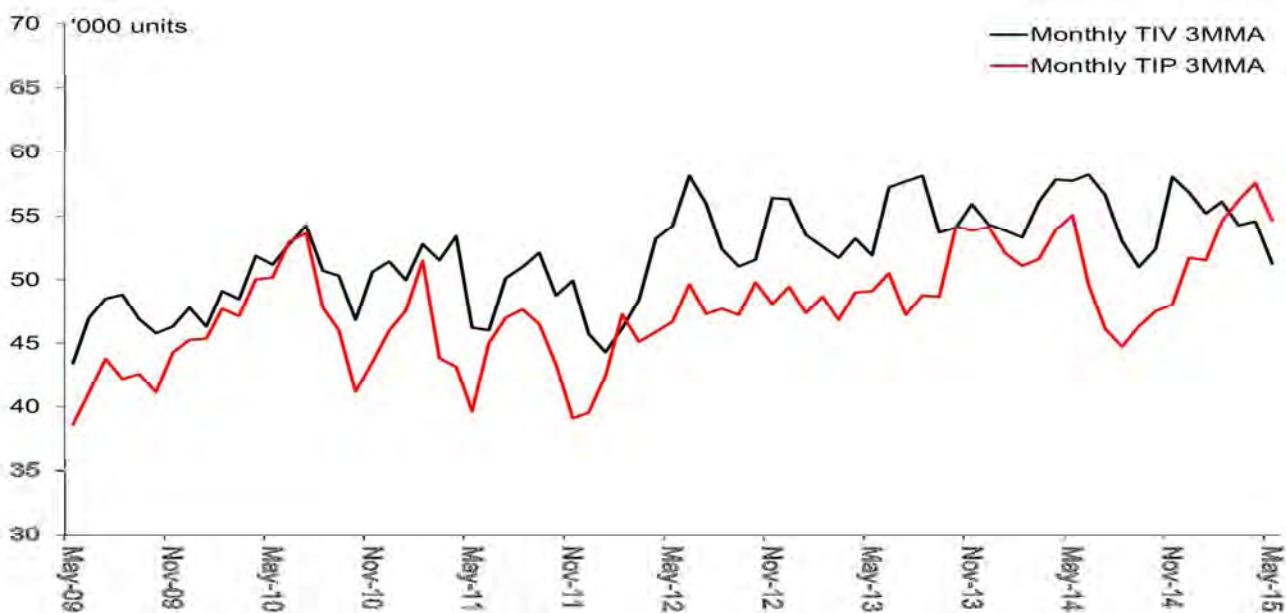
	Jun-15	Jan - June 2015	Growth (%)			June-15 (%)	ytd (%)	June-14 (%)
			YoY	MoM	Ytd			
<b>Malaysia TIV</b>	<b>57,437</b>	<b>322,184</b>	<b>-1.9</b>	<b>12.1</b>	<b>-3.3</b>			
<b>By make:</b>								
Nationals	25,742	158,708	-4.2	0.7	0.8	44.8	49.3	45.9
Non-nationals	31,695	163,476	0.0	23.4	-3.6	55.2	50.7	54.1
<b>By segment:</b>								
Passenger vehicles	50,695	286,403	-2.3	10.5	-3.5	88.3	88.9	88.6
Commercial vehicles	6,742	35,781	1.2	25.3	-1.6	11.7	11.1	11.4
<b>Malaysia TIP</b>	<b>51,309</b>	<b>327,664</b>	<b>-4.3</b>	<b>0.6</b>	<b>2.9</b>			

Source: MAA, MIDFR

## MALAYSIA

**Seasonal factor at play in June.** While sequential TIV was up +12.1% on June 2015 due to the seasonal factor, TIV for the month nonetheless declined -1.9%yoy to 57k units. On the other hand, the industry first half report card was not encouraging with the sales volume declined -3.3%yoy which we opined to be due to weaker consumer confidence resulting from the implementation of a new consumption tax regime in April 2015. We further believe that consumers are still cautious on their big ticket items purchases in light of uncertainties brought upon by the current economic climate.

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



Source: MAA, MIDFR calculations

**TIP grew mom to cater for seasonal sales.** June 2015's TIP grew +0.6%mom to 51k units which we attribute the modest increase as efforts at inventory replenishment in anticipation of seasonal festive sales and an optimistic expectation of better sales performance in 2HCY15.

**Perodua slowing down.** Perodua's sales volume declined -2.0%yoy and -4.7%mom to 16k in June 2015. We are of the view that this is partly owing to the fading of sales momentum from Axia and Myvi facelift and lacking of immediate catalyst in the form of new launches to spur sales. We also noted that Perodua was the only automakers in the top-6 that failed to registered growth on monthly basis in June 2015.

**Toyota's decline halted.** The Japanese carmaker saw its sales slipped -6.8%yoy to 9k units in June 2015. Nonetheless, the automakers registered an improved performance on monthly basis which we attributed to the Hari Raya Campaign sales. Meanwhile, its first half sales declined -24% to 39k units and subsequently losing some precious market share to Honda and Mazda.

**Stellar performance from Honda.** Honda registered an improved +18.8%yoy and 39.3% mom sales performance to 6k units for June 2015, while its year-to-June figures grew 17.2% to 44k units. Honda maintained its lead at the front of the non-national pack, maintaining a market share of 14% for 1HCY15. We expect the automaker to continue riding on the strong sales volume for HR-V compact SUV and CRV facelift this year.

## TIV: Breakdown by brands

	Jun-15	Jan - June 2015	Growth (%)			June-15 (%)	ytd (%)	June-14 (%)
			YoY	MoM	Ytd			
<b>Nationals</b>								
Perodua	16,475	108,502	-2.0	-4.7	14.8	28.7	33.7	28.7
Proton	9,267	50,206	-7.9	11.9	-20.4	16.1	15.6	17.2
<b>Total nationals</b>	<b>25,742</b>	<b>158,708</b>	<b>-4.2</b>	<b>0.7</b>	<b>0.8</b>	<b>44.8</b>	<b>49.3</b>	<b>45.9</b>
<b>Non-nationals</b>								
Toyota	8,979	38,796	-6.8	19.0	-24.1	15.6	12.0	16.4
Honda	8,668	43,596	18.8	39.3	17.2	15.1	13.5	12.5
Nissan	3,765	23,294	7.0	14.1	5.3	6.6	7.2	6.0
Mazda	1,350	6,582	27.0	16.9	13.6	2.4	2.0	1.8
Others	8,933	51,208	-12.2	19.8	-4.0	15.6	15.9	17.4
<b>Total non-nationals</b>	<b>31,695</b>	<b>163,476</b>	<b>0.0</b>	<b>23.4</b>	<b>-3.6</b>	<b>55.2</b>	<b>50.7</b>	<b>54.1</b>
<b>Total TIV</b>	<b>57,437</b>	<b>322,184</b>	<b>-1.9</b>	<b>12.1</b>	<b>-3.3</b>			

Source: MAA, MIDFR calculations

**2015's 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 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 28/7 (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	9.98	9.73	658	780	56.3	66.8	0.7	18.7	18	15	41	37	4.1	3.7
TCM	NEUTRAL	2.77	3.20	106	233	16.2	35.7	(62.0)	120.4	17	7.8	5	13	1.8	4.7
MBM	BUY	3.44	4.80	145	181	37.2	46.4	5.6	2.5	9.2	7.4	8	9	2.4	2.8
BAUTO	BUY	2.58	3.30	129	225	12.0	14.0	129	17	16	19	5	15	1.4	3.2

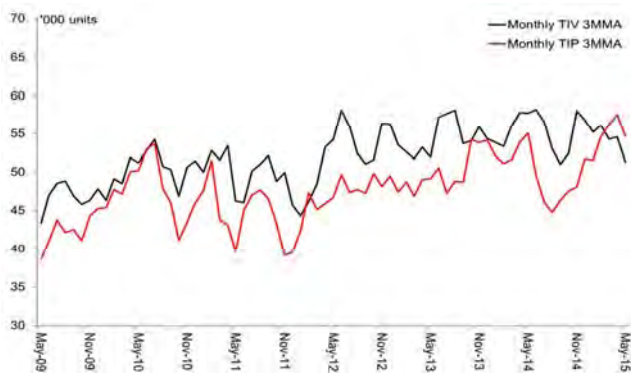
Source: Bloomberg, MIDF Research

## REVIEW OF REGIONAL PRODUCTION

**Production for Malaysia is on the uptrend. TIP grew mom to cater for seasonal sales.** June 2015's TIP for Malaysia grew marginally +0.6%mom to 51k units which we attribute the modest increase as efforts at inventory replenishment in anticipation of seasonal festive sales and an optimistic expectation of better sales performance in 2HCY15.

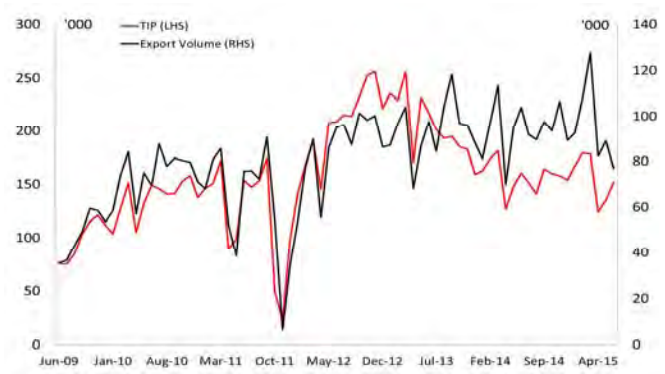
**Thai's TIV remain sluggish.** As domestic car sales for 1HCY1515 slumped by -16.3%yoy to 369k units, the Federation of Thai Industries is set to cut its TIV forecast for 2015 by an approx. 10% over previous year's performance of 881k units amidst slow economic recovery and tighter approval rates for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

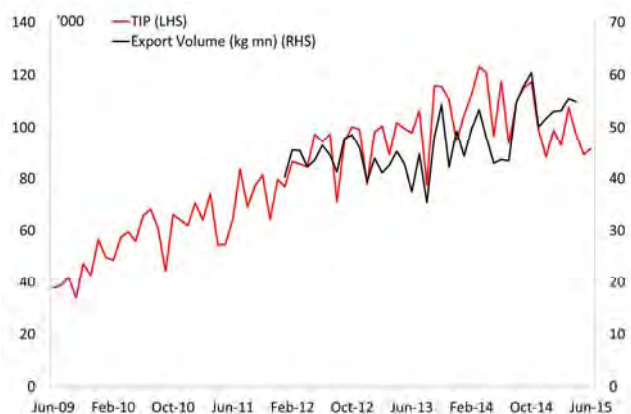


Source: Federation of Thai Industries (FTI), CEIC

**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.

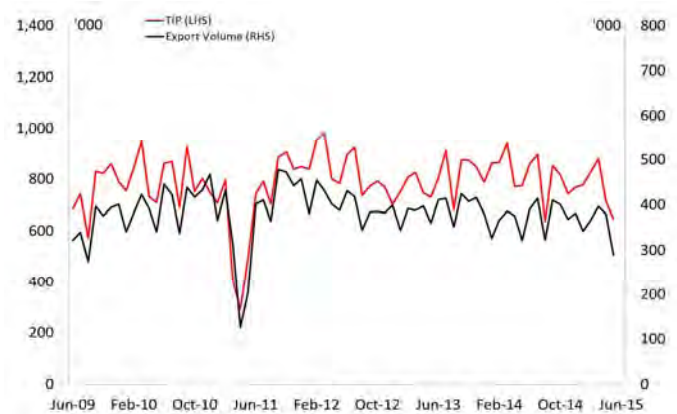
**Japanese TIV to slow.** Japan's Jan-May 2015 TIV eased -11%yoy to 2,676k units as fears over the short-term economic outlook led Japan Automobiles Manufacturers Association (JAMA) to anticipate a decline of 5% for the upcoming months. Meanwhile, TIP figures for Jan-May declined -8.8%yoy to 3838k units.

### 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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#### 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.