

21 January 2014 | Automotive Sector

NAP 2014

Maintain NEUTRAL

Wooing green automotive technology

Automotive as an important component of the economy. Automotive industry contributes circa RM30 billion to the nation's GDP in 2013 and provides employment to about 550,000 workers. The NAP 2014 is expected to "transform Malaysia's automotive industry to be one of the important components for our economy." Hence the industry can help support our Vision 2020 aspiration of a high income nation as it has been identified as one of the main industries that can stimulate growth of the Malaysian economy in general. The automotive industry can be a catalyst to boost other local industries such as resource, primary, intermediate and support.

The objectives of NAP 2014. In preparing the local automotive players towards the liberalization of the industry, the NAP 2014 outlines the key directions and strategies as reflected in its main objectives:

NAP 2014: Main Objectives

1.	Promote a competitive and sustainable domestic automotive industry
2.	Malaysia as the regional hub in energy efficient vehicles (EEV)
3.	Promote increase in value-added activities
4.	Promote increase in exports of vehicles and components
5.	Promote participation of Bumiputera companies in the total value chain
6.	Safeguard consumers' interest with safer and better quality products at competitive prices

Source: MITI

The 6 roadmaps. Furthermore, the implementation of the NAP 2014 is guided by 6 roadmaps and action plans, namely (i) Malaysia Automotive Technology Roadmap (MATR); (ii) Malaysia Automotive Supply Chain Development Roadmap; (iii) Malaysia Automotive Human Capital Development Roadmap; (iv) Malaysia Automotive Remanufacturing Roadmap; (v) Development of Automotive Authorized Treatment Facilities (ATF) Framework; and (vi) Malaysia Automotive Bumiputera Development Roadmap.

Wooing green technology. In a turnaround from the previous policy of limiting the issuance of manufacturing licenses to foreign players, the NAP 2014 will be targeting to issue more licenses to foreign manufacturers in an attempt to attract selected investments, in particular green technologies for the manufacture of energy efficient vehicles (EEV). Therefore, the NAP 2014 will effectively be aligning our automotive industry towards a green technology development, guided by the Malaysia Automotive Technology Roadmap, and it is expected to be across processes, products, infrastructure and standards.

Malaysia as a regional EEV hub. The central focus of NAP 2014 is towards developing Malaysia as a hub for the production of EEV. EEV is broadly defined as vehicles that meet the pre-defined fuel efficiency threshold, and emit low carbon and other pollutants. The global definition of EEV is vehicles that meet a set of specifications in terms of (i) carbon emission level (CO₂/km), and (ii) fuel consumption (L/km). EEV includes all fuel-efficient electric, hybrid and conventional as well as alternatively fuelled vehicles. Hence EEV is not necessarily an electric vehicle, but may also be a hybrid, an efficient internal combustion, a clean diesel or others, as long as it meets the required fuel efficiency threshold. Furthermore, powertrain efficiency is not the sole factor as other considerations such as vehicle weight and aerodynamics are also important variables in meeting the fuel efficiency threshold. However, it should be noted that a migration from Euro2M to Euro4M diesel would have to be introduced first before the condition of lower carbon can be implemented.

EEV incentives not limited to manufacturing but include development of related technologies. Therefore, EEV-related manufacturing that may qualify for the incentives provided by the NAP 2014 can encompass a wide variety of technologies such as (i) efficient powertrain (electric, hybrid, internal combustion, clean diesel, etc.), as well as (ii) lightweight & strong vehicle body components, and (iii) advanced vehicle design. The incentives under NAP 2014 for both foreign and domestic direct investments (FDI and DDI) include Pioneer Status, Investment Tax Allowance, Grants (R&D and training), infrastructure facilitation, favourable tax rates, expatriates, etc.

Development of automotive supply chain. The NAP's historical focus on developing a core competency in manufacturing has inadvertently resulted in a lesser emphasis being given to the related supporting, intermediate, primary and resource sectors. Such structural imbalances have hindered the ability of the automotive industry to compete with its regional peers, and consequently its ability to maximize its contribution to the growth of the nation's economy. Therefore, via the Malaysia Automotive Supply Chain Development Roadmap, the NAP 2014 shall address the automotive sector as a whole in an effort to boost the entire automotive ecosystem. In doing so, more focus will be given for the development of the weaker or missing linkages needed to form a near self-sufficient ecosystem.

To increase exports of vehicles and components. Currently, the major end assemblers in Malaysia are largely producing for domestic consumption which is a relatively small market if viewed in a global scale. By developing the missing linkages and enhancing the weaker ones in the entire automotive ecosystem, the end assemblers will immediately be able to save cost from the improved efficiency and effectiveness of a complete value chain, while reducing the need for cross-boundary transactions. This is expected to translate into more attractively priced vehicles which are globally competitive, and as a result may increase both the industry and production volumes. In fact, one of the key objectives of the NAP 2014 is "to increase exports of vehicles and automotive component levels with at least 200,000 units of cars to be exported while exports of components will reach a minimum value of RM10 billion in 2020."

Transforming the "After Market". Via the Malaysia Automotive Remanufacturing Roadmap and the Development of Automotive Authorized Treatment Facilities (ATF) Framework, the NAP 2014 shall also transform the "After Market", which is made up of after sales industries such as workshops, service/accessories centres, recyclers (i.e. *kereta potong*) and dealers. For a start, the NAP 2014 introduces Voluntary Vehicle Inspection (VVI) policy which is meant "to enhance the awareness of Malaysians on the need to ensure roadworthiness of their cars." Perhaps later on it will introduce End of Life Vehicles (ELV) policy which may indirectly pump life into the remanufacturing and recycling industry. The cycle is completed when the recycled or remanufactured parts are channelled back into manufacturing.

In a nutshell, the NAP 2014 is expected to transform Malaysia's automotive industry to be one of the important components for our economy. The vision of Malaysia to become an EEV hub, via the development of specialised capabilities by attracting green technology transfers, is central to the policy. Furthermore, it endeavours to enhance the automotive manufacturing eco-system, reducing costs, boosting competitiveness, increasing production volumes and automotive exports of Malaysia.

Reiterate NEUTRAL. We expect no short-term boost from NAP 2014 despite its potentially long-term positive impact on the industry. Hence we maintain NEUTRAL on the Automotive and Parts sector with UMW Holdings Berhad (UMW), Tan Chong Motor Holdings Berhad (TCM) and MBM Resources Berhad (MBM) all kept NEUTRAL with target prices of RM13.15, RM6.38 and RM3.94 respectively.



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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.