

22 January 2016 | MAA Monthly Statistics

# Automotive

**Maintain NEUTRAL**

## *Strong end to the year*

### INVESTMENT HIGHLIGHTS

- **The auto sector registered its fifth consecutive month of growth, but this will be short-lived as sales are inflated by pre-price hike purchases.**
- **In the non-national segment, Toyota and Honda are neck-to-neck, but the latter attains a structural cost advantage being one of the first qualifiers of the Energy Efficient Vehicle program.**
- **An “unfriendly” forex environment is a key drag to sector earnings. After a 44% earnings contraction in FY15F we expect another 3% fall. Any worse than expected volume impact from the expected price hike in Jan 2016 underpins our bearish view.**
- **Maintain NEUTRAL on autos given the persistently weak Ringgit and a muted demand outlook. Berjaya Auto (BUY, TP: RM2.60/share) is our top sector pick.**

**Fifth consecutive month of TIV growth.** The auto industry recorded its 5th consecutive month of TIV growth. December 2015 saw TIV rise 7%yoy to 69,401 units but this is inflated by consumers bringing forward purchases ahead of the price hikes from early 2016. Year-end promotions are also driving this demand rush, which we expect to be short-lived. Indications are that demand has dried up in the 1Q16 with weaker than usual pre-Chinese New Year volumes.

Year-to-date TIV of 666,674 units represents flat growth against 2014's 666,487 units and was slightly ahead of our estimate of 659,800. We had earlier expected 2015 TIV to contract and that there would have been a small recovery in 2016, but given the decision by consumers to bring forward purchases, actual 2015 TIV came in ahead while 2016F TIV might entail some downside. We currently project a conservative 666K for 2016 (which represents flattish growth against actual 2015 TIV), but we remain cautious given the upcoming price hikes and the steep cost inflation driven by a worsening forex environment. MAA's forecast of a 2.5%yoy contraction to 650,000 units for 2016 underpins our bearish view.

**Mazda outperforms by a mile.** Of the key players, Mazda was the best performer in December 2015 registering a 62%yoy growth. Honda follows by quite a distant margin at a 30%yoy growth and Toyota at +18%yoy. It is a similar trend on a full year basis, with Mazda outperforming the rest at a 26%yoy growth and Honda at +23%yoy. Both marques have been pretty aggressive with new model introduction i.e. Honda with the HRV compact SUV while Mazda with the Mazda 2 (B\_segment) and Mazda 3 CKD (C-segment) launches. Toyota has seen gradual recovery in sales since August 2015 but on a full year basis, is still down by 8%.

**Currency is the main drag.** The weak RM is expected to have a more pronounced impact on sector earnings in FY16F. To give a perspective, YTD USD:RM averaged at circa 3.90-4.00 but spot rate now stands at 4.38 (this will be largely reflected in 1H16). Second, hedges at lower rates would have expired and new hedges would eventually reflect higher exchange rates. After a 44% earnings contraction in FY15F, sector aggregate earnings is expected to decline further by 3% in FY16F. The earnings contraction is buffered by our expectation of a hike in pricing, but any worse than expected volume impact underpins our bearish view on the sector.

**We maintain NEUTRAL on the auto sector** given the persistently weak RM and a muted demand outlook, but the implementation of a vehicle scrapping policy is a much needed catalyst for us to turn less negative on the sector. Our top sector pick is Berjaya Auto (BUY, TP: RM2.60/share): (1) While there is considerable pressure from the stronger JPY, earnings is buffered by aggressive model mix expansion, i.e. the CBU CX3, Mazda 6 CKD and upcoming CKD CX3 which will expand margins and volume, (2) Potential market share wins in the near-term given its decision to remain status quo on pricing, and (3) An underleveraged balance sheet (FY16F net cash of RM252m which accounts for 10% of market cap) coupled with strong FCF yields of 7%-8% (given an asset light business model), suggests dividend upside and potential acquisitive growth. Ex-cash, BAUTO trades at just 9.7x CY16F earnings. Most importantly, current share price of RM1.93/share already implies a JPY:MYR assumption of ~3.70 (which is already at the current 12-month peak spot rates), which means there is little downside to current share price levels should the JPY:MYR rate stay at current inflated levels throughout the year.



## EXHIBIT 1: NOVEMBER 2015 TIV SUMMARY

Marques	Dec-14	Nov-15	Dec-15	YoY	MoM	YTD14	YTD15	YTD %	Market share	
									Dec-15	Dec-15
Proton	8,701	7,169	8,144	-6.4%	13.6%	115,783	102,175	-11.8%	17.4%	15.3%
Perodua	19,048	16,931	21,544	13.1%	27.2%	195,579	213,307	9.1%	29.3%	32.0%
Toyota	11,092	9,533	13,130	18.4%	37.7%	102,035	93,760	-8.1%	15.3%	14.1%
Honda	8,280	9,240	10,747	29.8%	16.3%	77,495	94,902	22.5%	11.6%	14.2%
Nissan	5,473	3,701	5,075	-7.3%	37.1%	46,352	47,235	1.9%	7.0%	7.1%
Mazda	868	1,258	1,408	62.2%	11.9%	11,382	14,325	25.9%	1.7%	2.1%
Others	11,198	8,260	9,353	-16.5%	13.2%	117,861	100,970	-14.3%	17.7%	15.1%
<b>Total</b>	<b>64,660</b>	<b>56,092</b>	<b>69,401</b>	<b>7.3%</b>	<b>23.7%</b>	<b>666,487</b>	<b>666,674</b>	<b>0.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MAA, MIDFR

## EXHIBIT 2: NOVEMBER 2015 TIV SUMMARY BY SEGMENT

Segment	Dec-14	Nov-15	Dec-15	YoY	MoM	YTD14	YTD15	YTD %
Passenger cars	55,523	49,348	61,132	10.1%	23.9%	588,363	591,172	0.5%
Commercial vehicles	9,137	6,744	8,269	-9.5%	22.6%	78,124	75,502	-3.4%
<b>Total</b>	<b>64,660</b>	<b>56,092</b>	<b>69,401</b>	<b>7.3%</b>	<b>23.7%</b>	<b>666,487</b>	<b>666,674</b>	<b>0.0%</b>

Source: MAA, MIDFR

## EXHIBIT 3: NOVEMBER 2015 TIV SUMMARY BY SEGMENT

Segment	Dec-14	Nov-15	Dec-15	YoY	MoM	YTD14	YTD15	YTD %	Market share	
									Dec-14	Dec-15
National cars	27,749	24,100	29,688	7.0%	23.2%	311,362	315,482	1.3%	46.7%	47.3%
Non-nationals	36,911	31,992	39,713	7.6%	24.1%	355,125	351,192	-1.1%	53.3%	52.7%
<b>Total</b>	<b>64,660</b>	<b>56,092</b>	<b>69,401</b>	<b>7.3%</b>	<b>23.7%</b>	<b>666,487</b>	<b>666,674</b>	<b>0.0%</b>		

Source: MAA, MIDFR

## VALUATION AND RECOMMENDATION

Companies	Rating	Share Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Potential Upside (%)
			CY15F	CY16F	CY15F	CY16F					
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.