

24 June 2019 | Sector Update

# Automotive

**Maintain POSITIVE**

## ***Strong May against a weak base***

### **INVESTMENT HIGHLIGHTS**

- **Strong growth in May19 TIV came off a weak base**
- **Marked improvement for Proton**
- **Expecting contraction in coming months**
- **MBM (TP: RM4.20) and BAuto (TP: RM2.85) remain our top sector picks**

**Strong growth off a weak base.** May 2019 TIV grew some 41%yoy to 60,780 units with growth coming from across the board led by Toyota and Proton. However, this was partly due to a weak base in May 2018, where consumers held back purchases ahead of the GE14 elections. May 2019 TIV also represents a 22%mom growth driven by pre-Raya campaigns. Year-to-date TIV of 253,808 units (+12.7%) is in-line accounting for 42% of our 2019F TIV of 599K units.

**Proton pushes on.** Proton was one of the strongest performers in May19, growing by some 159%yoy. Sales of the X70 have been driving Proton's performance this year, but it seems the slowdown in demand for its legacy models year-to-date was addressed in May19 following launch of the facelift Persona and Iriz in late Apr19. The facelift Iriz is RM1100-RM4100 cheaper despite upgrades and added kits, while the facelift Persona is up to RM5000 cheaper. Meanwhile the Exora RC was launched late May19. Our recent visit to a dealership suggests a 1-2 weeks waiting period for the X70 (depending on color and variant) with increased shipments of the CBU X70 (2-3 times a month).

**Perodua's growth came off a record base last year.** Perodua registered single-digit year-on-year growth in May19, but we note that Perodua was relatively unaffected by the slowdown in sales ahead of the GE14 in May last year. To give a sense of this, Perodua TIV was up 28%yoy in May18 versus a 15% contraction for the overall sector given the new MyVi which was launched late 2017. Still, we expect Perodua to register a new record this year at 241K units, representing 6%yoy growth (YTD: +8.5%).

**Expecting contraction next few months.** We expect TIV to weaken sequentially in Jun19 given a shorter working month. More importantly, we think year-on-year, TIV will start showing a contraction against an inflated base during June-August 2018 tax holiday period. To recap, June-August 2018 TIV grew by some 27%-41%yoy.

**MBM remains our top pick.** We reaffirm our BUY call on MBM (TP: RM4.20) as a cheap play into Perodua's record TIV. Key catalysts: (1) Strong 6%yoy Perodua TIV expansion (FY19F) on the back of the Aruz to fill up a vacuum in Perodua's model mix (2) A recovery in industry production driven by the new national car launches (3) Disposal of loss making alloy wheel operations. Risk to our call is weaker than expected demand for the Aruz and a weak Ringgit.

### **EXHIBIT 1: MAY 2019 TIV SUMMARY**

Marques	May-18	Apr-19	May-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									May-18	May-19
Proton	4,091	7,011	10,611	159.4%	51.3%	20,933	35,903	71.5%	9.5%	17.5%
Perodua	21,980	22,141	22,945	4.4%	3.6%	97,487	105,745	8.5%	51.1%	37.8%
Toyota	2,027	5,465	6,842	237.5%	25.2%	20,227	26,029	28.7%	4.7%	11.3%
Honda	8,046	6,175	10,509	30.6%	70.2%	39,936	38,874	-2.7%	18.7%	17.3%
Nissan	2,038	1,608	2,103	3.2%	30.8%	8,918	8,877	-0.5%	4.7%	3.5%
Mazda	616	1,302	1,060	72.1%	-18.6%	5,182	5,673	9.5%	1.4%	1.7%
Others	4,185	6,262	6,710	60.3%	7.2%	32,529	32,707	0.5%	9.7%	11.0%
<b>Total</b>	<b>42,983</b>	<b>49,964</b>	<b>60,780</b>	<b>41.4%</b>	<b>21.6%</b>	<b>225,212</b>	<b>253,808</b>	<b>12.7%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDF

**BAuto (TP: RM2.85) remains a BUY.** From a valuation standpoint, BAuto is cheap at just 10.8x CY19F earnings while dividend yield of 7% is very attractive. Key catalysts: (1) Launch of the CX8 in Oct/Nov19 and CX30 in 2HFY20 (2) Dividend outperformance (3) Over 50% increase in FY20F export volumes driven by the CX8 (4) Potential NAP incentives to drive CBU exports (5) Potential localisation of the CX30.

## VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY18F	CY19F	CY18F	CY19F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	2.60	18.8	22.2	13.9	11.7	4.82	46.7	7.4	2.85	17.0
Tan Chong	NEUTRAL	1.59	18.6	13.9	8.5	11.4	0.37	3.3	2.5	1.65	6.3
UMW	NEUTRAL	5.49	29.2	37.6	18.8	14.6	1.76	12.0	1.8	5.85	8.3
MBM	BUY	2.93	43.1	47.4	6.8	6.2	0.77	9.6	3.9	4.20	47.3
<b>Average</b>					<b>12.8</b>	<b>10.5</b>	<b>1.9</b>	<b>17.9</b>	<b>3.9</b>		

Source: Bloomberg, Companies, MIDF

## EXHIBIT 2: MAY 2019 TIV SUMMARY BY VEHICLE TYPE

Segment	May-18	Apr-19	May-19	YoY	MoM	YTD18	YTD19	YTD %
Passenger cars	40,221	45,334	55,914	39.0%	23.3%	203,299	232,362	14.3%
Commercial vehicles	2,762	4,630	4,866	76.2%	5.1%	21,913	21,446	-2.1%
<b>Total</b>	<b>42,983</b>	<b>49,964</b>	<b>60,780</b>	<b>41.4%</b>	<b>21.6%</b>	<b>225,212</b>	<b>253,808</b>	<b>12.7%</b>

Source: MAA, MIDF

## EXHIBIT 3: MAY 2019 TIV SUMMARY BY VEHICLE TYPE

Segment	May-18	Apr-19	May-19	YoY	MoM	YTD18	YTD19	YTD %	Market share	
									May-18	May-19
National cars	26,071	29,152	33,556	28.7%	15.1%	118,420	141,648	19.6%	60.7%	55.2%
Non-nationals	16,912	20,812	27,224	61.0%	30.8%	106,792	112,160	5.0%	39.3%	44.8%
<b>Total</b>	<b>42,983</b>	<b>49,964</b>	<b>60,780</b>	<b>41.4%</b>	<b>21.6%</b>	<b>225,212</b>	<b>253,808</b>	<b>12.7%</b>		

Source: MAA, MIDF

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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.