

20 November 2017 | Sector Update

Automotive

Maintain POSITIVE

Toyota-led growth, new MyVi a boost from November

INVESTMENT HIGHLIGHTS

- **October TIV grew sequentially but slight contraction YoY; Toyota and Honda registered strong growth YoY, Proton and Nissan were the biggest drag**
- **Mazda growth driven by new CX5 while new MyVi to boost TIV from November onwards**
- **Ringgit gains further strength, underpins earnings recovery from 3Q17**
- **Bermaz Auto (BUY, TP: RM2.55/share) is our top pick for a solid 41% earnings CAGR, attractive 6% yield and value crystallisation of Philippines unit**
- **UMW is our contrarian BUY (TP: RM7.20/share) as a value play amid a turnaround in earnings, balance sheet deleveraging and early cycle play into EEV-driven structural cost reduction**
- **MBM (BUY, TP: RM2.45/share) is a deep value play and a cheap entry into Perodua's volume expansion and spillover on its parts manufacturing and Perodua dealership units. Attractive 39% earnings growth (FY18F) for less than half FY18F BV and a lean balance sheet (9% net gearing).**

TIV improves sequentially. October TIV improved sequentially, growing by 15%mom to 47,041 units. The sequential growth was led by Toyota (+43%mom) followed by Mazda (+38%mom). Toyota launched the 2.0 X variant which is the top variant for the Innova range last month while BAuto launched the new CX5 early-October. On a YoY basis TIV registered a 1.8% contraction but Toyota and Honda still charged on pretty strong at +13%yoy and +11%yoy respectively. Proton was the biggest drag on TIV registering a 34%yoy contraction followed by Nissan (-18%yoy). Perodua registered a 2%yoy growth and we see the momentum picking up significantly from November onwards. YTD, TIV registered a 1.8% growth to 472,724 units; annualised, this would already account for 95% of our FY17F.

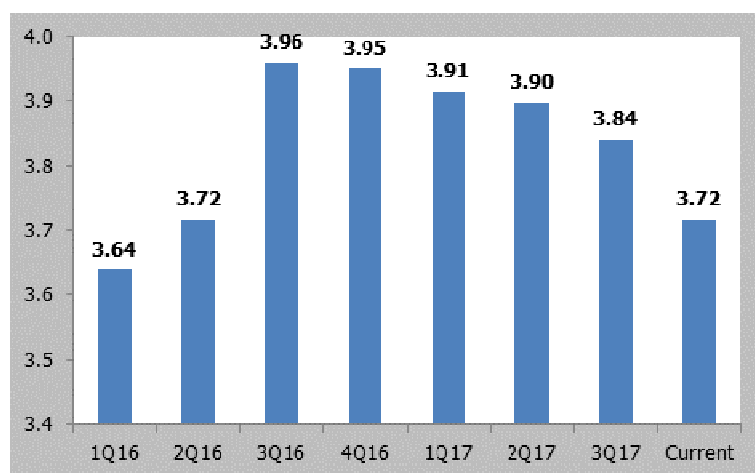
Year-end sales to be boosted by new MyVi. TIV from November onwards should improve quite significantly given launch of the new MyVi, which was the best selling model in the market for a decade before the Axia was launched. The new MyVi is a feature packed, B-segment national car-priced model comparable to Japanese and European peers. Features include 4-6 airbags, keyless entry, push start, hill-start assist among others, leading to 5-star ASEAN NCAP rating across the range. Highest variants include advanced safety such as collision warning, (autonomous) collision braking and front-departure warning. Perodua has secured 5,000 bookings for the new MyVi prior to the launch on Thursday last week with 78% of bookings going towards the higher 1.5 litre variants with the remaining 22% for the 1.3 litre variants. As at Friday last week (a day after launch), bookings have hit 6,000 units. Management targets to sell an average 6,000 units/month, which is over 30% higher than the previous MyVi's average monthly sales achieved as of 1H17. At 6,000 units/month, the MyVi would account for ~13% of the industry's monthly TIV.

Ringgit gained further grounds. Since our last report, the Ringgit has strengthened further to RM4.16:USD and RM3.71:JPY(x100). This is a big positive for auto players under our coverage and underpins our bullish sector call. UMW Toyota has the largest exposure to the USD given that all its imported CKD kits and CBUs are transacted in USD. Given low localisation rates (of between 20%-60%) relative to the national makes (of 80%-95%), we estimate around half of total component costs are imported. Tan Chong meanwhile, is estimated to have circa 80% (of total imported cost) exposure to USD imports with the rest in JPY. Every 1% change in the USD impacts our FY18F by 4.7% for UMW (Group) and 16% for Tan Chong. As Tan Chong is loss making (relative to the steady state earnings of RM200m-300m/annum prior to the downcycle) it is more sensitive to forex changes now.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

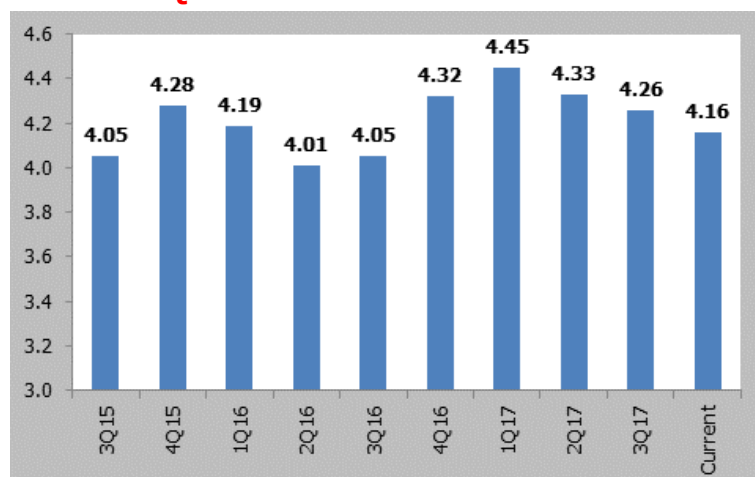
Bermaz Auto is a key beneficiary of the Ringgit strength against the JPY as its imports are 100% exposed to the latter; BAUTO is exposed to the JPY via CBU imports, whereas CKDs i.e. the CX5 and Mazda 3 models are purchased at a fixed Ringgit price from 30%-owned Mazda Malaysia Sdn Bhd (MMSB), which is the importer and assembler of Mazda CKDs. To make this possible, MMSB absorbs JPY volatilities from CKD imports; which means that MMSB also benefits from the current Ringgit strength. We estimate that every 1% strengthening of the Ringgit against the JPY impacts BAUTO's FY18F (FYE April) earnings by 3%. Perodua is another beneficiary given its exposure to the JPY (and partly USD). Every 1% change in the JPY impacts our FY18F by 1%. UMW is the largest local shareholder of Perodua with a 38% stake followed by MBM with an effective 22.6% stake.

EXHIBIT 1: QUARTERLY USD:RM TRENDS



Source: Bloomberg, MIDFR

EXHIBIT 2: QUARTERLY JPY:RM TRENDS



Source: Bloomberg, MIDFR

EXHIBIT 3: EARNINGS SENSITIVITY TO FOREX

	FY18F earnings impact for every 1% change in USD/JPY
UMW Holdings	4.7%
Tan Chong	16.0%
Bermaz Auto	3.0%
Perodua	1.0%

Source: MIDFR

Bermaz Auto remains our top sector pick at unchanged TP of RM2.55/share. Key catalysts over the next 12 months: **(1) A 30%yoy increase in FY18F TIV** driven mainly by launch of the new CX5 in Sep17 and CX9 in Nov17 **(2) A more than doubling in associate earnings contribution** to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market. **(3) Attractive dividend yield of 6%** underpinned by net cash which accounts for 10% of market cap and solid 7% FCFE yield (FY18F). The listing of BAuto Philippines will bump yields up further given potential one-off special dividends. **(4) Value unlocking from the listing of BAuto Philippines (BAP).** Current market cap attributes practically no value to BAuto's stake in BAP relative to the 15x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 8.6x CY18F earnings. **(5) A stronger Ringgit** against the JPY.

UMW Holdings is our contrarian BUY at unchanged TP of RM7.20/share. Key catalysts: **(1) Demerger of O&G units** deleverages balance sheet, drives UMW back into the black and allows better focus on core divisions **(2) Reversal of prior years' market share loss**, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy **(3) Monetisation of UMW's 861 acres Serendah landbank** which will unlock value of the asset – easily worth 39sen/share, or 6% of our SOP valuation **(4) A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production **(5) An underleveraged balance sheet** post UMWOG de-merger suggests room for acquisitive growth.


MBM Resources (BUY, TP: RM2.45/share) is a deep value play and provides cheap entry into Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Attractive 39%yoy earnings growth (FY18F) for less than half FY18F BV and on the back of a lean balance sheet (9% net gearing). Key catalysts: (1) Strong growth in Perodua TIV on the back of the new MyVi and potentially a new SUV to fill up a vacuum in its model mix (2) A stronger Ringgit (3) A recovery in industry production driven by new national car launches. 

EXHIBIT 4: OCTOBER 2017 TIV SUMMARY

Marques	Oct-16	Sep-17	Oct-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Oct-16	Oct-17
Proton	7,640	4,498	5,083	-33.5%	13.0%	57,731	61,380	6.3%	16.0%	10.8%
Perodua	16,148	14,355	16,491	2.1%	14.9%	167,037	168,071	0.6%	33.7%	35.1%
Toyota	5,500	4,323	6,201	12.7%	43.4%	50,020	55,492	10.9%	11.5%	13.2%
Honda	8,204	7,906	9,066	10.5%	14.7%	71,466	87,808	22.9%	17.1%	19.3%
Nissan	2,454	2,153	2,010	-18.1%	-6.6%	32,852	22,769	-30.7%	5.1%	4.3%
Mazda	1,004	728	1,007	0.3%	38.3%	11,088	8,009	-27.8%	2.1%	2.1%
Others	6,929	6,993	7,183	3.7%	2.7%	76,024	69,195	-9.0%	14.5%	15.3%
Total	47,879	40,956	47,041	-1.8%	14.9%	466,218	472,724	1.4%	100.0%	100.0%

Source: MAA, MIDFR

EXHIBIT 5: OCTOBER 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Oct-16	Sep-17	Oct-17	YoY	MoM	YTD16	YTD17	YTD %
Passenger cars	42,522	36,503	41,668	-2.0%	14.1%	413,982	423,451	2.3%
Commercial vehicles	5,357	4,453	5,373	0.3%	20.7%	52,236	49,273	-5.7%
Total	47,879	40,956	47,041	-1.8%	14.9%	466,218	472,724	1.4%

Source: MAA, MIDFR

EXHIBIT 6: OCTOBER 2017 TIV SUMMARY BY VEHICLE TYPE

Segment	Oct-16	Sep-17	Oct-17	YoY	MoM	YTD16	YTD17	YTD %	Market share	
									Oct-16	Oct-17
National cars	23,788	18,853	21,574	-9.3%	14.4%	224,768	229,451	2.1%	49.7%	45.9%
Non-nationals	24,091	22,103	25,467	5.7%	15.2%	241,450	243,273	0.8%	50.3%	54.1%
Total	47,879	40,956	47,041	-1.8%	14.9%	466,218	472,724	1.4%		

Source: MAA, MIDFR

VALUATION AND RECOMMENDATION

Companies	Rating	Shr Price (RM)	EPS (sen)		PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY17F	CY18F	CY17F	CY18F					
Bermaz Auto	BUY	2.08	17.1	20.5	12.1	10.2	4.5	35.2	6.3	2.55	28.9
Tan Chong	NEUTRAL	1.56	(14.3)	(12.0)	(10.9)	(13.0)	0.4	(1.6)	0.0	1.85	18.6
UMW	BUY	5.20	28.2	41.0	18.5	12.7	0.9	5.4	0.0	7.20	38.5
MBM	BUY	2.16	17.7	24.5	12.2	8.8	0.5	5.5	2.8	2.45	16.3
Average					14.3	10.5	1.6	12.4	2.3		

Source: Bloomberg, Companies, MIDFR

EXHIBIT 7: THE NEW PERODUA MYVI



Source: PaulTan, MIDFR

EXHIBIT 8: THE NEW PERODUA MYVI



Source: PaulTan, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.