

AUTOMOTIVE

Maintain NEUTRAL

Weak Start to 2020

KEY INVESTMENT HIGHLIGHTS

- The auto sector started off 2020 on a weak note with a 12%yoy TIV contraction
- Proton and Toyota outperformed the industry in January, Mazda rebounded sequentially
- Covid-19 has not impacted domestic autos so far but we are wary of the knock-on impact
- Maintain NEUTRAL on autos, flat 2020F TIV growth retained at this juncture
- MBM Resources (BUY, TP: RM4.55) and Bermaz Auto (BUY, TP: RM2.70) remain our sector picks

Weak start to 2020. Total industry volume (TIV) contracted 12%yoy in Jan20 to 42,652 units (-22%mom). Though this should be largely due to a shorter working month given Chinese New Year (CNY) festivities (CNY fell on 25th Jan this year vs. 5th Feb last year), we would not rule out some sort of weakness in underlying demand playing out. Proton and Toyota staged commendable growth in Jan20, outperforming the industry's contraction. On sequential basis, Mazda staged a strong recovery (+22%mom) following resolution of pricing issues for its CX8 and CX5 facelift models which dragged Mazda TIV in Nov19-Dec19.

Cautious outlook. The Covid-19 outbreak has not impacted the domestic auto sector so far, though we note that players such as Proton and Sime Darby have direct supply and demand exposure respectively to the Chinese automotive value chain (*refer to thematic report dated 5th Feb20*). That said, we are cautious of the knock-on impact of the outbreak towards the Malaysian economy. As it is, consensus GDP growth forecasts have already been revised downwards earlier this year after a surprise underperformance in 4Q19. For now, our FY20F TIV is maintained at a flattish 0.2%yoy growth. Among the key players, both Proton and Perodua are expected to launch their B-segment SUVs this year, while Honda's City and Jazz as well as Nissan's Almera are due for replacement.

Maintain NEUTRAL on autos. MBM Resources (BUY, TP: RM4.55) remains our top sector pick. At just 6x FY20F earnings coupled with an attractive 7% dividend yield, MBM is 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 2H20F (2) A recovery in industry production driven by the new national car launches (3) Disposal of OMI Alloy assets. (4) Higher dividends from easing capex and an underleveraged balance sheet. 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 (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.



COMPANY IN FOCUS

MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.55
Price @ 2nd March 2020: RM3.55

- Beneficiary of Perodua's upcoming B-segment SUV
- Cheap proxy to Perodua at just 6x FY20F earnings
- Attractive dividend yields of 7% backed by a solid balance sheet; net cash accounts for 15% of market cap

Share price chart



Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM2.70
Price @ 2nd March 2020: RM1.76

- FY20F volumes to be catalyzed by launch of the CX8, facelift CX5 and CX30
- Well positioned to benefit from NAP 2020's export push
- Solid dividend yields of 9%, net cash accounts for 7% of market cap, trades at just 9x CY20F earnings

Share price chart



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PEER COMPARISON TABLE

		Shr Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	CY20F	CY21F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto	BUY	1.76	9.3	8.3	3.7	29.8	9.3	2.70	62.7
Tan Chong	NEUTRAL	1.25	11.4	10.5	0.3	2.7	3.2	1.30	7.2
UMW Holdings	NEUTRAL	3.16	11.7	11.1	1.0	10.4	2.2	3.40	9.7
MBM Resources	BUY	3.55	6.4	6.2	0.7	10.7	7.0	4.55	35.2
<i>Sector average</i>			<i>9.7</i>	<i>9.0</i>	<i>1.4</i>	<i>13.4</i>	<i>5.4</i>		

Source: Company MIDFR

Exhibit 1: January 2020 TIV Summary

									Market share	
Marques	Jan-19	Dec-19	Jan-20	YoY	MoM	YTD19	YTD20	YTD %	Jan-19	Jan-20
Proton	6,862	11,117	8,506	24.0%	-23.5%	6,862	8,506	24.0%	14.2%	19.9%
Perodua	20,124	18,357	17,481	-13.1%	-4.8%	20,124	17,481	-13.1%	41.5%	41.0%
Toyota	3,133	8,046	3,647	16.4%	-54.7%	3,133	3,647	16.4%	6.5%	8.6%
Honda	7,515	7,235	6,060	-19.4%	-16.2%	7,515	6,060	-19.4%	15.5%	14.2%
Nissan	2,008	2,124	1,371	-31.7%	-35.5%	2,008	1,371	-31.7%	4.1%	3.2%
Mazda	1,605	901	1,100	-31.5%	22.1%	1,605	1,100	-31.5%	3.3%	2.6%
Others	7,203	7,062	4,487	-37.7%	-36.5%	7,203	4,487	-37.7%	14.9%	10.5%
Total	48,450	54,842	42,652	-12.0%	-22.2%	48,450	42,652	-12.0%	100.0%	100.0%

Source: MAA, MIDFR

Exhibit 2: January 2020 TIV Summary by Vehicle Type

Segment	Jan-19	Dec-19	Jan-20	YoY	MoM	YTD19	YTD20	YTD %
Passenger cars	44,264	49,318	39,153	-11.5%	-20.6%	44,264	39,153	-11.5%
Commercial vehicles	4,186	5,524	3,499	-16.4%	-36.7%	4,186	3,499	-16.4%
Total	48,450	54,842	42,652	-12.0%	-22.2%	48,450	42,652	-12.0%

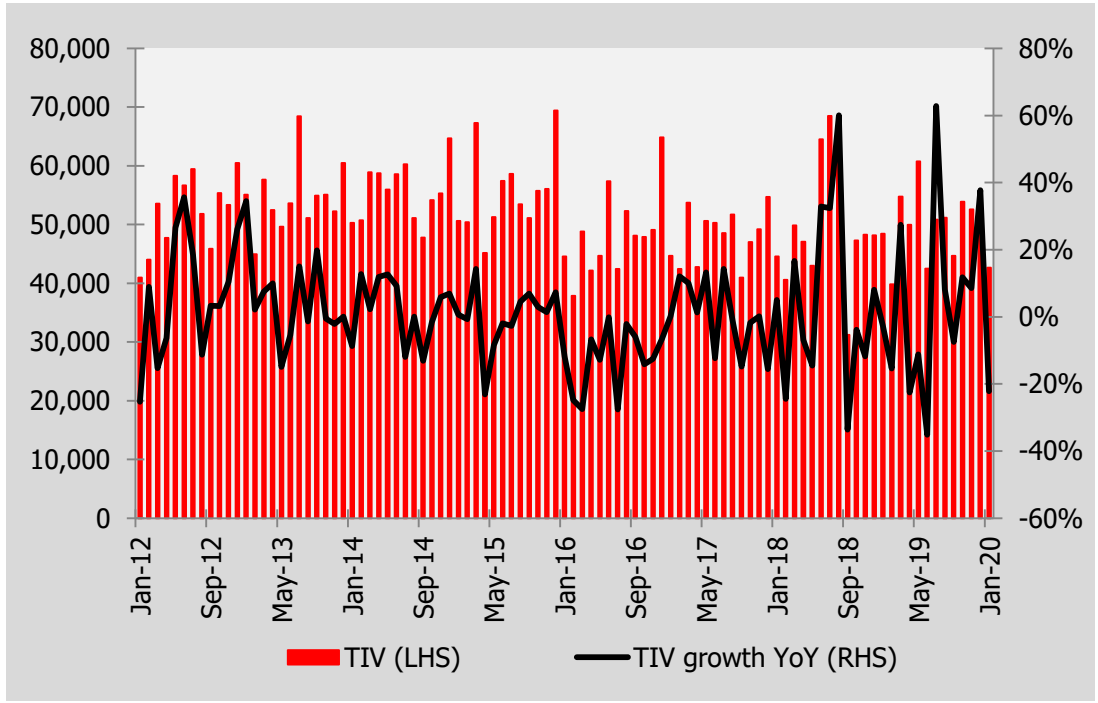
Source: MAA, MIDFR

Exhibit 3: January 2020 TIV Summary by Vehicle Type

									Market share	
Segment	Jan-19	Dec-19	Jan-20	YoY	MoM	YTD19	YTD20	YTD %	Jan-19	Jan-20
National cars	26,986	29,474	25,987	-3.7%	-11.8%	26,986	25,987	-3.7%	55.7%	60.9%
Non-nationals	21,464	25,368	16,665	-22.4%	-34.3%	21,464	16,665	-22.4%	44.3%	39.1%
Total	48,450	54,842	42,652	-12.0%	-22.2%	48,450	42,652	-12.0%		

Source: MAA, MIDFR

Exhibit 4: Historical TIV



Source: MAA, 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.