22 December 2015 | Sector Update

Automotive

***Maintain* NEUTRAL**

Stuck between a rock and a hard place

INVESTMENT HIGHLIGHTS

- **The auto sector registered its fourth consecutive month of growth, but we think this could be short-lived as sales are inflated by pre-price hike purchases.**
- **In the non-national segment, Toyota and Honda are neck-to-neck, but the latter attains a structural cost advantage being one of the first qualifiers of the Energy Efficient Vehicle program. National cars are most at risk in the case of a price hike given the price sensitive segments they operate in.**
- **An unfavourable forex environment is a key drag to sector earnings. After a 44% earnings contraction in FY15F we expect another 3% fall. Any worse than expected volume impact from the expected price hike in Jan 2016 underpins our less than sanguine view.**
- **Maintain NEUTRAL on autos given the persistently weak RM and a muted demand outlook. Berjaya Auto (BUY, TP: RM2.60/share) is our top sector pick.**

Fourth consecutive month of TIV growth. The auto industry recorded its 4th consecutive month of TIV growth. November 2015 saw TIV risen 1.4%yoy to 56,092 units, but notably, the growth rate is tapering off vs. the 5%-7% recorded in the August-September period. Our ground checks suggest consumers are rushing to lock in purchases ahead of the planned price hike from January 2016, while year end promotions are also driving this demand rush, which we expect to be short-lived.

Purchases brought forward. We would be more wary of the market drying up from early 2016 as consumers are bringing ahead purchases (and taking cue from the after-affect of the pre-GST buying rush earlier this year, which saw TIV falling by 8%-23%yoy in subsequent months). The expected 10%-13% price hike (for non-nationals) on top of indicative hikes for the price sensitive national car segments next month comes amid weak consumer sentiment.

Year-to-date TIV of 597,230 units is still a net contraction of ~1% despite the pre-GST purchasing boost in 1Q15 and the positive growth seen in recent months. We estimate that 2015 will close at circa 655K-659K which would represent circa 1%-1.5% contraction versus 2014. We project a conservative 1% growth in TIV at 666K for 2016, but we remain cautious given the upcoming price hikes and the steep cost inflation driven by a worsening forex environment.

Stiff competition in the non-national segment. Toyota and Honda is still neck-to-neck in the non-national segment, While notably Toyota now commands the larger share at 17% in November, but on a cumulative basis, Honda is still the largest non-national make thus far in 2015. Honda and Mazda attain a structural advantage in them being some of the first qualifiers of the Energy Efficient Vehicle (EEV) Program, giving it a significant cost (in this case, duty cost) and pricing advantage over other non-nationals.

National cars dragged November TIV. Volume performance of the non-national segment has been recovering in the past 2 months (i.e. +7% and +12%yoy in the Oct-Nov period respectively) but on the contrary, the national car segment has been deteriorating. In November, national car TIV dropped by some 10%yoy, but this has to be taken in context with the launch of the high-volume Axia in 4Q14 and the fizzling off of the initial hype now.

Nonetheless, the national cars are positioned in a price sensitive segment and we think would be worst hit by any reduction in disposable income. A similar situation was observed in 2012 when the responsible lending guidelines were introduced which saw national makes being the worst impacted, registering a contraction of 2.5% in volumes vs. a 14% rise for the non-nationals during the year.

Currency is the main drag. The weak Ringgit is expected to have a more pronounced impact on sector earnings in FY16F. To give a perspective, USD:MYR averaged circa 3.90-4.00 YTD but the spot rate now stands at 4.29 (this will be largely reflected in 1H16). Second, hedges at lower rates would have expired and new hedges would eventually reflect higher exchange rates. After a 44% earnings contraction in FY15F, sector aggregate earnings is expected to decline further by 3% in FY16F. The earnings contraction is buffered by our expectation of a hike in pricing, but any worse than expected volume impact underpins our less than sanguine view on the sector.

We maintain NEUTRAL on the auto sector given the persistently weak Ringgit and a muted demand outlook. Our top sector pick is Berjaya Auto (BUY, TP: RM2.60/share): (1) While there is considerable pressure from the stronger JPY, earnings is buffered by model mix expansion, i.e. the CBU CX3 and the upcoming Mazda 6 CKD which will expand margins and dilute contribution from the lower margin Mazda 2, and (2) An underleveraged balance sheet (FY16F net cash of RM252m which accounts for 10% of market cap) coupled with strong FCF yields of 7%-8% (given an asset light business model), suggests dividend upside and potential acquisitive growth. Ex-cash, Berjaya Auto trades at just 9.7x CY16F earnings.

NOVEMBER 2015 TIV SUMMARY

									Market share	
Marques	**Nov-14**	**Oct-15**	**Nov-15**	**YoY**	**MoM**	**YTD14**	**YTD15**	**YTD %**	**Nov-14**	**Nov-15**
Proton	8,203	8,026	7,169	-12.6%	-10.7%	107,082	94,031	-12.2%	17.8%	15.7%
Perodua	18,531	17,305	16,931	-8.6%	-2.2%	176,531	191,763	8.6%	29.3%	32.1%
Toyota	8,394	9,000	9,533	13.6%	5.9%	90,943	80,630	-11.3%	15.1%	13.5%
Honda	6,280	8,504	9,240	47.1%	8.7%	69,215	84,155	21.6%	11.5%	14.1%
Nissan	4,190	3,700	3,701	-11.7%	0.0%	40,879	42,160	3.1%	6.8%	7.1%
Mazda	768	1,273	1,258	63.8%	-1.2%	10,514	12,917	22.9%	1.7%	2.2%
Others	8,947	7,946	8,260	-7.7%	4.0%	106,641	91,574	-14.1%	17.7%	15.3%
Total	**55,313**	**55,754**	**56,092**	**1.4%**	**0.6%**	**601,805**	**597,230**	**-0.8%**	**100.0%**	**100.0%**

Source: MAA, MIDFR

NOVEMBER 2015 TIV SUMMARY BY SEGMENT

Segment	Nov-14	Oct-15	Nov-15	YoY	MoM	YTD14	YTD15	YTD %
Passenger cars	48,622	49,063	49,348	1.5%	0.6%	532,818	529,997	-0.5%
Commercial vehicles	6,691	6,691	6,744	0.8%	0.8%	68,987	67,233	-2.5%
Total	**55,313**	**55,754**	**56,092**	**1.4%**	**0.6%**	**601,805**	**597,230**	**-0.8%**

Source: MAA, MIDFR

NOVEMBER 2015 TIV SUMMARY BY SEGMENT

									Market share	
Segment	**Nov-14**	**Oct-15**	**Nov-15**	**YoY**	**MoM**	**YTD14**	**YTD15**	**YTD %**	**Nov-14**	**Nov-15**
National cars	26,734	25,331	24,100	-9.9%	-4.9%	283,613	285,794	0.8%	47.1%	47.9%
Non-nationals	28,579	30,423	31,992	11.9%	5.2%	318,192	311,436	-2.1%	52.9%	52.1%
Total	**55,313**	**55,754**	**56,092**	**1.4%**	**0.6%**	**601,805**	**597,230**	**-0.8%**		

Source: MAA, MIDFR

VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Potential
Companies	**Rating**	**(RM)**	**CY15F**	**CY16F**	**CY15F**	**CY16F**	**(x)**	**(%)**	**(%)**	**Price (RM)**	**Upside (%)**
Bauto	Buy	2.13	19.0	19.8	11.2	10.8	3.5	35.7	4.2	2.60	26.3
Tan Chong	Neutral	2.57	11.4	10.1	22.5	25.4	0.6	2.7	1.5	2.90	14.3
UMW	Neutral	7.53	31.8	30.3	23.7	24.9	1.4	5.0	1.5	6.90	-6.9

Source: MAA, MIDFR

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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 *rise* 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 *fall* 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.