

24 February 2016 | Sector Update

Automotive

Maintain NEUTRAL

Market has dried up, Mazda advances

INVESTMENT HIGHLIGHTS

- The auto sector kick-started 2016 on a weak note, TIV down by 12%yoy. Embrace for a weaker Feb.
- Mazda saw significant market share gains and is the only player registering a growth.
- Toyota has now fallen behind Nissan in terms of market share.
- **Maintain NEUTRAL on autos given the relatively weak Ringgit and a muted demand outlook. Berjaya Auto (BUY, TP: RM2.60/share) is our top sector pick.**

Weak start to 2016, but not entirely unexpected. The auto sector recorded a 12%yoy drop in total industry volume (TIV). TIV registered at 44,591 units, the weakest monthly volume seen in the past three and a half years. This is also a sharp 36% drop vs. the 69,401 units registered in December 2015. As we had forewarned in prior reports, this weakness is a repercussion of consumers bringing forward purchases into 4Q15 ahead of the price hikes in January 2016, which resulted in the drying up of the market and weaker than usual pre-Chinese New Year demand. The January numbers may also well reflect consumers' initial reaction to the 2% - 9% price hike implemented by Toyota and Honda (Kia and Perodua implemented price increases in 4Q15). We think February could entail even weaker numbers given: (1) The long festive holidays and a short working month, (2) Initial impact of Proton's price hike, being the 2nd largest player accounting for a 17% share of the market.

Against our forecast. If annualised, the January TIV would have only accounted for 80% of our 2016F TIV of 666K units, but it is too early to conclude if a downgrade is rendered at this point. Our recent round of visits suggests that players are expecting demand to recover in 2H16 and the weak TIV to persist up till March-April period. Most of the new launches by the major players are targeted from 2Q16 onwards i.e. Toyota's IMV models. Mazda too, is only likely to launch CKD (completely knocked down) models from mid-2016 onwards.

Mazda's market share advanced. Mazda gained significant market share in January 2016. The group's market share advanced to 3% from 1.7% in January last year and from 2% in December 2015. This is consistent with our thesis of Mazda benefiting from competitors' price hikes, on top of the boost from the new CBU CX3 (B-segment SUV, Honda HRV competitor) launched in Dec 2015. In fact out of all the major marques, only Mazda registered a growth in January 2016, and a string on at that too at +55%yoy. Perodua was the other major player that gained market share in January as we suspect the initial consumer reaction to the price hike in Oct 2015 has normalised.

Toyota has fallen to being the 3rd largest non-national. Honda's market share was flat at 12.9% (still retaining its position as the largest non-national) but the drastic fall came from Toyota whose monthly volume fell from a typical monthly run-rate of 7800-8500 units to just 2980 units in January. Toyota's market share fell from 14% last month (and 8% a year ago) to just 6.7%, behind Nissan's 8.2%.

Currency is still a big drag. The relatively weak Ringgit is expected to have a pronounced impact on sector earnings in FY16F. To give a perspective, YTD USD/MYR averaged at circa 3.90-4.00 in FY15 but spot rate now stands at 4.20 (this will be largely reflected in 1H16). Second, the key listed players i.e. UMW and Tan Chong hedges on a 3-month rolling basis, which merely delays the impact of the stronger USD by a 3-month period. 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 relatively weak Ringgit 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, exposure to JPY imports is limited to CBUs while almost half of CY16 JPY exposure is fixed at RM3.45 (2) Aggressive model mix expansion, i.e. the CBU CX3, Mazda 6 CKD and upcoming CKD CX3 which will expand margins and volume, (3) Market share wins in the near-term given its decision to remain status quo on pricing, and (4) 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.

EXHIBIT 1: JANUARY 2016 TIV SUMMARY

Marques	Jan-15	Dec-15	Jan-16	YoY	MoM	YTD15	YTD16	YTD %	Market share	
									Jan-15	Jan-16
Proton	8,900	8,144	7,743	-13.0%	-4.9%	8,900	7,743	-13.0%	17.6%	17.4%
Perodua	16,067	21,544	15,538	-3.3%	-27.9%	16,067	15,538	-3.3%	31.8%	34.8%
Toyota	4,064	13,130	2,980	-26.7%	-77.3%	4,064	2,980	-26.7%	8.0%	6.7%
Honda	6,522	10,747	5,743	-11.9%	-46.6%	6,522	5,743	-11.9%	12.9%	12.9%
Nissan	4,706	5,075	3,650	-22.4%	-28.1%	4,706	3,650	-22.4%	9.3%	8.2%
Mazda	875	1,408	1,354	54.7%	-3.8%	875	1,354	54.7%	1.7%	3.0%
Others	9,468	9,353	7,583	-19.9%	-18.9%	9,468	7,583	-19.9%	18.7%	17.0%
Total	50,602	69,401	44,591	-12%	-36%	50,602	44,591	-12%	100.0%	100.0%

Source: MAA, MIDFR

EXHIBIT 2: JANUARY 2016 TIV SUMMARY BY SEGMENT

Segment	Jan-15	Dec-15	Jan-16	YoY	MoM	YTD14	YTD15	YTD %
Passenger cars	44,697	61,132	40,000	-10.5%	-34.6%	44,697	40,000	-10.5%
Commercial vehicles	5,905	8,269	4,591	-22.3%	-44.5%	5,905	4,591	-22.3%
Total	50,602	69,401	44,591	-11.9%	-35.7%	50,602	44,591	-11.9%

Source: MAA, MIDFR

EXHIBIT 3: JANUARY 2016 TIV SUMMARY BY SEGMENT

Segment	Jan-15	Dec-15	Jan-16	YoY	MoM	YTD14	YTD15	YTD %	Market share	
									Jan-15	Jan-16
National cars	24,967	29,688	23,281	-6.8%	-21.6%	24,967	23,281	-6.8%	49.3%	52.2%
Non-nationals	25,635	39,713	21,310	-16.9%	-46.3%	25,635	21,310	-16.9%	50.7%	47.8%
Total	50,602	69,401	44,591	-12%	-36%	50,602	44,591	-12%		

Source: MAA, MIDFR

VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Potential Upside (%)
			CY15F	CY16F	CY15F	CY16F					
B.Auto	Buy	2.16	19.0	19.8	11.4	10.9	3.5	35.7	4.2	2.60	20.4
Tan Chong	Neutral	2.41	8.9	5.2	27.1	46.3	0.6	2.7	0.8	2.50	3.7
UMW	Neutral	7.07	31.8	30.3	22.2	23.3	1.4	5.0	1.5	6.90	-2.4

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.