

19 May 2016 | Sector Update

## Automotive

**Maintain NEUTRAL**

### *Still a rough ride*

#### INVESTMENT HIGHLIGHTS

- **Total industry volume still weakened despite an already weak base last year**
- **Rate of contraction narrowed nonetheless but waiting lists are still scarce and sales are still heavily incentivised**
- **Maintain NEUTRAL on autos given a muted demand outlook and volatile currency trends**
- **Berjaya Auto (BUY, TP: RM2.60/share) is still our top sector pick and we remain NEUTRAL on UMW (TP: RM6.00/share)**

**Still seeing contraction despite a weak base last year.** April 2016 total industry volume (TIV) still weakened despite an already weak base last year. April TIV registered at 42,177 units, a -7%yoy fall and down -14% against March 2016 TIV. Recall that April 2015 TIV was impacted by a drying up of the market as consumers brought forward purchases into 1Q15, ahead of expected price increases post-GST, i.e. April 2015 TIV was down -23%yoy and -33%mom. Nonetheless, the rate of contraction so far has narrowed and underpins our view that the March 2016 marks the bottom in growth trends. However, a meaningful recovery is still quite a distance as waiting lists are still scarce while sales are still heavily incentivised.


**Honda is now 2<sup>nd</sup> largest player.** Proton sales dropped further (-10%yoy / -19%mom) and it relinquished its 2<sup>nd</sup> largest position in the local auto sector to Honda – though this is more because of Proton's exceptional volume contraction, while Honda's volume weakness was in line with the industry. Proton's market share in April dropped to 13.7% (YTD 2016) vs. Honda's 14.3%. Proton raised pricing of its models (by between RM312 and RM2,021) since late February, and notably, the significant drop in market share started from March and carried over into April.

Launch of the Perdana Replacement is delayed (earlier scheduled 1Q16 launch) and we understand there is a cap of ~500 units a month on sales of the model based on earlier agreements with Honda. Nonetheless, the big kicker for Proton is expected to come from the Persona Replacement (estimated monthly sales of circa 1,200-1500 units/month) and the new Suzuki-based model to be launched by year end.

**Forecasts slashed.** We trim our 2016 TIV by -6% to 626,633 units (-6%yoy from flat growth previously) while 2017 TIV is trimmed -3% to 632,899 units (+1%yoy) from 653,098 units previously. Annualised 4M16 TIV would have only accounted for 78% of our previous 2016F TIV of 666K units. The downgrade will impact companies under our coverage, i.e. UMW and Tan Chong, as both the Toyota and Nissan marques have been key underperformers against our earlier forecast. Our volume forecast for BAuto should remain unchanged.

**Toyota sales weak but new launch in May.** UMW Toyota launched the new Hilux in early May (priced between RM89,900 – 133,900) after a slight delay versus an earlier planned April launch. Out of its launches this year, i.e. the Innova, Fortuner and Hilux, the Hilux (accounts for 30% of Toyota TIV) was supposed to be the key volume driver and we expect May numbers to start reflecting some improvement. However, the average monthly sales of 3,576 units so far this year is still a far cry from the >9,000 monthly average required to meet our previous forecast.

**Maintain NEUTRAL on the auto sector** given a muted demand outlook. Our top sector pick is Berjaya Auto (BUY, TP: RM2.60/share): (1) While there is considerable pressure from the stronger JPY, exposure to JPY imports is limited to CBUs while almost half of CY16 JPY exposure is fixed at RM3.45, (2) Aggressive model mix expansion, i.e. the CBU CX3, Mazda 6 CKD and upcoming CKD CX3, which will expand margins and volume, (3) An underleveraged balance sheet (FY16F net cash of RM252m which accounts for 10% of market cap) coupled with strong FCF yield of 7%, suggests special dividends and potential acquisitive growth, and (4) Potential value unlocking from the listing of BAUTO Philipines. Ex-cash, BAUTO trades at just 9.7x CY16F earnings.

**Still cautious on UMW** (NEUTRAL, TP RM6.00/share – Under Review). Valuation at 21x FY16F earnings is excessive amid rising cash flow and forecast risks. O&G losses are expected to extend into early FY16 at least, while Toyota TIV has remained weak and is suffering market share loss. Key earnings risk in the near-term will come from: (1) Renewal of rig contracts at unfavourable rates, i.e. spot rates are now 30%-35% lower than current contracts, (2) Extended idling of rigs which is a drain on cash flows and is driving losses for the O&G division, (3) Weak underlying demand for autos especially after the recent price hikes and plant diseconomies of scale which will pressure margins, and (4) Possible cash call at UMWOG which may require UMW to gear up to avoid dilution of its stake in the former. 

## EXHIBIT 1: APRIL 2016 TIV SUMMARY

Marques	Apr-15	Mar-16	Apr-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Apr-15	Apr-16
Proton	4,972	5,535	4,477	-10.0%	-19.1%	32,654	23,702	-27.4%	15.3%	13.7%
Perodua	17,584	17,629	14,898	-15.3%	-15.5%	74,737	62,079	-16.9%	35.0%	35.8%
Toyota	6,032	4,319	4,089	-32.2%	-5.3%	22,273	14,305	-35.8%	10.4%	8.2%
Honda	6,562	7,418	5,964	-9.1%	-19.6%	28,707	24,741	-13.8%	13.4%	14.3%
Nissan	3,003	4,350	3,015	0.4%	-30.7%	16,229	13,788	-15.0%	7.6%	8.0%
Mazda	705	1,416	1,305	85.1%	-7.8%	4,077	4,857	19.1%	1.9%	2.8%
Others	6,329	8,133	8,429	33.2%	3.6%	34,812	29,960	-13.9%	16.3%	17.3%
<b>Total</b>	<b>45,187</b>	<b>48,800</b>	<b>42,177</b>	<b>-6.7%</b>	<b>-13.6%</b>	<b>213,489</b>	<b>173,432</b>	<b>-18.8%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

## EXHIBIT 2: APRIL 2016 TIV SUMMARY BY SEGMENT

Segment	Apr-15	Mar-16	Apr-16	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	40,902	43,247	37,893	-7.4%	-12.4%	189,834	155,266	-18.2%
Commercial vehicles	4,285	5,553	4,284	0.0%	-22.9%	23,655	18,166	-23.2%
<b>Total</b>	<b>45,187</b>	<b>48,800</b>	<b>42,177</b>	<b>-6.7%</b>	<b>-13.6%</b>	<b>213,489</b>	<b>173,432</b>	<b>-18.8%</b>

Source: MAA, MIDFR

## EXHIBIT 3: APRIL 2016 TIV SUMMARY BY SEGMENT

Segment	Apr-15	Mar-16	Apr-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Apr-15	Apr-16
National cars	22,556	23,164	19,375	-14.1%	-16.4%	107,391	85,781	-20.1%	50.3%	49.5%
Non-nationals	22,631	25,636	22,802	0.8%	-11.1%	106,098	87,651	-17.4%	49.7%	50.5%
<b>Total</b>	<b>45,187</b>	<b>48,800</b>	<b>42,177</b>	<b>-6.7%</b>	<b>-13.6%</b>	<b>213,489</b>	<b>173,432</b>	<b>-18.8%</b>		

Source: MAA, MIDFR

## EXHIBIT 4: TIV FORECAST

	2013	2014	2015	2016F	2017F
Proton	138,683	115,783	102,175	81,740	82,557
Perodua	196,071	195,579	213,307	206,530	213,336
Toyota	91,185	102,035	93,760	77,832	84,084
Honda	51,544	77,495	94,902	88,259	92,672
Nissan	53,156	46,352	47,235	46,970	47,710
Mazda	9,197	11,382	14,325	14,989	16,788
Others	115,957	117,839	100,927	110,312	95,752
<b>Total</b>	<b>655,793</b>	<b>666,465</b>	<b>666,631</b>	<b>626,633</b>	<b>632,899</b>
<b>Market Share</b>					
Proton	21.1%	17.4%	15.3%	13.0%	13.0%
Perodua	29.9%	29.3%	32.0%	33.0%	33.7%
Toyota	13.9%	15.3%	14.1%	12.4%	13.3%
Honda	7.9%	11.6%	14.2%	14.1%	14.6%
Nissan	8.1%	7.0%	7.1%	7.5%	7.5%
Mazda	1.4%	1.7%	2.1%	2.4%	2.7%
Others	17.7%	17.7%	15.1%	17.6%	15.1%
<b>Growth</b>					
Proton	-1.7%	-16.5%	-11.8%	-20.0%	1.0%
Perodua	3.7%	-0.3%	9.1%	-3.2%	3.3%
Toyota	-13.3%	11.9%	-8.1%	-17.0%	8.0%
Honda	47.5%	50.3%	22.5%	-7.0%	5.0%
Nissan	46.6%	-12.8%	1.9%	-0.6%	1.6%
Mazda	45.2%	23.8%	25.9%	4.6%	12.0%
Others	1.1%	1.6%	-14.4%	9.3%	-13.2%
<b>Total</b>	<b>4.5%</b>	<b>1.6%</b>	<b>0.0%</b>	<b>-6.0%</b>	<b>1.0%</b>

Source: MAA, MIDFR

## VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY16F	CY17F	CY16F	CY17F	(x)	(%)	(%)	Price (RM)	Upside (%)
B.Auto	Buy	2.28	19.0	19.8	12.0	11.5	3.5	35.7	4.2	2.60	18.2
Tan Chong	Neutral	2.02	5.2	8.1	38.8	24.9	0.6	2.7	0.8	2.50 (UR)	N/A
UMW	Neutral	5.63	27.6	27.1	20.4	20.8	1.4	5.0	1.8	6.00 (UR)	8.4
<b>Sector average</b>					<b>23.8</b>	<b>19.1</b>	<b>1.8</b>	<b>14.5</b>	<b>2.3</b>		

Source: Bloomberg, Companies, MIDFR; (UR): Under Review

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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.