

20 December 2017 | Sector Update

## Automotive

**Maintain POSITIVE**

### *TIV improves further in November*

#### INVESTMENT HIGHLIGHTS

- **November TIV grew 5%mom and 0.2%yoy; strong growth across the board yoy but Proton and Nissan dragged overall industry**
- **Mazda growth driven by new CX5 (26%yoy) while Perodua (+8%yoy) gaining with new MyVi**
- **Ringgit gains further strength, underpins sector earnings recovery moving into FY18F**
- **Bermaz Auto (BUY, TP: RM2.50/share) is our top pick for a solid 41% earnings CAGR, attractive 6% yield and value crystallisation of Philippines unit**
- **UMW is our contrarian BUY (TP: RM6.00/share) as a value play amid a turnaround in earnings, balance sheet deleveraging and early cycle play into EEV-driven structural cost reduction**
- **MBM (BUY, TP: RM2.45/share) is a deep value play and a cheap entry into Perodua's volume expansion and spillover on its parts manufacturing and Perodua dealership units. Attractive 39% earnings growth (FY18F) for less than half FY18F BV and a lean balance sheet (9% net gearing)**

**TIV sustaining growth momentum.** November TIV grew 4.6%mom and 0.2%yoy to 49,184 units. Most of the key marques staged relatively strong yoy growth except for Proton (-34%yoy) and Nissan (-31%yoy) which dragged overall industry growth. Mazda registered an exceptionally strong 26%yoy growth driven by launch of the new CX5 in October. On a mom basis, Honda (18%mom) and Toyota (+8%mom) led the growth. Proton (which was down both on yoy and mom basis) was likely to have been impacted by Perodua's launch of the MyVi in mid-November.

**Slightly stronger growth next year.** YTD TIV stands at 521,908 units (+1.3%) accounting for 96% of our 2017F TIV if annualised. Whilst we do expect December TIV to be exceptionally strong due to year-end clearance, we tune down our 2017F TIV to 588,537 units - the downward revision affects mainly our forecasts for Proton, which is revised down to 73K units from 77K units previously. For FY18F, we expect TIV to register at 598K units, representing a 1.7%yoy growth.

**Boosted by new MyVi.** Perodua saw the initial benefits from launch of the new MyVi in mid-November – despite a high base in 2016 from the Bezza, Perodua managed to register a solid 8%yoy growth in November. Bookings for the new MyVi now stand at 20K units with >80% of bookings going towards the higher variants – this compares favourably versus management's conservative target of 6K/month MyVi volume. Some 4.5k units were delivered in the first month of launch i.e. half a month's delivery.

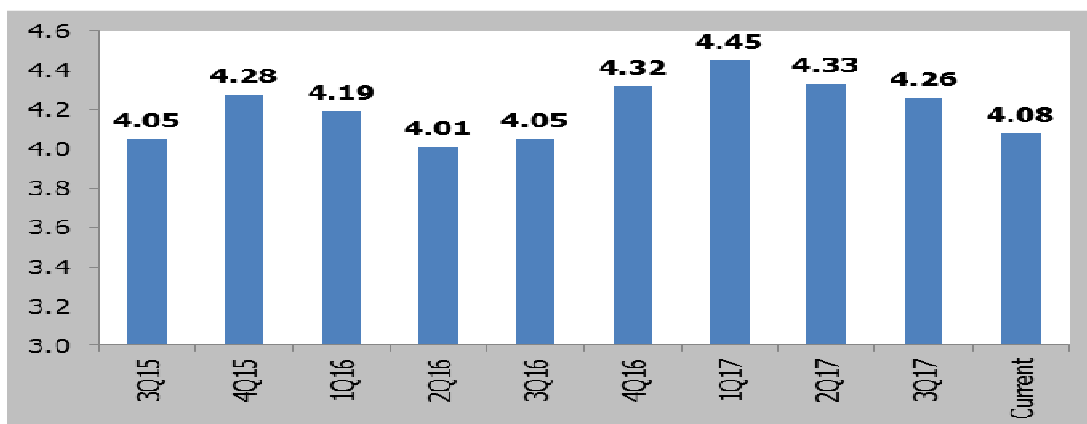
**Toyota.** Toyota's November TIV of 6,201 units (+6%yoy) was its strongest in 2017 following launch of several new facelifts in the third quarter. Meanwhile, 2018 key launches are the CBU CHR and the CBU Harrier in 1Q18, which is a long awaited debut into the SUV segment after a long absence and given the large vacuum in the group's line-up in this segment. The CHR is likely to be locally assembled from early FY19F, after the new Bukit Raja plant is completed. The most important launch for Toyota in 2018 is the new generation Camry, the first model to come off Toyota's New Global Architecture platform, which will be Toyota's base platform for core models going forward. The new Camry is a complete redesign and likely to come with entirely new and very competitive powertrain and drivetrain. The latest generation Vios is already launched in Singapore, but there is no confirmation yet whether it will be launched in Malaysia in 2018.

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

**Ringgit gained further grounds.** Since our last report, the Ringgit has strengthened further to RM4.08:USD and RM3.61:JPY(x100). This is a big positive for auto players under our coverage and underpins our bullish sector call. UMW Toyota has the largest exposure to the USD given that all its imported CKD kits and CBUs are transacted in USD. Given low localisation rates (of between 20%-60%) relative to the national makes (of 80%-95%), we estimate around half of total component costs are imported. Tan Chong meanwhile, is estimated to have circa 80% (of total imported cost) exposure to USD imports with the rest in JPY. Every 1% change in the USD impacts our FY18F by 4.7% for UMW (Group) and 16% for Tan Chong. As Tan Chong is loss making (relative to the steady state earnings of RM200m-300m/annum prior to the downcycle) it is more sensitive to forex changes now.

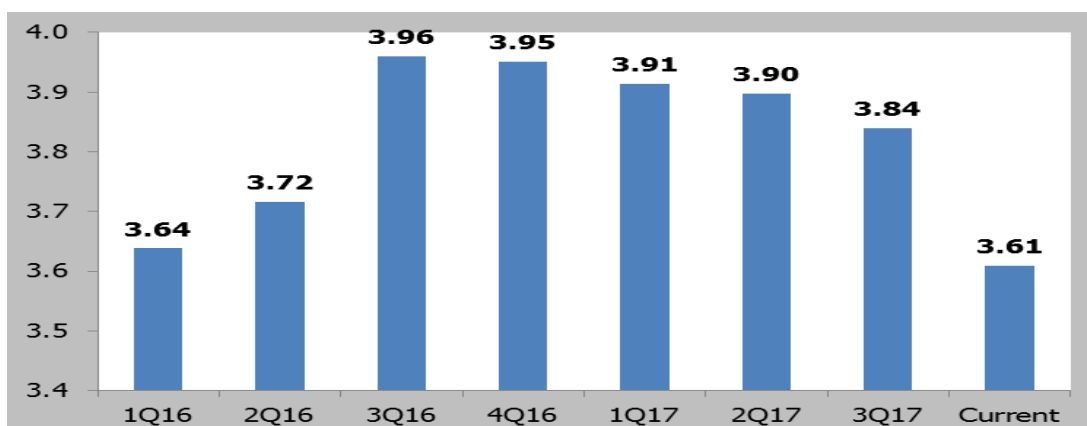
Bermaz Auto is a key beneficiary of the Ringgit strength against the JPY as its imports are 100% exposed to the latter; BAUTO is exposed to the JPY via CBU imports, whereas CKDs i.e. the CX5 and Mazda 3 models are purchased at a fixed Ringgit price from 30%-owned Mazda Malaysia Sdn Bhd (MMSB), which is the importer and assembler of Mazda CKDs. To make this possible, MMSB absorbs JPY volatilities from CKD imports; which means that MMSB also benefits from the current Ringgit strength. We estimate that every 1% strengthening of the Ringgit against the JPY impacts BAUTO's FY18F (FYE April) earnings by 3%. Perodua is another beneficiary given its exposure to the JPY (and partly USD). Every 1% change in the JPY impacts our FY18F by 1%. UMW is the largest local shareholder of Perodua with a 38% stake followed by MBM with an effective 22.6% stake.

## EXHIBIT 1: QUARTERLY USD:RM TRENDS



Source: Bloomberg, MIDFR

## EXHIBIT 2: QUARTERLY JPY:RM TRENDS



Source: Bloomberg, MIDFR

## EXHIBIT 3: EARNINGS SENSITIVITY TO FOREX

	FY18F earnings impact for every 1% change in USD/JPY
UMW Holdings	4.7%
Tan Chong	16.0%
Bermaz Auto	3.0%
Perodua	1.0%

Source: MIDFR

- BAuto (TP: RM2.50)** is our top sector pick. Key catalysts over the next 12 months:
  - A 20%yoy growth in FY18F Mazda TIV** coupled with margin expansion driven by the new CX5 from 3Q18
  - Ringgit strength** against the JPY
  - A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given export market expansion to South East Asia (ex-Vietnam) and re-acceleration in production for the domestic market.
  - Attractive dividend yield of 5%** underpinned by net cash which accounts for 12% of market cap and solid 6% FCFE yield (FY18F). Potential listing of Philippines unit will bump yields up further given possible special dividends.
  - Value unlocking from the listing of BAuto Philippines (BAP).** Current market cap attributes just 7x CY18F PE to BAuto's stake in BAP relative to the 15x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 9x CY18F earnings.
- UMW Holdings is our contrarian BUY (TP: RM6.00/share).** Key catalysts: (1) Demerger of O&G units deleverages balance sheet, drives UMW back into the black and allows better focus on core divisions (2) Reversal of prior years' market share loss, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy (3) Monetisation of UMW's 861 acres Serendah landbank which will unlock value of the asset – easily worth 40sen/share, or 6% of our SOP valuation (4) A more than quadrupling of M&E division earnings once its aerospace division reaches full scale production (5) An underleveraged balance sheet post UMWOG de-merger suggests room for acquisitive growth.
- MBM Resources (BUY, TP: RM2.45/share) is a deep value play** and provides cheap entry into Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Attractive 39%yoy earnings growth (FY18F) for less than half FY18F BV and on the back of a lean balance sheet (9% net gearing). Key catalysts: (1) Strong growth in Perodua TIV on the back of the new MyVi and potentially a new SUV to fill up a vacuum in its model mix (2) A stronger Ringgit (3) A recovery in industry production driven by new national car launches.

## EXHIBIT 4: NOVEMBER 2017 TIV SUMMARY

									Market share	
Marques	Nov-16	Oct-17	Nov-17	YoY	MoM	YTD16	YTD17	YTD %	Nov-16	Nov-17
Proton	7,336	5,083	4,810	-34.4%	-5.4%	65,067	66,190	1.7%	14.9%	9.8%
Perodua	15,448	16,491	16,636	7.7%	0.9%	182,485	184,707	1.2%	31.5%	33.8%
Toyota	6,390	6,201	6,763	5.8%	9.1%	56,410	62,255	10.4%	13.0%	13.8%
Honda	8,903	9,066	10,482	17.7%	15.6%	80,369	98,290	22.3%	18.1%	21.3%
Nissan	3,050	2,010	2,121	-30.5%	5.5%	35,902	24,890	-30.7%	6.2%	4.3%
Mazda	802	1,007	1,010	25.9%	0.3%	11,890	9,019	-24.1%	1.6%	2.1%
Others	7,156	7,183	7,362	2.9%	2.5%	83,180	76,557	-8.0%	14.6%	15.0%
<b>Total</b>	<b>49,085</b>	<b>47,041</b>	<b>49,184</b>	<b>0.2%</b>	<b>4.6%</b>	<b>515,303</b>	<b>521,908</b>	<b>1.3%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

## EXHIBIT 5: NOVEMBER 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Nov-16	Oct-17	Nov-17	YoY	MoM	YTD16	YTD17	YTD %
Passenger cars	43,550	41,668	43,152	-0.9%	3.6%	457,532	466,603	2.0%
Commercial vehicles	5,535	5,373	6,032	9.0%	12.3%	57,771	55,305	-4.3%
<b>Total</b>	<b>49,085</b>	<b>47,041</b>	<b>49,184</b>	<b>0.2%</b>	<b>4.6%</b>	<b>515,303</b>	<b>521,908</b>	<b>1.3%</b>

Source: MAA, MIDFR

## EXHIBIT 6: NOVEMBER 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Nov-16	Oct-17	Nov-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Nov-16	Nov-17
National cars	22,784	21,574	21,446	-5.9%	-0.6%	247,552	250,897	1.4%	46.4%	43.6%
Non-nationals	26,301	25,467	27,738	5.5%	8.9%	267,751	271,011	1.2%	53.6%	56.4%
<b>Total</b>	<b>49,085</b>	<b>47,041</b>	<b>49,184</b>	<b>0.2%</b>	<b>4.6%</b>	<b>515,303</b>	<b>521,908</b>	<b>1.3%</b>		

Source: MAA, MIDFR

## VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY17F	CY18F	CY17F	CY18F					
Bermaz Auto	BUY	2.17	13.2	18.6	16.4	11.7	4.7	35.2	6.3	2.50	21.5
Tan Chong	NEUTRAL	1.38	(14.3)	(12.0)	(9.7)	(11.5)	0.3	(1.6)	0.0	1.85 U.R.	34.1
UMW	BUY	5.15	12.7	32.2	40.5	16.0	0.9	5.4	0.0	6.00	16.5
MBM	BUY	2.17	17.7	24.5	12.3	8.9	0.5	5.5	2.8	2.45	15.7
<b>Average</b>					<b>23.0</b>	<b>12.2</b>	<b>1.6</b>	<b>11.1</b>	<b>2.3</b>		

Source: Bloomberg, Companies, MIDFR U.R.: Under Review

## EXHIBIT 7: THE NEW PERODUA MYVI



Source: PaulTan, MIDFR

## EXHIBIT 8: THE NEW PERODUA MYVI



Source: PaulTan, 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.