

21 December 2016 | Sector Update

Automotive

Maintain NEUTRAL

Weak build-up to year-end campaigns

INVESTMENT HIGHLIGHTS

- **Weak build-up to year-end sales campaign**
- **Toyota regained market share post-Vios launch**
- **Mazda sales may improve in coming months**
- **Bermaz Auto (BUY, TP: RM2.45/share) is still our top sector pick**

Weak build up to year-end sales campaigns. November TIV improved 2.5%mom to 49,085 units but is still a 12.5%yoy decline, signalling weak build-up to the typical year-end sales campaign. In comparison, November sales at least in the past 4 years registered >50K units. The weak Ringgit currently does not quite justify the exceptionally deep discounts seen in the typical year-end sales campaign. Toyota regained market share after launching the new Vios in October while Proton has yet to see impact from the Ertiga launch in late November – target volume of 1,500 units/month. Mazda sales also weakened to <1k units as the group has been trying to reduce sales of the lower margin Mazda 2 in order to defend margins. In Jan17, BAuto will be getting a batch of 1,000 units of the Mazda 2 at deeply discounted pricing from Mazda Japan, which will likely to rejuvenate sales from January next year.

Mild recovery expected in 2017. We had in our 2017 sector outlook trimmed our 2016 TIV forecast to 576,636 in anticipation of this weak build up to the year end campaigns. We also introduced our 2017 forecast of 589,033 units representing a mild 2% growth against an exceptionally weak base in 2016. Additionally, 2017 will be driven largely by full year impact of the introduction of new national car models from end 3Q16 as well as Toyota's new Vios in October.

Most of the volume model launched by key players were done in 2016, while Honda's City is only due of replacement in 2018/19. Key new launches to look out for next year could be: (1) the Perodua MyVi which is due for a replacement (though we hear variants may differ from the current line-up, if any), (2) Mazda's new CX5 (which is Mazda's bread and butter model accounting for half of volumes), and (3) Kia Rio (B-segment), Carnival (MPV) and Optima (D-segment). Tan Chong is still not firm on when it will start to launch new Nissan models after having frozen new launches since early 2016.

Currency volatility. The weak Ringgit is still a significant risk factor for autos going forward. The temporary strength in USD will raise import cost for auto players but the JPY weakness seen post US elections is positive for select players. UMW's imports are totally denominated in USD, while Tan Chong has around 85% exposure to USD imports with the rest in JPY. Bermaz Auto's imports are denominated 100% in the JPY, but it is only exposed to forex via its CBU imports which accounts for ~30% of sales. Every 1% change in JPY will impact BAuto's FY18F (FYE April) earnings by 2% and Tan Chong by 5% (FY17F). Meanwhile every 1% change in USD will impact UMW's earnings by 116% (FY17F) and Tan Chong's earnings by 21% (FY17F). The extreme sensitivity for Tan Chong and UMW is due to the fact that both companies are close to break-even in terms of profitability, which results in pronounced fluctuations to bottomline from any changes in variables.

Price hikes looming? We do not rule out further price hikes by players to offset the impact of forex volatility. Bermaz for one, did not participate in the price hikes in early 2016 as it had previously hedged its JPY exposure at around RM3.60:JPY(x100). However, these were exhausted in Apr 2016 and JPY at current elevated levels are not worth hedging. As such, management is looking to raise pricing for Mazda models across the board next year though the quantum is still uncertain at this juncture. Earlier in the year, peers like Toyota and Honda raised pricing by 3%-7% while Proton raised pricing by around 5%.

Maintain NEUTRAL on autos. Bermaz Auto (BUY, TP: RM2.45/share) is still our top sector pick: Key share price catalysts over the next 12 months: **(1) Attractive dividend yield of 7%:** Underpinned by net cash which accounts for 12% of market cap and solid 10% FCFE yield (FY17F) while listing of Philippines unit 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); and **(3) A more than doubling in associate earnings contribution:** Via 30%-owned Mazda Malaysia SB and 29%-owned Inokom, given a massive export market expansion which will triple MMSB's prospective market.

UMW remains a NEUTRAL at unchanged TP of RM5.15/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. There is possibility of significant asset impairments in its 4Q16. While consensus trimmed earnings as a reaction to UMW's weak 3Q16, our forecast losses are still below consensus' FY16F net loss of RM8m and FY17F net profit of RM222m.


Tan Chong also remains a NEUTRAL at unchanged TP of RM1.90/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 below consensus' FY16F/17F net loss estimates of RM77m/RM6m respectively. 

EXHIBIT 1: NOVEMBER 2016 TIV SUMMARY BY BRANDS

Marques	Nov-15	Oct-16	Nov-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Nov-15	Nov-16
Proton	7,169	7,640	7,336	2.3%	-4.0%	94,031	65,067	-30.8%	12.8%	14.9%
Perodua	16,931	16,148	15,448	-8.8%	-4.3%	191,763	182,485	-4.8%	30.2%	31.5%
Toyota	9,533	5,500	6,390	-33.0%	16.2%	80,630	56,410	-30.0%	17.0%	13.0%
Honda	9,240	8,204	8,903	-3.6%	8.5%	84,155	80,369	-4.5%	16.5%	18.1%
Nissan	3,701	2,454	3,050	-17.6%	24.3%	42,160	35,902	-14.8%	6.6%	6.2%
Mazda	1,258	1,004	802	-36.2%	-20.1%	12,917	11,890	-8.0%	2.2%	1.6%
Others	8,260	6,929	7,156	-13.4%	3.3%	91,574	83,180	-9.2%	14.7%	14.6%
Total	56,092	47,879	49,085	-12.5%	2.5%	597,230	515,303	-13.7%	100.0%	100.0%

Source: MAA, MIDFR

EXHIBIT 2: NOVEMBER 2016 TIV SUMMARY

Segment	Nov-15	Oct-16	Nov-16	YoY	MoM	YTD15	YTD16	YTD %
Passenger cars	49,348	42,522	43,550	-11.7%	2.4%	529,997	457,532	-13.7%
Commercial vehicles	6,744	5,357	5,535	-17.9%	3.3%	67,233	57,771	-14.1%
Total	56,092	47,879	49,085	-12.5%	2.5%	597,230	515,303	-13.7%

Source: MAA, MIDFR

EXHIBIT 3: NOVEMBER 2016 TIV SUMMARY

Segment	Nov-15	Oct-16	Nov-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Nov-15	Nov-16
National cars	24,100	23,788	22,784	-5.5%	-4.2%	285,794	247,552	-13.4%	43.0%	46.4%
Non-nationals	31,992	24,091	26,301	-17.8%	9.2%	311,436	267,751	-14.0%	57.0%	53.6%
Total	56,092	47,879	49,085	-12.5%	2.5%	597,230	515,303	-13.7%		

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	2.05	14.5	20.0	14.1	10.3	4.5	40.2	7.0	2.45	26.5
Tan Chong	NEUTRAL	1.85	-11.2	-25.5	-16.5	-7.3	0.5	-1.5	0.0	1.90	2.7
UMW	NEUTRAL	4.84	-13.8	-13.8	-35.1	-35.1	1.1	-0.2	0.5	5.15	6.9
Sector average			-3.5	-6.4	-12.5	-10.7	2.0	12.8	2.5		

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.