

# Review & Outlook of the Automotive Sector

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**Higher TIV & TIP on attractive deals and incentive packages**

**Maintain NEUTRAL**

## HIGHLIGHTS

- The March sales (TIV) and production (TIP) figures were released by MAA yesterday. Both figures were stronger on-year and sequentially as TIV grew +14.3%yoy and +33.6%mom to 67,314 units while TIP figures increased by +19.8%yoy and +28.0%mom to 60,085 units.
- We believe the growth was due to promotional and marketing campaign in the weeks leading up to the GST implementation in April, as automakers offered attractive deals and incentive packages in a bid to clear their existing stocks.
- For 3MCY15, TIV grew +5.3%yoy to 168,306 units with Toyota being the worst performer followed by Proton. Toyota's vehicle sales over the period shed -33%yoy to just over 16k units (from 24k units) while Proton's sales declined by -15%yoy to over 27k units (from 32k units).
- Impact from the slowdown in Toyota and Proton sales volume was softened by positive growth for Perodua, Honda, Nissan and Mazda. Honda emerges as a strong contender in the non-nationals market after posting strong sales which grew +41.7% to 22,145 units in the first three month of 2015.
- Consequently, TIV market share swung in favour of the non-national makes which garnered 51% market share compared to national makes' 49%. The improvement was driven by Honda which led the non-national makes as it cornered 14% of the market while Proton's sombre sales contributed to the drop for national automakers' share as it eased to only 16% from 21% in 2014.
- We maintain our TIV growth target of +0.5% to 670k units for 2015. We anticipate a mild growth to reflect weaker consumer sentiment in light of rising costs of living, rebound in fuel prices and uncertain economic outlook. Therefore we reiterate our NEUTRAL call on the sector while maintaining a positive view on MBM Resources and Berjaya Auto as we expect these stocks to benefit from depreciations in Yen and strong sales growth for Perodua and Mazda respectively.

## Summary of the latest domestic Auto statistics

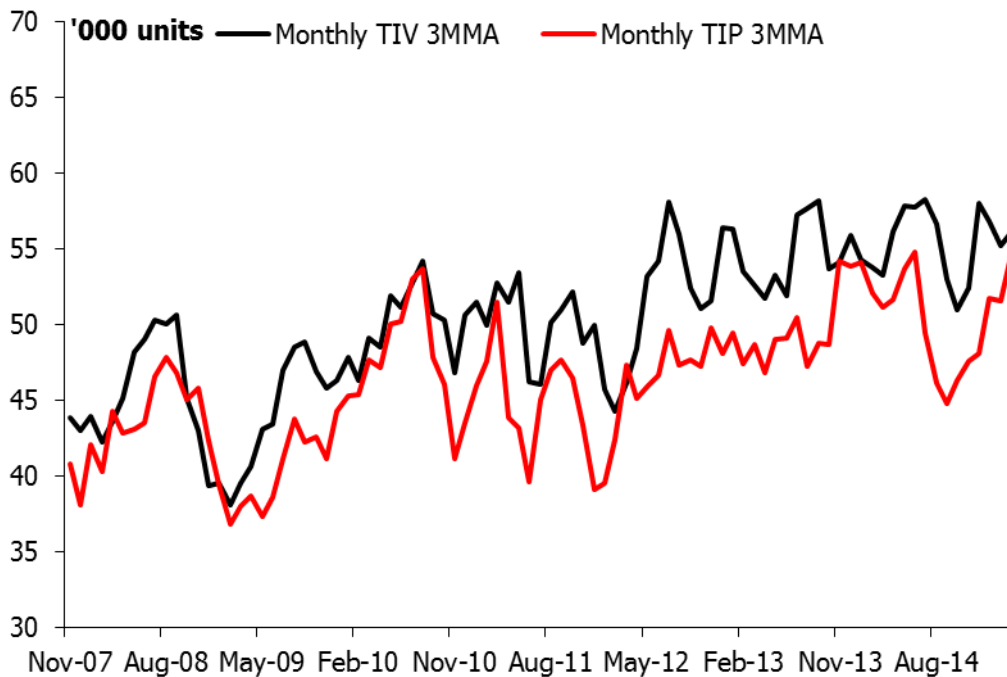
	Mar-15	Jan - Mar 2015	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Mar-14 (%)	ytd (%)	Feb-15 (%)
<b>Malaysia TIV</b>	<b>67314</b>	<b>168,306</b>	<b>14.2</b>	<b>33.6</b>	<b>5.3</b>			
<b>By make:</b>								
Nationals	33,025	84,835	15.3	23.0	10.5	49.1	49.1	48.6
Non-nationals	34,289	83,471	13.2	45.6	0.4	50.9	49.6	51
<b>By segment:</b>								
Passenger vehicles	59,318	148,932	13.8	32.1	4.5	88.1	88.5	88.5
Commercial vehicles	7,996	19,374	17.6	46.1	11.5	11.9	11.5	11.5
<b>Malaysia TIP</b>	<b>60,085</b>	<b>163,697</b>	<b>19.8</b>	<b>28.0</b>	<b>6.7</b>			

- Source: MAA

## MALAYSIA

**Buoyant sales volume.** The March 2015 TIV grew +14.2%yoy and +33.6%mom to 67.3k units while TIV for the year-to-March period expanded +5.3% to 168k units. We attribute the build-up in sales volume to the attractive deals and incentives packages offered by automakers in a stock clearance exercise prior to the GST implementation in April. Therefore we anticipate thinner margins for the month. Despite the drop in car prices, MAA expects the market to normalize in the aftermath of GST implementation as consumer confidence is hit by myriad of uncertainties regarding the new tax regime.

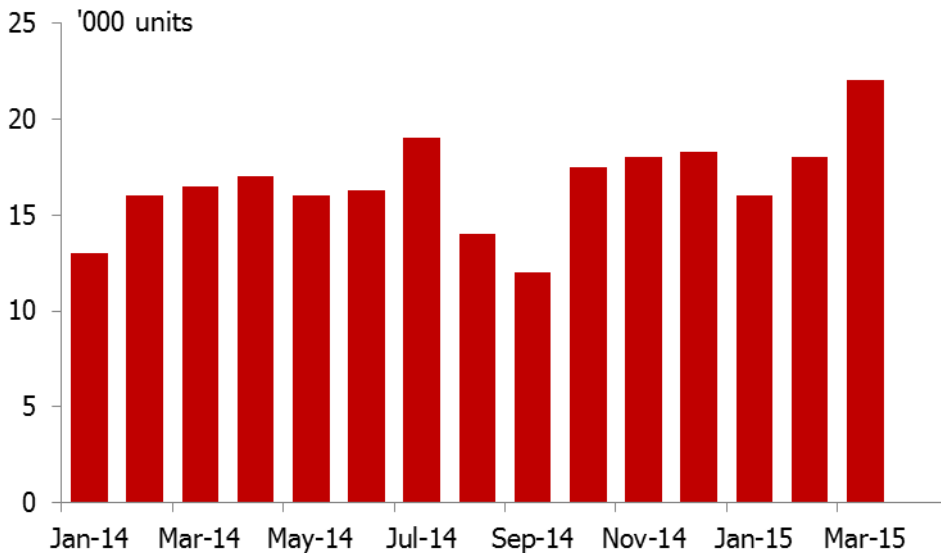
### Monthly TIV and TIP figures on 3 Months Moving Average (MMA) up to March 2015



Source: MAA, MIDFR calculations

- **Growth in TIP figures compensate for previous slowdown.** The March TIP saw a dramatic jump of +19.8%yoy and +28.0%mom to 60,085 units. We view the increase in production numbers for March as an attempt to make up for weak production output in the previous month, which results from a shorter working period following the Chinese New Year break on 19 February 2015. We also believe the healthy TIP growth was due to the stock clearance exercise in March.
- **Perodua revs up.** Perodua posted another strong monthly sale in March which exceeded 22k units. The strong sales were attributed to the successful launch of the Perodua Axia and the introduction of the Perodua Myvi facelift in late January.

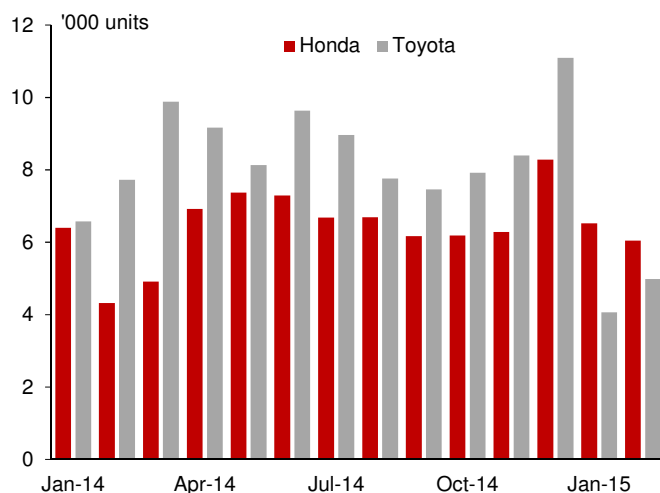
## Perodua monthly sales figures since Jan 2014



Source: MAA, MIDFR calculations

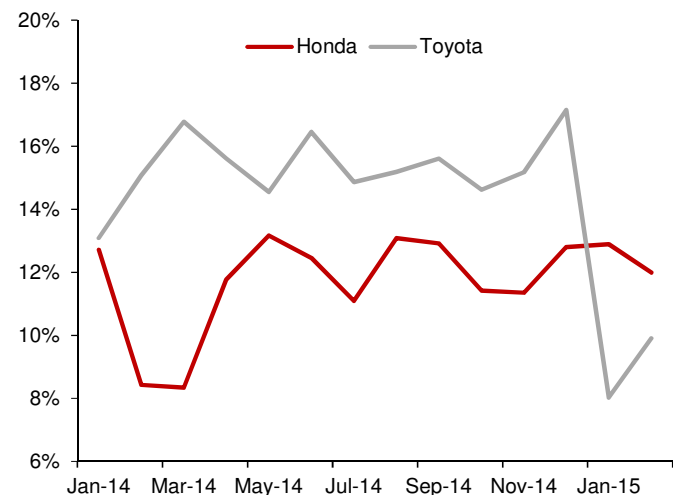
**Another disappointing month for Toyota.** Toyota's sales volume was down -27%yoy from 9,866 units in March 2014 but improved +44%mom to 7,187 units. For the year-to-Mar period, sales volume declined -33%yoy to 16,241 units from 24,185 units in 2014, resulting in its market share shrinking to only 10% from 15%. Undeterred by recent results, management recently revised upward its sales target for 2015, from 96k to 100k. Putting aside the upcoming launch of the Toyota Camry facelift and hybrid, we expect a mid-life enhancement for the Toyota Vios model to be released later this year in an attempt to remain competitive.

## Honda & Toyota monthly sales since Jan 2014



Source: MAA

## Honda & Toyota monthly mkt share since Jan 2014



Source: MAA, MIDFR

**Honda, the non-national leader.** In 2015 thus far, Honda extends its lead at the top of the non-national segment as it recorded strong growth of +94.9%yoy and +58.6%mom for March, thus garnering the automaker 14% of the market ahead of Toyota's 10% share. Honda's sales volume grew to over 9k units while its cumulative sales volume for the first 3 months of the year went up by 42%yoy to a little over 22k units. We attribute the strong sales growth for Honda to the successful launch of the HR-V compact SUV in February and 2015 CRV's facelift earlier in January, which has lent confidence to management as they have recently announced a sales' target of 85k units for 2015, a +10% upside from its sales volume for 2014.

## TIV: Breakdown by brands

	Mar-15	Jan - Mar 2015	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Feb-14 (%)	ytd (%)	Jan-15 (%)
<b>Nationals:</b>								
Perodua	22,497	57,153	37.8	21.0	29.8	33.4	33.4	28.0
Proton	10,528	27,682	-14.5	27.6	-15.4	15.6	15.6	21.0
<b>Total nationals</b>	<b>33,025</b>	<b>84,835</b>	<b>15.3</b>	<b>23.0</b>	<b>10.5</b>	<b>49.1</b>	<b>49.1</b>	<b>48.6</b>
<b>Non-nationals:</b>								
Toyota	7,187	16,241	-27.3	44.0	-32.8	10.7	9.6	17.0
Honda	9,581	22,145	94.9	58.6	41.7	14.2	13.2	8.0
Nissan	5,005	13,493	25.3	32.3	12.8	7.4	8.0	7.0
Others	12,516	31,592	8.9	43.3	0.7	18.6	18.8	19.0
<b>Total non-nationals</b>	<b>34,289</b>	<b>83,471</b>	<b>13.2</b>	<b>45.6</b>	<b>0.4</b>	<b>50.9</b>	<b>49.6</b>	<b>51.0</b>
<b>Total TIV</b>	<b>67.314</b>	<b>168,306</b>	<b>14.2</b>	<b>33.6</b>	<b>5.3</b>			

Source: MAA, MIDFR calculations

**2015 Outlook.** We maintain NEUTRAL on the sector due to weaker consumer demand pursuant to the recent implementation of GST and uncertainty in the economic outlook. However, we remain positive on MBM Resources and Berjaya Auto as we foresee these stocks to benefit from the strong sales growth for Perodua and Mazda vehicles respectively as well as profiting from the weakening Yen.

Amongst our coverage, we give 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 23/4 (RM)	TP (RM)	Net Profit (RM'm)		EPS (sen)		EPS Growth (%)		PER (x)		DPS (sen)		Div. Yield (%)	
				FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F	FY14F	FY15F
UMW	NEUTRAL	10.86	12.00	856	970	73.3	83.1	(1.2)	13.3	15.0	13.2	40	46	3.6	4.2
TCM	NEUTRAL	3.03	4.00	89	233	13.7	35.7	(67.9)	161.2	22.0	8.4	5	13	1.7	4.3
MBM	BUY	3.38	4.80	145	181	37.2	46.4	5.6	2.5	8.7	7.0	8	9	2.4	2.8
BAUTO	BUY	3.99	4.70	129	225	16.2	27.7	166.3	74.8	22.8	13.4	5	12	1.4	3.2

Source: Bloomberg, MIDF Research

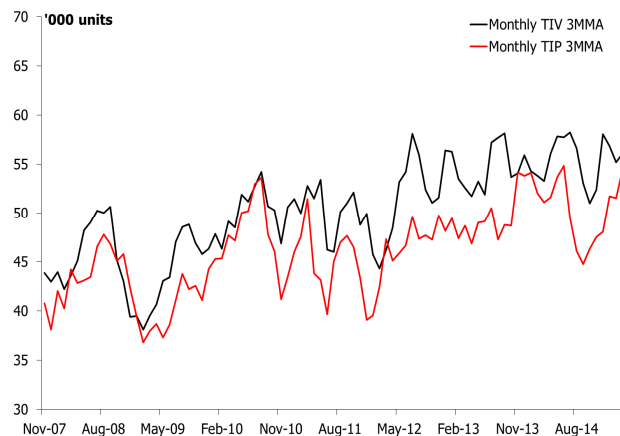
**Our top pick is MBM.** MBM's share price recently eased after the ringgit weakened against the yen. Nevertheless, the RM/¥100 exchange rate is still below its 2014 average of RM3.10/¥100. We estimate that every  $\pm 1\%$  change in the RM/¥100 exchange rate would impact its earnings by  $\pm 1.6\%$ . We see other positives such as: a) the turnaround of MBM's alloy-rim business, OMI, on higher utilisation rate; and b) stronger contribution from Perodua on strong sales from the new Perodua Axia and the recently-launched Perodua Myvi facelift.

## REVIEW OF REGIONAL PRODUCTION

**Malaysia's TIP strengthening.** Similar to the TIV, Malaysia's TIP figures also trended stronger, expanding by +19.8%yoy and +28.0%mom to 60,085 units. We view the growth to result for attempts to compensate for weaker production numbers in the previous month, as it has a shorter working period due to CNY festivities.

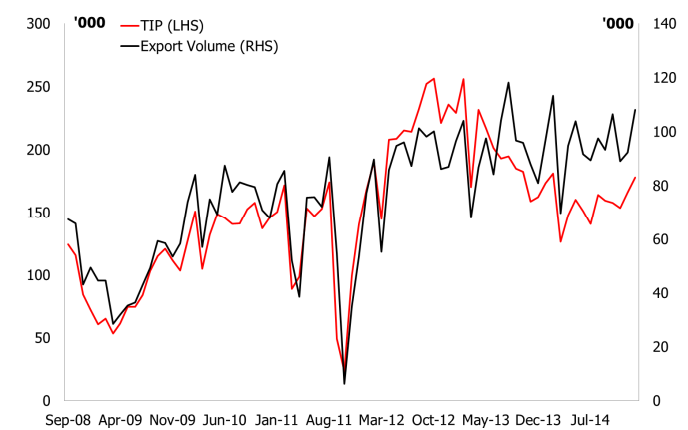
**Thai production revs up.** Thailand's TIP grew in February to 178k. Production output has been on the rise since January as the Federation of Thai Industries forecasted production to grow +14.4%yoy to 2.15m units this year. 1.2m units are projected for overseas' markets, in a bid to boost export sales as the Baht continue to strengthen against other currencies, thus blunting the country's export edge. While Thailand's TIV remains weak year on year, it grew encouragingly by +7.1%mom to 64k units as domestic demand hits a recovering stride in light of the cessation of government tax incentives and poor economic outlook.

**M'sia: Monthly TIV & TIP 3MMA**



Source: MAA

**Thai: Monthly TIP and export volume**

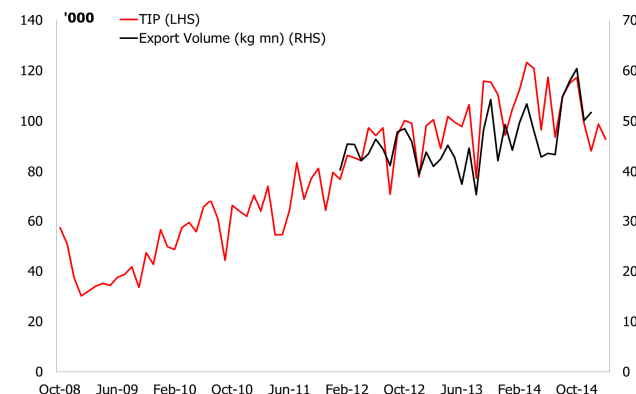


Source: Federation of Thai Industries (FTI), CEIC

**Indonesian automakers confident in spite of declining TIP.** Indonesia's February TIP declined -17.5%yoy and -6.1%mom to 92,867 units due to lower purchasing power resulting from economic slowdown, higher fuel prices pursuant to subsidy reduction and depreciating commodity prices for goods such as palm oil, coal and rubber. Nevertheless, manufacturers remain confident as expectations mount for a pick-up in sales ahead of the Hari Raya celebrations in the second quarter of this year.

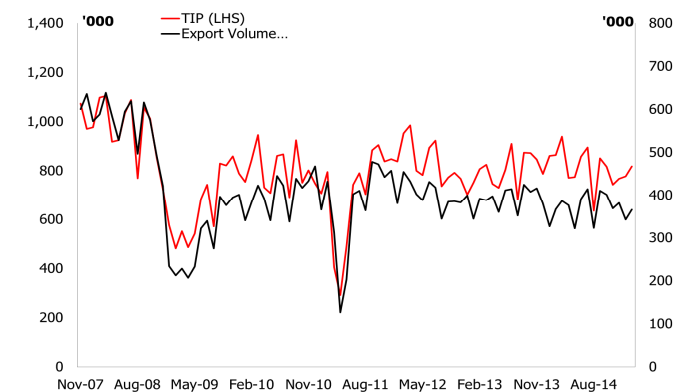
**Japan's TIP decelerates.** Japan's February TIP improved by +5.1%mom to 817k units, although it contracted -5.3%yoy. Meanwhile, export volume slowed -0.3%yoy despite growing +7.0%mom to 365k units. Nevertheless, March TIV depreciated -11.2%yoy to 695k units amidst fears over the short-term economic outlook.

**I'sia: 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.