

22 March 2017 | Sector Update

Automotive

Maintain NEUTRAL

Second consecutive month of growth

INVESTMENT HIGHLIGHTS

- **February marks the 2nd consecutive month of growth**
- **Toyota regains further market share and led industry growth**
- **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.**

February TIV marks the second consecutive month of growth. TIV grew by some 12%yoy in Feb17 to 42,455 units, marking the 2nd consecutive month of growth for the auto sector since the downcycle started in Dec15. Although Feb17 TIV is down 5%mom, the weaker sequential numbers is mere seasonality given a shorter working month in Feb vs Jan. Notwithstanding seasonality e.g. festive purchases ahead of Chinese New Year, the growth can be attributed to recent new launches e.g. the five national car launches and Toyota's and Honda's new launches toward 3Q/4Q16 and early 2017. We stick to our 2017 TIV forecast of a 2%yoy growth for now, but we see selective players staging strong volume growth this year i.e. Toyota (+19%) and Proton (+20%). March-April TIV should provide a clearer picture whether this growth is an establishing trend within the sector. Notably, Jan17 hire purchase loan approval rates improved to 58% vs. an average 51% in FY16.

Toyota regains further market share. For the second consecutive month, Toyota led the growth in TIV, rising by some 55%yoy to 4,530 units (+75%ytd). The strong improvement comes off a very weak base last year, but notably, Toyota launched a major facelift of its best-selling Vios (accounts for ~30%-40% of Toyota TIV) in Oct16, which entailed new powertrain and drivetrain and a 2%-4% reduction in price tag having qualified for EEV (Energy Efficient Vehicle) incentives. Pricing for the Fortuner was also reduced by RM16,000 since Jan17 while the new Innova (also EEV qualified) was launched late 2016. The Innova now entails a 1.5 months waiting list. Toyota's market share improved to 10.7% in Feb17 vs. 7.7% a year ago.

Mixed performance for non-nationals. Honda was the next strongest (+37%yoy) following the launch of the BRV in Jan17 (a 7-seater crossover priced at ~RM85K). Contrary to industry trends, Nissan sales were down 35%yoy to 1,808 units – one of the weakest in the past decade, though we think this can be attributed to Tan Chong's strategy to freeze new launches and clear off bloated inventories. Mazda sales too were down 41%yoy, which we think is the market's knee jerk reaction to the 2%-3% price hike in Jan17 and ahead of the launch of the new CX5 and CX9 towards 2HCY17. Meantime, launches of the Mazda 2 and Mazda 3 facelifts in Mar-Apr should rejuvenate interest.

Perodua still going strong. Perodua sales were pretty strong, rising 19%yoy and +4%ytd, which compares well against its conservative forecast of a 2.5%yoy contraction. While the Bezza sales are still going strong, the MyVi model is ageing and is due for a replacement. We suspect there could be incentives in the period to push out old MyVi inventories. So far, Perodua is tight lipped on a replacement model for the MyVi.

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 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.


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 now underowned and at 12x FY18F earnings, trades below its historical average PER of 13.5x. 

EXHIBIT 1: FEBRUARY 2017 TIV SUMMARY

Marques	Feb-16	Jan-17	Feb-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Feb-16	Feb-17
Proton	5,947	7,207	6,099	2.6%	-15.4%	13,690	13,306	-2.8%	15.7%	14.4%
Perodua	14,014	14,203	16,603	18.5%	16.9%	29,552	30,806	4.2%	37.0%	39.1%
Toyota	2,917	5,811	4,530	55.3%	-22.0%	5,897	10,341	75.4%	7.7%	10.7%
Honda	5,616	8,594	7,695	37.0%	-10.5%	11,359	16,289	43.4%	14.8%	18.1%
Nissan	2,773	1,555	1,808	-34.8%	16.3%	6,423	3,363	-47.6%	7.3%	4.3%
Mazda	782	804	460	-41.2%	-42.8%	2,136	1,264	-40.8%	2.1%	1.1%
Others	5,815	6,493	5,260	-9.5%	-19.0%	13,398	11,753	-12.3%	15.4%	12.4%
Total	37,864	44,667	42,455	12.1%	-5.0%	82,455	87,122	5.7%	100.0%	100.0%

Source: MAA, MIDFR

EXHIBIT 2: FEBRUARY 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Feb-16	Jan-17	Feb-17	YoY	MoM	YTD16	YTD17	YTD %
Passenger cars	34,126	40,294	40,294	18.1%	0.0%	74,126	79,175	6.8%
Commercial vehicles	3,738	4,373	2,161	-42.2%	-50.6%	8,329	7,947	-4.6%
Total	37,864	44,667	42,455	12.1%	-5.0%	82,455	87,122	5.7%

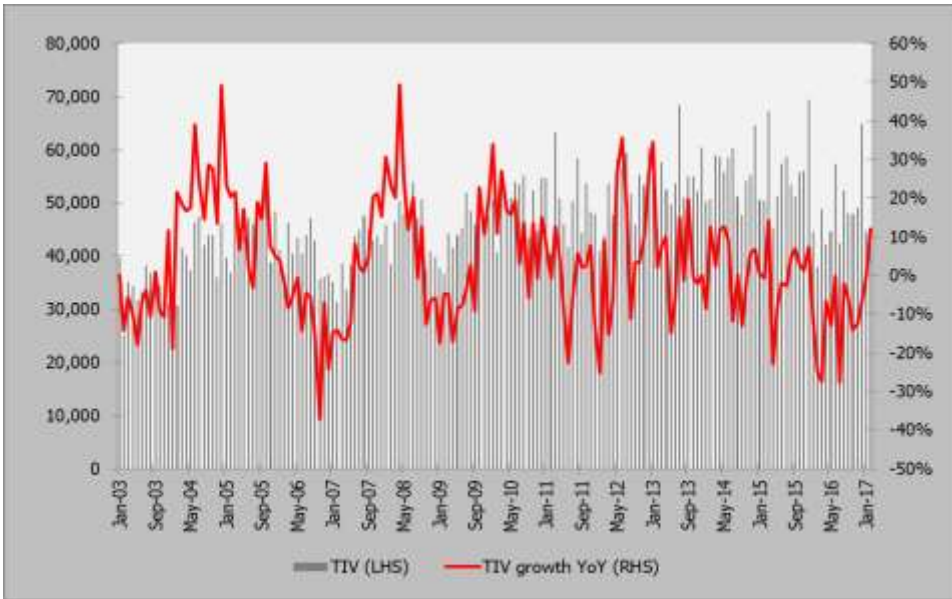
Source: MAA, MIDFR

EXHIBIT 3: FEBRUARY 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Feb-16	Jan-17	Feb-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Feb-16	Feb-17
National cars	19,961	21,410	22,702	13.7%	6.0%	43,242	44,112	2.0%	52.7%	53.5%
Non-nationals	17,903	23,257	19,753	10.3%	-15.1%	39,213	43,010	9.7%	47.3%	46.5%
Total	37,864	44,667	42,455	12.1%	-5.0%	82,455	87,122	5.7%		

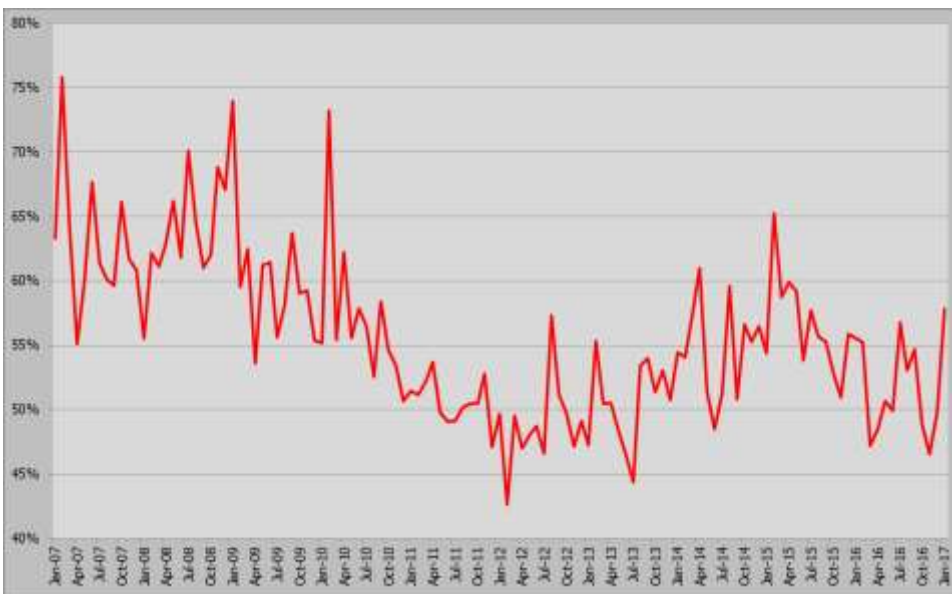
Source: MAA, MIDFR

EXHIBIT 4: HISTORICAL TIV TREND



Source: MAA, MIDFR

EXHIBIT 5: HIRE PURCHASE LOAN APPROVAL RATES IMPROVED IN JAN17



Source: BNM, 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	1.80	-19.8	-16.2	-9.1	-11.1	0.5	-1.5	0.0	1.90	5.6
UMW	BUY	6.10	31.7	48.6	19.2	12.5	0.9	-0.2	0.0	6.50	6.6
Sector average					15.6	11.3	2.0	12.8	2.9		

Source: Bloomberg, Companies, MIDFR

Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

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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.