

Malaysia Automotive

NEUTRAL (Unchanged)

Let the year-end sales begin

- October 2015 TIV rebounded 9% MoM to 55.7k units, kick starting the year-end sales campaign.
- Introduce our 2016 TIV forecast of 645k units (-2% YoY), premised on revised in-house 2016 real GDP growth forecast of 4.5% but supported by normal replacement cycle.
- Maintain NEUTRAL (15x CY16 PER - fair); remain cautious on auto earnings from the weaker MYR. BAuto is our only BUY.

What's New

Oct 2015 TIV of 55.7k units (+3% YoY, +9% MoM) took 10M15 TIV to 541k (-1% YoY), meeting 83% of our 2015 TIV estimate of 655k (-2% YoY). The MoM growth was led by Perodua (+20% MoM), followed by Toyota (+14% MoM) and Honda (+13% MoM). Meanwhile, Proton (-8% MoM) lost most grounds in absolute sales volume term. Sales of continental marques (i.e. BMW, Mercedes, VW) also weaken MoM, potentially indicating pull back by consumer on luxury cars.

What's Our View

Our 2015 TIV forecast of 655k units (-1% YoY) remains; we expect a short-term uplift in demand over the next 2 months ahead of upcoming price hikes in Jan 2016 and due to the year-end sales campaign. Thereafter, we expect 1Q16 to see an overhang in sales.

Our 2016 TIV forecast of 645k units (-2% YoY) takes into account a weaker consumer sentiment in light of rising cost of living and poorer purchasing power from the weaker MYR but supported by (i) the normal car replacement cycle (~25% of ~14m cars OTR are >10 years old) and (ii) in-house 2016 real GDP growth forecast of 4.5%.

BAuto is our only BUY pick in the auto sector. The Mazda franchise is gaining traction in Malaysia as well as the Philippines. Its new, attractive launches coupled with competitive pricing will drive sales growth. However, a weak MYR against JPY limits earnings growth as all of its imported costs are denominated in JPY.

Separately, the Trans-Pacific Partnership (TPP) Agreement impact on the auto sector is positive on investments, we believe. By virtue of Thailand and Indonesia not being part of the TPP, Malaysia would have a natural advantage as an export hub for auto parts in the ASEAN region riding on its experience and supply chain. The TPP could also attract FDIs into the industry over the longer term. Elsewhere, similar to existing FTAs, we expect gradual import duty reduction for imported cars (Ford, Chevrolet) from TPP countries.

Automotive sector - Peer valuation summary

Stock	Rec	Shr MYR	Mkt cap MYR m	TP MYR	PER (x) CY14A	PER (x) CY15E	PER (x) CY16E	P/BV CY14A	P/BV CY15E	ROE CY14E	ROE CY15E	Net yield CY15E
BAuto	Buy	2.15	2,448	2.70	12.6	11.2	10.0	5.7	4.5	45.4	40.1	4.8
MBMR	Hold	2.80	1,094	3.00	9.8	13.4	8.4	0.7	0.7	7.4	5.2	3.9
Tan Chong	Hold	2.92	1,906	2.65	27.8	27.5	20.6	0.7	0.7	2.5	2.5	2.1
UMWH	Hold	8.21	9,592	7.80	12.7	23.6	16.2	1.5	1.4	11.5	6.1	3.2
MCap WT avg					14.4	21.3	15.2	2.0	1.8	15.6	11.1	3.4

Source: Maybank KE

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Auto sales, Oct 2015

	Oct 15 (Units)	% chg MoM	% chg YoY	YTD (Units)	% chg YoY
TIV	55,754	9.1	2.9	541,142	(1.0)
Passenger	49,063	8.4	3.2	480,649	(0.7)
Commercial	6,691	14.2	0.6	60,493	(2.9)
National	25,331	9.2	(1.9)	261,694	1.9
Non-national	30,423	9.0	7.2	279,448	(3.5)
Marque					
Proton	8,026	(8.0)	(1.3)	86,862	(12.2)
Perodua	17,305	19.5	(2.1)	174,832	10.7
Toyota	9,200	14.3	14.1	72,663	(13.4)
Honda	8,504	13.1	37.4	74,915	19.0
Nissan	3,700	2.9	(9.3)	38,459	4.8
Mazda	1,273	(0.5)	31.1	11,659	19.6
Hyundai	320	(29.0)	(55.6)	5,122	(41.2)
Mercedes	946	(7.5)	27.2	9,285	62.6
BMW	724	(3.1)	10.4	5,946	(7.6)
Volkswagen	395	(10.4)	(40.0)	5,675	(31.6)
Mkt share	Oct 15 (%)	ppt chg MoM	ppt chg YoY	YTD (%)	ppt chg YoY
Passenger	88.0	(0.5)	0.3	88.8	0.2
Commercial	12.0	0.5	(0.3)	11.2	(0.2)
National	45.4	0.0	(2.2)	48.4	1.4
Non-national	54.6	(0.0)	2.2	51.6	(1.4)
Marque					
Proton	14.4	(2.7)	(0.6)	16.1	(2.0)
Perodua	31.0	2.7	(1.6)	32.3	3.4
Toyota	16.5	0.8	1.6	13.4	(1.9)
Honda	15.3	0.5	3.8	13.8	2.3
Nissan	6.6	(0.4)	(0.9)	7.1	0.4
Mazda	2.3	(0.2)	0.5	2.2	0.4
Hyundai	0.6	(0.3)	(0.8)	0.9	(0.6)
Mercedes	1.7	(0.3)	0.3	1.7	0.7
BMW	1.3	(0.2)	0.1	1.1	(0.1)
Volkswagen	0.7	(0.2)	(0.5)	1.0	(0.5)

Source: MAA

Total industry production picked up in Oct

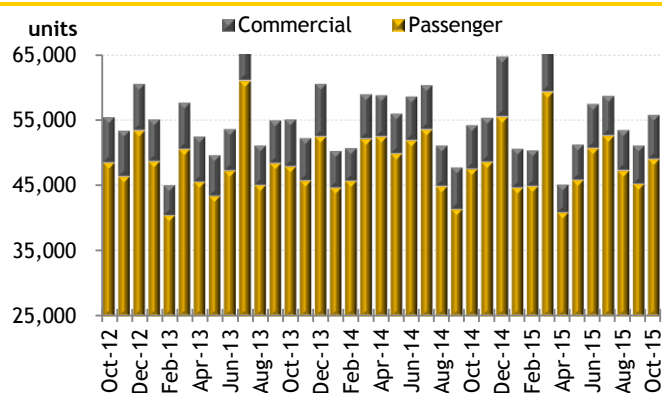
TIP also rebounded strongly, jumping 22% MoM in Oct, possibly indicating stronger demand in the last two months of 2015. Apart from Mazda, all major marques that we track reported MoM growth of 5%-91%.

Auto production, Oct 2015

	Production (units)					Market share (%)				
	Oct 15 (Units)	% chg MoM	% chg YoY	YTD (Units)	% chg YoY	Oct 15 (%)	ppt chg MoM	ppt chg YoY	YTD (%)	ppt chg YoY
TIP	55,783	22.0	21.9	519,171	4.3					
Passenger	50,974	23.2	23.9	476,965	4.6	91.4	0.9	1.5	91.9	0.3
Commercial	4,809	10.6	3.9	42,206	0.2	8.6	(0.9)	(1.5)	8.1	(0.3)
National	28,895	25.9	26.5	274,693	7.8	51.8	1.6	1.9	52.9	1.7
Non-national	26,888	18.1	17.3	244,478	0.6	48.2	(1.6)	(1.9)	47.1	(1.7)
Marque										
Proton	6,509	4.6	(12.0)	84,046	(12.7)	11.7	(1.9)	(4.5)	16.2	(3.1)
Perodua	22,386	33.8	44.9	190,647	20.2	40.1	3.5	6.4	36.7	4.9
Toyota	8,192	10.6	19.9	65,707	(2.3)	14.7	(1.5)	(0.2)	12.7	(0.9)
Honda	9,438	26.9	51.9	77,299	27.3	16.9	0.7	3.3	14.9	2.7
Nissan	4,451	39.6	30.9	38,011	9.2	8.0	1.0	0.5	7.3	0.3
Mazda	357	(47.8)	(38.3)	10,388	20.4	0.6	(0.9)	(0.6)	2.0	0.3
Hyundai	38	26.7	2.7	5,906	(15.9)	0.1	0.0	(0.0)	1.1	(0.3)
Mercedes Benz	795	20.8	236.9	6,485	95.1	1.4	(0.0)	0.9	1.2	0.6
BMW	602	90.5	(2.3)	5,760	(19.8)	1.1	0.4	(0.3)	2.1	(0.7)
Volkswagen	266	41.5	(66.5)	3,782	(51.8)	0.5	0.1	(1.3)	0.7	(0.8)

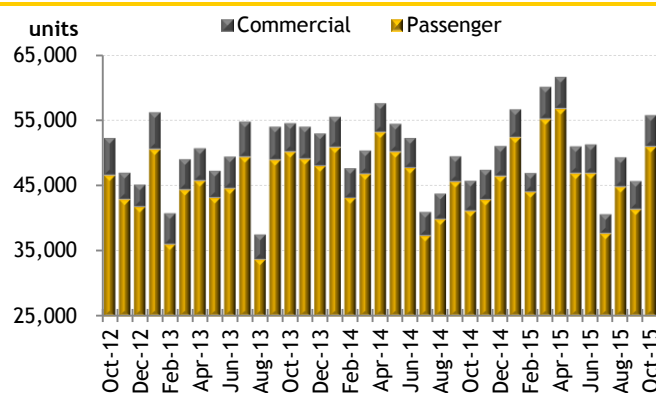
Source: MAA, Maybank KE

Total industry volume (TIV)



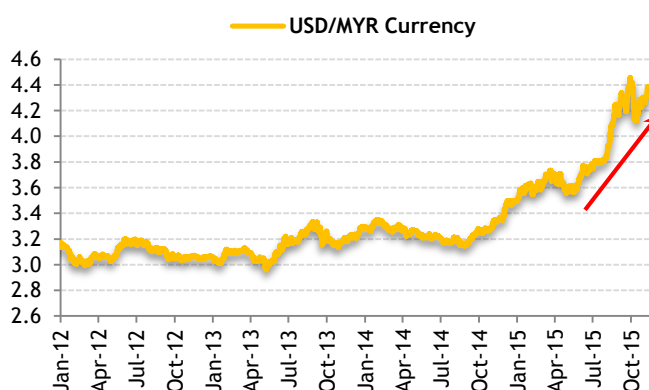
Source: MAA, Maybank KE

Total industry production (TIP)



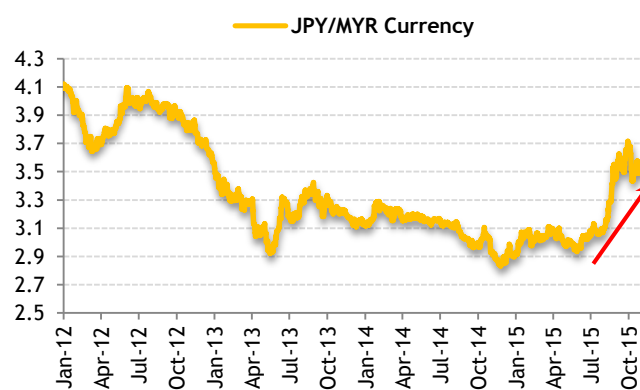
Source: MAA, Maybank KE

USD-MYR daily movement



Source: Bloomberg, Maybank KE

JPY-MYR daily movement



Source: Bloomberg, Maybank KE

Auto sector summary (yearly)

	FY13A	FY14A	FY15F	FY16F	FY17F		FY13A	FY14A	FY15F	FY16F	FY17F
PROFIT AND LOSS						BALANCE SHEET					
Revenue (MYR'm)						Gross Cash (MYR'm)					
- UMW Holdings	13,952	14,933	12,761	14,418	15,022	- UMW Holdings	2,558	3,371	2,762	2,650	2,628
- Tan Chong Motors	5,199	4,761	5,844	6,436	6,777	- Tan Chong Motors	313	342	289	149	136
- Berjaya Auto*	1,064	1,451	1,830	2,301	2,809	- Berjaya Auto*	182	186	281	314	372
- MBM Resources	1,960	1,774	1,769	1,796	1,800	- MBM Resources	242	217	181	243	308
EBIT (MYR'm)						Gross Debt (MYR'm)					
- UMW Holdings	1,297	1,433	759	1,063	1,115	- UMW Holdings	2,989	4,190	4,448	3,722	2,995
- Tan Chong Motors	388	210	139	157	209	- Tan Chong Motors	1,452	1,413	1,313	1,213	1,113
- Berjaya Auto*	75	167	284	289	347	- Berjaya Auto*	127	0	0	0	0
- MBM Resources	9	(4)	(4)	19	20	- MBM Resources	478	416	416	416	416
Pretax profit (MYR'm)						Net Cash (MYR'm)					
- UMW Holdings	1,436	1,622	852	1,181	1,241	- UMW Holdings	(431)	(819)	(1,687)	(1,072)	(367)
- Tan Chong Motors	360	171	103	123	173	- Tan Chong Motors	(1,139)	(1,071)	(1,023)	(1,063)	(977)
- Berjaya Auto*	69	180	299	307	363	- Berjaya Auto*	55	186	281	314	372
- MBM Resources	155	132	96	151	157	- MBM Resources	(236)	(199)	(235)	(174)	(108)
Recurring Net profit (MYR'm)						Shareholders fund (MYR'm)					
- UMW Holdings	753	757	407	590	619	- UMW Holdings	6,290	6,581	6,682	6,830	6,984
- Tan Chong Motors	293	69	69	93	119	- Tan Chong Motors	2,734	2,780	2,810	2,863	2,943
- Berjaya Auto*	51	131	214	217	261	- Berjaya Auto*	159	344	474	582	713
- MBM Resources	138	112	82	130	135	- MBM Resources	1,438	1,522	1,561	1,660	1,763
PROFIT RATIO						BVPS / Share (MYR)					
EBIT margins (%)						- UMW Holdings	5.38	5.63	5.72	5.85	5.98
- UMW Holdings	9.3	9.6	5.9	7.4	7.4	- Tan Chong Motors	4.19	4.26	4.30	4.39	4.51
- Tan Chong Motors	7.5	4.4	2.4	2.4	3.1	- Berjaya Auto*	0.14	0.30	0.41	0.51	0.62
- Berjaya Auto*	7.0	11.5	15.5	12.5	12.3	- MBM Resources	3.68	3.90	4.00	4.25	4.51
- MBM Resources	0.5	(0.2)	(0.2)	1.1	1.1						
Pretax margins (%)											
- UMW Holdings	10.3	10.9	6.7	8.2	8.3						
- Tan Chong Motors	6.9	3.6	1.8	1.9	2.6						
- Berjaya Auto*	6.5	12.4	16.3	13.3	12.9						
- MBM Resources	7.9	7.5	5.4	8.4	8.7						
Recurring Net profit margins (%)											
- UMW Holdings	5.4	5.1	3.2	4.1	4.1						
- Tan Chong Motors	5.6	1.4	1.2	1.4	1.8						
- Berjaya Auto*	4.8	9.0	11.7	9.4	9.3						
- MBM Resources	7.0	6.3	4.6	7.2	7.5						
CASH FLOW						CASH FLOW					
Operating (MYR'm)						Financing (MYR'm)					
- UMW Holdings	948	1,365	1,218	1,231	1,343	- UMW Holdings	(811)	204	(47)	(1,169)	(1,191)
- Tan Chong Motors	(130)	399	162	74	166	- Tan Chong Motors	(76)	(118)	(139)	(139)	(139)
- Berjaya Auto*	53	85	223	148	188	- Berjaya Auto*	96	(87)	(94)	(109)	(131)
- MBM Resources	81	44	(4)	34	36	- MBM Resources	(139)	(119)	(64)	(52)	(52)
Investing (MYR'm)											
- UMW Holdings	(798)	(315)	(1,780)	(173)	(175)						
- Tan Chong Motors	(122)	(256)	(75)	(75)	(40)						
- Berjaya Auto*	(45)	6	(39)	(5)	1						
- MBM Resources	76	49	32	80	82						

Note: *Berjaya Auto's FYE is at April

Source: Company, Maybank KE

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