

AUTOMOTIVE

Maintain NEUTRAL

The Cracks are Starting to Show

KEY INVESTMENT HIGHLIGHTS

- **Hyundai halting production at its South Korean plants due to shortage of China-sourced parts; the first major automaker to do so outside of China.**
- **South Korean production accounts for 40% of Hyundai's global output.**
- **Hyundai's lack of manufacturing presence in South East Asia suggests local reliance on supplies from South Korea.**
- **Sime Darby Bhd (NON-RATED) is sole distributor and exclusive importer of Hyundai CBUs and CKDs, but inventory buffers could last it beyond the short-period plant closure in South Korea.**
- **Our chat with other local auto players suggests some exposure to China-sourced parts; but depending on complexity, can be substituted.**
- **Maintain NEUTRAL on autos; MBM (BUY, TP: RM4.55) and BAuto (BUY, TP: RM2.70) remain our top sector picks.**

Hyundai halting production. Hyundai Motor announced that it is halting production at its South Korean plants in Ulsan, Asan and Jeonju till Feb 11th. This is due to shortage of wiring harness parts sourced from China, which has seen extended manufacturing plant shutdowns as a result of the coronavirus outbreak. Hyundai's South Korean production accounts for some 40% of global output. This development underpins our sector report yesterday alluding to the possible spillover impact of China's manufacturing shutdown on the automotive industry's complex global supply chain.

South Korea is likely source of supplies for Malaysia. Sime Darby is the official distributor of Hyundai vehicles in Malaysia. Hyundai Motor does not operate manufacturing plants in South East Asia, with plants in closest proximity to this region being its India, China and South Korea plants. CKD models in Malaysia are contract assembled by Inokom Corporation in Kulim, Kedah. Given Hyundai's lack of manufacturing presence in this region, kits and CBUs for Malaysia are likely to be imported directly from the South Korean plant. Hyundai CKD operations in Malaysia is small however with only ~1,400 CKD units assembled in Malaysia in 2019, against a sales volume of 2,217 units in the same year. At this juncture, the indicative closure of Hyundai's South Korean plant is only for about a week, while players typically have a buffer of 1-2 months' worth of inventories.

Checks with players yesterday. For Mazda, its local component suppliers are exposed to sourcing of certain child parts from Chinese suppliers. However, these parts are understood to be well stocked up at the moment and in an extreme scenario, can be easily substituted from other suppliers. Our chat with UMW meanwhile, indicated that it sources its kits and components from ASEAN and Japan mainly and that TMT (Toyota Motor Thailand) is unlikely to have any exposure to parts sourcing from China. Provided the components sourced from China are not extremely complex in nature, we think substitution should not be too much of an issue, though some increase in cost should be expected with temporary alternative sourcing.

COMPANY IN FOCUS

MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.55

Price @ 5th February 2020: RM3.94

- Potential beneficiary of the fuel subsidy program as demand could gravitate towards small capacity models.
- Cheapest proxy to Perodua at just 7x CY20F earnings, attractive 6% yield

Share price chart



Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM2.70

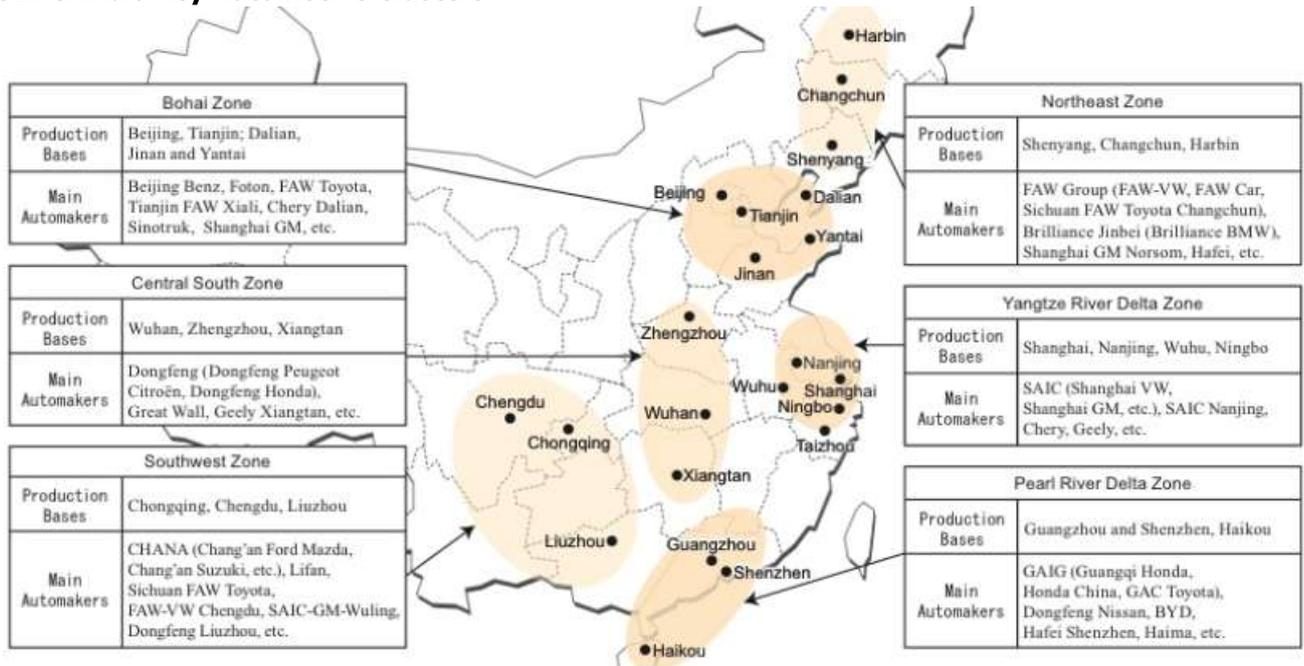
Price @ 5th February 2020: RM1.80

- Volumes to be catalyzed by launch of the CX8, facelift CX5 and CX30 in FY20F
- Solid dividend yields of 8.1%, net cash accounts for 7% of market cap, trades at just 10x CY20F earnings

Share price chart



Exhibit 1: China's Key Automotive Clusters



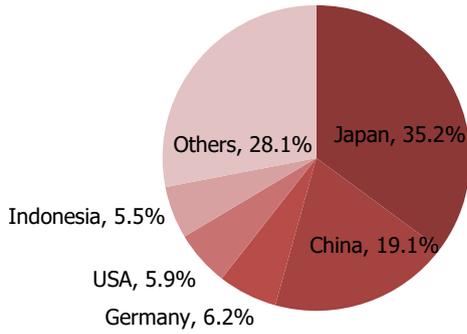
Source: Fourin, MIDFR

Exhibit 2: Hyundai Motor's Global Manufacturing Locations



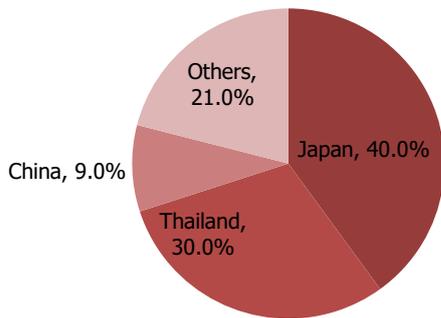
Source: Company, MIDFR

Exhibit 3: Thailand's Automotive Component Import by Region



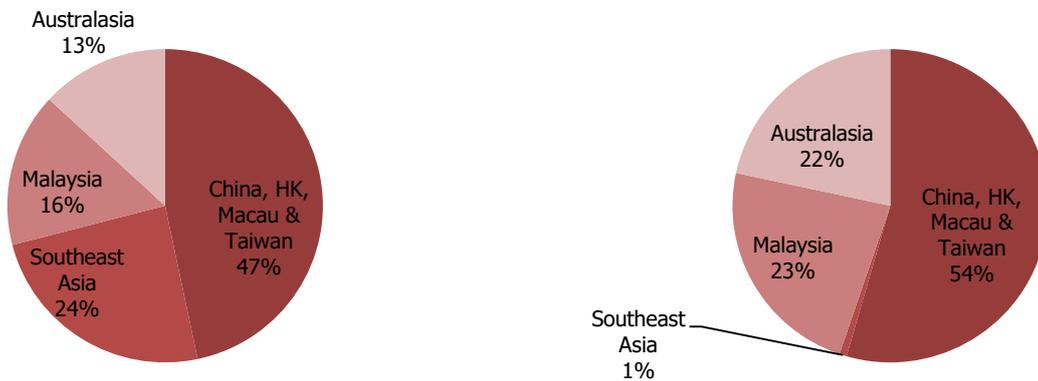
Source: IPSOS Business Consulting, MIDFR

Exhibit 4: Indonesia's Automotive Component Import by Region



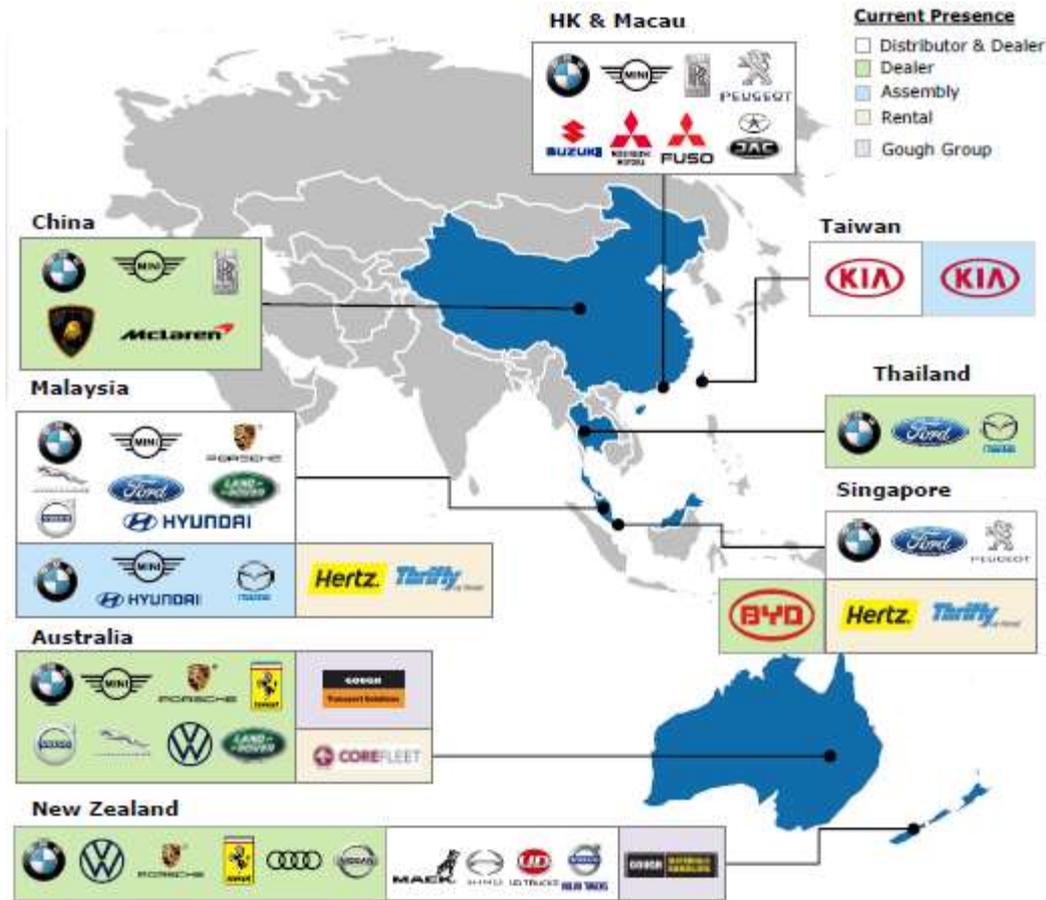
Source: IPSOS Business Consulting, MIDFR

Exhibit 5: Sime Darby Motor Revenue (Left) and PBIT (Right) by Region



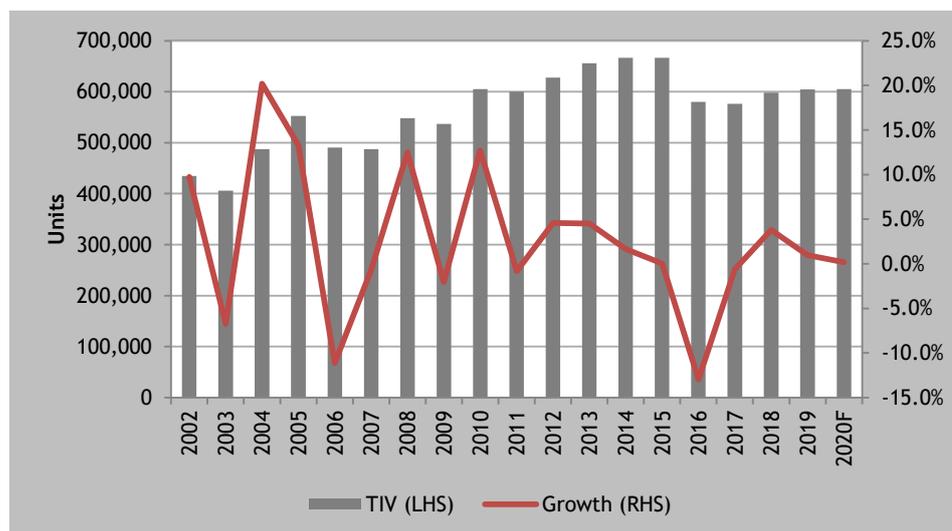
Source: Company, MIDFR * Based on 1QFY20

Exhibit 6: Sime Darby Motor Operations



Source: Company, MIDFR

Maintain Neutral on autos. In the context of the coronavirus outbreak, a demand slowdown for car sales in Malaysia might only come indirectly e.g. knock-on impact of a potential disruption/slowdown in the Chinese economy and tourism restrictions on the Malaysian economy. Still, it is too early to make a call on this depending on how long the outbreak lasts. The expected slowdown in China within this short period so far, might still be able to be compensated later in the year if the outbreak is contained in a timely manner. During the SARS outbreak in 2003 (November 2002–July 2003), Malaysia’s TIV fell by 6.7%yoy to 405,745 units. However, it is important to note that it was only Malaysia among the Big 4 auto markets in ASEAN (which also consists of Thailand, Indonesia and the Philippines) that saw a TIV contraction back then given a Malaysia-specific issue; consumers adopted a “wait and see” attitude on expectations of a fall in car prices as the Government back then revised its tariff structure in preparation for AFTA (ASEAN Free Trade Agreement).

Exhibit 6: Malaysia Historical TIV Trends


Source: MAA, MIDFR

MBM remains our top pick. We maintain our BUY on MBM Resources Bhd at unchanged TP of RM4.55. At just 7x FY20F earnings coupled with an attractive 6.7% yield, MBM remains a cheap proxy to Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Key catalysts: (1) Launch of Perodua's new B-segment SUV in FY20F (2) A recovery in industry production driven by the new national car launches (3) Disposal of OMI Alloy assets. Risk to our call is weaker than expected demand and a weaker than expected Ringgit.

Bermaz Auto (TP: RM2.70) remains a BUY. Key catalysts: (1) Launch of the CX8, facelift CX5 and CX30 in 2QFY20-3QFY20 (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 introduction of a 3rd CKD model (6) Potential brand expansion riding on Inokom's enlarged capacity and BAuto's solid balance sheet. 

PEER COMPARISON TABLE

Companies	Rating	Shr Price (RM)	PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY19F	CY20F					
Bermaz Auto	BUY	1.80	10.1	9.5	3.8	29.8	9.1	2.70	59.1
Tan Chong	NEUTRAL	1.31	17.2	11.2	0.3	2.7	3.1	1.40	9.9
UMW Holdings	NEUTRAL	4.20	14.6	12.7	1.3	10.4	2.0	4.50	9.1
MBM Resources	BUY	3.94	7.2	6.7	0.7	10.7	6.7	4.55	22.2
Sector average			12.3	10.0	1.5	13.4	5.2		

Source: Companies, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.