

20 June 2014

MALAYSIA EQUITY



THE AUTO REPORT

Monthly review & outlook of the automotive sector

May 2014 Sales Data

Review & Outlook of the Automotive Sector

Sustained sales performance in May 2014

Maintain NEUTRAL

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HIGHLIGHTS

- Malaysia:** Total Industry Volume (TIV) grew a robust +12.7%yoy but declined -4.8%mom in May 2014. We opined that the sequential decline may partly be attributable to consumers holding back their on their purchases in anticipation of better promotion deals by the automakers companies as Raya season is approaching.

We maintain NEUTRAL on the domestic Automotive Sector with an unchanged 2014 TIV forecast of 668,000 units and all stocks under our coverage are kept on NEUTRAL.

- Japan:** TIV growth declined at -1.2%yoy in May 2014, the second month of the implementation of its first consumption tax hike in 17 years. A slump has been anticipated but the smaller decline in May as compared to the previous month could perhaps be a positive indication that the slump may not be as bad as first feared.
- South Korea:** TIV was up by a decent +1.7%yoy growth in May 2014 despite the weakened consumer sentiment in the aftermath of the sunken ferry incident.
- Thailand:** TIV continued to plunge but by a smaller -33.2%yoy as consumers held back on purchases in light of the political upheavals and uncertain economic conditions.

Summary Sales and Production Data

	Total Industry Volume				Export Volume				Production Volume			
	M'sia	Japan	Korea	Thai	M'sia	Japan	Korea	Thai	M'sia	Japan	Korea	Thai
2013/2014 Monthly												
May	55,939	363,370	122,082	n.a.	n.a.	n.a.	255,187	n.a.	53,856	n.a.	373,470	n.a.
Apr	58,732	345,225	131,053	73,260	n.a.	375,824	299,947	69,804	57,086	770,484	433,799	126,730
Mar	58,919	783,384	122,514	83,983	n.a.	385,948	285,301	113,313	50,174	939,761	425,510	181,334
Feb	50,718	565,168	107,940	71,680	n.a.	366,779	245,231	97,171	47,680	863,452	361,115	173,506
Jan	50,273	496,105	107,150	68,508	n.a.	326,696	256,972	81,025	55,503	860,854	368,228	162,652
2014 Cumulative												
Jan-May	274,581	2,553,252	590,739	297,431*	n.a.	1,455,247*	1,342,638	361,313*	264,299	3,434,551*	1,962,122	644,222*
%YoY	5.7	12.9	5.0	-43.1	n.a.	-4.4	2.4	1.5	8.3	9.8	4.1	-27.8

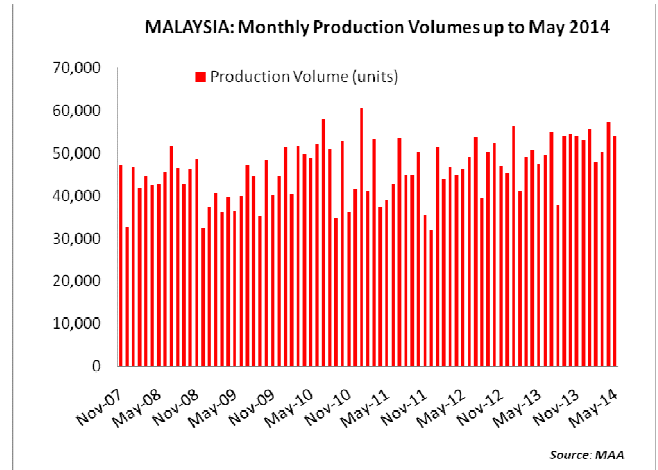
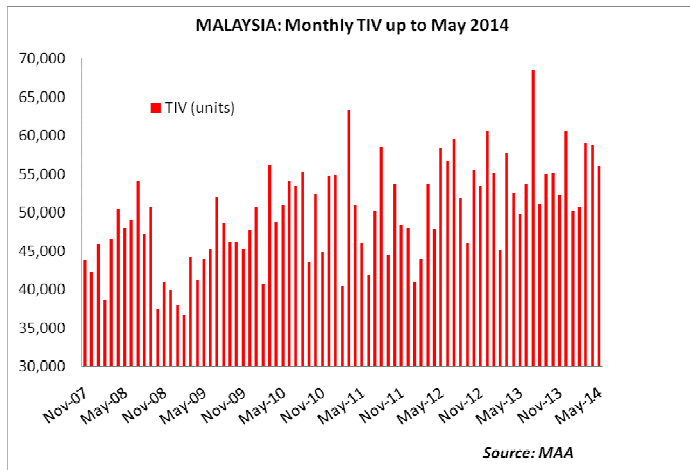
Source: Bloomberg, Malaysian Automotive Association, Japan Automobile Manufacturers Association, Korea Automobile Manufacturers Association, Federation of Thai Industries' Automotive Industry Club

* For Jan-Apr 2014 as the statistics for May 2014 has yet to be released

n.a. – not available

MALAYSIA

Total industry volume was higher year-on-year in May 2014. TIV for May 2014 showed a strong growth of +12.7%yoy but declined -4.8%mom to 55.9k units. We opined that weaker than anticipated sequential sales performance may partly due to consumers holding back on their purchases in anticipation of better promotion deal by the automakers companies as the Raya season is approaching. Nevertheless, sales performance for the first five month of 2014 was up +5.7%yoy as consumer sentiments remained positive.



Encouraging sales performance from Proton in May 2014, but Perodua lost some of its market shares. Perodua sales performance declined -3.8%yoy at 16.1k but still remained the market leader in May 2014. The Malaysian automaker lost some market shares which now stand at 28.8% this May, vis-à-vis 29.9% a month ago. Proton, in second spot, saw its market share grew to 18.2% (+1.0ppts month-on-month) in May 2014 after its sales accelerated +12.1%yoy to 10.2k units.

TIV: National

	May-14	YoY (%)	Market Share	
			(%)	MoM (ppts)
Perodua	16,104	-3.8%	28.8	-1.1
Proton	10,155	12.1%	18.2	1.0

Source: MAA

TIV: Non-National

	May-14	YoY (%)	Market Share	
			(%)	MoM (ppts)
Toyota	8,136	6.6	14.5	-1.1
Honda	7,365	116.6	13.2	1.4
Nissan	3,144	-12.8	5.6	-0.3

Source: MAA

Another month of outstanding sales performance from Honda in the non-national sphere. The next three (3) largest carmakers in May 2014 continued to be Japanese marques, namely Toyota, Honda, and Nissan. Toyota lost some of its market share as the largest non-national marque with a lower market share of 14.5% despite a decent year-on-year sales performance in May 2014. The Japanese automaker sold +6.6%yoy more in May 2014 at 8.1k units. Meanwhile, Honda continued its sales momentum and yet again the biggest winner in May 2014 after selling a remarkable +116.6%yoy more to 7.4k units and retained its fourth spot, with a bigger market share of 13.2% (+1.4ppts month-on-month) possibly due to the buoyant sales performance of its new Honda City in which it had already collected 10,000 bookings within the first month of its launches. In the fifth spot, Nissan saw its market share diminished to 5.6% in May 2014. This is due to the lackluster sales performance from the Japanese automaker after selling -12.8%yoy less vehicles in May 2014 at 3.5k units.

Forecasts and Recommendations for Bursa-listed companies

Maintain 2014 TIV forecast of 668k units. Malaysia's first five months performance has seen +5.7% growths over the same period last year and now stands at 274.6k units. This accounts for 41.1% of our full year forecast of 668k units. Hence, our forecast remains intact as the numbers for the first five months are within expectation.

According to the Malaysian Automotive Association (MAA), it is expected that the TIV for June 2014 will be maintained at the same level in May 2014. We foresee the promotional campaign to intensify between the automakers in June and July as Raya season is approaching. Consumers might have been holding back on their purchases perhaps in anticipation of better deal in the coming months and thus resulting in the lower sequential sales for May 2014.

Perodua for instance, started on its price reduction for its VIVA variants of up to RM5,300 and further RM800 cash bonus for those who registered between June 17 and August 31 which coincide with Ramadhan, Raya season and Malaysia Independent day. We believe that this could boost its sales performance in the upcoming months. Further, we expect the other automakers to keep up with Perodua's promotional campaign. As such, we believe that sales performance should remain resilient in the upcoming months.

Reiterate NEUTRAL. We maintain NEUTRAL on the Automotive Sector with all stocks under our coverage, namely UMW Holdings Berhad (UMWH), Tan Chong Motor Holdings Berhad (TCM) and MBM Resources Berhad (MBM), kept on NEUTRAL at RM13.15, RM5.80 and RM3.94 respectively.

Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 19/6 (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	10.80	13.15	681.0	1,157.7	58.0	102.4	-31.8	76.6	18.6	10.5	44.0	46.0	4.1	4.3
TCM	Neutral	5.05	5.80	251.0	251.4	38.4	38.5	58.9	0.2	13.7	13.1	15.8	15.0	3.0	3.0
MBM	Neutral	3.05	3.94	138.6	160.1	32.9	45.0	2.2	36.8	9.6	7.0	6.0	6.5	1.9	2.1

*currently under review

Source: Bloomberg, MIDF Research

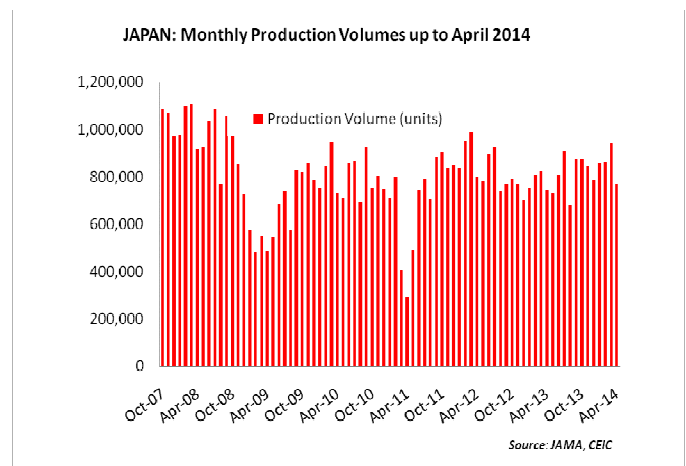
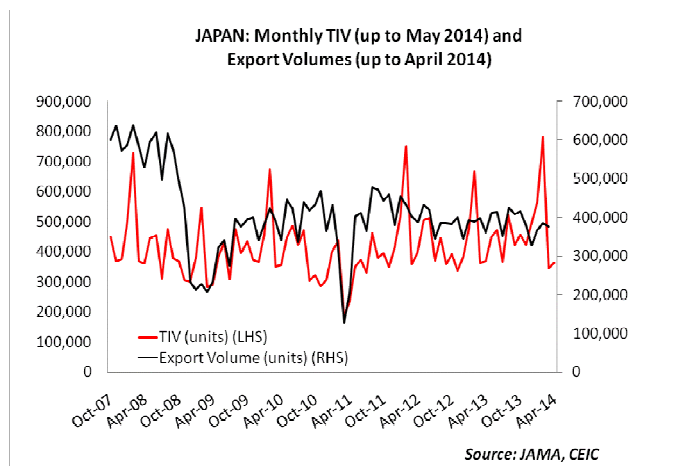
JAPAN

TIV continue to tumble, albeit by a smaller declined. After recording strong double digit sales growth in the past in the beginning of 2014, Japan's domestic sales of vehicles for May 2014 declined -1.2%yoy to 363.4k in the second month of the implementation of its first consumption tax hike in 17 years. A slump has been anticipated but the smaller declined in May as compared to the previous month (-5.5%yoy) is perhaps a positive indication that the slump may not be as bad as first feared which further supported by sequential growth of +5.3%mom.

Sales performances by the three (3) largest automakers were mixed with Japan's reigning number one, Toyota, sold 96k units in May 2014 which is -9.5% lower than its sales a year ago. On the other hand, Suzuki retained its second place after selling 56.7k units domestically, representing a growth of +7.6%yoy. Honda had also maintained its third spot after registering a healthy TIV growth of +18.8%yoy to 54k units.

While May 2014 export numbers are not yet available, April 2014 exports declined -5.5%yoy. The export numbers for May 2014 have yet to be released. Nevertheless, export growth in April 2014 contracted -5.5%yoy to 375.8k units with Toyota, Mazda and Subaru remained as Japan's top three (3) exporters. Top exporter Toyota shipped out 163.5k units in April 2014, a decline of -6.2%yoy while Mazda in second place exported 61.5k units, a growth of +2.2%yoy. Meanwhile, Subaru hold on to its third spot 41.6k units overseas in March 2014, representing a strong +6.3%yoy growth.

The top three (3) export destinations for April 2014 remained North America (-9.6%yoy to 144.4k units), Europe (-4.9%yoy to 57.9k units) and Middle East Asia (+2.0%yoy to 51.6k units),



As we await May 2014 production numbers, a +3.4%yoy gain was reported in April 2014. Pending the release of May 2014 production numbers, the country's domestic production in April 2014 advanced +3.4%yoy to 770.5k units.

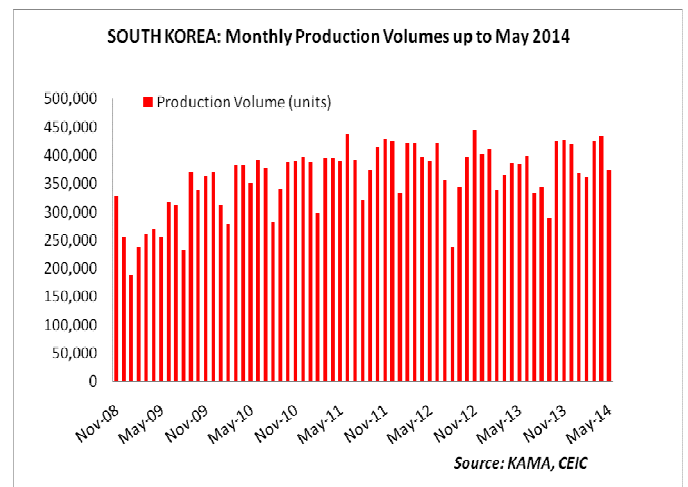
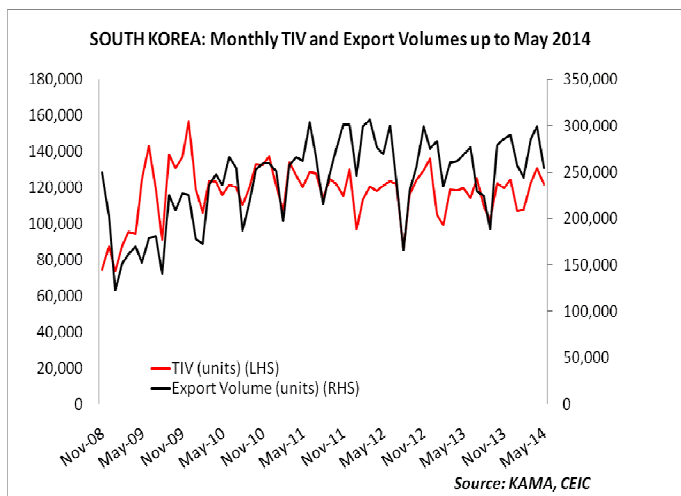
The lower growth in production for April 2014 was reflected by mixed performances by its three (3) largest producers. Toyota registered a -6.2%yoy growth in production volume to 254.9k units at the first place. On the other hand, Suzuki at the second place produced 86.2k units of vehicle in April 2014 (+2.7%yoy growth), while Honda remained at the third spot despite a whopping +38.1%yoy growth in its production volume to 78.8k units.

With May 2014 registered a disappointing declined of -1.2%yoy growth in TIV, expect May 2014 production numbers to be a single digit growth but a decline should not be ruled out.

SOUTH KOREA

May 2014 saw a decent TIV growth of +1.7%yoy. South Korea's TIV continued to grow, marking its fifth consecutive months of growth. According to the Korea Automobile Manufacturers Association (KAMA), in spite of the weakened low consumer sentiment in the aftermath of the sunken ferry Sewol, May 2014 TIV still grew +1.7%yoy to 122k units on account of strong demand for new models. Sequential TIV however, reported a decline of -6.8%mom in May 2014.

Exports numbers however contracted -5.1%yoy in May 2014 to 299.3k units.

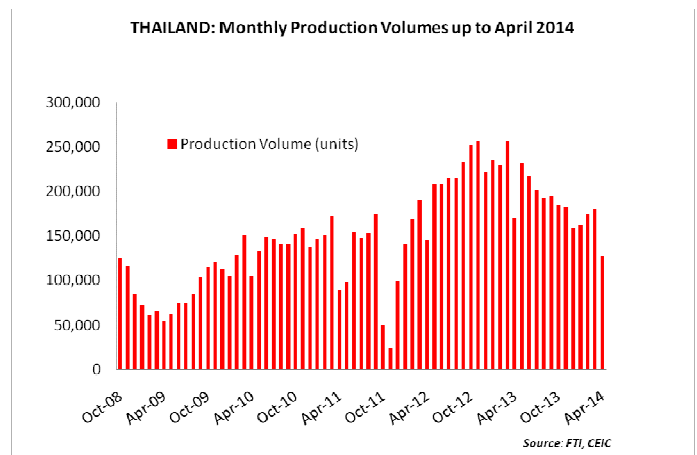
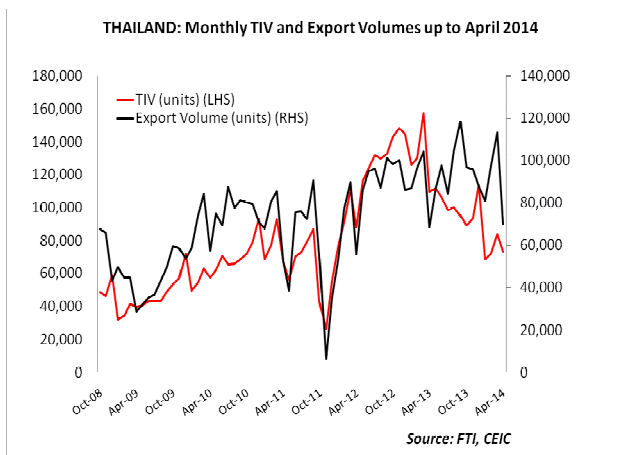


May 2014 vehicle production declined -3.0%yoy. Following the lackluster performance in both South Korea's TIV and export volume, May 2014 vehicles production declined -3.0%yoy to 373.5k units.

THAILAND

Note: The following discussion is based on April 2014 numbers as the Federation of Thai Industries' Automotive Industry Club (FTI) has yet to release the figures for May 2014.

TIV continue its downwards trend in April 2014. According to the FTI, TIV plunged -33.2%yoy to 73.3k units in April 2014. As was the case during the earlier months, the year-on-year decline was attributable to the fading-effect of Thailand's First Car Buyers Scheme (Scheme) which ended in December 2012 coupled with the disappearing purchasing power as the turmoil and economic conditions which has not been improving. On sequential basis, TIV declined -13%mom in April 2014 perhaps attributed to the recent development of renewed political turmoil in the country.



Meanwhile exports grew for the third consecutive month in April 2014. Thailand's export volume grew +2.3%yoy as 69.8k units of vehicles were shipped out in April 2014. The growth was arguably reflective of the shifted focus of the auto makers from production for domestic sales to production for exports after Thailand ended its Scheme.

April 2014 vehicle production extended declines, plunged -25.6%yoy. Meanwhile, vehicle production in Thailand extended its declines into April 2014. A production volume of 126.7k units was recorded in April 2014, -25.6%yoy lower than in April 2013



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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.