

AUTOMOTIVE

Maintain POSITIVE

Sequential Rebound in May

KEY INVESTMENT HIGHLIGHTS

- **Strong sequential rebound in May TIV as operations gradually resume**
- **Improvements in daily bookings post-tax-holiday already setting in based on recent channel checks**
- **Bermaz saw almost a tripling in daily bookings compared to post-MCO levels. Similarly, UMW and Tan Chong seeing early signs of improvements, coupled with increased showroom traffic**
- **Our FY20F conservatively assumes a 7.8K/month incremental TIV against our base FY20F TIV forecast over the 6.5-month tax-holiday period relative to the 2018 tax-holiday which lifted TIV by ~21K/month**
- **Reaffirm our non-consensus POSITIVE on autos; sector set to see an inflection point from 3Q20 onwards from a strong combination of tax-holiday-induced demand, robust consumer liquidity and a low interest rate environment; BAuto (BUY, TP: RM1.95) and UMW (BUY, TP: RM3.40) remain our top sector picks.**

Strong rebound in May. May TIV registered at 22,960 units, a significant rebound against April's 141 units which was hit by a full month of pandemic lockdown. May TIV was also slightly higher than March TIV of 22,478 units despite registration processes commencing only towards mid-May when the Road Transport Department operations fully resumed (March also saw a circa half month impact of the MCO which commenced on 18th March). On a year-on-year basis, May TIV was still down 62%yoy as May20 has yet to fully reflect a full month of operations. We expect a further sequential rebound in June as operations fully resume, coupled with a demand-boost from the tax-holiday running from 15th June till 31st December 2020. Car prices have been reduced by between 2% - 7% given savings from the sales tax exemption measure.

Early signs of improvement. Channel checks with selective industry players recently indicates early signs of sales improvement after the tax holiday announcement under the Penjana stimulus package on 5th June. BAuto for example saw a strong rebound in daily bookings post the automotive tax-holiday announcement - pre-pandemic daily bookings stood at 30-40/day (in-line with 900-1200 monthly sales), while post-MCO daily bookings declined to 20-25/day. However, daily bookings ballooned to around 60/day in the week immediately after the announcement, implying an almost doubling in daily bookings against pre-pandemic levels and a tripling against the post-MCO daily bookings. At certain points in fact, BAuto's daily bookings hit some 99 units/day (triple even pre-pandemic daily booking levels). Discussions (and briefings) with UMW and Tan Chong also suggested indications of sales improvements coupled with improved showroom traffic, generally.

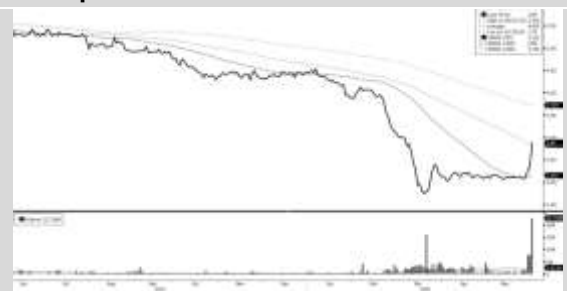
COMPANY IN FOCUS

UMW Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM3.40
Price @ 25th June 2020: RM2.67

- Potential earnings turnaround from 3Q20 onwards
- Launch of two mass-market CKD models in 2H20 an important volume catalyst
- M&E division is a bright spot, Trent 7000 fan case production to commence from 4Q20

Share price chart



Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM1.95
Price @ 25th June 2020: RM1.55

- FY21F earnings now projected to more than double year-on-year
- Third CKD model a potential near-to-mid term catalyst
- Strong balance sheet (net cash of RM95m) positions group well for potential expansion

Share price chart



SECTOR VALUATION MATRIX

Companies	Rating	Shr. Price (RM)	PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY20F	CY21F					
Bermaz Auto	BUY	1.55	11.9	8.8	2.9	25.7	8.2	1.95	34.1
Tan Chong	NEUTRAL	1.10	(17.6)	9.6	0.3	2.3	3.6	1.15	8.2
UMW Holdings	BUY	2.67	16.8	13.9	0.8	6.3	1.2	3.40	28.5
MBM Resources	BUY	3.29	8.3	7.0	0.7	10.2	5.8	3.80	21.3

Source: Company MIDFR

Creating that rush to spend. It is difficult to ascertain if this strong trend is sustainable as we are still in the early stages of the 6.5-month-long tax holiday, but these early trends are definitely encouraging. Notwithstanding dented consumer sentiment given the impact of lockdown measures to contain the pandemic, the strong combination of: (1) Tax-holiday induced demand (2) Robust liquidity created for consumers from various stimulus measures which transfers massive amounts of cash into consumer's pockets (e.g. via EPF contribution reductions, EPF Account-2 withdrawals, 6-month loan moratorium) (3) A low interest rate environment (HP loans are traditionally fixed rate loans locked in at the point of approval, though floating rate HP loans have been made available in recent years), are strong catalysts to drive a rebound in vehicle-buying sentiment. As we had highlighted in our recent sector upgrade, the 3-month tax-holiday in 2018 lifted TIV during the period by ~21K/month, relative to our conservative assumption of a 7.8K/month increase from the 2H20 tax-holiday.

Recommendation. We reaffirm our non-consensus **POSITIVE** on autos. **BAuto (TP: RM1.95)** and **UMW (BUY, TP: RM3.40)** remain our top sector picks.

Bermaz Auto (BUY, TP: RM1.95). Key catalysts: (1) Strong earnings rebound from 1QFY21 onwards (2) Potential introduction of a 3rd CKD model (3) Potential brand expansion riding on Inokom's capacity expansion and BAuto's solid balance sheet (4) Potential NAP incentives to drive CBU exports.

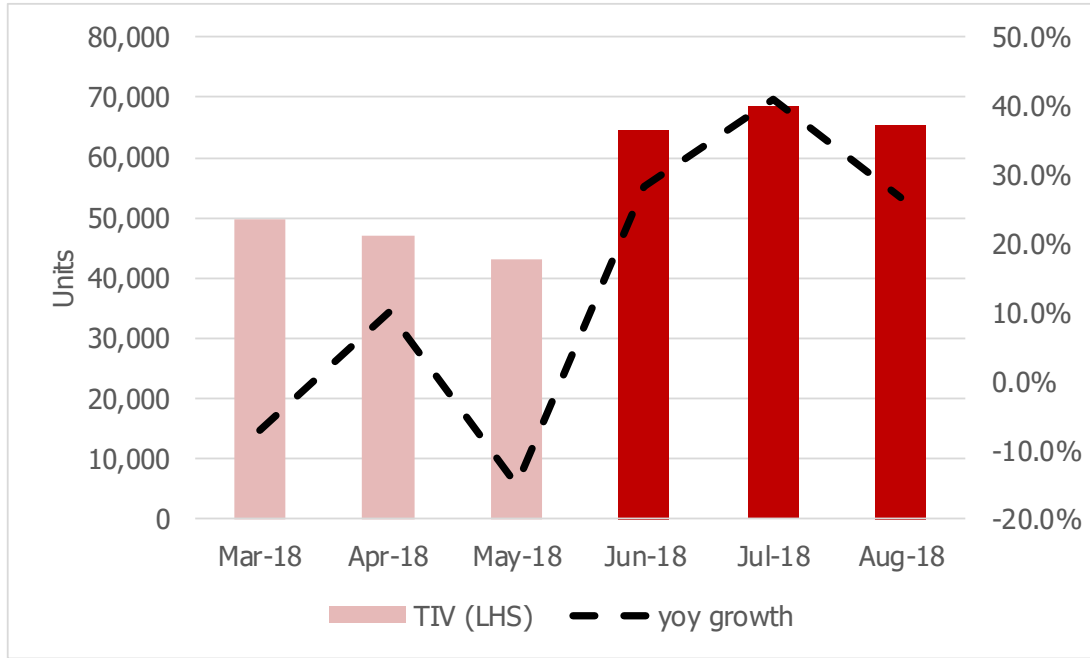
UMW (BUY, TP: RM3.40). Key catalysts: (1) A turnaround in group earnings from 3Q20 driven mainly by the automotive division (2) Potential launches of mass market/CKD SUV models (3) Commencement of Trent 7000 fan case assembly in 4Q20.

Exhibit 1: May 2020 TIV Summary

Marques	May-19	Apr-20	May-20	YoY	MoM	YTD19	YTD20	YTD %	Market share	
									May-19	May-20
Proton	10,611	22	5,676	-46.5%	>100%	35,903	27,455	-23.5%	14.1%	21.2%
Perodua	22,945	57	7,886	-65.6%	>100%	105,745	52,920	-50.0%	41.7%	40.9%
Toyota	6,842	13	3,425	-49.9%	>100%	26,029	13,853	-46.8%	10.3%	10.7%
Honda	10,509	27	2,678	-74.5%	>100%	38,874	13,805	-64.5%	15.3%	10.7%
Nissan	2,103	8	625	-70.3%	>100%	8,877	3,380	-61.9%	3.5%	2.6%
Mazda	1,060	0	503	-52.5%	>100%	5,673	3,226	-43.1%	2.2%	2.5%
Others	6,710	14	2,167	-67.7%	>100%	32,697	14,890	-54.5%	12.9%	11.5%
Total	60,780	141	22,960	-62.2%	>100%	253,798	129,529	-49.0%	100.0%	100.0%

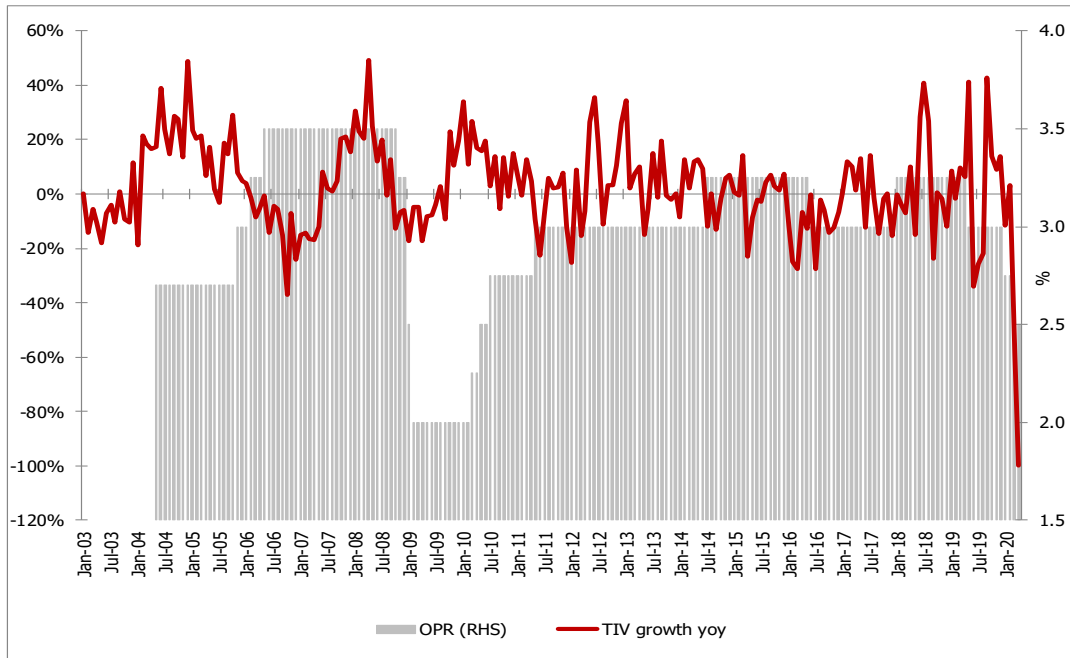
Source: MAA, MIDFR

Exhibit 2: Significant TIV improvement during Jun18-Aug18 Tax-Holiday Period



Source: MAA, MIDFR

Exhibit 3: Positive Impact of Low Interest Rate on TIV Growth Historically



Source: MAA, Bloomberg, 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.