

29 January 2016 | Sector Update

Automotive

Maintain NEUTRAL

Freeing up borrowing capacity

RELATED MEASURES IN BUDGET 2016 RECALIBRATION:

- *Government to reduce EPF contribution for employees by 3% from March 2016 to December 2017, while contribution from employers remains unchanged.*
- *Government to give special tax relief of RM2,000 to individual tax payers earning RM8,000 (and below) per month for year of assessment 2015.*

Our take:

Currently, employee EPF contribution is fixed at 11% and after March 2016, this will be temporarily reduced to 8% up till December 2017. The move will free up net income for consumers and improves borrowing capacity. As an illustration, for those earning between RM3,000 – RM10,000 a month, the amount freed up is between RM90 – RM300 a month.

If worked backwards on an assumption of: (1) a 9-year loan tenure (2) a 2.8% interest rate (3) a 90% margin of financing; the freeing up of this amount allows for increased purchasing power of between RM8,500 – RM29,000, i.e. a person who could afford a car in the RM50,000 price segment can now afford a RM58,500 – RM79,000 car based on the improved borrowing capacity (See Exhibit 1). In reality of course, we think the positive impact on borrowing capacity will likely be moderated given cautious consumer sentiment and the reluctance to build-up too much debt in an uncertain global economic environment.

On the second point, the net impact is not expected to be substantial. A RM2,000 annual tax relief translates into the freeing up of ~RM475 in net income. We think this is too small to have an impact on car purchasing decisions on top of it being a one-off benefit (and does not enhance borrowing capacity), though it might reduce the burden of down-payments for cars in the cheaper price segment.

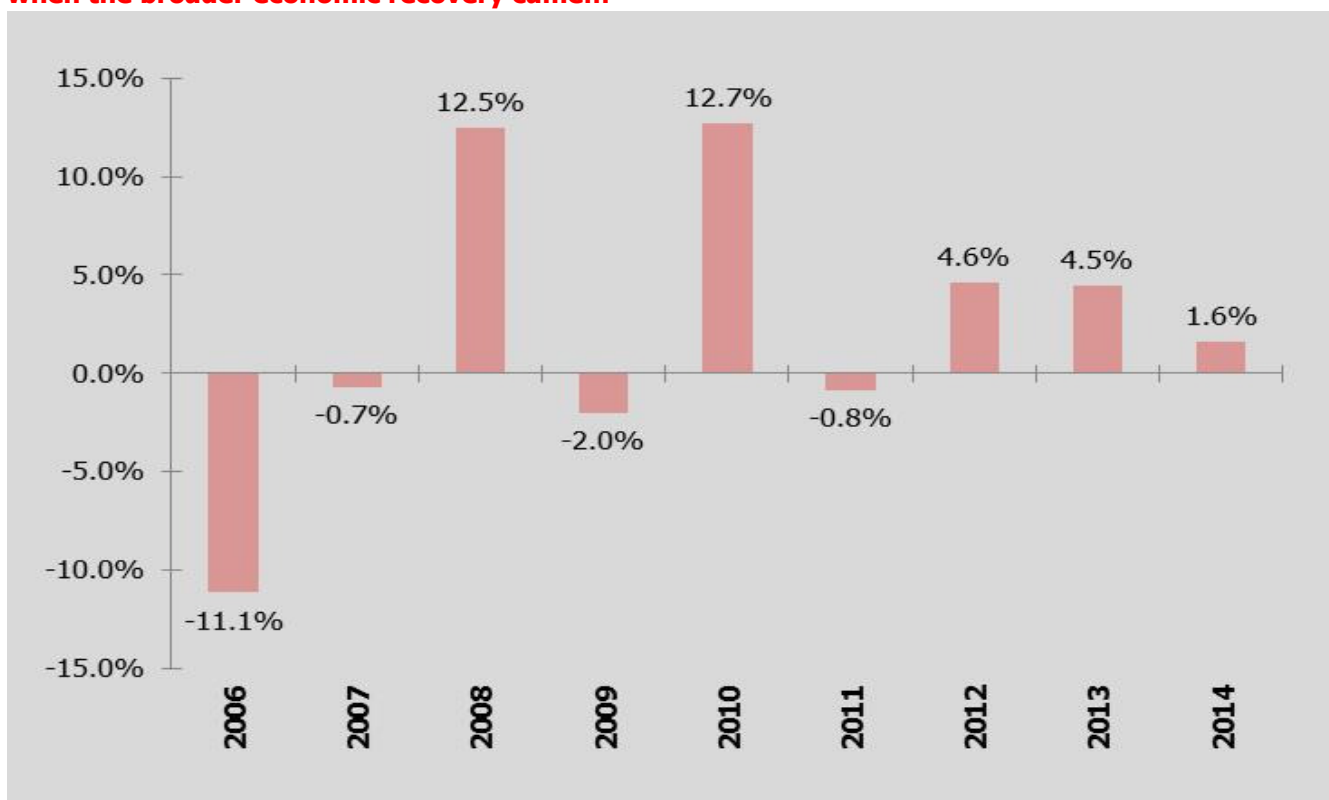
Similar measures were taken during the global financial crisis, i.e. Jan 2009 - Dec 2010 where employee EPF contribution was also reduced to 8% from 11%, albeit for a slightly longer 2-year period. 2009 TIV still contracted by 2% but in 2010, recovered by some 12.7% – TIV ended 2010 at ~605K, above pre-crisis levels (See Exhibit 2) – though this has to be taken in context with the broader economic recovery in 2010 i.e. GDP contracted 2% in 2009 but grew 8% in 2010. If history is anything to go by then what this suggests is that spending on big-ticket, discretionary consumer goods such as cars is still very much swayed by consumer confidence and employment security, despite the freeing up of disposable income. Maintain NEUTRAL on Auto sector.

EXHIBIT 1: Illustration of hypothetical improvement in purchasing power

			Variance
Interest rate	2.80%	2.80%	
Loan tenure (years)	9	9	
Car price (RM)	50,000	58,500	8,500
Loan at 90% margin of financing (RM)	45,000	52,650	
Monthly repayment (RM)	522	610	89
			Variance
Interest rate	2.80%	2.80%	
Loan tenure (years)	9	9	
Car price (RM)	50,000	79,000	29,000
Loan at 90% margin of financing (RM)	45,000	71,100	
Monthly repayment (RM)	522	824	303

Source: MIDFR

EXHIBIT 2: TIV growth still impacted negatively in 2009 but staged massive improvement in 2010 when the broader economic recovery came...



Source: MAA, MIDFR

VALUATION AND RECOMMENDATION

Companies	Rating	Share Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target	Potential
		(RM)	CY15F	CY16F	CY15F	CY16F	(x)	(%)	(%)	Price (RM)	Upside (%)
B.Auto	Buy	1.99	19.0	19.8	10.5	10.1	3.5	35.7	4.2	2.60	30.7
Tan Chong	Neutral	2.55	11.4	10.1	22.4	25.2	0.6	2.7	1.5	2.90	13.7
UMW	Neutral	6.70	31.8	30.3	21.1	22.1	1.4	5.0	1.5	6.90	3.0

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.