

AUTOMOTIVE

Downgrade to **NEGATIVE**

(from NEUTRAL)

S.O.S.

KEY INVESTMENT HIGHLIGHTS

- **Implication of Covid-19 outbreak growing more significant following multiple extension of Movement Control Order (MCO) - we slash further our 2020F TIV to 504,850 units from 581,367 units and now project a 16.5%yoy contraction instead of -4%yoy previously. Sector CY20F earnings now expected to fall 51%yoy.**
- **Recovery post-MCO likely to be pushed out given weakened consumer sentiment. Absence of support schemes e.g. scrapping program during 2008/09 financial crisis, underpins more bearish expectations relative to the 2009 downcycle.**
- **Preliminary indications suggest a 47%-63%yoy sales volume contraction in March, reflecting initial impact of the MCO.**
- **Downgrade sector to NEGATIVE from NEUTRAL; our top SELL are UMW (TP: RM1.60) and Tan Chong (RM0.90). We recommend a switch to defensive sectors to navigate near-term macro headwinds.**

Expecting much larger TIV contraction. Our previous TIV forecast revision (done prior to the MCO Phase 2 extension) factored in a 4%yoy contraction (see report titled [Developing Headwinds, What Has Been Priced In?](#)). Given that the MCO has now been extended into Phase 3 (ending 28th April), we are now looking at a significantly larger cut to our forecasts. Assuming a base case of a further extension to Phase 4 MCO, we slash our 2020F TIV forecast to 504,580 units (from 581,367 units previously). We now project 2020F TIV to contract by 16.5%yoy (from -4%yoy previously). In a worst case scenario that the MCO is extended further to Phase 5 (i.e. till end-May), we would expect TIV to dip below 500K; at an indicative 480K-490K.

Significant earnings implication. In line with the cut in our 2020F TIV, our CY20F/21F aggregate sector earnings is slashed by 46%/26%. We now expect sector earnings to contract some 51% this year, despite having already seen an 18% contraction in CY19. We forecast MBM/BAuto/UMW's CY20F earnings to fall by 31%/22%/44%yoy while Tan Chong is now expected to turn in a RM74m loss vs. a RM47m core profit in CY19. Sector forecast risk remains elevated given the uncertain timeline required to contain the Covid-19 outbreak and its resultant impact on the domestic macro outlook. Unlike the 2008/09 financial crisis or the 2016 sector downcycle, players are faced with compulsory closure of operations which means almost zero revenue during the lockdown period. A recovery upon resumption of operations could be pushed out given possibly weakened consumer sentiment post-MCO.

A glimpse at the MCO's initial impact. To recap, the MCO was initiated on 18th March 2020, marking an important month in gauging the initial impact of the lockdown on the auto sector. Autos are considered non-essential services/products and were required to halt operations during Phase 1 (ending 28th March) and Phase 2 (ending 14th April) of the MCO. Preliminary indications suggest a 47%-63%yoy fall in sales volume of major players in March 2020 (based on preliminary numbers from the national cars and selective non-nationals). Sequentially, the contraction in March 2020 TIV (for these selective players) is estimated to be in the range of 30%-67%mom.

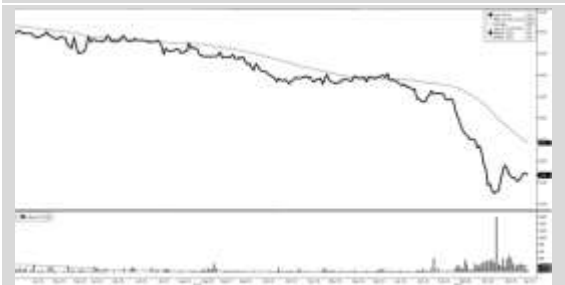
COMPANY IN FOCUS

UMW Holdings Bhd

Downgrade to **SELL** | Revised Target price: RM1.60
Price @ 10th April 2020: RM2.16

- FY20F Toyota TIV revised down to 57K (-17%yoy) from 63K following extended MCO directive.
- CY20F/21F earnings trimmed by 31%/13%.
- Toyota faces tough year given key competitors' new launch cycle, compounding the impact of a deteriorating macro condition.

Share price chart

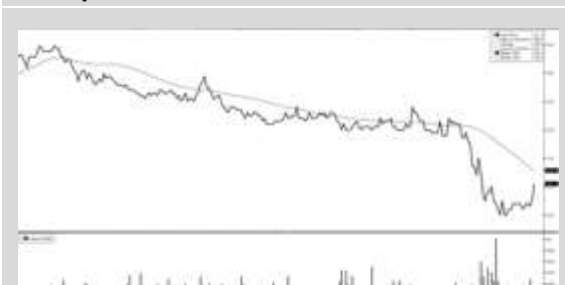


Tan Chong Motor Bhd

Downgrade to **SELL** | Revised Target price: RM0.90
Price @ 10th April 2020: RM1.11

- FY20F TIV revised down to 19K (-10%yoy) from 23K
- Upcoming 2H20 new Almera launch is a positive catalyst, but timed in a tough operating environment
- Run-out of old Almera to drag post-MCO recovery
- Most sensitive to forex volatility; every 1% change in USD impacts FY20F by 12%

Share price chart



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SECTOR VALUATION MATRIX

		Shr. Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY20F	CY21F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	NEUTRAL	1.21	12.6	11.1	2.3	25.7	4.6	1.10	-4.4
Tan Chong	SELL	1.11	NA	NA	0.3	2.3	3.6	0.90	-15.3
UMW Holdings	SELL	2.16	17.0	12.4	0.7	6.3	1.2	1.60	-24.8
MBM Resources	NEUTRAL	2.75	7.8	6.6	0.6	10.2	5.1	2.80	6.9

Source: Company MIDFR

Exhibit 1: Summary of Earnings Revision by Company

	Net Profit (RMm)				CY20F Revision
	CY19A	CY20F (revised)	yoy	CY20F (previous)	Net Profit
MBM Resources	199.3	137.2	-31.2%	178.5	-23.1%
Bermaz Auto	143.0	111.7	-21.9%	145.4	-23.2%
UMW Holdings	266.3	148.1	-44.4%	213.5	-30.6%
Tan Chong Motor	47.4	(73.7)	-255.5%	59.6	-223.6%
Sector Aggregate	656.0	323.3	-50.7%	597.0	-45.8%

Source: Company MIDFR

Exhibit 2: Summary of TIV Revision by Company

	TIV (units)				CY20F Revision
	CY19	CY20F (revised)	yoy	CY20F (previous)	TIV
MBM Resources **	240,341	209,464	-12.8%	231,948	-9.7%
Bermaz Auto	11,651	10,973	-5.8%	11,973	-8.3%
UMW Holdings *	69,091	57,467	-16.8%	63,535	-9.6%
Tan Chong Motor	21,239	19,139	-9.9%	22,689	-15.6%
Total ^	342,322	297,043	-13.2%	330,145	-10.0%

Source: Company MIDFR

^Total for stocks under coverage

**Represents Perodua TIV

*Represents Toyota TIV

Can we recover the lost sales? We previously did not rule out pent-up demand returning post Covid-19 to drive some form of demand recovery. However, given the extended MCO that is required to be undertaken and the deep, negative implications on corporate earnings, employment security and consumer sentiment, we think any pent-up demand that existed previously would have probably withered away by now. Consumers are likely to have turned into "survival" mode with little priority for discretionary spend in the near-term.

GFC impact was cushioned. During the 2008/09 global financial crisis (GFC), impact on the local auto sector was cushioned by a vehicle-scraping subsidy program launched as part of the Government's RM60b stimulus package back then - consumers who owned cars >10 years of age were offered vouchers (RM5000 each, 50% funded by the Government) to purchase a new car (limited to a new Proton/Perodua) in return for scrapping their old car. This incentivized new car purchases and as a result, TIV only saw a 2%yoy contraction in 2009 despite the country falling into a recession in the same year. There is the absence of such support this time around (bearing in mind the Government's stretched fiscal position), underpinning our expectation of a much larger industry contraction relative to 2009.

Selective sectors to resume operations. MITI has issued a list of sectors (and sub-sectors) that are allowed to resume operations in Phase 3 of the MCO including the automotive and aerospace sectors. For the auto sector, specific segments that are allowed to resume are: (1) CBU exports (2) Parts & components (3) After-sales services e.g. maintenance. Being the largest CBU exporter out of Malaysia, Bermaz's 30%-owned Mazda Malaysia Sdn Bhd (MMSB) is a key beneficiary of the resumption of CBU export operations. MMSB exports the CX5 and CX8 SUV models to ASEAN markets (ex-Vietnam) at an estimated 2K-3K export units/quarter. Separately, resumption of parts & components supply is expected to cater mainly for the replacement market in line with resumption of after-sales services. OEM component supplies is likely to remain slow given that new vehicle production remains restricted. Meanwhile, the uplifting of restriction for the aerospace industry should benefit UMW Aerospace, which is involved in fan case assembly for Rolls Royce's (RR) Trent 1000 engine. We

understand there has been no disruption to RR's supply chain so far, with the exception of Malaysia (via UMW Aerospace) which had to halt operations temporarily due to the MCO. UMW Aerospace is also scheduled to commence Trent 7000 fan case assembly in 4Q20.

Impact on valuations. Following the sector-wide earnings revision in this report, our TPs and calls for stocks under coverage have been revised down: **(1) MBM Resources is downgraded to NEUTRAL** from BUY at a lower TP of RM2.80 from RM3.70 previously **(2) BAuto is downgraded to NEUTRAL** from BUY at a lower TP of RM1.10 from RM1.40 previously **(3) UMW is downgraded to SELL** from NEUTRAL at a lower TP of RM1.60 from RM2.15 previously **(4) Tan Chong is downgraded to SELL** from NEUTRAL at unchanged TP of RM0.90 as we fall back to a BV-based valuation given expected losses throughout our forecast horizon. For the rest of the stocks under coverage, valuation multiples/parameters are maintained.

Exhibit 3: Summary of TP and Rating Revisions by Company

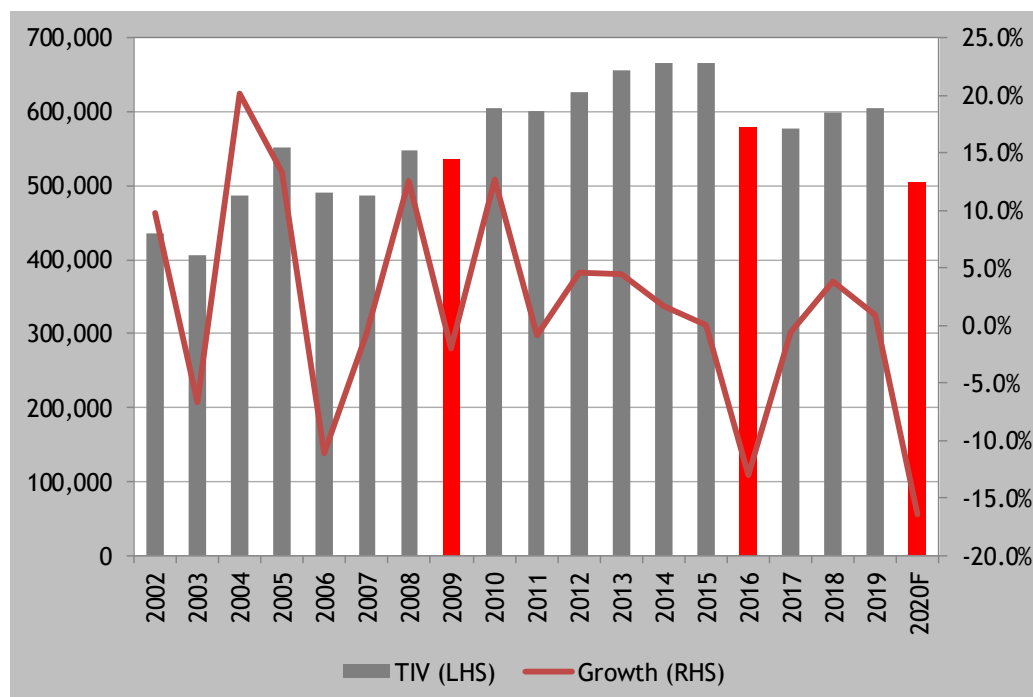
	Target Price (RM/share)		Rating	
	Old	New	Old	New
MBM Resources	3.70	2.80	BUY	NEUTRAL
Bermaz Auto	1.40	1.10	BUY	NEUTRAL
UMW Holdings	2.15	1.60	NEUTRAL	SELL
Tan Chong Motor	0.90	0.90	NEUTRAL	SELL

Source: Company MIDFR

Recommendation. As we had alluded to in recent sector reports, forecast risk for the auto sector remains elevated given the current uncertain macro situation. Following the earnings and TP downgrades, stocks under our coverage are now rated NEUTRAL and SELL with no BUY ratings. **We now downgrade the auto sector to NEGATIVE** from NEUTRAL previously. Our top SELLS are UMW (TP: RM1.60) and Tan Chong (TP: RM0.90). We recommend investors switch to more defensive sectors such as utilities, which entail much better earnings and cash flow visibility to navigate through the near-term macro headwinds.



Exhibit 4: Historical TIV Trend



Source: MAA, MIDFR

Exhibit 5: Historical TIV and Forecasts

	2015	2016	2017	2018	2019	2020F
Proton	102,175	72,290	70,991	64,744	100,183	86,157
Perodua	213,307	207,110	204,887	227,243	240,341	209,464
Toyota	93,760	63,757	69,492	65,551	69,091	57,467
Honda	94,902	91,830	109,511	102,282	85,418	72,605
Nissan	47,235	40,706	27,154	28,610	21,239	19,139
Mazda	14,325	12,493	9,730	16,038	11,651	10,973
Others	100,927	91,939	84,870	94,130	76,364	48,773
Total	666,631	580,125	576,635	598,598	604,287	504,580
Market Share						
Proton	15.33%	12.46%	12.31%	10.82%	16.58%	17.08%
Perodua	32.00%	35.70%	35.53%	37.96%	39.77%	41.51%
Toyota	14.06%	10.99%	12.05%	10.95%	11.43%	11.39%
Honda	14.24%	15.83%	18.99%	17.09%	14.14%	14.39%
Nissan	7.09%	7.02%	4.71%	4.78%	3.51%	3.79%
Mazda	2.15%	2.15%	1.69%	2.68%	1.93%	2.17%
Others	15.14%	15.85%	14.72%	15.73%	12.64%	9.67%
Growth						
Proton	-11.8%	-29.2%	-1.8%	-8.8%	54.7%	-14.0%
Perodua	9.1%	-2.9%	-1.1%	10.9%	5.8%	-12.8%
Toyota	-8.1%	-32.0%	9.0%	-5.7%	5.4%	-16.8%
Honda	22.5%	-3.2%	19.3%	-6.6%	-16.5%	-15.0%
Nissan	1.9%	-13.8%	-33.3%	5.4%	-25.8%	-9.9%
Mazda	25.9%	-12.8%	-22.1%	64.8%	-27.4%	-5.8%
Others	-14.4%	-8.9%	-7.7%	10.9%	-18.9%	-36.1%
Total	0.0%	-13.0%	-0.6%	3.8%	1.0%	-16.5%

Source: MAA, MIDFR

Exhibit 6: Tan Chong Earnings Summary

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	4,341.2	4,858.2	4,172.4	3,849.6	4,090.8
EBIT (RM'm)	(18.7)	226.8	169.6	(38.2)	29.8
Pre-tax Profit (RM'm)	(72.8)	178.6	114.3	(101.8)	(31.5)
Core net profit (RM'm)	(88.6)	99.7	47.4	(73.7)	(20.4)
FD EPS (sen)	(13.2)	14.8	7.1	(11.0)	(3.0)
EPS growth (%)	NA	NA	(52.5)	(255.5)	(72.3)
PER (x)	(7.6)	6.7	14.2	(9.1)	(32.9)
Net Dividend (sen)	2.0	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	2.0	4.0	4.0	4.0	4.0

Source: Company, MIDFR

Exhibit 7: UMW Holdings Earnings Summary

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	11,046.5	11,306.3	11,739.1	8,060.5	8,455.9
EBIT (RM'm)	120.4	522.9	332.6	(38.1)	123.4
Pre-tax Profit (RM'm)	252.9	786.2	754.8	82.8	235.4
Core net profit (RM'm)	163.8	341.7	266.3	148.1	204.1
FD EPS (sen)	14.0	29.2	22.8	12.7	17.5
EPS growth (%)	NA	108.6	(22.1)	(44.4)	37.8
PER (x)	15.3	7.4	9.0	17.0	12.3
Net Dividend (sen)	6.5	7.5	6.0	2.5	3.5
Net Dividend Yield (%)	3.0	3.5	2.8	1.2	1.6

Source: Company, MIDFR

Exhibit 8: Bermaz Auto Earnings Summary

FYE Apr	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	1,992.9	2,492.1	1,794.7	1,976.8	2,041.6
EBIT (RM'm)	178.8	284.0	75.4	128.2	130.0
Pre-tax Profit (RM'm)	197.2	342.3	102.7	160.8	162.7
Core net profit (RM'm)	140.1	265.3	81.8	126.7	128.0
FD EPS (sen)	12.1	22.8	7.0	10.9	11.0
EPS growth (%)	17.6	89.4	(69.2)	54.8	1.0
PER (x)	10.0	5.3	17.2	11.1	11.0
Net Dividend (sen)	10.4	21.3	5.6	8.7	8.8
Dividend Yield (%)	8.6	17.6	4.6	7.2	7.3

Source: Company, MIDFR

Exhibit 9: MBM Resources Earnings Summary

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1,732.6	1,928.2	2,088.5	1,630.2	1,671.9
EBIT (RM'm)	(257.6)	12.5	61.0	3.6	30.6
Pre-tax Profit (RM'm)	(148.5)	200.7	263.2	178.9	208.1
Normalised PATAMI (RM'm)	86.1	168.3	193.3	137.2	162.9
FD EPS (sen)	22.1	43.1	49.5	35.2	41.8
EPS growth (%)	1.6	95.6	14.8	-29.0	18.8
PER (x)	12.5	6.4	5.6	7.8	6.6
Net Dividend (sen) *	3.0	12.0	22.4	14.1	16.7
Net Dividend Yield (%) *	1.1	4.4	8.1	5.1	6.1

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.