

## Review & Outlook of the Automotive Sector

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**Strong TIV but TIP is slowing down**

**Maintain NEUTRAL**

### HIGHLIGHTS

- MAA released the November sales (TIV) and production (TIP) figures last Friday. TIV grew encouragingly, up +2.1%mom and +5.9%yoy, to 55,313 units. However, TIP figures were weak as production declined -12.2%yoy to 47,422 units although it rebounded +3.6%mom.
- The 11-month TIV figure stood at 601,805 units as growth picked up to +1.1yoy after easing to +0.6%yoy as at October. The pick-up in growth was attributed to Perodua's strong sales which rose +5%mom and a whopping +24%yoy to 18,531, its highest sales since the >19k units sold in July this year.
- While TIP figure improved +3.6%mom to 47,422 units, it was down by a staggering -12.2%yoy from 54k units in November 2013. We believe the inventory build-up is easing in anticipation of a softer market in 2015. Thus far in 2HFY15, TIP only averaged 45,500 units/mth, 14% below the monthly run-rate of 53k units/mth in 1HFY15. Over the 11-month period, TIP declined -0.6% to 545,352 units.
- The strong TIV growth was driven by Perodua which has been fuelled by the new Perodua Axia. To a lesser extent, the sales of Honda and Mazda have surge throughout the year, underpinned by new model launches.
- Within the national makes, Perodua continued to edge Proton which saw relatively lacklustre sales despite the debut of the Proton Iriz. Nevertheless, we seek comfort on the marginal +0.9%mom sales growth to 8,203 units. We expect Proton's sales volume to pick up further as all of the Iriz's variants enter production.
- The non-national makes continued to dominate with 52.9% share of the market. Honda was the best performing brand, recording a +53.7%ytd growth in sales volume to 69,215 units which garnered 11.5% share. Toyota remained the best-selling non-national makes, garnering 15.2%ytd market share.
- The 11-month TIV of 601,805 units made up 90.1% of our 2014 TIV target of 668k units and 88.5% of the Malaysia Automotive Association (MAA)'s 680k-unit target. Our 2014 target implies a +9.4%yoy growth in December TIV to 66,195 units. This is quite steep and our 2014 TIV target could be missed should consumers defer delivery.
- We expect 2015 TIV to grow +0.7% to 670k units from our 668k 2014 target. While we believe earnings risks are largely priced in, we remain NEUTRAL on the sector. Our top pick is MBM Resources.

### Summary of the latest domestic Auto statistics

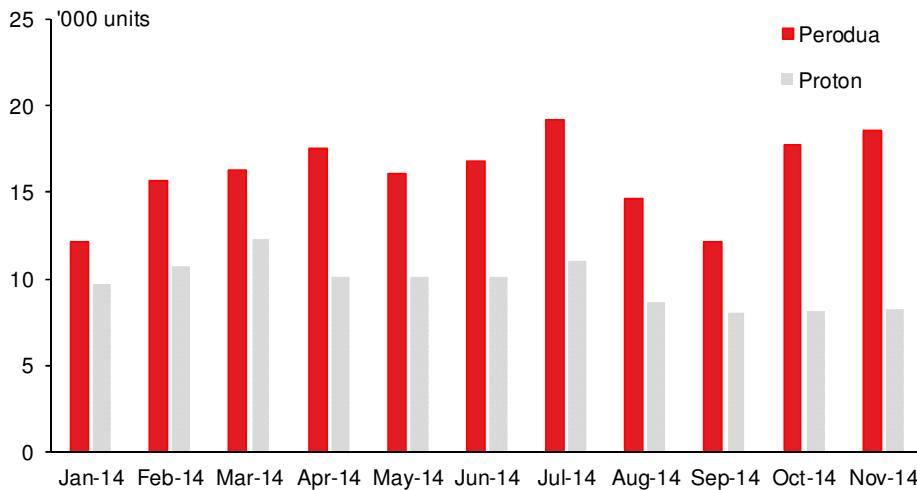
	Nov-14	Jan - Nov 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Nov-14 (%)	ytd (%)	Nov-13 (%)
<b>Malaysia TIV</b>	<b>54,187</b>	<b>546,492</b>	<b>-1.6</b>	<b>13.4</b>	<b>0.6</b>			
<b>By make:</b>								
Nationals	26,734	283,613	10.6	3.6	-7.9	48.3	47.1	44.0
Non-nationals	28,579	318,192	1.8	0.7	10.8	51.7	52.9	51.1
<b>By segment:</b>								
Passenger vehicles	48,622	532,818	6.3	2.3	1.7	87.9	88.5	83.3
Commercial vehicles	6,691	68,987	2.9	0.7	-3.0	12.1	11.5	11.8
<b>Malaysia TIP</b>	<b>47,422</b>	<b>545,352</b>	<b>-12.2</b>	<b>3.6</b>	<b>-0.6</b>			

Source: MAA

## MALAYSIA

**Perodua Axia boost.** The November TIV grew encouragingly by +2.1%mom and +5.9%yoy to 55,313 units driven by Perodua's strong sales volume which we believe was underpinned by the strong sales of the new Perodua Axia. To a lesser extent, the growth was also boosted by Honda's sales volume. The impact from the Iriz remains to be seen as Proton's sales continued to be weak.

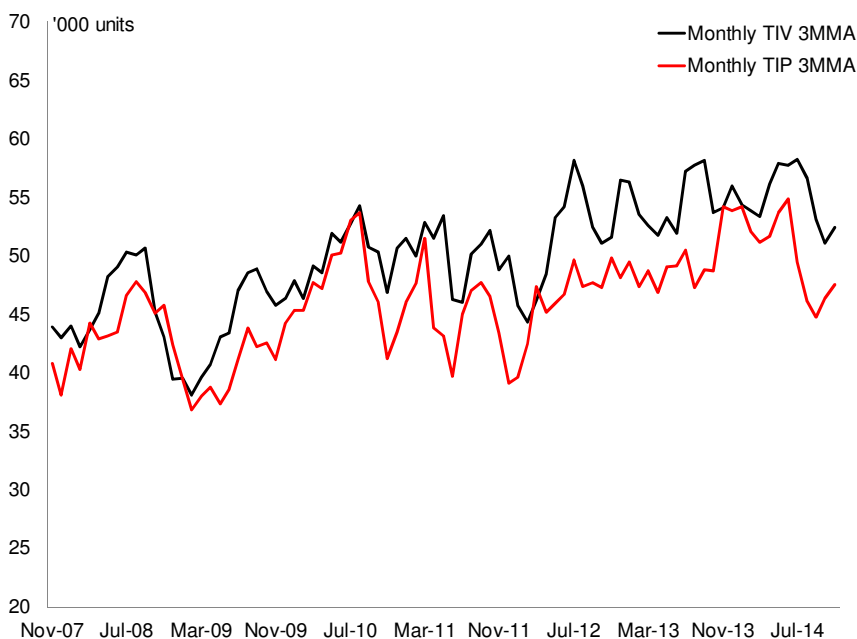
### Monthly sales figures up to November 2014 for Perodua and Proton



Source: MAA, MIDFR calculations

**Weak TIP signalling a softer market.** While TIP improved +3.6% mom, it was down by a staggering -12.2%yoy to 47,422 units. We believe this was due to lower stockpiling activities in anticipation of a softer market in 2015.

### Monthly TIV and TIP figures on 3 Months Moving Average (MMA) up to November 2014



Source: MAA, MIDFR calculations

**Honda continued to dominate non-national growth.** While Toyota remained in the pole position within the non-national brands, Honda has seen a strong surge in its TIV. In October, Honda's TIV grew +59%yoy to 6,188 units while the 10-month TIV was up by a whopping +55.5%yoy to 62,935 units. Honda's sales volume surge has been due to timely new model launches which are complemented with attractive pricing strategy.

## TIV: Breakdown by brands

	Nov-14	Jan - Nov 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Nov-14 (%)	ytd (%)	Nov-13 (%)
<b>Nationals:</b>								
Perodua	18,531	176,531	24.1	4.8	-0.8	33.5	29.3	27.2
Proton	8,203	107,082	-11.3	0.9	-17.7	14.8	17.8	16.8
<b>Total nationals</b>	<b>26,734</b>	<b>283,613</b>	<b>10.6</b>	<b>3.6</b>	<b>-7.9</b>	<b>48.3</b>	<b>47.1</b>	<b>44.0</b>
<b>Non-nationals:</b>								
Toyota	8,394	91,612	-3.7	6.0	13.1	15.2	15.2	15.9
Honda	6,280	69,215	37.4	1.5	53.7	11.4	11.5	8.3
Nissan	4,114	40,803	-14.2	0.8	-15.7	7.4	6.8	8.7
Others	9,791	116,562	-2.0	-3.9	3.4	17.7	19.4	18.2
<b>Total non-nationals</b>	<b>28,579</b>	<b>318,192</b>	<b>1.8</b>	<b>0.7</b>	<b>10.8</b>	<b>51.7</b>	<b>52.9</b>	<b>51.1</b>
<b>Total TIV</b>	<b>55,313</b>	<b>601,805</b>	<b>5.9</b>	<b>2.1</b>	<b>1.1</b>			

Source: MAA, MIDFR calculations

**2015 Outlook.** While we believe earnings risks are largely priced in, we remain NEUTRAL on the sector. Within our coverage, we retain our BUY rating on MBM Resources (MBM) and NEUTRAL on UMW Holdings (UMW) and Tan Chong Motor Holdings (TCM). We also expect FY15 TIV to grow +0.3%yoy to 670k units from our FY14F target of 668k units.

## Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 19/12 (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	10.46	12.00	856	970	73.3	83.1	(1.2)	13.3	14.2	12.6	40	46	3.8	4.4
TCM	NEUTRAL	3.42	4.00	89	233	13.7	35.7	(67.9)	161.2	25.0	9.6	5	13	1.5	3.8
MBM	BUY	2.74	4.80	145	181	37.2	46.4	5.6	2.5	7.4	5.9	8	9	2.9	3.3

Source: Bloomberg, MIDF Research

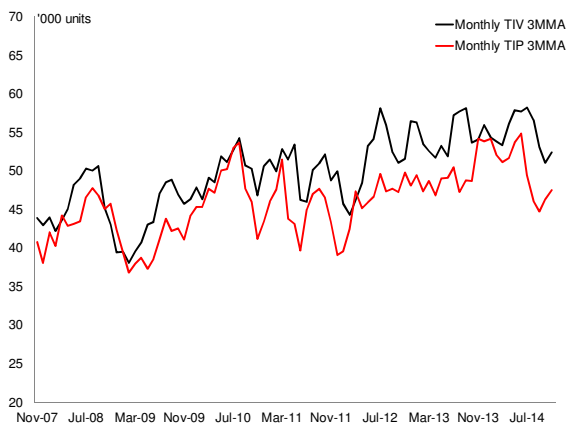
**Our top pick is MBM.** The stock has remained depressed despite the collapse in Yen and encouraging sales of the new Perodua Axia. These factors should translate into a strong rebound in Perodua's earnings which would boost MBM's net profit. We also expect its alloy-wheel plant to see lower losses in FY15 as capacity is ramped up while contribution from its vehicle trading business continues to strengthen benefiting from Perodua Axia's strong sales.

## REVIEW OF REGIONAL PRODUCTION

**Malaysia's TIP softening.** Contrasting to the strong growth in TIV, Malaysia's TIP painted a sombre picture. While production figures grew +3.6%mom, it fell sharply by -12.2%yoy to 47,422 units. We believe the slower production implies easing of manufacturers' inventory build-up, possibly in anticipation of a slower market in 2015.

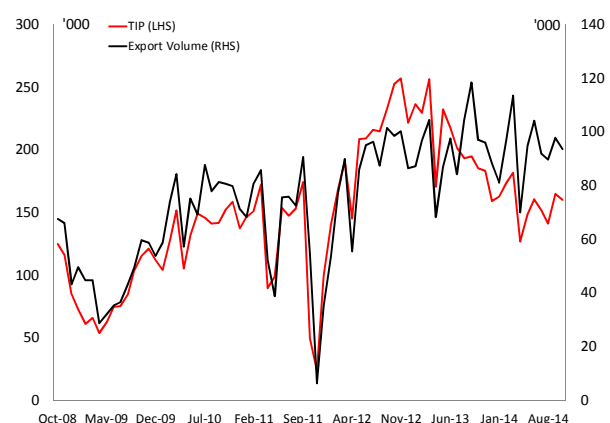
**Thai production declined further.** Thailand's Total Industry Production (TIP) contracted in October to 159k. Production output has fallen after it peaked at 164k in September. Meanwhile, Thailand's October TIV was still weaker on-year but grew mildly by +2.5%mom to 71k units. For the 10-month period, TIV declined -36%yoy to 719k units.

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



Source: MAA

**Thai: Monthly TIP and export volume**

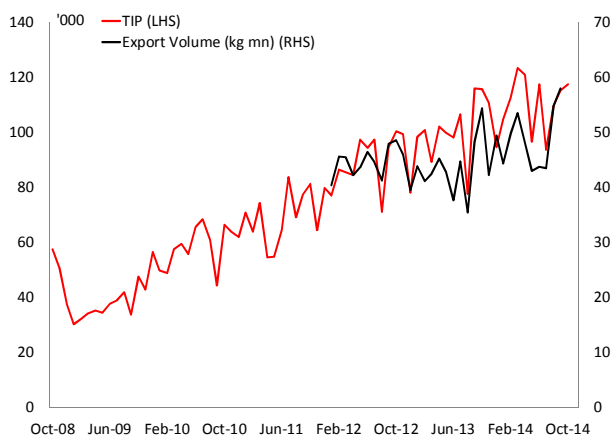


Source: Federation of Thai Industries (FTI), CEIC

**Indonesia's TIP remained strong.** Indonesia's October TIP grew +1.6%yoy and +2.1%mom to 117k units. This further reaffirms the growing importance of Indonesia's automotive industry in succeeding Thailand to become the regional production hub.

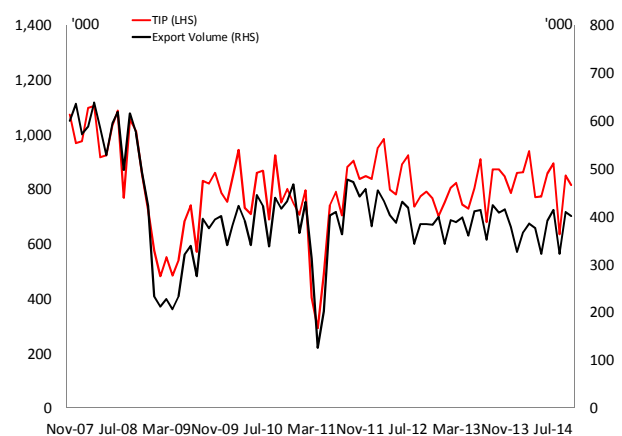
**Japan's TIP slowed.** Japan's October TIP eased again to 817k units from more than 850k units in September. However, this was still well above the blip in August when TIP declined to as low as 635k units. The export volume trended similar with total volume declining -2.2%mom to 401k units. Meanwhile, the November TIV shrank -9%yoy but sequentially grew by +5%yoy to over 416k 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.