

19 July 2016 | Sector Update

Automotive

Maintain NEUTRAL

So what's different with the "Bezza"?

INVESTMENT HIGHLIGHTS

- **Perodua continues to move up its price points with the Bezza**
- **Target volumes look aggressive and we see potential cannibalisation of Perodua's own sales**
- **Near-term possible wait-and-see among buyers in anticipation of new Saga and Iriz sedan**
- **Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick and we remain NEUTRAL on UMW (TP: RM5.60/share)**

Perodua launches its offensive. Perodua launched its first sedan model called the Bezza (different in Malay with a funky spelling) last Saturday. The Bezza is priced between RM37K-RM39K for its 1litre variants and RM43K-51K for its 1.3 litre variants. Launch of the Bezza is strategically timed towards the end of the current generation Saga (Proton's compact sedan model) life cycle. The Bezza is produced at the state-of-the-art Perodua Global Manufacturing plant (100k/annum capacity on single-shift) which is now running on 2-shifts to accommodate production of the Axia (circa 110K/year) and Bezza (estimated at around 91K a year). The Bezza is 95% localised with another 5% of components imported – we understand this is a mixture of JPY and USD exposure.

Continues to move up price points. The Bezza is targeted at young families and probably second car or replacement car buyers and not exactly targeted at entry level buyers. Perodua continues to move up its price points, first with the Axia (priced at a large premium to the Viva), and now with the Bezza, which is priced at a premium to the Axia and well into price points for the MyVi. In fact, the two highest variants of the Bezza (which Perodua is targeting to derive 80% of the Bezza's sales from) is priced at a premium to the MyVi's 1.3 litre variants – currently MyVi sales is generated entirely from the 1.3 litre variants, and well higher than the Saga's pricing (See Exhibit 1). That said, higher price segments usually means a customer base with a much better credit profile (as was the case for the Axia) which is critical in the current stringent financing climate.

Target volumes look pretty aggressive. Perodua is reported to be targeting initial sales of 10,000/month in the first 3 months after launch and to normalise at 7,600/month thereafter. Our channel checks suggest that Perodua has managed to garner bookings of 1,200 units so far. The normalised monthly sales target looks pretty aggressive considering that the Bezza's main competitor, the Saga, only generates around 3000-3500 monthly sales (around 4500/month back in 2014). Meanwhile, Proton's Iriz 1.3 litre model, which is Proton's only model overlapping pricing of the Bezza, is only generating sales volume of around 500 units a month. Fresh entry level buyers are unlikely to be significant given the Bezza's premium pricing as discussed above. As such, we do not rule out cannibalisation of Perodua's existing sales, particularly the ageing MyVi model (which generates average monthly sales volume of 6000-6500 units).

"Wait and see" in the near-term? Proton is scheduled to release the Persona replacement (a sedan version of the Iriz) and the Saga replacement by end of the year. We think this could lead to a wait-and-see attitude among buyers in the near-term. Our channel checks however suggest that the "Iriz sedan" is targeted for much lower monthly volumes of around 2000 units a month.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

EXHIBIT 1: BEZZA MAINLY POSITIONED IN MYVI / IRIZ PRICE POINTS

Perodua Axia	RM	Proton Saga	RM	Perodua Bezza	RM	Perodua MyVi	RM	Proton Iriz	RM
1.0 Std E M solid	24,437								
1.0 Std E M metallic	24,837								
1.0 Std G M solid	32,127								
1.0 Std G M metallic	32,527	Saga FLX 1.3 Manual solid	33,970						
1.0 Std G A solid	35,127	Saga FLX 1.3 Manual mtlc	34,420						
1.0 Std G A metallic	35,527								
1.0 Spec Ed M solid	36,637								
1.0 Spec Ed M metallic	37,037	Saga FLX 1.3 CVT solid	37,630	Bezza 1.0 manual	37,300				
1.0 Spec Ed A solid	39,637	Saga FLX 1.3 CVT mtlc	38,088	Bezza 1.0 auto	39,300				
1.0 Spec Ed A metallic	40,037								
1.0 Advance A solid	41,967					1.3 Std G MT	40,862		
1.0 Advance Ed A metallic	42,377			Bezza 1.3 manual	42,800		41,262	1.3 Std MT	41,520
						1.3 Std G AT	43,862		41,970
				Bezza 1.3 auto premium	44,800		44,262	1.3 Std CVT	44,450
									44,900
								1.3 Exec MT	45,760
									46,210
								1.3 Exec CVT	48,680
						1.5 SE MT	49,968		49,130
				Bezza 1.3 auto advance	50,800		50,368	1.6 Exec MT	53,140
						1.5 SE AT	52,968		53,590
							53,368	1.6 Exec CVT	56,080
						1.5 Adv AT	57,968		56,530
							58,368		

Source: MAA, Companies, MIDFR *Green shades marks key models with overlapping price points


Note: Over 80% of Bezza's sales expected to be derived from the 1.3 Premium and Advance variants

Unit cost might be inflated. The Bezza is an offshoot of the Axia platform, but costs could be higher as Perodua incurred a reported RM300m capex for the upper body design of the model, which is a first for Perodua. Prior models were not as radically redesigned (mostly minor front and rear end changes) and are unlikely to have incurred as much R&D capex. At RM300m capex and an assumed average monthly sale of 6000 units throughout the model's 5-year lifecycle, we estimate R&D amortisation to take out around 1.7% off the typical underlying margin for Perodua's models. We suspect the premium pricing for the Bezza could be partly a repercussion of this.

Priority is for domestic market. Our channel checks also suggest that exports of the Bezza could be more of a mid-term story as immediate priority is to meet local demand. Perodua's exports currently accounts for <5% of its total volume with a mid-term target of around 5% of total volumes.

MBMR (Not Rated, FY16F PE: 10x) is a pure play into Perodua (via its 23% stake in the latter) as MBM is now almost entirely reliant on Perodua's earnings to drive its bottomline. Secondly, its auto part units benefit from supplies to Perodua i.e. Hirotako for airbags and seatbelts and OMI for wheel supplies. Thirdly, MBM is one of the largest Perodua dealers in the country (via 52% owned Daihatsu Malaysia Sdn Bhd) and should benefit from Perodua's sales improvement.

UMW (NEUTRAL, TP: RM5.60/share) is an alternative play into Perodua albeit at a pricier entry (1x FY16F PBV, 43x FY16F PER), while the possible earnings improvement at Perodua is diluted as Perodua is estimated to account for just 38% of UMW's bottomline (FY15). Nevertheless, given the weakness expected at 57%-owned UMW Oil & Gas and 51%-owned UMW Toyota this year, Perodua's contribution to bottomline could rise exponentially (up to 87% of FY16F bottomline on our estimates), albeit this will be very much temporary.

Maintain NEUTRAL on autos. Berjaya Auto (BUY, TP: RM2.50/share) is still our top sector pick: Key share price catalysts over the next 12 months: (1) Attractive dividend yield of 7% underpinned by solid net cash which accounts for 14% of market cap and strong FCFE yield of 10% (FY17F), (2) Further market share wins driven by new launches, i.e. the CKD Mazda 6 and diesel variants of the CX5, Mazda 2 and Mazda 6, (3) Recovery in manufacturing earnings (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) after the launch of the facelift CX5, and (4) Potential value unlocking from the listing of BAuto Philippines. Ex-cash, BAuto trades at just 9.7x CY16F earnings. 

VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY16F	CY17F	CY16F	CY17F					
B.Auto	BUY	2.33	18.9	20.4	12.3	11.4	4.5	40.2	7.4	2.50	14.7
Tan Chong	NEUTRAL	1.93	5.2	8.1	37.5	24.1	0.6	2.7	0.0	2.50 UR	N/A
UMW	NEUTRAL	5.75	13.2	15.9	43.1	34.3	1.0	5.0	0.9	5.60	-0.9
Sector avg					30.4	23.2	2.0	16.0	2.8		

Source: Bloomberg, Companies, MIDFR *UR: Under Review

Hafriz Hezry
 hafriz.hezry@midf.com.my
 03-2173 8392

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(Bank Pelaburan)

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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 <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.