

22 August 2016 | Sector Update

# Automotive

**Maintain NEUTRAL**

## *Stuck in first gear*

### INVESTMENT HIGHLIGHTS

- July TIV saw a massive fall of 28%yoy and 26%mom
- There is a typical seasonal weakness post-Raya but the magnitude of the decline in July 2016 is worst in the past 5 years
- Near-term possible wait-and-see among buyers in anticipation of new volume model launches
- Bermaz Auto (BUY, TP: RM2.50/share) is still our top sector pick

**July numbers collapse.** The auto industry registered a massive contraction in July 2016. Total industry volume (TIV) dropped by 26%mom to 42,471 units. While there is the impact of seasonal weakness post-Raya, the magnitude of the decline in July 2016 is pretty significant. In fact, TIV also fell by some 28% on a year-on-year basis – the Raya day also fell in July in 2015, but slightly later in the middle of the month. For both 2015 and 2016, the typical festive plant closures of around two weeks occurred in the month of July.

**More than just a post-Raya weakness?** Never has a post-Raya sales volume fall been this bad in the past five years, at least – indicating underlying demand is weak and that this is not simply another post-Raya sales normalisation. Our analysis of Raya month weakness in the past five years suggest the biggest year-on-year fall in TIV was around 11% - 12%, compared to July 2016's fall of 28%yoy. Even on a month-on-month basis, July 2016 fall was the largest at -26%yoy.

### EXHIBIT 1: 2016 REGISTERED THE WORST POST-RAYA WEAKNESS IN PAST 5 YEARS

Year	2012	2013	2014	2014	2015	2015	2016
Raya Date	19th August	8th August	28th July	August post-Raya	17th July	August post-Raya	6th July
MoM TIV change for month	-12.9%	-25.3%	2.9%	-15.2%	2.1%	-8.9%	<b>-26.0%</b>
YoY TIV change for month	-11.2%	-1.4%	-11.9%	0.0%	-2.7%	4.6%	<b>-27.6%</b>


Source: MAA, Companies, MIDFR

**Crossing fingers numbers will pick up later on.** Year-to-date, TIV is still showing a contraction of 17% vs, our forecast of an 11% contraction. If annualised, the YTD TIV of 317,940 (545,040 if annualised) accounts for just 92% of our 2016 forecast of 593,302 units. We expect sales volume to improve gradually as new launches pick-up in 2H16. Among key new models include: (1) Proton Persona replacement, (2) Proton Saga replacement, (3) A Suzuki MPV model rebadge by Proton, (4) Toyota Sienta CBU, (5) Three model replacements by UMW Toyota. August TIV should improve on sequential basis due to a longer working month, while the pick-up national car centric new launches in 2H16 should support sales improvement.

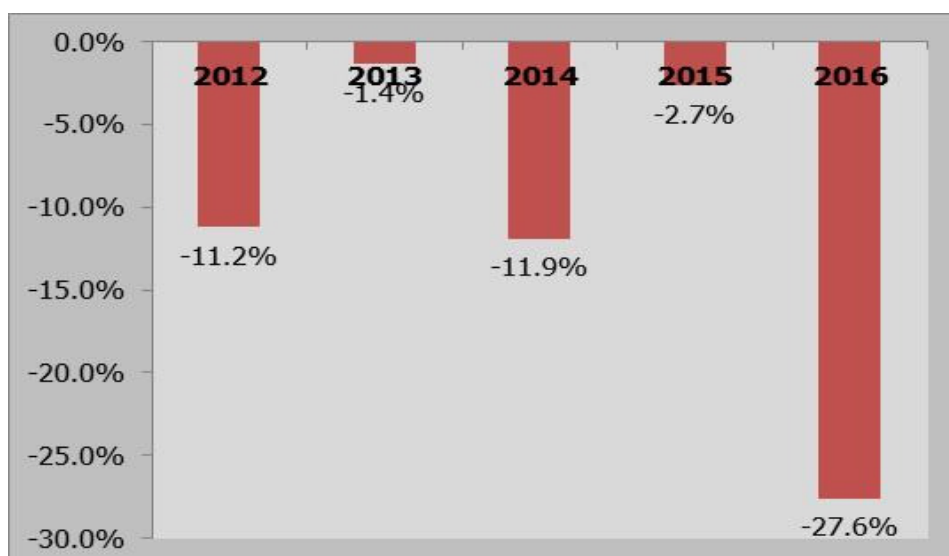
**“Wait and see” in the near-term?** Proton is scheduled to release the Persona replacement (a sedan version of the Iriz which will likely have similar dimensions as the Bezza) and the Saga replacement within the next 2 months. For the family car buyers, Proton’s upcoming Suzuki rebadge model (a compact model) could also likely trigger a delay in purchases by consumers and 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 monthly volumes of just 2000 units a month.

**Maintain NEUTRAL on autos.** Bermaz 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.

**UMW remains a NEUTRAL** (with a negative bias) at unchanged TP of RM5.30/share. UMW Oil & Gas will see further earnings pressure in 2H16 as the number of idle rigs has increased from 4 to 6 out of a total of 8 rigs. UMW’s auto division should also see some weakness in 3Q16 as the impact of the new Hilux fizzles out while the run-out of several end-of-life models might impact margins negatively. Our forecast losses for FY16F/17F are below consensus’ net profit estimates of RM217m/RM338m respectively.

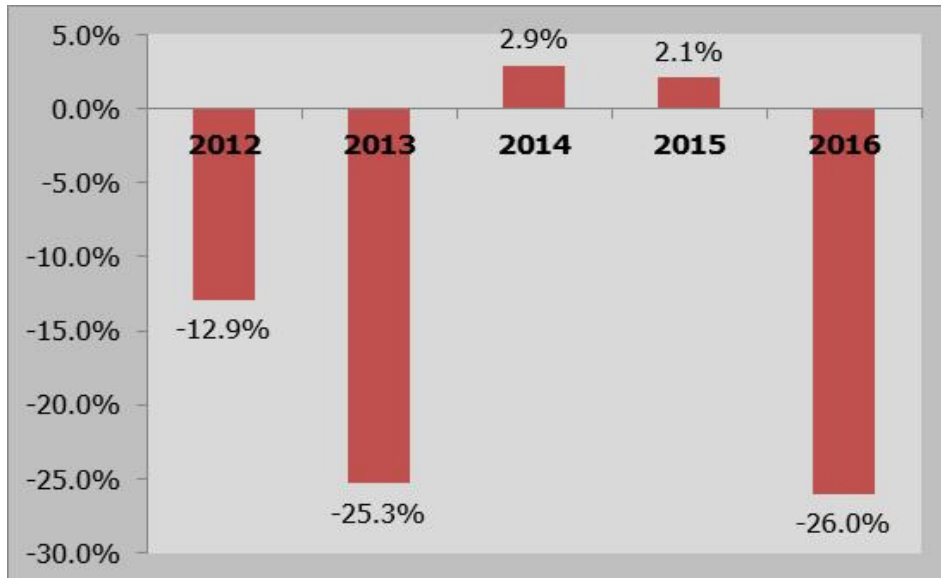
**Tan Chong also remains a NEUTRAL** at unchanged TP of RM1.95/share. Tan Chong’s balance sheet is increasingly stretched as a result of the demand downcycle but admittedly share price is already trading at depressed levels. However, there is no significant catalyst in the near-term to move the stock. Our forecast losses are now below consensus’ FY16F/17F net profit estimates of RM33m/RM51m respectively. 

## EXHIBIT 2: 2016 REGISTERED THE WORST POST-RAYA WEAKNESS IN PAST 5 YEARS (YOY CHANGE)



Source: MAA, MIDFR

### EXHIBIT 3: 2016 REGISTERED THE WORST POST-RAYA WEAKNESS IN PAST 5 YEARS (MOM CHANGE)



Source: MAA, MIDFR

### EXHIBIT 4: JULY 2016 TIV SUMMARY BY BRANDS

Marques	Jul-15	Jun-16	Jul-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Jul-15	Jul-16
Proton	10,867	6,961	3,866	-64.4%	-44.5%	61,073	39,593	-35.2%	18.5%	9.1%
Perodua	17,957	20,044	15,121	-15.8%	-24.6%	126,459	112,491	-11.0%	30.6%	35.6%
Toyota	7,308	6,803	5,028	-31.2%	-26.1%	46,104	32,277	-30.0%	12.5%	11.8%
Honda	8,443	9,254	7,827	-7.3%	-15.4%	52,039	47,481	-8.8%	14.4%	18.4%
Nissan	4,165	4,254	3,068	-26.3%	-27.9%	27,459	24,216	-11.8%	7.1%	7.2%
Mazda	1,333	1,295	686	-48.5%	-47.0%	7,915	8,032	1.5%	2.3%	1.6%
Others	8,573	8,747	6,875	-19.8%	-21.4%	59,777	53,850	-9.9%	14.6%	16.2%
<b>Total</b>	<b>58,646</b>	<b>57,358</b>	<b>42,471</b>	<b>-27.6%</b>	<b>-26.0%</b>	<b>380,826</b>	<b>317,940</b>	<b>-16.5%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

### EXHIBIT 5: JULY 2016 TIV SUMMARY

Segment	Jul-15	Jun-16	Jul-16	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	52,636	50,981	37,647	-28.5%	-26.2%	339,039	282,593	-16.6%
Commercial vehicles	6,010	6,377	4,824	-19.7%	-24.4%	41,787	35,347	-15.4%
<b>Total</b>	<b>58,646</b>	<b>57,358</b>	<b>42,471</b>	<b>-27.6%</b>	<b>-26.0%</b>	<b>380,826</b>	<b>317,940</b>	<b>-16.5%</b>

Source: MAA, MIDFR

## EXHIBIT 6: JULY 2016 TIV SUMMARY

Segment	Jul-15	Jun-16	Jul-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Jul-15	Jul-16
National cars	28,824	27,005	18,987	-34.1%	-29.7%	187,532	152,084	-18.9%	49.1%	44.7%
Non-nationals	29,822	30,353	23,484	-21.3%	-22.6%	193,294	165,856	-14.2%	50.9%	55.3%
<b>Total</b>	<b>58,646</b>	<b>57,358</b>	<b>42,471</b>	<b>-27.6%</b>	<b>-26.0%</b>	<b>380,826</b>	<b>317,940</b>	<b>-16.5%</b>		

Source: MAA, MIDFR

## VALUATION AND RECOMMENDATION

Company	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY16 F	CY17 F	CY16 F	CY17F					
B.Auto	BUY	2.30	18.9	20.4	12.2	11.3	4.5	40.2	7.4	2.50	16.1
Tan Chong	NEUTRAL	1.93	-12.2	-12.1	-15.8	-16.0	0.5	-1.5	0.0	1.95	1.0
UMW	NEUTRAL	6.12	-10.5	-1.1	-58.1	-566.7	1.2	-0.2	0.5	5.30	-12.9
<b>Sector average</b>					<b>-20.6</b>	<b>-190.5</b>	<b>2.1</b>	<b>12.8</b>	<b>2.6</b>		

Source: Bloomberg, Companies, MIDFR

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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.