

14 January 2016 | Sector Update

Automotive
*Price hike kicks in***Maintain NEUTRAL****INVESTMENT HIGHLIGHTS**

- **The two largest non-nationals Toyota and Honda announced price hikes of between 2.8% and 8.6%.**
- **The quantum was smaller than expected and only partly covers the cost of a weaker Ringgit.**
- **We remain wary of the impact on TIV, particularly in the national car segment which has shown volume deterioration.**
- **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 and may win market share in the near-term as it maintains status quo on pricing.**

Price hike kicks in. Toyota and Honda (the two largest non-nationals with a combined 28% market share) have both officially announced price increases recently. Of the two, UMW Toyota saw the bigger quantum of increase, i.e. between 3.1%-8.6%, while Honda announced a 2.77%-2.83% increase. Price of the Camry Hybrid however is maintained at RM174,900. Toyota's volume driver, i.e. the Vios (which is estimated to account for 29% of Toyota TIV), saw a 3%-4% increase while the largest increase was seen for the Hilux model, i.e. 6%-9%. Honda, which we understand transacts mainly in JPY (vs. a 100% USD exposure for UMW Toyota), saw a pretty uniformed price increase across all its models.

Quantum smaller than earlier indications. While the price increase announced by Toyota and Honda was expected since last year, the quantum of increases seems to be smaller than earlier indications of up to 16%. On our estimates, the price increase would only offset 34% of the impact of the RM weakening since Jan 2015 (for UMW Toyota). As a recap, the RM has depreciated by some 25% against the USD since Jan 2015. We estimate that if UMW Toyota were to fully offset the impact of the weaker RM over the past 12 months, average pricing had to be raised by an average 15% against the base 2015 pricing - which is triple the estimated average 5% hike that was implemented. The price hike is positive as it helps to offset skyrocketing cost from a weak RM, but we remain wary of the negative impact on TIV, amid an already weak consumer sentiment and the drying up of the market from consumers bringing ahead purchases in 4Q15.

Selective price hike already taken by Perodua. In the national car segment, we are still uncertain whether Perodua will impose a price hike this year, though both national cars hinted of this in late 2015. Recall however that Perodua had selectively increased pricing for its Axia model, specifically, the Axia G 1.0 by RM990 (+3%) in Oct 2015, from RM32,637. The second round of increase was RM1,500 (+4.5%) but this came with the inclusion of an ABS (Anti-lock Braking System) system for this variant. Since its launch in late 2014, the Axia has become Perodua's largest volume driver accounting for 48% of its TIV.

Tell-tale impact in the national car segment? More importantly, the expected price hike in the national car segment (which accounts for ~50% of TIV) will likely impact volumes negatively given the price sensitive segments they operate in. Since the price hike for the Axia was implemented on 1st Oct 2015, Perodua saw its TIV growth trend reverse to a -2%yoy and -9%yoy in Oct and Nov 2015 respectively. While admittedly, Perodua TIV was inflated in 4Q14 given the initial hype for the Axia (hence inflating the base for a year-on-year comparison), the 2%mom contraction in Nov 2015 (which is the immediate month after the price increase was announced) seems to underpin the negative volume reaction to the price hike.

Currency is still a big drag. The weak RM is expected to have a more pronounced impact on sector earnings in FY16F. To give a perspective, USD/RM averaged at circa 3.90-4.00 year-to-date 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.

More hikes coming?. BAUTO remains status quo on its pricing, consistent with its guidance, while Tan Chong and Mitsubishi Malaysia had hinted of a price increase late last year. Tan Chong is also heavily exposed to the USD and we think a price hike is inevitable. Tan Chong's operating margins had already shrunk from a steady state 6%-8% to as low as 3%-4% currently, even after the rolling back of heavy discounting last year.

BAUTO likely to win market share. BAUTO benefits from much superior margins versus UMW Toyota and Tan Chong, i.e. pretax margins of ~14% versus UMW's 8% and Tan Chong's 3%, giving it much better tolerance against the weaker RM. While we do not rule out BAUTO participating in the price hike if the RM continues to remain weak through 1H16, in the near-term, it is likely to win market share given its decision to maintain prices of its models.

We maintain NEUTRAL on the auto sector given the persistently weak RM and a muted demand outlook. 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 model mix expansion, i.e. the CBU CX3 and the upcoming Mazda 6 CKD which will expand margins and dilute contribution from the lower margin Mazda 2, and (2) 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. Meanwhile, our forecasts and recommendation for UMW (NEUTRAL, TP: RM6.90/share) is maintained pending a meeting with management soon.

EXHIBIT 1: Toyota Price Hike

Toyota Model	2015 price (post-GST)	2016 price (OTR with insurance)	Price difference	Change (%)
Vios 1.5J (MT)	RM74,750	RM77,980	RM3,230	4.32%
Vios 1.5J (AT)	RM78,649	RM81,880	RM3,231	4.11%
Vios 1.5E	RM84,367	RM87,580	RM3,213	3.81%
Vios 1.5G	RM90,114	RM93,380	RM3,266	3.62%
Vios 1.5 TRD Sportivo	RM94,945	RM97,980	RM3,035	3.20%
Corolla Altis 1.8E	RM113,930	RM120,900	RM6,970	6.12%
Corolla Altis 1.8G	RM117,961	RM123,900	RM5,939	5.03%
Corolla Altis 2.0V	RM133,715	RM138,900	RM5,185	3.88%
Camry 2.0E	RM149,900	RM154,900	RM5,000	3.34%
Camry 2.0G	RM159,900	RM164,900	RM5,000	3.13%
Camry Hybrid	RM174,900	RM174,900	RM0	0.00%
Avanza 1.3E (MT)	RM69,072	RM72,280	RM3,208	4.64%
Avanza 1.5E	RM75,787	RM78,970	RM3,183	4.20%
Avanza 1.5G	RM78,477	RM81,670	RM3,193	4.07%
Avanza 1.5S	RM80,810	RM83,980	RM3,170	3.92%
Rush 1.5G (MT)	RM98,000	RM104,910	RM6,910	7.05%
Rush 1.5G (AT)	RM100,300	RM106,900	RM6,600	6.58%
Rush 1.5S	RM103,300	RM109,900	RM6,600	6.39%
Innova 2.0E (MT)	RM97,366	RM103,980	RM6,614	6.79%
Innova 2.0E (AT)	RM102,199	RM108,480	RM6,281	6.15%
Innova 2.0G	RM109,785	RM115,980	RM6,195	5.64%
Hilux Single Cab 2.5 (MT)	RM76,388	RM82,980	RM6,592	8.63%
Hilux Double Cab 2.5 STD (MT)	RM86,225	RM92,316	RM6,092	7.06%
Hilux Double Cab 2.5G (MT)	RM94,434	RM101,334	RM6,900	7.31%
Hilux Double Cab 2.5G (AT)	RM101,318	RM107,344	RM6,026	5.95%
Hilux Double Cab 2.5G (AT) TRD	RM104,272	RM110,344	RM6,072	5.82%
Hilux Double Cab 3.0G (AT)	RM109,159	RM115,980	RM6,821	6.25%
Hilux Double Cab 3.0G (AT) TRD	RM112,086	RM118,980	RM6,894	6.15%
Fortuner 2.5G	RM169,929	RM179,174	RM9,245	5.44%
Fortuner 2.5G TRD	RM173,595	RM182,840	RM9,245	5.33%
Fortuner 2.7V	RM177,513	RM187,083	RM9,570	5.39%
Fortuner 2.7V TRD	RM181,179	RM190,776	RM9,598	5.30%
Hiace High Roof W/Van 2.5	RM108,881	RM116,300	RM7,419	6.81%
Hiace High Roof W/Van 2.7	RM102,037	RM109,300	RM7,263	7.12%

Source: PaulTan, MIDFR

EXHIBIT 2: Honda Price Hike

Honda Model	2015 price (post-GST)	2016 price (OTR with insurance)	Price difference	Change (%)
Jazz 1.5 S	RM71,775	RM73,800	RM2,025	2.82%
Jazz 1.5 E	RM78,757	RM81,000	RM2,243	2.85%
Jazz 1.5 V	RM86,986	RM89,400	RM2,414	2.78%
City 1.5 S	RM74,008	RM76,100	RM2,093	2.83%
City 1.5 S+	RM77,124	RM79,300	RM2,176	2.82%
City 1.5 E	RM82,270	RM84,600	RM2,331	2.83%
City 1.5 V	RM89,468	RM92,000	RM2,532	2.83%
HR-V 1.8 S	RM98,690	RM101,500	RM2,810	2.85%
HR-V 1.8 E	RM108,027	RM111,100	RM3,073	2.84%
HR-V 1.8 V	RM118,229	RM121,500	RM3,271	2.77%
Civic 1.8 S	RM113,199	RM116,400	RM3,201	2.83%
Civic 2.0 S	RM124,780	RM128,300	RM3,520	2.82%
Civic 2.0 Navi	RM132,211	RM135,900	RM3,689	2.79%
CR-V 2.0 2WD	RM138,070	RM141,900	RM3,830	2.77%
CR-V 2.0 4WD	RM149,152	RM153,300	RM4,148	2.78%
CR-V 2.4 4WD	RM167,888	RM172,600	RM4,712	2.81%
Accord 2.0 Vti	RM137,302	RM141,100	RM3,798	2.77%
Accord 2.0 Vti-L	RM148,201	RM152,300	RM4,099	2.77%
Accord 2.4 Vti-L	RM173,387	RM178,200	RM4,813	2.78%
Odyssey 2.4 EXV	RM248,536	RM255,500	RM6,964	2.80%

Source: PaulTan, MIDFR

VALUATION AND RECOMMENDATION

		Shr Price	EPS (sen)		PE (x)		P/BV	ROE	Div Yield	Target Price	Potential
Companies	Rating	(RM)	CY15F	CY16F	CY15F	CY16F	(x)	(%)	(%)	(RM)	Upside (%)
B.Auto	Buy	2.13	19.0	19.8	11.2	10.8	3.5	35.7	4.2	2.60	22.1
Tan Chong	Neutral	2.53	11.4	10.1	22.2	25.0	0.6	2.7	1.5	2.90	14.6
UMW	Neutral	7.37	31.8	30.3	23.2	24.3	1.4	5.0	1.5	6.90	-6.4

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.