

## Review & Outlook of the Automotive Sector

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Muted impact from new model launches

**Maintain NEUTRAL**

### HIGHLIGHTS

- MAA released the sales (TIV) and production (TIP) figures for October on Thursday. TIV rebounded +13.4%mom to 54,187 units after it dipped below 50k in September. Meanwhile, TIP eased to just 45,763 units possibly taking a breather due to the inventory build-up in September.
- TIV declined -1.6%yoy from over 55k in October 2013 mainly due to slower sales of commercial vehicle which fell by 505 units to 6,643 units while passenger vehicles declined marginally by -0.8%yoy or 386 units to 47,544 units.
- The 10M14 TIV figure stood at 546,492 units, growing marginally by +0.6%yoy. The considerable slowdown in TIV growth from as high as +6.3% in 1H14 was due to a high base effect in 2H13 due to a pent up demand post-GE13 in May 2013. The tighter lending guidelines could have also contributed to the slower growth.
- Despite TIV rebounding strongly, the TIP figure dropped -7.5%mom to 45,763 units. We believe this could be due to inventory build-up in September (TIP in September stood at 49,479 units) which led to a lower October output. Over the 9-month period, TIP was still up, albeit marginally, by +0.7%yoy to 497,930 units.
- The softer TIV (vs October 2013) was largely unexpected given two key model launches in September, i.e. the Perodua Axia and Proton Iriz. On closer look, the disappointment was mainly with Proton's TIV which remained weak at only 8,130 units. This is a marginal growth of 1% against September's 8,053 units and a sharp -37.2%yoy drop from close to 13k units in October 2013. Contrastingly, Perodua's sales rebounded to over 17k units – a typical strong month for Perodua – following the Perodua Axia's debut.
- Consequently, the non-national makes continued to dominate the market with 52.4% share of the market. The best performer amongst the non-national segment was Honda which recorded +59%yoy growth or over 2,300 units to 6,188 units. Meanwhile, Nissan's sales continued to strengthen, led by its passenger car models.
- The 10-month TIV of 546,492 units constituted 82% of our 2014 TIV target of 668k units and 80% of the Malaysia Automotive Association (MAA)'s 680k-unit year-end target. In order for our target to be met, TIV for the last 2 months of 2014 would need to grow +7.8%yoy, averaging at over 60k units per month, which is quite steep. We are Neutral on the sector as we believe the intensifying competition could lead to margin pressures for dealers and distributors.

### Summary of the latest domestic Auto statistics

	Oct-14	Jan - Oct 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Oct-14 (%)	ytd (%)	ytd (ppts)
<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	25,813	256,879	-9.4	28.0	-9.5	47.6	47.0	-5.3
Non-nationals	28,374	289,613	6.7	2.8	11.8	52.4	53.0	5.3
<b>By segment:</b>								
Passenger vehicles	47,544	484,196	-0.8	14.8	1.2	87.7	88.6	0.5
Commercial vehicles	6,643	62,296	-7.1	4.2	-3.6	12.3	11.4	-0.5
<b>Malaysia TIP</b>	<b>45,763</b>	<b>497,930</b>	<b>-16.1</b>	<b>-7.5</b>	<b>0.7</b>			

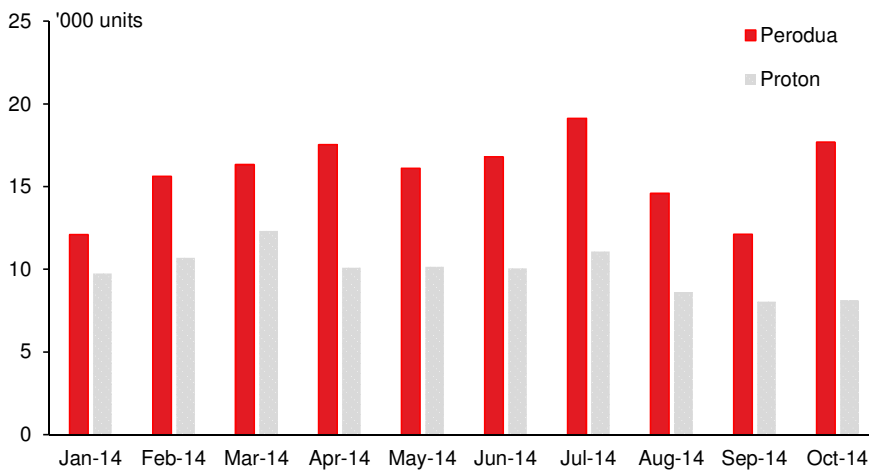
Source: MAA

## MALAYSIA

**Little impact from Proton Iriz.** The October TIV rebounded by +13.4%mom but declined -1.6%yoy to 54,187 units despite the recent launchings of two high-volume models by both national carmakers. The weak TIV figure was unexpected and this was mainly due to Proton's prevalent weak sales. Despite the Proton Iriz's debut, Proton's TIV declined -37.2%yoy to 8,130 and improved marginally by +1%yoy from September's figure. We believe the slow sales was possibly due Iriz's sales being offset by declining sales from its aging model line-up, as well as longer duration for HP approvals as a result of the tighter lending guidelines.

**Perodua Axia brings back normalcy.** On the other hand, Perodua's TIV rebounded to 17,683 units – considered a strong monthly sales figure – to record a +46%mom growth and +13.8%yoy growth. We believe the softening in TIV was possibly due to the longer duration for HP loans to be approved given the tighter lending guidelines in place.

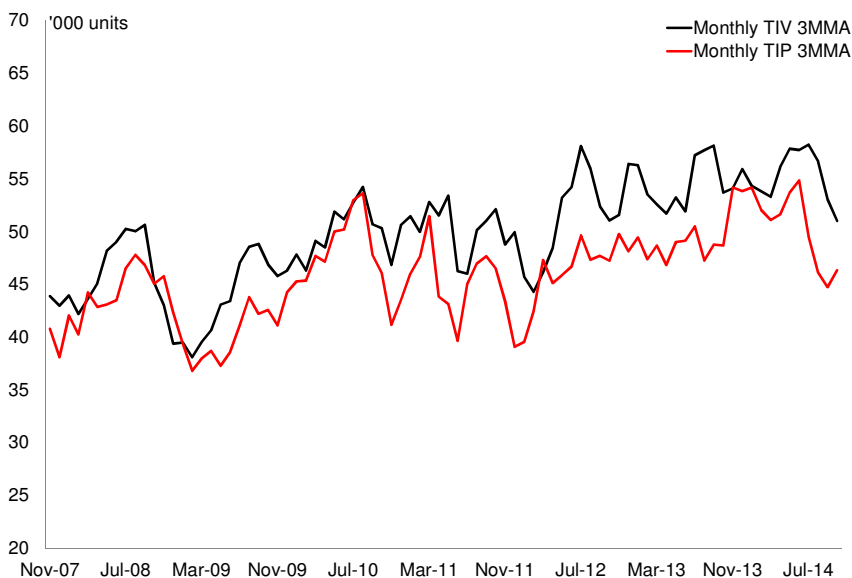
### Monthly sales figures up to October 2014 for Perodua and Proton



Source: MAA, MIDFR calculations

**Diverge in TIP was possibly due to inventory build-up in September.** Contrastingly, October TIP fell -16.1%yoy to 45,763 units from over 54k units in October 2013. We believe the divergence could be due to inventory building up following the strong production in September. Overall, the 10-month TIP grew marginally by +0.7% to 497,930 units.

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



Source: MAA, MIDFR calculations

**Advantage non-national makes.** The non-national makes continue to dominate the market with 53%ytd TIV market share. The declining market share for national brands is largely due to Proton's persistently weak sales while Perodua's running down of Viva's sales also contributed to the market share decline of national makes.

**Honda continues to dominate non-national growth.** While Toyota remains 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 is 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 National makes and Non-national makes

	Oct-14	Jan - Oct 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Oct-14 (%)	ytd (%)	ytd (ppts)
<b>Nationals:</b>								
Perodua	17,683	158,000	13.8	46.0	-3.1	32.6	28.9	-1.1
Proton	8,130	98,879	-37.2	1.0	-18.2	15.0	18.1	-4.2
<b>Total nationals</b>	<b>25,813</b>	<b>256,879</b>	<b>-9.4</b>	<b>28.0</b>	<b>-9.5</b>	<b>47.6</b>	<b>47.0</b>	<b>-5.3</b>
<b>Non-nationals:</b>								
Toyota	7,919	83,218	-3.6	6.2	15.1	14.6	15.2	1.9
Honda	6,188	62,935	59.4	0.3	55.5	11.4	11.5	4.1
Nissan	4,080	36,689	1.5	16.5	-15.9	7.5	6.7	-1.3
Others	10,187	106,771	-2.8	-2.8	3.9	18.8	19.5	0.6
<b>Total non-nationals</b>	<b>28,374</b>	<b>289,613</b>	<b>6.7</b>	<b>2.8</b>	<b>11.8</b>	<b>52.4</b>	<b>53.0</b>	<b>5.3</b>
<b>Total TIV</b>	<b>54,187</b>	<b>546,492</b>	<b>-1.6</b>	<b>13.4</b>	<b>0.6</b>			

Source: MAA, MIDFR calculations

**Lengthy HP loan approval process or bleak outlook?** While we believe the weaker sales were mainly due to the lengthier loan approval process and tighter guidelines for approval, the slower sales could indicate some slowdown in new vehicle purchases. However, the case for the latter scenario may not be entirely true as purchases of private vehicles such as passenger cars and 4WD/SUV grew +4%yoy and +7.3%yoy respectively.

**Versus expectations.** Against our year-end TIV target of 668k, the monthly TIV for November and December would need to grow +7.8%yoy, averaging at just over 60k units a month. Meanwhile, against MAA's year-end target of 680k units, monthly sales would need to average over 66k units per month.

**Reiterate NEUTRAL.** We are currently NEUTRAL on the Automotive sector. We believe the aggressive competition could inflict margin pressures for some of the companies that we cover. The valuations and recommendations of our coverage are summarised as follow:

### Summary Recommendations of Stocks Under Coverage

Stocks	Rec.	Price at 20/11 (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	11.24	13.15	681	1,158	58.0	102.4	-31.8	76.6	19.4	11.0	44.0	46.0	3.9	4.1
TCM	Buy	4.10	5.55	251	150	37.3	23.0	44.7	-45.9	11.0	17.8	15.3	8.1	3.7	2.0
MBM	Buy	2.78	3.90	139	160	35.6	33.7	0.9	-5.5	7.8	8.2	6.0	8.0	2.2	3.0

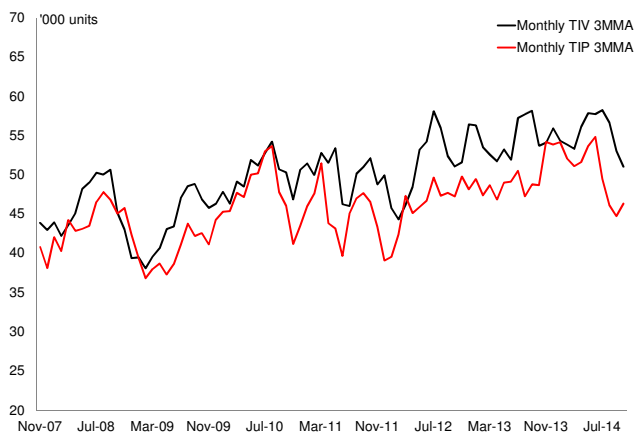
Source: Bloomberg, MIDF Research

## REVIEW OF REGIONAL PRODUCTION

**Thai production declines further.** Thailand's Total Industry Production (TIP) contracted further in August to 141k, the lowest since April. Production output has fallen in the second consecutive month after it peaked at 160k units in June. Meanwhile, Thailand's September TIV mildly increased by +0.4%mom to 69k units although it remained weak against the previous year, down -27.2%yoy.

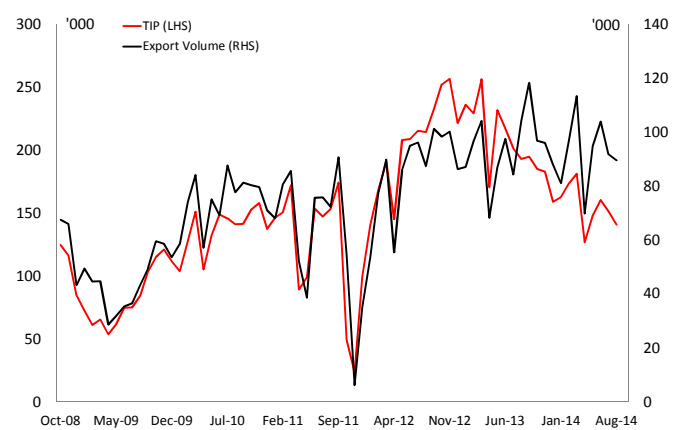
**Malaysia's TIP diverges.** Contrasting to the sequential rebound in TIV, Malaysia's TIP shrank to 45k units (-16.1%yoy and -7.5%mom). The diverging trend was possibly due to the inventory build-up from the September output.

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



Source: MAA

**Thai: Monthly TIP and export volume**

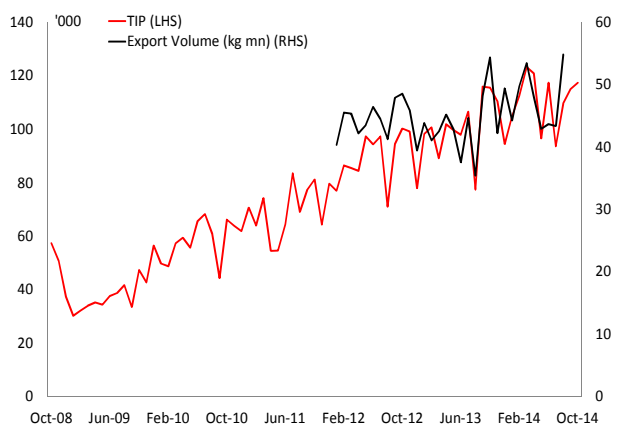


Source: Federation of Thai Industries (FTI), CEIC

**Indonesia's TIP remains 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.

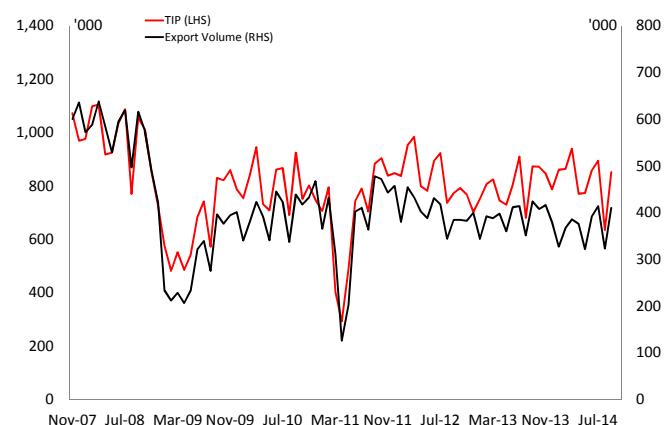
**Japan's TIP slowed.** Japan's September TIP rebounded to over 850k units from just 635k units in August. However, it was still down by -2.6%yoy. The export volume trended similar with total volume rebounding by +27%mom to 410k units. Meanwhile, the October TIV shrank -6%yoy but was drastically lower by -23.6%mom just after TIV rebounded in September to over 518k units.

**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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#### 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.