

Review & Outlook of the Automotive Sector

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Dramatised by a strong September 2013

Maintain NEUTRAL

HIGHLIGHTS

- MAA released the sales (TIV) and production (TIP) figures for September last Friday. The TIV eased to 47,771 units after July and August sales sustained at >50k per month. TIP continued to grow sequentially to 49,479 units, just shy of the year's run-rate of 50k units per month.
- The September TIV was down -6.6% mom and -13.1% yoy. The decline seems to coincide with concerns over rising cost of living and declining hire-purchase (HP) loan approvals. While we acknowledge the prevalence of these concerns, we believe the decline in TIV from August to September is nothing extraordinary. The trend had occurred 3 times over the past 4 years from 2010 to 2013. The strong September 2013 TIV was instead an aberration.
- Over the 9-month period, TIV growth eased to only +0.9% to 492,305 units. Recall that cumulative growth was as high as +6.3% in 1H 2014. The moderation was mainly due to pent up demand running up to the general election in May 2013 which led to a strong 2H 2013 TIV and thus, the higher base.
- The September TIP improved sequentially, up +13% mom to 49,479 units despite easing TIV. We believe this could be inventory build-up ahead of new model launches. On year, TIP fell -8.4% but mainly due to September 2013 TIP being one of the strongest. The 9-month TIP grew +2.8% to 452,167 units.
- The national makes saw weaker sales in the month resulting in non-national makes garnering 58% of the market, the highest ever since January 2014 (at 57%). The weak Proton sales were compounded by Perodua's slower sales ahead of the new Axia's debut in mid-September resulting in its market share dropping to 25% from 29% in August.
- Within the non-national makes, Honda's sales momentum led the charge, expanding +86% yoy to 6,170 units followed by Mazda +55% yoy to 990 units, and Toyota +33% yoy to 7,455 units. Nissan's sale remained weak, dropping -10% yoy but was up +11% mom to 3,503 units while its market share remained stable at 7%.
- The 9-month TIV of 492,305 units constituted 74% of our 2014 TIV target of 668k units and 72% of the Malaysia Automotive Association (MAA) 680k-unit year-end target. The auto sales seem largely unimpeded by the easing HP loan approval rates. We believe the aggressive promotional exercises are incentivising purchases, leading to higher loan application while resulting in margin pressures for dealers and distributors. Thus, we remain Neutral on Auto.

Summary of the latest domestic Auto statistics

	Sep-14	Jan - Sep 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Sep-14 (%)	ytd (%)	ytd (ppts)
Malaysia TIV	47,771	492,305	-13.1	-6.6	0.9			
By make:								
Nationals	20,167	231,066	-29.7	-13.1	-9.5	42.2	46.9	-5.4
Non-nationals	27,604	261,239	22.1	-1.2	12.3	57.8	53.1	5.4
By segment:								
Passenger vehicles	41,397	436,652	-14.5	-7.8	1.4	86.7	88.7	0.5
Commercial vehicles	6,374	55,653	-2.4	2.4	-3.2	13.3	11.3	-0.5
Malaysia TIP	49,479	452,167	-8.4	13.0	2.8			

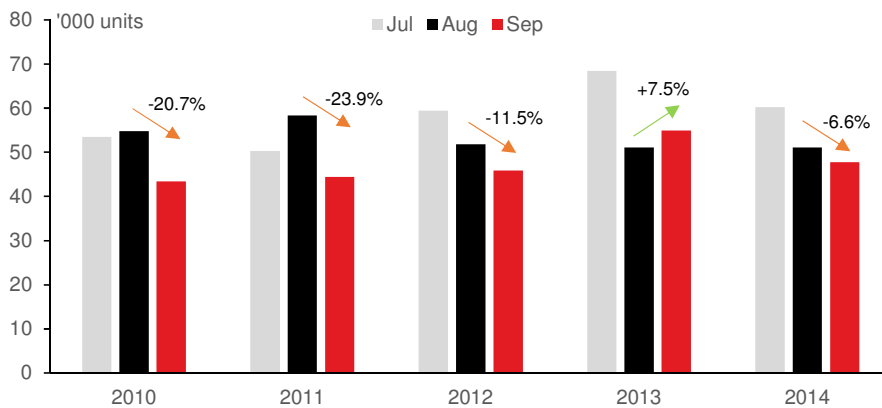
Source: MAA

MALAYSIA

New launches yet to reflect. The September TIV trended weaker by -6.6% mom and -13.1% yoy to 47,771 units despite the entry of 2 key models in the month. While the Proton Iriz only debuted on 25th September, the Perodua Axia was launched on 15th September with Perodua chalking sub-optimal numbers. Notwithstanding, we believe there would be more meaningful contribution from the new Axia and Iriz in coming months.

Interestingly, we also noted that the market trend has 'normalised' with September TIV trending weaker than August's. This is consistent with the trends over 2010 to 2012 while the aberration was seen in the September 2013 TIV which then grew +7.5% mom and +19.8% yoy to 54,945 units.

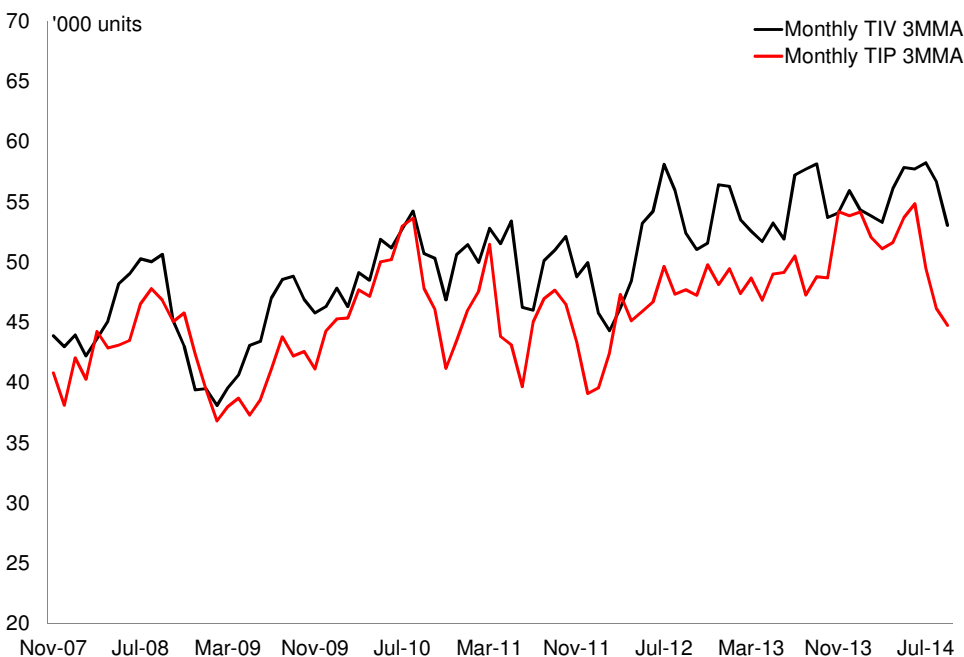
July-September monthly TIV trend since 2010



Source: MAA, MIDFR calculations

Diverge in TIP as new models launched. On the contrary, the September TIP figure continue to improve from August levels to hit 49,479 units (+13% mom, -8.4% yoy) to just shy of the 50k units monthly run-rate. We believe the diversion in TIP trend from the TIV largely reflects the industry's inventory build-up in light of new model entries. Similar trend was seen in September 2012 when the new Perodua Myvi debuted then. The 9-month TIP grew +2.8% to 452,167 units.

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



Source: MAA, MIDFR calculations

Advantage non-national makes. The non-national makes continue to dominate the market with 53% ytd TIV share. While Proton's weak sales was largely the cause, this was compounded by Perodua's weak September sales which fell -31% yoy and -17% mom to 12,114 units. As such, non-national makes accounted for 58% of September's TIV – the highest since January 2014 which was at 57%. Honda continues to drive the growth while Toyota remain the leader.

TIV: Breakdown by National makes and Non-national makes

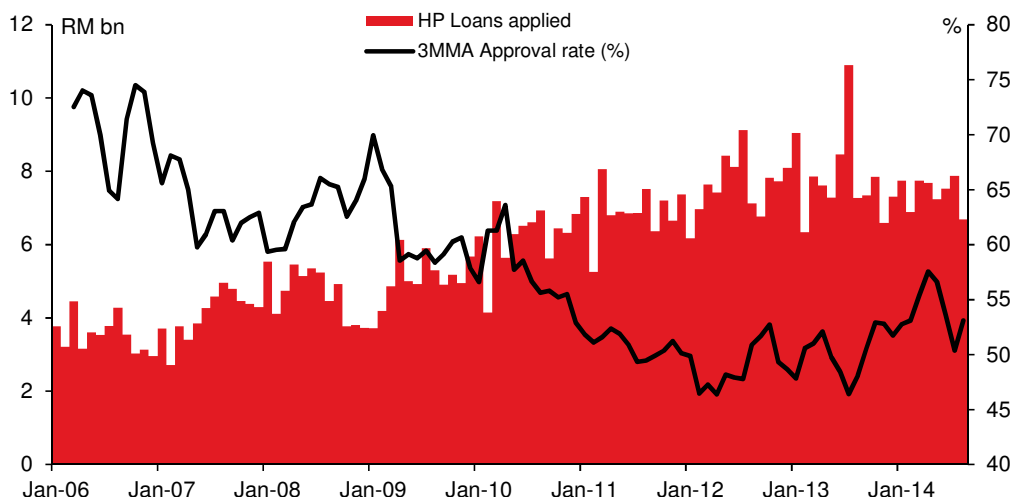
	Sep-14	Jan - Sep 2014	Growth (%)			Mkt Share		
			YoY	MoM	Ytd	Aug-14 (%)	ytd (%)	ytd (ppts)
Nationals:								
Perodua	12,114	140,317	-12.6	-16.9	-4.8	25.4	28.5	-1.7
Proton	8,053	90,749	-45.7	-6.5	-16.0	16.9	18.4	-3.7
Total nationals	20,167	231,066	-29.7	-13.1	-9.5	42.2	46.9	-5.4
Non-nationals:								
Toyota	7,455	75,299	32.6	-4.0	17.5	15.6	15.3	2.2
Honda	6,170	32,609	86.4	-7.8	-10.9	12.9	6.6	-0.9
Nissan	3,503	56,747	-9.8	11.0	43.3	7.3	11.5	3.4
Others	10,476	96,584	7.0	1.5	4.7	21.9	19.6	0.7
Total non-nationals	27,604	261,239	22.1	-1.2	12.3	57.8	53.1	5.4
Total TIV	47,771	492,305	-13.1	-6.6	0.9			

Source: MAA, MIDFR calculations

National brands could see some respite in 4Q14. With the new Perodua Axia and Proton Iriz debuting in September, we expect the national makes' TIV could see a respite in 4Q14 as delivery gets underway. Against our year-end TIV target of 668k, the 4Q14 TIV would need to grow +4.7% yoy. This translates to 175,695 units, averaging at >58k units per month. MAA's forecast of 680k translates to 187,695 units in 4Q14, an +11.8% yoy increase at >62k per month.

Prevalent risks from tighter HP loan approval and higher living costs. We maintain our 2014 TIV target of 668k as we expect tighter HP loan approval and rising living costs following further subsidy cutback on fuel pump prices could impede sales. HP loan approval rate has been contained at 50-60% since 2010. We believe it is partly explained by higher applications. On the flipside, the approval rates rebounded from its low of 49% in 2012, when tighter guidelines was first introduced, to 55% in 2014 ytd although we note that HP rates have increased since BNM hiked OPR.

HP loan applied and approval rate since Jan 2006



Source: Bank Negara Malaysia (BNM), MIDFR calculations

Reiterate NEUTRAL. We are currently NEUTRAL on the Automotive sector. While the TIV outlook is expected to be buoyant given the sound domestic economy, we believe earnings could be impacted by the aggressive competition which may lead to 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 19/9 (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	11.46	13.15	681	1,158	58.0	102.4	-31.8	76.6	19.8	11.2	44.0	46.0	3.8	4.0
TCM	Buy	4.49	5.55	251	150	37.3	23.0	44.7	-45.9	12.0	19.5	15.3	8.1	3.4	1.8
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	2.9

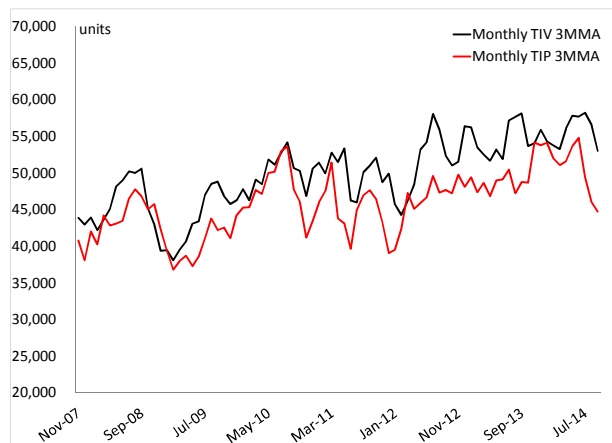
Source: Bloomberg, MIDF Research

REVIEW OF REGIONAL PRODUCTION

Thai production declines further. Thailand's Total Industry Production (TIP) contracted further in September to 141k, the lowest since April 2012. Production output has fallen in the second consecutive month after it peaked at 160k units in June. Meanwhile, Thailand's August TIV remains weak, down -31.4% yoy and -1.0% mom to 68.8k units while the drop in ytd TIV marginally eased to -38.3% (from -39.2% up to July) to 579k units.

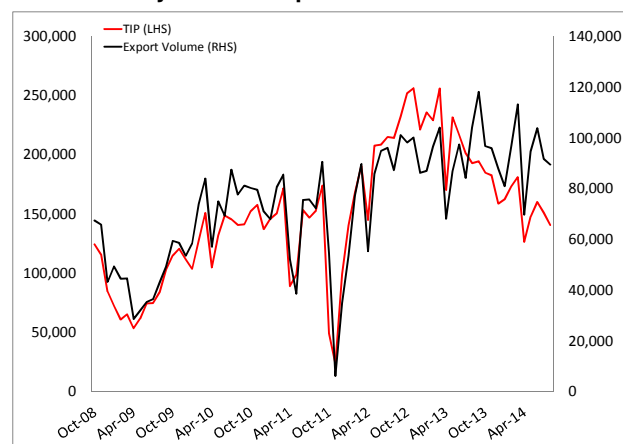
Malaysia's TIP diverges. Despite TIV softening further from August, Malaysia's TIP has strengthened to 49,479 units (-8.4% yoy and +13% mom). The diverging trend between TIP and TIV was possibly due to inventory build-up for Perodua's and Proton's new models. Similar trend was observed prior to the Perodua Myvi debut in September 2012.

M'sia: Monthly TIV & TIP 3MMA



Source: MAA

Thai: Monthly TIP and export volume

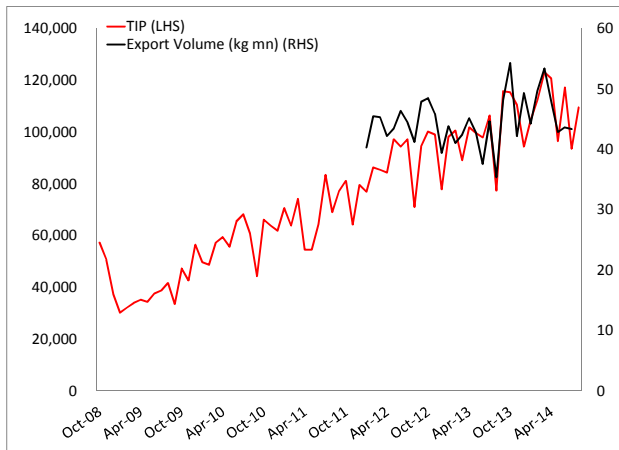


Source: Federation of Thai Industries (FTI), CEIC

Indonesia's TIP remains strong. Indonesia's TIP rebounded in August +41.5% yoy and +17.1% mom to 109.6k units. This was largely in line with the seasonal trend seen in Malaysia due to the Hari Raya celebration. However, production volume remains below the pre-Hari Raya break levels.

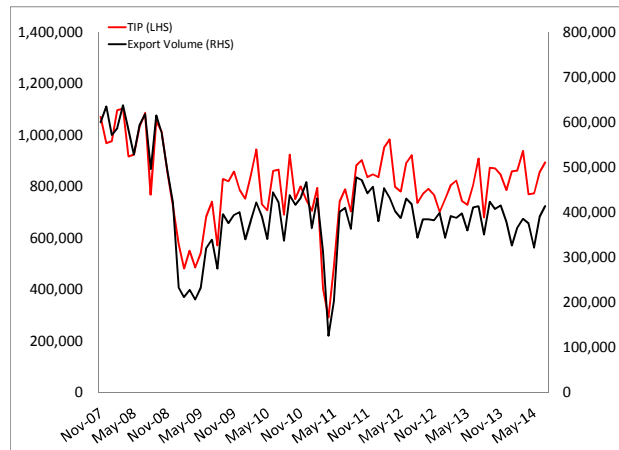
Japan's TIP slowed. Japan's TIP has fallen -6.7% yoy and -29.1% mom to 634k units. However, ytd production was still up +5.5% to 6.6m units. The TIP trend reflects its TIV and we expect the yet-to-be-released September TIP could see an uptick, similar to the TIV figure which improved +55.6% mom and was flat yoy to over 519k 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.