

AUTOMOTIVE

Upgraded to POSITIVE

(from Negative)

Inflection Point Brought Forward

KEY INVESTMENT HIGHLIGHTS

- **Sales tax exemption for passenger cars under *PENJANA* stimulus package - a strong catalyst for auto demand; lifted TIV by ~32%yoy when previously implemented in June18-August18**
- **Preliminary checks suggest a range of 2% to 9% reduction in selling price, non-nationals likely to be bigger beneficiary.**
- **FY20F TIV raised to 554,433 units from 504,580 units; smaller 8%yoy contraction expected vs. 17%yoy previously. FY20F aggregate sector earnings revised up by 39%, implies a narrower 31%yoy contraction from 51%yoy previously.**
- **Sector set to see an inflection point from 3Q20 onwards from a strong combination of tax-holiday-induced demand, consumer liquidity and a low interest rate environment; upgrade autos to POSITIVE from NEGATIVE. BAuto (BUY, TP: RM1.95) and UMW (BUY, TP: RM3.40) are now our top sector picks.**

Getting that critical final prescription. A sales tax holiday for passenger cars was announced under the latest *PENJANA* stimulus package. Under the incentive, the current 10% sales tax (SST) will be 100% exempted for CKD models while CBU models will enjoy a partial, 50% exemption. The SST exemption will run for a period of 6.5 months from 15th June 2020 till 31st December 2020. This is slightly more than twice longer than the 2018 tax holiday which ran for 3 months from Jun18-Aug18. The incentive is timely having seen significant deterioration in car sales following the Covid19 lockdown measures and its impact on the macro condition. The dire need of an incentive similar to the 2018 tax-holiday is consistent with our argument back in April, when we turned negative on the sector (*see report titled [Nosedived in March](#)*).

Discounts galore. Savings from the SST exemption is likely to be fully passed on to consumers. Our preliminary checks with selective players over the weekend suggests a range of 2% to 9% reduction in selling price as a result of the SST exemption. As a cross check however, during the 3-month tax holiday period in 2018, car prices were reduced by 5.6% off the prior GST-based pricing but the reduction against the indicative SST-based pricing was lower at 2%-5% (See Exhibit 1).

Who's the bigger winner? The current version of vehicle SST is calculated after imputing the ex-factory cost (or docket price for CBUs) and the related import duties, excise duties and ILP (Industrial Linkage Program) incentives – as models with lower localization attracts higher effective excise duties, there is thus a snowball impact on the SST amount payable. Given that effective SST chargeable is technically higher for models with lower localization, the price reduction from the sales tax holiday is expected to be larger in absolute terms for such models, relative to a similar model with a higher local content. Non-national CKDs typically entail lower localization rate of 40%-70% versus up to 95% for the national makes, hence we expect the former to enjoy larger price reductions.

COMPANY IN FOCUS

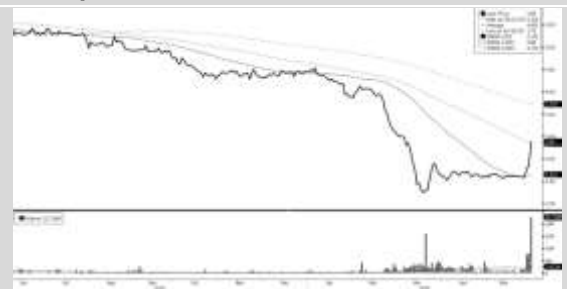
UMW Holdings Bhd

Upgraded to **BUY** | Revised Target price: RM3.40

Price @ 5th June 2020: RM2.89

- FY20F/21F earnings revised up by 26%/10% in line with upward TIV revision (for both Toyota and Perodua)
- M&E division is a bright spot, Trent 7000 fan case production to commence from 4Q20
- Potential catalyst from all new RAV4 or CKD CHR

Share price chart



Bermaz Auto Bhd

Upgraded to **BUY** | Revised Target price: RM1.95

Price @ 5th June 2020: RM1.48

- FY21F earnings now projected to more than double year-on-year
- Third CKD model a potential near-to-mid term catalyst
- Strong balance sheet (net cash of RM95m) positions group well for potential expansion

Share price chart



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SECTOR VALUATION MATRIX

Companies	Rating	Shr. Price (RM)	PE (x)		P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
			CY20F	CY21F					
Bermaz Auto	BUY	1.48	11.4	8.4	2.8	25.7	8.6	1.95	40.2
Tan Chong	NEUTRAL	1.16	(18.5)	10.1	0.3	2.3	3.4	1.15	2.5
UMW Holdings	BUY	2.89	18.2	15.1	0.9	6.3	1.1	3.40	18.9
MBM Resources	BUY	3.43	8.6	7.3	0.7	10.2	5.5	3.80	16.3

Source: Company MIDFR

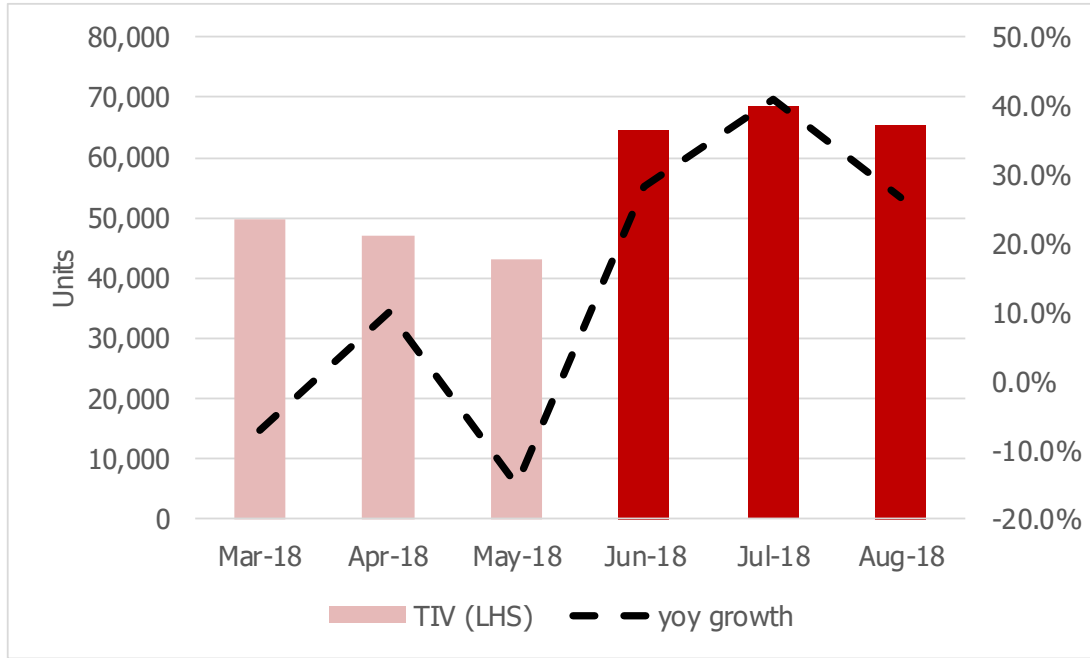
How will this impact volumes? Given this positive development, we raise our FY20F TIV to 554,433 units from 504,580 units previously (See Exhibit 7). We now expect FY20F TIV to contract by a much smaller 8.3%yoy compared to the previously expected 16.5%yoy contraction. As a yardstick, when the 3-month tax-holiday was implemented in 2018, monthly TIV during the period rose by an average 32%yoy, or in absolute terms, ~21K units/month increase against the pre-tax-holiday monthly TIV. In comparison, our revised FY20F projections imply a relatively conservative 7,800 units/month incremental TIV over the tax holiday period. The much longer 6.5-month implementation should give the sector sufficient support to ride through the weak 2H20 before an expected underlying macro improvement sets in towards end-4Q20 or early FY21F.

Exhibit 1: Price Reduction During 2018 Tax-Holiday (Sample Models & Make)

Make	Model	Pricing (RM)			Difference vs SST		Difference vs GST	
		GST-based	SST-based	No-Tax	Price (RM)	%	Price (RM)	%
Mazda	CX5 2.0 GL 2WD	135,266	132,390	127,654	4,736	-3.6%	7,612	-5.6%
Mazda	CX5 2.0 GLS 2WD	149,266	148,214	140,861	7,353	-5.0%	8,404	-5.6%
Mazda	CX5 2.5 GLS 2WD	161,657	160,004	152,573	7,431	-4.6%	9,084	-5.6%
Nissan	X-Trail 2.0 2WD	137,000	133,800	129,290	4,510	-3.4%	7,710	-5.6%
Nissan	X-Trail 2.5 4WD	159,200	153,800	150,255	3,545	-2.3%	8,945	-5.6%
Nissan	Serena Hybrid 2.0 Highway Star	135,500	131,800	127,875	3,925	-3.0%	7,625	-5.6%
Nissan	Serena Hybrid 2.0 Premium Highway Star	147,500	143,800	139,196	4,604	-3.2%	8,304	-5.6%
Nissan	Almera 1.5 E AT	72,200	69,800	68,130	1,670	-2.4%	4,070	-5.6%
Nissan	Almera 1.5 VL AT	82,000	79,800	77,375	2,425	-3.0%	4,625	-5.6%
Honda	Jazz 1.5S	72,510	70,242	68,422	1,820	-2.6%	4,088	-5.6%
Honda	Jazz 1.5E	78,540	76,316	74,110	2,206	-2.9%	4,430	-5.6%
Honda	City 1.5S	75,930	73,836	71,648	2,188	-3.0%	4,282	-5.6%
Honda	City 1.5E	82,030	79,955	77,403	2,552	-3.2%	4,627	-5.6%
Honda	BRV 1.5E	83,210	80,989	78,516	2,473	-3.1%	4,694	-5.6%
Honda	BRV 1.5V	90,010	87,701	84,931	2,770	-3.2%	5,079	-5.6%
Honda	CRV 1.5 TC 2WD	155,700	150,992	146,904	4,088	-2.7%	8,796	-5.6%
Honda	CRV 1.5 TC 4WD	161,600	156,732	152,470	4,262	-2.7%	9,130	-5.6%
Toyota	Vios 1.5G AT	87,980	87,280	83,016	4,264	-4.9%	4,964	-5.6%
Toyota	Vios 1.5S AT	93,980	93,200	88,677	4,523	-4.9%	5,303	-5.6%
Toyota	Innova 2.0 E AT	115,800	115,280	109,287	5,993	-5.2%	6,513	-5.6%
Toyota	Innova 2.0 G AT	123,800	123,400	116,834	6,566	-5.3%	6,966	-5.6%
Toyota	Innova 2.0 X AT	132,800	132,400	125,324	7,076	-5.3%	7,476	-5.6%
Perodua	MyVi 1.3 Std-G AT	46,300	44,590	43,694	896	-2.0%	2,606	-5.6%
Perodua	MyVi 1.3 Premium X AT	48,300	46,590	45,581	1,009	-2.2%	2,719	-5.6%
Perodua	Bezza 1.3 Premium X AT	43,342	41,890	40,904	986	-2.4%	2,438	-5.6%
Perodua	Bezza 1.3 Advance AT	49,177	47,790	46,409	1,381	-2.9%	2,768	-5.6%

Source: Paul Tan, MIDFR

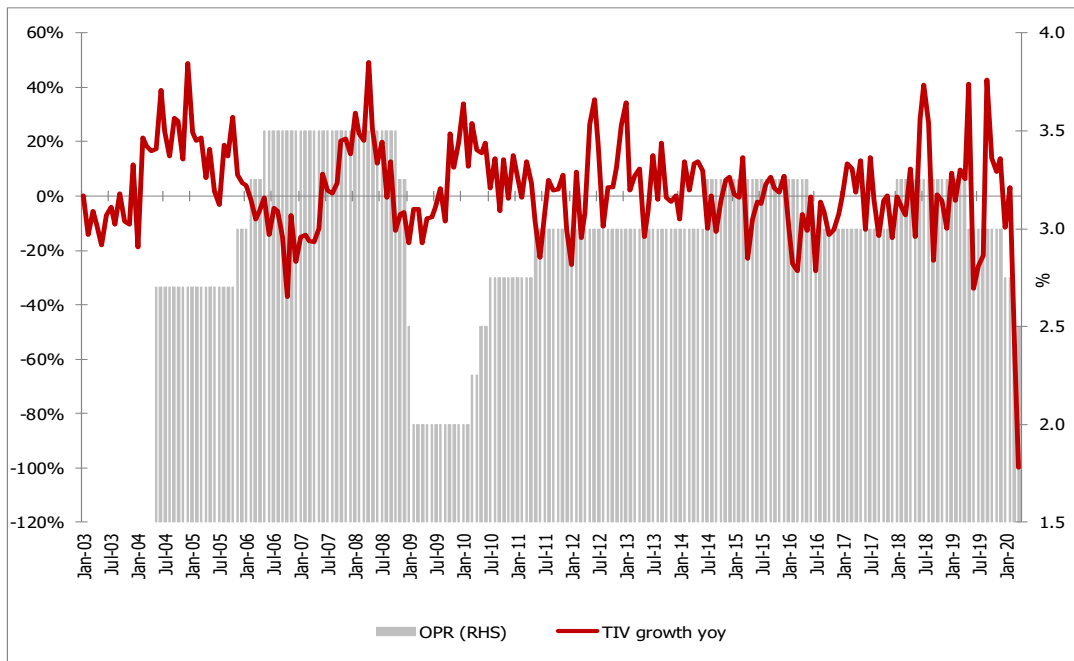
Exhibit 2: Significant TIV improvement during Jun18-Aug18 Tax-Holiday Period



Source: Paul Tan, MIDFR

Funneling the robust liquidity. The incentive is timely having seen significant deterioration in car sales and macro condition following the extensive lockdown measures undertaken to combat the Covid19 pandemic. Though consumer sentiment has likely deteriorated, they are however, flush with liquidity following the numerous stimulus measures announced earlier to free-up cash for consumers (such as reductions in EPF contribution, EPF Account-2 withdrawals, a 6-month loan moratorium) and the various cash transfer initiatives. The reduction in car prices arising from the SST exemption (which creates a rush for purchases since it is only temporary), coupled with consumers’ abundance of liquidity and a low interest rate environment, is a strong combination to drive a sharp improvement in automotive buying sentiment in the near-term, in our opinion.

Exhibit 3: Positive Impact of Low Interest Rate on TIV Growth Historically



Source: Paul Tan, MIDFR

Earnings revisions. Following the TIV revision, our FY20F aggregate sector earnings is revised up by 39% and now implies a narrower 31%yoy contraction compared to a 51%yoy contraction previously. To be sure, our revised FY20F TIV is still some 8.3%/7.4% lower than 2018/19 TIV despite the 6.5-month-long tax holiday incentive considering the relatively weaker underlying macro condition currently. The next two quarterly results season will be weak, but not entirely unexpected and had been factored into our previous forecasts. However, from 3Q20 onwards, a strong rebound in TIV and sector earnings is expected, to be driven mainly by the tax-holiday-induced demand improvement.

Forex bounced sharply off recent lows. A gradually improving forex trend provides a tailwind to the improving sector outlook. The Ringgit has bounced off its year-to-date low of USD:RM4.45 in March and is now hovering at USD:RM4.20-4.30 levels. This is positive for sector earnings as a stronger Ringgit effectively lowers import cost – non-national models typically contain between 30%-60% imported content and an estimated 5%-30% for the national makes; the rebound in TIV from June onwards is likely to be accompanied by improved margins. For now however, we conservatively stick to our FY20F USD:RM4.22 assumption; any better than expected forex development underpins our sector upgrade today.

Exhibit 4: The Ringgit Has Bounced Sharply Off Recent Lows



Source: Bloomberg, MIDFR

Removal of uncertainties on new launch plans. The demand stimulus for the auto sector also removes uncertainties on planned launches. There were previously concerns on potential delays of FY20F new launches given the sharp deterioration in demand outlook. Among key new launches previously expected for 2H20 include the new Nissan Almera, the Perodua B-segment SUV, the Proton X50 and the new Honda City. UMW is understood to have planned four new SUV launches this year, which includes the Lexus UX and the 2020 Lexus RX. Other than these, a possibly interesting launch for UMW is the Rav-4 (C-segment SUV), which has been opened for registration of interest late last week. For Mazda, the all new CX30 was launched in January 2020 in CBU form. A third CKD SUV model is understood to be in the works for FY21F (FYE April).


Recommendation. We upgrade autos to **POSITIVE** from **NEGATIVE**. The sector is set to see an inflection point from 3Q20 onwards given the confluence of positive catalysts from the automotive tax-holiday, abundance of liquidity created for consumers via the various stimulus measures and a low interest rate environment. A strong follow-through is expected in FY21F from an expected 9% rebound in Malaysia's GDP growth (based on forecast from the International Monetary Fund). Following the earnings revisions in this report and tweaks to valuation parameters (*refer to individual company notes*), we raise: **(1) BAuto to BUY from NEUTRAL** at a higher **TP of RM1.95** from RM1.10 previously **(2) UMW to BUY from SELL** at a higher **TP of RM3.40** from RM1.60 previously **(3) MBM to BUY from NEUTRAL** at a higher **TP of RM3.80** from RM2.80 previously **(4) Tan Chong to NEUTRAL from SELL** at a higher **TP of RM1.15** from RM0.90 previously. 

Exhibit 5: Summary of Earnings Revision by Company

	Net Profit (RMm)				CY20F Revision
	CY19A	CY20F (revised)	yoy	CY20F (previous)	Net Profit
MBM Resources	199.3	155.1	-22.2%	137.2	13.1%
Bermaz Auto ^	143.0	151.3	5.9%	111.7	35.5%
UMW Holdings	266.3	186.0	-30.2%	148.1	25.6%
Tan Chong Motor	47.4	-42.1	-188.8%	-73.7	42.9%
Sector Aggregate	656.0	450.3	-31.3%	323.3	39.3%

Source: Companies, MIDFR ^Figures are calendarised given April FYE

Exhibit 6: Summary of TP and Rating Revisions by Company

Companies	Target Price (RM/share)		Rating	
	Old	New	Old	New
MBM Resources	2.80	3.80	NEUTRAL	BUY
Bermaz Auto	1.10	1.95	NEUTRAL	BUY
UMW Holdings	1.60	3.40	SELL	BUY
Tan Chong Motor	0.90	1.15	SELL	NEUTRAL

Source: Companies, MIDFR

Exhibit 7: Historical TIV and Forecasts

	2015	2016	2017	2018	2019	2020F
Proton	102,175	72,290	70,991	64,744	100,183	92,068
Perodua	213,307	207,110	204,887	227,243	240,341	220,706
Toyota	93,760	63,757	69,492	65,551	69,091	62,981
Honda	94,902	91,830	109,511	102,282	85,418	78,499
Nissan	47,235	40,706	27,154	28,610	21,239	19,596
Mazda	14,325	12,493	9,730	16,038	11,651	10,643
Others	100,927	91,939	84,870	94,130	76,364	69,941
Total	666,631	580,125	576,635	598,598	604,287	554,433
Market Share						
Proton	15.33%	12.46%	12.31%	10.82%	16.58%	16.61%
Perodua	32.00%	35.70%	35.53%	37.96%	39.77%	39.81%
Toyota	14.06%	10.99%	12.05%	10.95%	11.43%	11.36%
Honda	14.24%	15.83%	18.99%	17.09%	14.14%	14.16%
Nissan	7.09%	7.02%	4.71%	4.78%	3.51%	3.53%
Mazda	2.15%	2.15%	1.69%	2.68%	1.93%	1.92%
Others	15.14%	15.85%	14.72%	15.73%	12.64%	12.61%
Growth						
Proton	-11.8%	-29.2%	-1.8%	-8.8%	54.7%	-8.1%
Perodua	9.1%	-2.9%	-1.1%	10.9%	5.8%	-8.2%
Toyota	-8.1%	-32.0%	9.0%	-5.7%	5.4%	-8.8%
Honda	22.5%	-3.2%	19.3%	-6.6%	-16.5%	-8.1%
Nissan	1.9%	-13.8%	-33.3%	5.4%	-25.8%	-7.7%
Mazda	25.9%	-12.8%	-22.1%	64.8%	-27.4%	-8.7%
Others	-14.4%	-8.9%	-7.7%	10.9%	-18.9%	-8.4%
Total	0.0%	-13.0%	-0.6%	3.8%	1.0%	-8.3%

Source: Companies, MIDFR

Bermaz Auto Berhad

(5248 | BAUTO MK) Automotive & Parts | Personal Goods

Inflection Point Brought Forward

KEY INVESTMENT HIGHLIGHTS

- **Sales tax exemption for cars under *PENJANA* stimulus package; a strong catalyst for auto demand**
- **FY21F earnings revised up to factor in potential demand boost and improved outlook - FY21F earnings now projected to more than double year-on-year**
- **Third CKD model a potential near-to-mid term catalyst, strong balance sheet positions group well for expansion**
- **We upgrade BAUTO to BUY from NEUTRAL at a higher TP of RM1.95, dividend yields of 9%-10% are attractive**

What's new? A sales tax holiday for passenger cars was announced under the latest *PENJANA stimulus package*. Under the incentive, the current 10% sales tax (SST) will be 100% exempted for CKD models while CBU models will enjoy a partial, 50% exemption. The SST exemption will run for a period of 6.5 months from 15th June 2020 till 31st December 2020. In line with this, our sectorwide FY20F TIV is raised to 554K units – we now expect FY20F TIV to contract by a much smaller 8.3%yoy compared to the previously expected 16.5%yoy contraction. Our checks with selective players over the weekend suggests a range of 2% to 9% reduction in selling price as a result of the SST exemption. Price of the Mazda CX5 specifically, is estimated to reduce by around RM9K-RM10K or ~6%. CKD models (the CX5 and CX8) make up around 76% of Mazda TIV.

Earnings revision. Given the boost from the 6.5 month tax holiday, we raise our FY21F earnings by 47% (while leaving our FY20F unchanged) driven by an upward revision to our FY21F Mazda TIV to 12.7K units (from 11.3K units previously). We now expect BAUTO's FY21F (FYE April) earnings to rebound by 127% after a 69% fall in FY20F; FY20F earnings is impacted by delays in price approvals for the facelift CX5 and the new CX8 in 3QFY20, as well as the Covid19 lockdown measures throughout most of 4QFY20. On the contrary, BAUTO's FY21F will see the absence of the abovementioned drag and instead will fully reflect the demand boost from the tax holiday. We conservatively maintain our forex assumption at JPY(x100):RM4.00 at this juncture, but the recent rebound of the Ringgit against the JPY provides room for upside.

Looking out for the next catalyst. The CBU CX30 (B-segment SUV) was launched in January 2020 in 3 variants, priced at RM143K-RM173K, though we expect volume contribution to be minimal. The group however is exploring a 3rd CKD SUV model possibly in FY21F to fill up the gap in its RM120K-RM140K price segment. The MX30, which was launched at the Tokyo Motor Show and comes in hybrid variants (about the same size as the CX30) is a potential model under consideration, other than the CX30.

Upgraded to BUY

(from NEUTRAL)

Revised Target Price: RM1.95

(from RM1.10)

RETURN STATISTICS

Price @ 5 th June 2020 (RM)	1.48
Expected share price return (%)	+31.6
Expected dividend yield (%)	+8.6
Expected total return (%)	+40.2

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8.8	-3.3
3 months	31.0	-12.4
12 months	-36.7	-32.9

KEY STATISTICS

FBM KLCI	1556.33
Syariah compliant	Yes
Issue shares (m)	1159.74
Estimated free float (%)	49.06
Market Capitalisation (RM'm)	1,720.03
52-wk price range	RM0.93 - RM2.78
Beta vs FBM KLCI (x)	1.30
Monthly velocity (%)	0.00
Monthly volatility (%)	19.10
3-mth average daily volume (m)	3.09
3-mth average daily value (RM'm)	4.00
Top Shareholders (%)	
Employees Provident Fund Board	16.51
DYNAMIC MILESTONE SDN BHD	13.56
Kumpulan Wang Persaraan	6.52

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INVESTMENT STATISTICS

FYE Apr	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	1,992.9	2,492.1	1,794.7	2,204.4	2,219.5
EBIT (RM'm)	178.8	284.0	75.4	207.0	247.4
Pre-tax Profit (RM'm)	197.2	342.3	102.7	239.9	280.3
Core net profit (RM'm)	140.1	265.3	81.8	186.1	216.3
FD EPS (sen)	12.1	22.8	7.0	16.0	18.6
EPS growth (%)	17.6	89.4	(69.2)	127.4	16.2
PER (x)	12.2	6.5	21.1	9.3	8.0
Net Dividend (sen)	10.4	21.3	5.6	12.8	14.9
Dividend Yield (%)	7.0	14.4	3.8	8.6	10.0

Source: Company, MIDFR

Well positioned to ride on potential demand spike. Our recent checks with management suggest no supply issue as Mazda Japan has restored operations at its Japanese plants after a brief closure following the Covid19 outbreak in Japan. The group's 30%-owned Inokom plant has yet to resume operations as the group is looking to pare down its existing 2-3 months' worth of inventory. This could be accelerated given the potential demand boost from the tax holiday incentives and positions BAUTO well to ride on the potential spike in demand in the near-term.

Room to grow via brand expansion? BAUTO's strong balance sheet (net cash of RM95m) positions it well to capture potential growth e.g. via expansion into new brands that could complement its existing Mazda franchise, particularly in the mass market, lower price segment (<RM100K) where BAUTO lacks model representation. This is further supported by Inokom's planned expansion, which would see it doubling its capacity to 80K/annum by Apr21, with BAUTO potentially occupying 50% of this enlarged capacity; part of the enlarged capacity is expected to be filled by BAUTO's 3rd CKD model.


Recommendation. We raise BAUTO to **BUY** from Neutral and raise our **TP to RM1.95** from RM1.10 previously following: (1) The upward earnings revision in this report (2) After pegging the group at a higher 11x PE (from 10x previously) given the improved earnings outlook (3) After rolling over our valuation base to CY21F. Share price has retreated significantly by >30% since the outbreak of Covid19 in Feb20 and we now see value emerging. Key catalysts: (1) Strong earnings rebound from 1QFY21 onwards (2) Potential introduction of a 3rd CKD model (3) Potential brand expansion riding on Inokom's capacity expansion and BAUTO's solid balance sheet (4) Potential NAP incentives to drive CBU exports. 

Exhibit 1: BAUTO Valuation

	CY21F	PE (x)	Value (RMm)
Net Profit (RMm)	206.2	11	2,269
Shares out (m)			1,165
Value/share (RM)			1.95

Source: Company, MIDFR

Exhibit 2: Mazda Domestic Unit Sales Breakdown

Sales volume (units) - Malaysia	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
CBU						
Mazda 2	333	415	533	247	276	48
Mazda 3		-		143	207	165
Mazda 5		1	2		1	2
Mazda 6	38	79	64	36	38	21
Biante	1					
CX3	715	912	119	232	175	135
CX30						102
CX9	41	48	52	24	38	51
MX5	5	1	8	2	7	2
BT50	17	11	46	26	7	5
Total CBU	1,150	1,467	824	710	749	531
CKD						
Mazda 3	189	276	163	101	33	7
CX5	3,196	3,300	2,296	2,449	1,612	1,133
CX8						571
Total CKD	3,385	3,576	2,459	2,550	1,645	1,711
Grand Total	4,535	5,043	3,283	3,260	2,394	2,242

Source: Company, MIDFR

Income Statement	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,993	2,492	1,795	2,204	2,219
Operating expenses	-1,814	-2,208	-1,719	-1,997	-1,972
EBIT	179	284	75	207	247
Net interest expense	-3	8	0	0	0
Associates	21	50	27	33	33
PBT	197	342	103	240	280
Taxation	-46	-74	-19	-52	-62
Minority Interest	11	-3	-2	-2	-2
Net profit	140	265	82	186	216
Core net profit	140	265	82	186	216
<i>Consensus net profit</i>	<i>131</i>	<i>254</i>	<i>123</i>	<i>151</i>	<i>175</i>
<i>MIDF / Consensus</i>			<i>-33%</i>	<i>23%</i>	<i>23%</i>
Balance Sheet	FY18	FY19	FY20F	FY21F	FY22F
Non-current assets	196.8	269.5	290.4	318.6	348.0
PPE	19.8	31.2	24.9	20.1	16.5
Investments in associate	133.6	183.8	211.1	244.1	277.1
Others	43.4	54.5	54.5	54.5	54.5
Current assets	654.9	690.9	643.3	680.9	697.9
Inventories	247.4	277.9	200.1	245.8	247.5
Receivables	100.4	92.6	66.7	82.0	82.5
Others	0.3	0.1	0.1	0.1	0.1
Cash & equivalent	306.8	320.2	376.3	352.9	367.8
TOTAL ASSETS	851.7	960.4	933.7	999.5	1,045.9
Share capital	603.0	607.9	607.9	607.9	607.9
Minority Interest	47.7	45.2	47.2	49.3	51.5
Others	(126.2)	(41.8)	(25.4)	11.8	55.1
TOTAL EQUITY	524.5	611.3	629.7	669.0	714.5
Non-current liabilities	65.1	101.7	101.7	101.7	101.7
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Others	65.1	101.7	101.7	101.7	101.7
Current liabilities	262.1	247.4	202.4	228.8	229.8
Short-term borrowings	46.1	0.0	0.0	0.0	0.0
Payables	140.2	161.0	115.9	142.4	143.4
Others	75.8	86.4	86.4	86.4	86.4
TOTAL LIABILITIES	327.2	349.1	304.0	330.5	331.5

Cash Flow Statement	FY18	FY19	FY20F	FY21F	FY22F
Operating activities					
PBT	185.7	342.3	102.7	239.9	280.3
Depreciation & Amortization	(0.5)	4.0	0.6	3.4	4.0
Chgs in working capital	36.0	(2.0)	58.7	(34.5)	(1.3)
Interest expense	1.1	0.7	0.0	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0	0.0
Others	(22.0)	(95.4)	(38.3)	(81.3)	(93.2)
CF from Operations	200.2	249.5	123.6	127.5	189.9
Investing activities					
Capex	(2.0)	(18.1)	(2.0)	(2.0)	(2.0)
Others	4.2	11.2	0.0	0.0	0.0
CF from Investments	2.2	(6.9)	(2.0)	(2.0)	(2.0)
Financing activities					
Dividends paid	(104.2)	(190.3)	(65.5)	(148.9)	(173.0)
Net proceeds in borrowings	(12.8)	(46.1)	0.0	0.0	0.0
Others	(2.2)	(0.6)	0.0	0.0	0.0
CF from Financing	(119.2)	(236.9)	(65.5)	(148.9)	(173.0)
Net changes in cash	83.3	5.6	56.1	(23.3)	14.8
Beginning cash	251.3	306.8	320.2	376.3	352.9
Overdrafts & Deposits	(21.3)	7.8	0.0	0.0	0.0
Ending cash	306.8	320.2	376.3	352.9	367.8
Ratios	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth	4.1%	19.8%	-28.0%	22.8%	0.7%
EBITDA growth	5.8%	70.4%	-73.6%	176.9%	19.5%
Net profit growth	6.1%	108.7%	-69.2%	127.4%	16.2%
EBITDA margin	8.1%	11.6%	4.2%	9.2%	11.0%
PATAMI margin	6.1%	10.6%	4.6%	8.4%	9.7%
ROE	27.6%	43.4%	13.0%	27.8%	30.3%
ROA	18.7%	27.6%	8.8%	18.6%	20.7%
Net gearing (%)	-49.7%	-52.4%	-59.8%	-52.8%	-51.5%
Book value/share (RM)	0.41	0.49	0.50	0.53	0.57
PBV (x)	3.6	3.0	3.0	2.8	2.6
EV/EBITDA (x)	5.7	3.1	11.4	4.3	3.5
FCF yield (%)	11.8	14.1	7.1	7.3	10.9

UMW Holdings Berhad

(4588 | UMWH MK) Consumer Products & Services | Automotive & Parts

Upgraded to BUY

(from SELL)

Revised Target Price: RM3.40

(Previously RM1.60)

Inflection Point Brought Forward

KEY INVESTMENT HIGHLIGHTS

- Sales tax exemption for cars under **PENJANA** stimulus package; a strong catalyst for auto demand
- In line with upward TIV revision (both Toyota and Perodua) group FY20F/21F earnings are revised higher by 26%/10%
- M&E division is a bright spot, Trent 7000 fan case production to commence from 4Q20
- Potential catalyst from all new RAV4 or CKD CHR
- We raise UMW to BUY from SELL, TP raised to RM3.40

What's new? A sales tax holiday for passenger cars was announced under the latest *PENJANA stimulus package*. Under the incentive, the current 10% sales tax (SST) will be 100% exempted for CKD models while CBU models will enjoy a partial, 50% exemption. The SST exemption will run for a period of 6.5 months from 15th June 2020 till 31st December 2020. In line with this, our sectorwide FY20F TIV is raised to 554K units – we now expect FY20F TIV to contract by a much smaller 8.3%yoy compared to the previously expected 16.5%yoy contraction. Our checks with selective players over the weekend suggests a range of 2% to 9% reduction in selling price as a result of the SST exemption. As a cross check however, during the 3-month tax holiday period in 2018, car prices were reduced by 5.6% off the prior GST-based pricing, but the reduction against the indicative SST-based pricing was lower at 2%-5%.

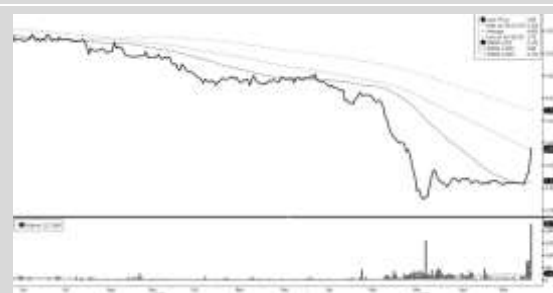
Earnings revision. We raise our FY20F/21F by 26%/10% to factor in higher TIV projections as result of the tax-holiday incentive: (1) FY20F/21F Toyota TIV revised up by 10%/6% to 63K/65K units (2) Perodua FY20F/21F TIV is raised by 5%/8% to 221K/234K units. For the meantime, we leave our forex assumptions unchanged at USD:RM4.22 throughout our forecast horizon. We now expect UMW's FY20F earnings to contract by a smaller 30%yoy (from 44% previously) before rebounding by 21% in FY21F.

Possible catalyst from new launches. Our meeting with management earlier this year suggested a target of up to four new SUV launches this year. This includes two new Lexus models (Lexus UX and possibly the 2020 RX). The other two models are still uncertain, but we note that UMW had late last week opened the all-new RAV4 (C-segment SUV) for registration of interest. The RAV4 could fill a major gap in UMW's model mix as it is currently not represented in the C-segment SUV space, which is currently dominated by Honda's CRV and Mazda's CX5. Meanwhile, the current CBU CHR (priced at RM150K) might be considered for local assembly, but the earliest is probably in FY21F after the facelift model is launched. Our projections currently have yet to factor in the new RAV4 or CKD CHR.

RETURN STATISTICS

Price @ 5 th June 2020 (RM)	2.89
Expected share price return (%)	+17.6
Expected dividend yield (%)	+1.3
Expected total return (%)	+18.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	33.8	18.8
3 months	35.0	-2.3
12 months	-44.8	-41.5

KEY STATISTICS

FBM KLCI	1556.33
Syariah compliant	Yes
Issue shares (m)	1168.29
Estimated free float (%)	26.53
Market Capitalisation (RM'm)	3,376.37
52-wk price range	RM1.65 - RM5.5
Beta vs FBM KLCI (x)	1.86
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	2.58
3-mth average daily value (RM'm)	5.78
Top Shareholders (%)	
Amanah Saham Nasional Bhd	43.84
Employees Provident Fund Board	13.76
Yayasan Pelaburan Bumiputra	7.66

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INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	11,046.5	11,306.3	11,739.1	11,229.8	11,494.6
EBIT (RM'm)	120.4	522.9	332.6	111.7	210.3
Pre-tax Profit (RM'm)	252.9	786.2	754.8	266.5	362.9
Core net profit (RM'm)	163.8	341.7	266.3	186.0	224.1
FD EPS (sen)	14.0	29.2	22.8	15.9	19.2
EPS growth (%)	NA	108.6	(22.1)	(30.2)	20.5
PER (x)	20.6	9.9	12.5	18.2	15.1
Net Dividend (sen)	6.5	7.5	6.0	3.2	3.9
Net Dividend Yield (%)	2.2	2.6	2.1	1.1	1.3

Source: Company, MIDFR

Bukit Raja progressing towards break-even. The highly automated Bukit Raja plant (45% automation rate) which commenced operations in FY19 generates much better EBITDA margins than the old ASSB Shah Alam plant given higher efficiency, but it is still loss making at the pretax level due to high depreciation (RM80m-RM100m/annum). Bukit Raja is currently producing the new Vios and Yaris and is running on a 2-shift cycle with a base capacity of 50K unit/annum on a single-shift. The ASSB plant meanwhile (38K unit/annum capacity) is producing the IMV models (Innova, Fortuner, Hilux) and the Hiace. A previously planned upgrade for ASSB to enhance its automation has been put on hold as the majority of new CKDs are likely to be produced at the Bukit Raja plant. The new RAV4 and CHR, if locally assembled, are likely to be produced at the Bukit Raja plant and are potential catalysts to drive Bukit Raja's breakeven.

Bright spot in M&E division. The M&E division is a bright spot and a growth area for UMW. UMW aerospace in particular, saw earnings turnaround a year earlier than planned in FY19 (previously targeted for FY20F) given higher volumes for fan cases and cost optimization (improved learning curve & employee capability, efficient utility cost management, reduction in expatriate staff and efficiency in material sourcing). The group is looking at plant utilization to improve to 70% in FY20F from around 50% last year given further volume ramp-up and commencement of Trent 7000 fan case production in 4Q20.


Recommendation. We raise UMW to **BUY** (from SELL previously) and raise our **TP to RM3.40** (from RM1.60) following the earnings revisions in this report and after rolling over our valuation base to FY21F. We also now peg UMW autos at a higher 10x FY21F PE (from 9x previously) given improved earnings visibility. Key catalysts: (1) A turnaround in group earnings from 3Q20 driven mainly by the automotive division (2) Potential launches of mass market/CKD SUV models (3) Commencement of Trent 7000 fan case assembly in 4Q20. 

Table 1: UMW Sum-of-Parts Valuation

Segments	FY21F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	266	PER	10	2,656	
Equipment	58	PER	10	577	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		PBV		26	50% discount to Net Book Value
Total value				3,951	
No of shares (m)				1,168	
Fair value (RM)				3.40	

Source: Company, MIDFR

Income Statement (RMm)	FY17	FY18	FY19	FY20F	FY21F
Revenue	11,046.5	11,306.3	11,739.1	11,229.8	11,494.6
Operating expenses	(10,926.1)	(10,783.4)	(11,513.6)	(11,118.1)	(11,284.3)
EBIT	120.4	522.9	332.6	111.7	210.3
Net interest expense	(39.2)	(88.1)	(125.9)	(106.4)	(119.0)
Associates	171.7	265.6	291.6	261.2	271.6
PBT	252.9	786.2	754.8	266.5	362.9
Taxation	(122.3)	(142.5)	(108.7)	(1.3)	(22.8)
Minority Interest/PERP	(22.8)	139.9	174.3	79.2	115.0
Net profit	(651.2)	341.7	454.4	186.0	225.1
Core net profit	163.8	341.7	266.3	186.0	224.1
<i>Consensus net profit</i>	<i>80.0</i>	<i>433.4</i>	<i>339.2</i>	<i>216.1</i>	<i>278.2</i>
<i>MIDF vs. consensus</i>				<i>-14.0%</i>	<i>-19.4%</i>
Balance Sheet (RMm)	FY17	FY18	FY19	FY20F	FY21F
Non-current assets	4,833.8	5,391.2	5,504.9	5,980.8	6,441.8
PPE	2,658.1	2,820.9	2,756.8	2,971.5	3,160.8
Investments in associate	1,661.5	1,792.4	1,866.4	2,127.6	2,399.2
Others	514.2	777.9	881.8	881.8	881.8
Current assets	5,261.9	5,366.8	5,642.9	5,281.3	5,103.8
Inventories	1,410.7	1,548.5	1,589.6	1,783.0	1,825.0
Receivables	1,029.1	960.4	1,243.0	1,105.8	1,131.9
Others	1,658.6	1,546.1	1,338.3	1,338.3	1,338.3
Cash & equivalent	1,163.4	1,311.8	1,472.1	1,054.3	808.6
TOTAL ASSETS	10,095.7	10,758.0	11,147.8	11,262.1	11,545.6
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	1,131.2	2,369.8	2,401.7	2,411.1	2,456.2
Reserves	2,463.1	2,760.5	3,108.5	3,257.3	3,437.4
TOTAL EQUITY	4,178.4	5,714.4	6,094.4	6,252.6	6,477.8
Non-current liabilities	2,264.4	2,548.3	2,435.6	2,435.7	2,435.9
Long-term borrowings	2,069.7	2,298.2	2,123.4	2,123.6	2,123.7
Deferred tax liabilities	34.0	26.9	39.1	39.1	39.1
Others	160.7	223.2	273.1	273.1	273.1
Current liabilities	3,652.9	2,495.3	2,617.9	2,573.9	2,631.9
Short-term borrowings	685.3	534.5	386.4	386.4	386.4
Payables	2,795.5	1,854.0	2,093.4	2,134.8	2,185.1
Others	172.0	106.7	138.1	52.7	60.4
TOTAL LIABILITIES	5,917.3	5,043.6	5,053.4	5,009.6	5,067.8

Cash Flow Statement (RMm)	FY17	FY18	FY19	FY20F	FY21F
Operating activities					
PBT	109.5	619.8	547.8	266.5	362.9
Depreciation & Amortization	105.1	281.9	346.2	338.3	364.6
Chgs in working capital	1,124.6	(950.0)	(63.1)	(54.7)	(10.1)
Interest expense	(175.9)	(74.6)	(130.6)	(106.4)	(119.0)
Tax paid	(131.9)	(138.8)	(64.5)	(1.3)	(22.8)
Others	(585.9)	436.0	(357.3)	(203.8)	(152.6)
CF from Operations	445.6	174.4	278.4	238.5	423.1
Investing activities					
Capex	(1,003.8)	(914.7)	(345.5)	(700.0)	(700.0)
Others	(976.7)	596.0	837.0	147.0	146.0
CF from Investments	(1,980.5)	(318.7)	491.5	(553.0)	(554.0)
Financing activities					
Dividends paid	(75.9)	(6.2)	(70.6)	(37.2)	(45.0)
Net proceeds in borrowings	176.0	104.1	480.2	0.2	0.2
Others	0.0	921.3	(992.4)	(69.9)	(69.9)
CF from Financing	100.1	1,019.2	(582.8)	(106.9)	(114.7)
Net changes in cash	(1,434.8)	874.9	187.1	(421.4)	(245.6)
Beginning cash	1,607.3	1,181.5	1,315.2	1,475.6	1,054.3
Overdrafts & Deposits	176.6	(741.1)	(26.7)	0.0	0.0
Ending cash	1,187.9	1,315.2	1,475.6	1,054.3	808.6
Ratios	FY17	FY18	FY19	FY20F	FY21F
Revenue growth	8.7%	-11.4%	22.0%	-5.7%	2.4%
EBIT growth	-6.0%	67.6%	-24.0%	-71.3%	88.3%
Core net profit growth	-140.8%	108.6%	-22.1%	-30.2%	20.5%
PBT margin	2.3%	7.0%	6.4%	2.4%	3.2%
Core net profit margin	1.5%	3.0%	2.3%	1.7%	1.9%
ROE	2.2%	11.0%	8.0%	4.9%	5.7%
ROA	2.1%	4.9%	3.5%	1.0%	1.8%
Net gearing (%)	38.1%	26.6%	17.0%	23.3%	26.3%
Book value/share (RM)	2.61	2.86	3.16	3.29	3.44
PBV (x)	1.11	1.01	0.91	0.88	0.84
EV/EBITDA (x)	12.1	6.2	6.0	10.7	8.8
EBIT margin	1.1%	4.6%	2.8%	1.0%	1.8%

MBM Resources Berhad

(5983 | MBM MK) Consumer Products & Services | Automotive

Inflection Point Brought Forward

KEY INVESTMENT HIGHLIGHTS

- **Sales tax exemption for cars under *PENJANA* stimulus package; a strong catalyst for auto demand**
- **Perodua TIV raised to 221K-234K units over FY20F-21F, MBM is a cheap and leveraged play into Perodua's recovery from 2H20 onwards**
- **FY20F/21F earnings revised up by 13%, FY20F contraction now expected at a narrower 20% before a 19% rebound in FY21F, launch of D55L a key upside catalyst**
- **We raise MBM to BUY from NEUTRAL at a higher TP of RM3.80 (from RM2.80 previously)**

What's new? A sales tax holiday for passenger cars was announced under the latest *PENJANA stimulus package*. Under the incentive, the current 10% sales tax (SST) will be 100% exempted for CKD models while CBU models will enjoy a partial, 50% exemption. The SST exemption will run for a period of 6.5 months from 15th June 2020 till 31st December 2020. In line with this, our sectorwide FY20F TIV is raised to 554K units – we now expect FY20F TIV to contract by a much smaller 8.3%yoy compared to the previously expected 16.5%yoy contraction. Our checks with selective players over the weekend suggests a range of 2% to 9% reduction in selling price as a result of the SST exemption.

Rides on Perodua demand boost. Via its 22.6% stake in Perodua and its network of Perodua dealership (the largest Perodua dealership group accounting for ~10% of Perodua TIV), MBM's earnings is leveraged on prospects of a recovery in Perodua's sales in 2H20 driven by the upcoming tax-holiday period - in this report we raised our FY20F/21F Perodua TIV by 5%/8% to 221K/234K units. Secondly, MBM benefits from potentially improved parts supplies to OEMs given the expected demand boost from the Jun20-Dec20 tax holiday, reflected in the upward revision to our sectorwide TIV.

New model catalyst. Launch of Perodua's B-segment SUV (codenamed the D55L), possibly in late 2H20 is another strong earnings catalyst for MBM. The D55L is reported to come off the Daihatsu Rocky/Toyota Raizer platform and is likely to be positioned below the Aruz, which is priced at RM70K-RM80K and currently accounts for ~12% of Perodua TIV (average 2500 units/month in FY19).

Earnings revision. We raise our FY20F/21F earnings by 13%/13% following the abovementioned upward revision to our Perodua TIV forecasts. Our projections are now 24%/12% above consensus over FY20F/21F.

Backed by a strong balance sheet. MBM's balance sheet remains solid with a net cash position of RM189m, which accounts for 14% of current market cap. The potential sale of OMIA (OMI Alloy) assets going forward should further underpin MBM's strong balance sheet position.

Upgraded to BUY

(from NEUTRAL)

Revised Target Price: RM3.80

(from RM2.80)

RETURN STATISTICS

Price @ 5 th June 2020 (RM)	3.43
Expected share price return (%)	+10.8
Expected dividend yield (%)	+5.5
Expected total return (%)	+16.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	17.1	4.0
3 months	23.4	2.1
12 months	17.5	24.5

KEY STATISTICS

FBM KLCI	1556.33
Syariah compliant	Yes
Issue shares (m)	391.65
Estimated free float (%)	32.18
Market Capitalisation (RM'm)	1,340.74
52-wk price range (RM)	RM2.5 - RM4.47
Beta vs FBM KLCI (x)	1.19
Monthly velocity (%)	0.00
Monthly volatility (%)	22.49
3-mth average daily volume (m)	0.65
3-mth average daily value (RM'm)	1.86
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.50
Employees Provident Fund Board	9.06
Lembaga Tabung Haji	4.81

Analyst(s)

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INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1,732.6	1,928.2	2,088.5	1,630.2	1,671.9
EBIT (RM'm)	(257.6)	12.5	61.0	3.6	30.6
Pre-tax Profit (RM'm)	(148.5)	200.7	263.2	201.2	235.0
Normalised PATAMI (RM'm)	86.1	168.3	193.3	155.1	184.6
FD EPS (sen)	22.1	43.1	49.5	39.8	47.3
EPS growth (%)	1.6	95.6	14.8	-19.8	19.0
PER (x)	15.5	8.0	6.9	8.6	7.3
Net Dividend (sen)	3.0	12.0	22.4	15.9	18.9
Net Dividend Yield (%)	0.9	3.5	6.5	4.6	5.5

Source: Company, MIDFR

Recommendation. We raise MBM to **BUY** from NEUTRAL at a higher **TP of RM3.80** from RM2.80 previously following: (1) The upward earnings revision in this report (2) Rolling over our valuation base to FY21F. We continue to peg MBM at 8x FY21F earnings. At just 7x FY21F PER coupled with a reasonably attractive 6% yield, MBM is a cheap, leveraged play into Perodua's earnings recovery. Key catalysts: (1) Earnings recovery from 3Q20 onwards (2) Launch of Perodua's new B-segment SUV (3) Sale of OMIA assets (4) Higher dividends on the back of an underleveraged balance sheet. Risk to our call is weaker than expected demand and a weak RM. 

Income Statement (RMm)	FY17	FY18	FY19	FY20F	FY21F
Revenue	1,732.6	1,928.2	2,088.5	1,630.2	1,671.9
Operating expenses	(1,990.1)	(1,915.8)	(2,027.5)	(1,626.6)	(1,641.4)
EBIT	(257.6)	12.5	61.0	3.6	30.6
Net interest expense	(11.3)	(5.9)	2.5	7.1	10.5
Associates/JCE	120.4	194.1	199.6	190.4	193.9
PBT	(148.5)	200.7	263.2	201.2	235.0
Taxation	(7.5)	(11.7)	(8.5)	(20.1)	(23.5)
Minority Interest	(7.2)	23.5	34.1	25.9	26.9
Net profit	(148.8)	165.5	220.5	155.1	184.6
Core net profit	86.1	168.3	193.3	155.1	184.6
<i>Consensus net profit</i>			202.2	125.0	165.6
<i>MIDF / Consensus</i>			-4.4%	24.0%	11.5%
Balance Sheet (RMm)	FY17	FY18	FY19	FY20F	FY21F
Non-current assets	1,567.9	1,645.0	1,616.0	1,682.5	1,750.3
PPE	334.7	269.0	231.6	231.5	231.3
Investments in associate	1,105.0	1,207.9	1,218.7	1,275.2	1,336.7
Others	128.2	168.1	165.7	175.8	182.2
Current assets	506.6	464.3	573.4	603.7	664.7
Inventories	148.2	104.8	105.2	82.1	84.2
Receivables	150.5	138.1	142.4	111.2	114.0
Others	14.5	26.7	62.1	62.1	62.1
Cash & equivalent	193.3	194.7	263.7	348.3	404.4
TOTAL ASSETS	2,074.5	2,109.3	2,189.4	2,286.2	2,415.0
Share capital	391.7	391.7	391.7	391.7	391.7
Minority Interest	215.7	250.6	264.1	290.1	317.0
Reserves	1,047.9	1,186.4	1,352.2	1,445.3	1,556.1
TOTAL EQUITY	1,655.3	1,828.6	2,008.0	2,127.0	2,264.7
Non-current liabilities	116.6	92.6	28.6	23.6	18.6
Long-term borrowings	108.2	85.5	19.3	14.3	9.3
Deferred tax liabilities	4.4	5.4	4.9	4.9	4.9
Others	3.9	1.8	4.4	4.4	4.4
Current liabilities	302.6	188.1	152.7	135.6	131.6
Short-term borrowings	168.5	58.2	16.6	11.6	6.6
Payables	131.6	126.1	132.7	120.6	121.6
Others	2.5	3.8	3.4	3.4	3.4
TOTAL LIABILITIES	419.2	280.7	181.4	159.2	150.3

Cash Flow Statement (RMm)	FY17	FY18	FY19	FY20F	FY21F
Operating activities					
PBT	(145.1)	200.7	255.0	181.0	211.5
Depreciation & Amortization	18.1	18.2	19.3	20.1	20.1
Chgs in working capital	65.6	50.0	0.2	42.2	(3.9)
Others	137.2	(204.5)	(245.2)	(190.4)	(193.9)
CF from Operations	75.8	64.4	29.2	52.9	33.8
Investing activities					
Capex	(20.0)	(9.7)	(12.0)	(20.0)	(20.0)
Others	135.6	112.6	236.4	123.8	126.0
CF from Investments	115.6	102.9	224.4	103.8	106.0
Financing activities					
Dividends paid	(61.3)	(24.9)	(70.0)	(62.0)	(73.8)
Net proceeds in borrowings	(102.1)	(144.0)	(106.5)	(10.0)	(10.0)
Others	(17.4)	-	(9.3)	13.5	-
CF from Financing	(180.7)	(169.0)	(185.8)	(58.5)	(83.8)
Net changes in cash	10.8	(1.7)	67.9	98.2	56.1
Beginning cash	209.1	219.8	218.1	286.0	384.1
Overdrafts & Deposits					
Ending cash	219.8	218.1	286.0	384.1	440.2
Ratios	FY17	FY18	FY19	FY20F	FY21F
Revenue growth	3.1%	11.3%	8.3%	-21.9%	2.6%
EBIT growth	NA	-104.8%	389.3%	-94.1%	745.3%
Core net profit growth	1.6%	95.6%	14.8%	-19.8%	19.0%
PBT margin	-8.6%	10.4%	12.6%	12.3%	14.1%
Core net profit margin	5.0%	8.7%	9.3%	9.5%	11.0%
ROE	6.0%	10.7%	11.1%	8.4%	9.5%
ROA	4.1%	8.0%	8.8%	6.8%	7.6%
Net gearing (%)	5.8%	-3.2%	-13.1%	-17.6%	-19.9%
Book value/share (RM)	3.69	4.04	4.47	4.71	4.99
PBV (x)	0.93	0.85	0.77	0.73	0.69
FCF/share (RM)	0.49	0.43	0.65	0.40	0.36
FCF yield	14.3%	12.5%	19.0%	11.7%	10.4%

Tan Chong Motor Holdings Berhad

(4405 | TCM MK) Consumer Products & Services | Automotive

Upgraded to NEUTRAL

(from SELL)

Revised Target Price: RM1.15

(from RM0.90)

Inflection Point Brought Forward

KEY INVESTMENT HIGHLIGHTS

- **Sales tax exemption for cars under *PENJANA* stimulus package; a strong catalyst for auto demand**
- **Nissan TIV revised higher; we now expect FY20F Nissan TIV contraction at a narrower 8% (from 10% previously) followed by a 14% growth in FY21F**
- **Narrower losses expected for FY20F, but to return to profits in FY21F driven by the new Almera**
- **We raise Tan Chong to NEUTRAL from SELL; TP raised to RM1.15 from RM0.90 previously**

What's new? A sales tax holiday for passenger cars was announced under the latest *PENJANA stimulus package*. Under the incentive, the current 10% sales tax (SST) will be 100% exempted for CKD models while CBU models will enjoy a partial, 50% exemption. The SST exemption will run for a period of 6.5 months from 15th June 2020 till 31st December 2020. In line with this, our sectorwide FY20F TIV is raised to 554K units – we now expect FY20F TIV to contract by a much smaller 8.3%yoy compared to the previously expected 16.5%yoy contraction. Our checks with selective players over the weekend suggests a range of 2% to 9% reduction in selling price as a result of the SST exemption.

Earnings revision. Following the upward revision in our sectorwide TIV, we raise our Nissan TIV assumption to 20K/22K units over FY20F/21F. We now expect Tan Chong to post a narrower net loss of RM42m for FY20F vs. RM74m previously. For FY21F, we now expect Tan Chong to turn in a net profit of RM77m from a net loss of RM20m previously. We conservatively leave our forex assumption unchanged at USD:RM4.22 over FY20F-21F. Our FY20F is well below consensus but our FY21F is some 37% above.

New Almera to drive earnings rebound. A key earnings driver in FY21F is the scheduled launch of the new Almera in 2H20 (presumably in 4Q20), which should be accompanied by improved margins. The model is long overdue for replacement having been in the market for 8 years (initial launch in Oct12). Details on spec and pricing is not forthcoming yet, but the current generation Almera is priced at RM69,888 to RM79,888. At its launch back in 2012, management was targeting monthly volumes of 1K-2K units, though actual volumes registered in the initial months of launch were much better at >2K. Other possible new models include the Nissan Kicks (B-segment SUV) and the new Sylphy (C-segment sedan), but these have yet to be factored into our projections. The former in particular, fills an important gap in Tan Chong's model mix.

RETURN STATISTICS

Price @ 5 th June 2020 (RM)	1.16
Expected share price return (%)	-1.0
Expected dividend yield (%)	+3.4
Expected total return (%)	+2.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.5	-6.3
3 months	11.5	3.3
12 months	-23.2	-18.6

KEY STATISTICS

FBM KLCI	1556.33
Syariah compliant	No
Issue shares (m)	652.45
Estimated free float (%)	39.30
Market Capitalisation (RM'm)	756.84
52-wk price range	RM0.98 - RM1.52
Beta vs FBM KLCI (x)	0.70
Monthly velocity (%)	0.00
Monthly volatility (%)	17.97
3-mth average daily volume (m)	0.13
3-mth average daily value (RM'm)	0.14
Top Shareholders (%)	
Tan Chong Consolidated Sdn Bhd	40.44
Employees Provident Fund Board	6.32
Nissan Motor Co Ltd	5.72

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INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	4,341.2	4,858.2	4,172.4	3,973.6	4,380.8
EBIT (RM'm)	(18.7)	226.8	169.6	4.5	162.0
Pre-tax Profit (RM'm)	(72.8)	178.6	114.3	(59.1)	100.4
Core net profit (RM'm)	(88.6)	99.7	47.4	(42.1)	77.2
FD EPS (sen)	(13.2)	14.8	7.1	(6.3)	11.5
EPS growth (%)	NA	NA	(52.5)	(188.8)	283.5
PER (x)	(8.8)	7.8	16.5	(18.5)	10.1
Net Dividend (sen)	2.0	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	1.7	3.4	3.4	3.4	3.4

Source: Company, MIDFR

Slated to improve margins. It should be noted that the current generation Almera was launched in 2012 – we presume negotiations and kit pricing would have taken place during the 2011-2012 period, when the Ringgit was at around USD:RM3.20 levels. Given significant depreciation of the Ringgit now (which is at ~USD:RM4.40 levels), the current generation Almera would have turned into a barely profitable model. However, costing for the new Almera is likely to have been negotiated closer to current forex levels, which should improve the yields generated from the model, though we would not rule out some increase in end-pricing.

Recommendation. We raise Tan Chong to **NEUTRAL** from SELL at a higher **TP of RM1.15** (from RM0.90 previously) following: (1) The upward earnings revision in this report (2) Rolling over our valuation base to FY21F (2) Shifting to an earnings-based valuation from a book value-based valuation previously, pegging Tan Chong at 10x FY21F earnings. Tan Chong is trading at depressed FY20F PBV of 0.2x, which should cushion against any downside from current levels.

THE NEW NISSAN ALMERA



Source: Various, MIDFR

Income Statement	FY17	FY18	FY19	FY20F	FY21F
Revenue	4,341.2	4,858.2	4,172.4	3,973.6	4,380.8
Operating expenses	(4,359.9)	(4,631.4)	(4,002.9)	(3,969.1)	(4,218.8)
EBIT	(18.7)	226.8	169.6	4.5	162.0
Net interest expense	(57.5)	(49.4)	(57.6)	(66.1)	(65.1)
Associates	3.4	1.2	2.3	2.5	3.5
PBT	(72.8)	178.6	114.3	(59.1)	100.4
Taxation	(23.6)	(76.0)	(67.6)	16.4	(22.2)
Minority Interest	(7.8)	(1.5)	(3.0)	0.6	(1.0)
Net profit	(88.6)	101.0	43.6	(42.1)	77.2
Core net profit	(88.6)	99.7	47.4	(42.1)	77.2
<i>Consensus net profit</i>			62.3	40.1	56.4
<i>MIDF/Consensus</i>			-24%	-205%	37%
Balance Sheet	FY17	FY18	FY19	FY20F	FY21F
Non-current assets	2,933.9	2,823.1	3,188.7	3,203.8	3,219.3
PPE	1,832.6	1,773.1	2,251.0	2,263.7	2,275.6
Investments in associate	40.8	42.3	43.8	46.3	49.8
Others	1,060.5	1,007.7	893.9	893.9	893.9
Current assets	2,466.3	2,651.2	2,641.1	2,474.8	2,545.5
Inventories	1,186.0	1,238.8	1,527.1	1,432.6	1,579.4
Receivables	696.1	634.0	575.0	539.4	594.7
Others	266.2	256.4	131.2	111.6	111.8
Cash & equivalent	318.0	522.1	407.8	391.2	259.5
TOTAL ASSETS	5,400.1	5,474.3	5,829.7	5,678.6	5,764.8
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(14.5)	(12.8)	(11.5)	(12.2)	(11.2)
Reserves	2,459.9	2,511.0	2,685.2	2,608.9	2,653.5
TOTAL EQUITY	2,781.4	2,834.2	3,009.6	2,932.7	2,978.3
Non-current liabilities	985.1	1,017.1	926.8	896.8	866.8
Long-term borrowings	748.1	748.7	499.3	469.3	439.3
Deferred tax liabilities	161.2	159.8	0.7	0.7	0.7
Others	75.8	108.7	426.8	426.8	426.8
Current liabilities	1,633.6	1,623.0	1,893.3	1,847.8	1,918.5
Short-term borrowings	1,029.7	774.5	1,096.9	1,096.9	1,096.9
Payables	592.1	820.3	735.8	690.2	761.0
Others	11.8	28.1	60.7	60.7	60.7
TOTAL LIABILITIES	2,618.8	2,640.1	2,820.1	2,744.6	2,785.3

Cash Flow Statement	FY17	FY18	FY19	FY20F	FY21F
Operating activities					
PBT	(111.6)	178.6	114.3	(59.1)	100.4
Depreciation & Amortization	140.4	100.4	137.4	137.3	138.1
Chgs in working capital	283.3	418.2	(183.3)	104.1	(131.6)
Interest expense	(65.1)	(76.2)	(79.8)	(78.3)	(76.8)
Tax paid	13.6	(42.8)	(15.5)	16.4	(22.2)
Others	3.4	(49.3)	62.4	68.5	66.0
CF from Operations	264.0	528.9	35.6	188.9	73.9
Investing activities					
Capex	(110.8)	(89.5)	(296.9)	(150.0)	(150.0)
Others	(120.8)	39.3	138.9	1.4	1.4
CF from Investments	(231.5)	(50.2)	(158.0)	(148.6)	(148.6)
Financing activities					
Dividends paid	(13.1)	(26.9)	(26.9)	(26.9)	(26.9)
Net proceeds in borrowings	79.8	(255.9)	42.5	(30.0)	(30.0)
Others	(0.3)	7.0	(6.1)	0.0	0.0
CF from Financing	66.5	(275.8)	9.6	(56.9)	(56.9)
Net changes in cash	98.9	202.9	(112.8)	(16.6)	(131.7)
Beginning cash	219.8	318.7	521.6	408.8	393.2
Overdrafts & Deposits	0.0	0.0	0.0	1.0	2.0
Ending cash	318.7	521.6	408.8	393.2	263.6
Ratios	FY17	FY18	FY19	FY20F	FY21F
Revenue growth	-21.2%	11.9%	-14.1%	-4.8%	10.2%
EBIT growth	-200.1%	1312.2%	-25.2%	-97.4%	3519.8%
Core net profit growth	-50.6%	-212.5%	-52.5%	-188.8%	283.5%
PBT margin	-1.7%	3.7%	2.7%	-1.5%	2.3%
Core net profit margin	-2.0%	2.1%	1.1%	-1.1%	1.8%
ROA	-1.6%	1.8%	0.8%	-0.7%	1.3%
ROE	-3.2%	3.5%	1.6%	-1.4%	2.6%
Net gearing (%)	52.5%	35.3%	39.5%	40.1%	42.9%
Book value/share (RM)	4.14	4.22	4.48	4.36	4.43
PBV (x)	0.28	0.28	0.26	0.27	0.26
Interest Cover (x)	1.4	6.7	4.6	2.1	0.0
FCF (RMm)	32.4	478.7	(122.4)	40.3	(74.8)

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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.