

23 May 2017 | Sector Update

## Automotive

**Maintain NEUTRAL**

### *Toyota leads April TIV growth*

#### INVESTMENT HIGHLIGHTS

- **Fourth consecutive month of TIV growth**
- **Strong momentum from Toyota's 2H16 EEV launches, led industry growth in Apr17**
- **Bermaz Auto (BUY, TP: RM2.50/share) remains our top pick for company-specific catalysts and special dividends**
- **UMW remains a contrarian BUY (TP: RM6.50/share) as the stock is undervalued amid a turnaround in earnings, balance sheet deleveraging and management's renewed focus on EEVs for its auto division. 11% dividend yield is attractive**

**Positive industry growth maintained.** April TIV registered its 4<sup>th</sup> consecutive month of growth. April TIV registered at 42,746 units, a 1.3%yoy growth. On sequential basis, this is a sharp decline of 20%mom but is due to the inflated base in Mar17 which was driven by the rush of deliveries for specific companies with financial year ending in March. On top of this, Apr17 TIV might have been impacted by the confusion regarding the sudden increase in excise duties for <1.5litre MPVs and SUVs; the duties have been readjusted to its original rates towards the middle of the month. Year-to-date, TIV registered at 183,585 units, still showing a healthy 6% growth. If annualised, the YTD TIV would account for 94% of our 2017F target of 589K units, despite the 1Q typically being the weakest (and shortest) quarter in a year.

**Key gainers.** The growth in April was again, led by Toyota (+42%yoy). This is despite key competitor Honda, launching its facelift City back in Mar17. Although Toyota is only scheduled to launch new models in 2H17, the momentum from its Energy Efficient Vehicle launches towards end 2016 i.e. the facelift Vios and new Innova, has been pretty strong. The new CHR had been previewed to the public last week but at this juncture, there is no firm indication on its launch date. As it is, Toyota's market share has already expanded to 13.6% in Apr17 from just 9.7% a year ago. Meanwhile, Proton was the next strongest, growing by 25%yoy off a weak base in 2016 while Honda trails closely behind (+22%yoy), driven largely by the new City. Honda is scheduled to launch the all new Jazz in Aug17 and this should be a big driver for it in the 2<sup>nd</sup> half.

**Ringgit gains strength.** In recent weeks, the Ringgit has strengthened quite significantly (both against the USD and JPY). While it is too early to call a trend, this is nevertheless, broadly positive for sector earnings moving into the second quarter. All the auto players under our coverage will benefit from the stronger Ringgit i.e. BAuto mainly from the JPY and UMW / Tan Chong from the weaker USD. For BAuto, every 1% change in the JPY will impact FY18F earnings by 3%. For UMW and Tan Chong, every 1% change in the USD will impact FY17F by 6.5% and 35% respectively (Tan Chong is forecasted to register losses in FY17F/18F).

## EXHIBIT 1: RINGGIT STRENGTHENING AGAINST USD




Source: Bloomberg, MIDFR

## EXHIBIT 2: RINGGIT STRENGTHENING AGAINST JPY



Source: Bloomberg, MIDFR

**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 9%** underpinned by net cash which accounts for 12% of market cap and solid 8% FCFE yield (FY17F). The listing of BAuto Philippines will bump yields up further given potential one-off special dividends. **(2) Value unlocking from the listing of BAuto Philippines (BAP).** Current market cap attributes practically no value to BAuto's stake in BAP relative to the 16x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 9x CY17F earnings. **(3) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market. **(4) Launch of the new CX5 and new CX9** which will drive a recovery in volumes and margins.

**UMW remains a contrarian BUY** at unchanged TP of RM6.50/share. (1) Demerger of O&G units will deleverage balance sheet, drive earnings turnaround and allow better focus on core divisions (2) Reversal of prior years' market share loss given UMW Toyota's renewed focus on EEV models which will drive structural cost reduction and price advantage (3) A more than quadrupling of M&E division earnings once its aerospace division reaches full scale production (4) UMW is underowned and at 12x FY18F earnings, trades below its historical average PER of 13.5x. (5) An attractive 11% dividend yield if investors were to realise the value of UMWOG shares to be redistributed to UMW's shareholders by Jul17. 

### EXHIBIT 3: APRIL 2017 TIV SUMMARY

Marques	Apr-16	Mar-17	Apr-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Apr-16	Apr-17
Proton	4,477	6,070	5,616	25.4%	-7.5%	23,702	24,992	5.4%	10.6%	13.1%
Perodua	14,898	19,459	14,378	-3.5%	-26.1%	62,079	64,643	4.1%	35.3%	33.6%
Toyota	4,089	6,162	5,818	42.3%	-5.6%	14,305	22,321	56.0%	9.7%	13.6%
Honda	5,964	10,994	7,283	22.1%	-33.8%	24,741	34,566	39.7%	14.1%	17.0%
Nissan	3,015	2,626	2,160	-28.4%	-17.7%	13,788	8,149	-40.9%	7.1%	5.1%
Mazda	1,305	818	988	-24.3%	20.8%	4,857	3,070	-36.8%	3.1%	2.3%
Others	8,429	7,588	6,503	-22.8%	-14.3%	29,960	25,844	-13.7%	20.0%	15.2%
<b>Total</b>	<b>42,177</b>	<b>53,717</b>	<b>42,746</b>	<b>1.3%</b>	<b>-20.4%</b>	<b>173,432</b>	<b>183,585</b>	<b>5.9%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

### EXHIBIT 4: APRIL 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Apr-16	Mar-17	Apr-17	YoY	MoM	YTD16	YTD17	YTD %
Passenger cars	37,893	48,355	37,741	-0.4%	-22.0%	155,266	165,271	6.4%
Commercial vehicles	4,284	5,362	5,005	16.8%	-6.7%	18,166	18,314	0.8%
<b>Total</b>	<b>42,177</b>	<b>53,717</b>	<b>42,746</b>	<b>1.3%</b>	<b>-20.4%</b>	<b>173,432</b>	<b>183,585</b>	<b>5.9%</b>

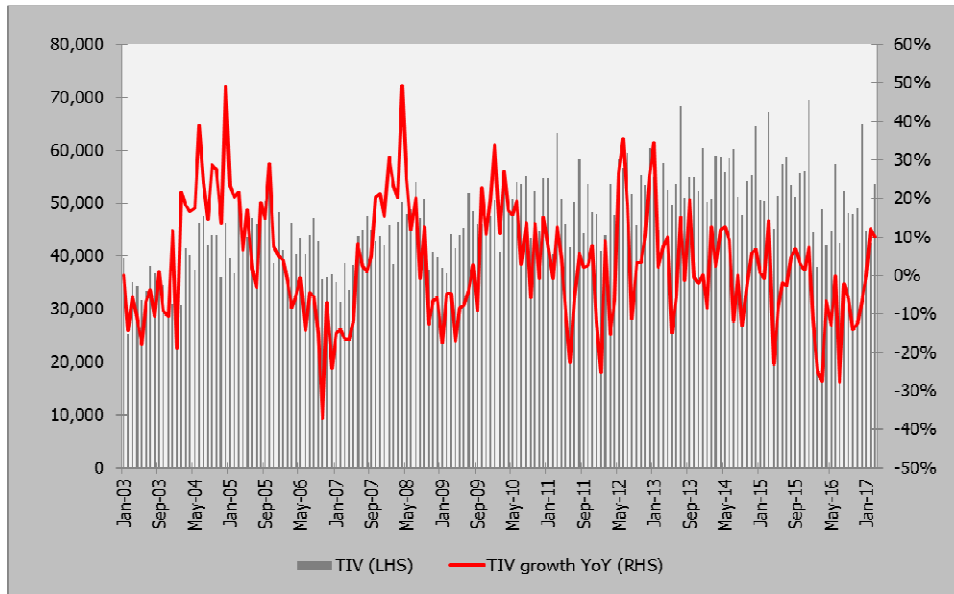
Source: MAA, MIDFR

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

Segment	Apr-16	Mar-17	Apr-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Apr-16	Apr-17
National cars	19,375	25,529	19,994	3.2%	-21.7%	85,781	89,635	4.5%	45.9%	46.8%
Non-nationals	22,802	28,188	22,752	-0.2%	-19.3%	87,651	93,950	7.2%	54.1%	53.2%
<b>Total</b>	<b>42,177</b>	<b>53,717</b>	<b>42,746</b>	<b>1.3%</b>	<b>-20.4%</b>	<b>173,432</b>	<b>183,585</b>	<b>5.9%</b>		

Source: MAA, MIDFR

## EXHIBIT 6: HISTORICAL TIV TREND



Source: MAA, MIDFR

## VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Total
Company	Rating	(RM)	CY16 F	CY17 F	CY16 F	CY17 F	(x)	(%)	(%)	Price (RM)	Upside (%)
B.Auto	BUY	2.05	17.1	20.5	12.0	10.0	4.5	40.2	8.6	2.50	30.6
Tan Chong	NEUTRAL	1.87	-19.8	-16.2	-9.4	-11.6	0.5	-1.5	0.0	1.90	1.6
UMW	BUY	5.88	31.7	48.6	18.6	12.1	0.9	-0.2	11.0	6.50	21.5
<b>Sector average</b>					<b>15.3</b>	<b>11.1</b>	<b>2.0</b>	<b>12.8</b>	<b>6.5</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.