

Malaysia Automotive

NEUTRAL

 [Unchanged]

Less new cars for CNY?

Jan 2016 TIV at almost 4-year low

Jan 2016 TIV plummeted 36% MoM and 12% YoY to 44.6k units (lowest in the last 47 months) as consumers had frontloaded purchases prior to price hikes beginning Jan 2016. Our 2016 TIV forecast of 645k units (-3% YoY) is unchanged. For now, sector valuations are just about fair (14.7x CY16 PER). BAuto is our only BUY call.

Red across the board

The MoM contraction in Jan 2016 TIV was seen across the board, except for Mercedes Benz (+26% MoM, +139% YoY), led by Toyota (-77% MoM, -26% YoY) whose sales fell to a 12-year low. Perodua (-28% MoM, -3% YoY) continued to lead in market share at 35% (+3.1ppts YoY) while Honda (-47% MoM, -12% YoY) remained the top seller in the non-national segment.

The weak TIV was expected. Following a strong 4Q15, we expect 1Q16 to see an overhang in sales, further suppressed by (i) weak consumer sentiment, (ii) higher car prices and (iii) tighter HP financing guidelines (i.e. higher HP rates and loan rejection rates). Feb 2016 TIV would also be affected by a shorter working month due to the Chinese New Year (CNY) holiday; TIV could weaken further from Jan 2016 level.

Rocky road ahead

Higher costs of living coupled with the moderation in economic growth are factors that will continue to weigh on consumer sentiment especially for purchases of big ticket items (i.e. property and cars). As such, we expect 2016 TIV to contract by 3% YoY to 645k units. Elsewhere, stiffer competition amongst auto players and sustained weakness in MYR are detrimental to auto margins and profitability.

Stock picks

BAuto is our only BUY in the sector for its exclusive Mazda distributorship in Malaysia and the Philippines which are gaining traction. Its new, attractive launches (i.e. diesel models, CX-5 facelift CKD, CX-3 CKD in 2016) coupled with competitive pricing will drive forward sales growth. Its negative JPY-cost exposure is partially cushioned by its 60%-owned Philippines operation whose revenue is in PHP.

We see further earnings downside to UMWH (SELL) from its (i) auto (weak sales coupled with negative USD exposure) and (ii) O&G divisions (slow exploration activities of its jack-up rigs amid weak oil prices). 4Q15 results are due out on 25th Feb 2016.

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Auto sales, Jan 2015

| | Jan 16 (Units) | % chg MoM | % chg YoY | YTD (Units) | % chg YoY |
|-----------------|-------------------|--------------|--------------|----------------|--------------|
| TIV | 44,591 | (35.7) | (11.9) | 44,591 | (11.9) |
| Passenger | 40,000 | (34.6) | (10.5) | 40,000 | (10.5) |
| Commercial | 4,591 | (44.5) | (22.3) | 4,591 | (22.3) |
| National | 23,281 | (21.6) | (6.8) | 23,281 | (6.8) |
| Non-national | 21,310 | (46.3) | (16.9) | 21,310 | (16.9) |
| Marque | | | | | |
| Proton | 7,743 | (4.9) | (13.0) | 7,743 | (13.0) |
| Perodua | 15,538 | (27.9) | (3.3) | 15,538 | (3.3) |
| Toyota* | 3,041 | (77.4) | (26.0) | 3,041 | (26.0) |
| Honda | 5,743 | (46.6) | (11.9) | 5,743 | (11.9) |
| Nissan | 3,650 | (28.1) | (22.4) | 3,650 | (22.4) |
| Mazda | 1,354 | (3.8) | 54.7 | 1,354 | 54.7 |
| Hyundai | 641 | (2.1) | (21.3) | 641 | (21.3) |
| Mercedes | 1,034 | 26.1 | 138.8 | 1,034 | 138.8 |
| BMW | 614 | (23.9) | 22.8 | 614 | 22.8 |
| Volkswagen | 404 | (5.8) | (3.1) | 404 | (3.1) |

| Mkt share | Jan 16 (%) | ppt chg MoM | ppt chg YoY | YTD (%) | ppt chg YoY |
|-----------------|---------------|-------------------|-------------------|------------|-------------------|
| Passenger | 89.7 | 1.6 | 1.4 | 89.7 | 1.4 |
| Commercial | 10.3 | (1.6) | (1.4) | 10.3 | (1.4) |
| National | 52.2 | 9.4 | 2.9 | 52.2 | 2.9 |
| Non-national | 47.8 | (9.4) | (2.9) | 47.8 | (2.9) |
| Marque | | | | | |
| Proton | 17.4 | 5.6 | (0.2) | 17.4 | (0.2) |
| Perodua | 34.8 | 3.8 | 3.1 | 34.8 | 3.1 |
| Toyota* | 6.8 | (12.5) | (1.3) | 6.8 | (1.3) |
| Honda | 12.9 | (2.6) | (0.0) | 12.9 | (0.0) |
| Nissan | 8.2 | 0.9 | (1.1) | 8.2 | (1.1) |
| Mazda | 3.0 | 1.0 | 1.3 | 3.0 | 1.3 |
| Hyundai | 1.4 | 0.5 | (0.2) | 1.4 | (0.2) |
| Mercedes | 2.3 | 1.1 | 1.5 | 2.3 | 1.5 |
| BMW | 1.4 | 0.2 | 0.4 | 1.4 | 0.4 |
| Volkswagen | 0.9 | 0.3 | 0.1 | 0.9 | 0.1 |

Source: MAA

Note: *Including Lexus sales

| Stock | Bloomberg code | Mkt cap (USD'm) | Rating | Price (LC) | TP (LC) | Upside (%) | P/E (x) | | P/B (x) | | Div yld (%) | |
|-----------------|-------------------|--------------------|--------|---------------|------------|---------------|---------|------|---------|-----|-------------|-----|
| | | | | | | | 17E | 18E | 17E | 18E | 17E | 18E |
| UMW | UMWH MK | 1,968 | Sell | 7.07 | 7.15 | 1 | 15.8 | na | 1.2 | na | 3.8 | na |
| Berjaya Auto | BAUTO MK | 590 | Buy | 2.16 | 2.85 | 32 | 8.7 | 7.8 | 3.4 | 2.8 | 5.7 | 6.4 |
| Tan Chong Motor | TCM MK | 386 | Hold | 2.41 | 2.60 | 8 | 17.7 | 15.3 | 0.6 | 0.5 | 2.1 | 2.1 |
| MBM Resources | MBM MK | 229 | Hold | 2.46 | 3.00 | 22 | 7.1 | na | 0.5 | na | 3.3 | na |

Total industry production picked up in January

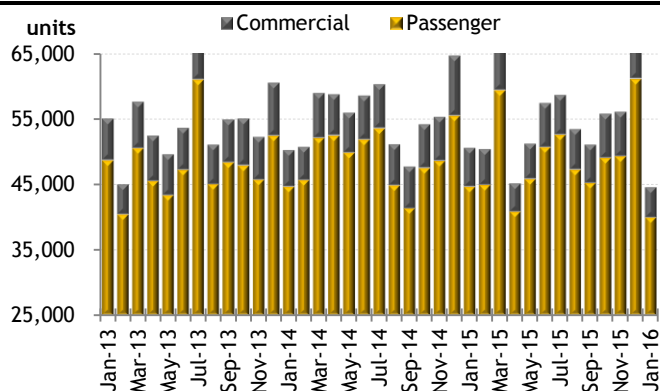
TIP picked up, growing 3% MoM in Jan 2016 from a low base in Dec 2015, potentially indicating marginal recovery in TIV going forward. For 1M16, Malaysia turned net car producer to the tune of 2.1k units (vs net car importer at 52k units in 2015).

Auto production, Jan 2015

| | Production (units) | | | | | Market share (%) | | | | |
|-----------------|--------------------|-----------|-----------|-------------|-----------|------------------|-------------|-------------|---------|-------------|
| | Jan 16 (Units) | % chg MoM | % chg YoY | YTD (Units) | % chg YoY | Jan 16 (%) | ppt chg MoM | ppt chg YoY | YTD (%) | ppt chg YoY |
| TIP | 46,731 | 3.2 | (17.5) | 46,731 | (17.5) | | | | | |
| Passenger | 42,778 | 3.9 | (18.3) | 42,778 | (18.3) | 91.5 | 0.6 | (0.9) | 91.5 | (0.9) |
| Commercial | 3,953 | (4.0) | (7.4) | 3,953 | (7.4) | 8.5 | (0.6) | 0.9 | 18.2 | 10.7 |
| National | 21,700 | (10.4) | (30.3) | 21,700 | (30.3) | 46.4 | (7.0) | (8.5) | 46.4 | (8.5) |
| Non-national | 25,031 | 18.8 | (1.9) | 25,031 | (1.9) | 53.6 | 7.0 | 8.5 | 53.6 | 8.5 |
| Marque | | | | | | | | | | |
| Proton | 7,290 | 12.8 | (39.2) | 7,290 | (39.2) | 15.6 | 1.3 | (5.6) | 15.6 | (5.6) |
| Perodua | 14,410 | (18.8) | (24.8) | 14,410 | (24.8) | 30.8 | (8.4) | (3.0) | 30.8 | (3.0) |
| Toyota | 7,347 | 10.2 | 6.3 | 7,347 | 6.3 | 15.7 | 1.0 | 3.5 | 15.7 | 3.5 |
| Honda | 7,323 | (6.0) | (5.7) | 7,323 | (5.7) | 15.7 | (1.5) | 2.0 | 15.7 | 2.0 |
| Nissan | 3,626 | 7.1 | (13.2) | 3,626 | (13.2) | 7.8 | 0.3 | 0.4 | 7.8 | 0.4 |
| Mazda | 1,661 | 358.8 | (9.8) | 1,661 | (9.8) | 3.6 | 2.8 | 0.3 | 3.6 | 0.3 |
| Hyundai | 336 | 808.1 | (43.0) | 336 | (43.0) | 0.7 | 0.6 | (0.3) | 0.7 | (0.3) |
| Mercedes Benz | 781 | 28.9 | 138.1 | 781 | 138.1 | 1.7 | 0.3 | 1.1 | 1.7 | 1.1 |
| BMW | 1,459 | 572.4 | 327.9 | 1,459 | 327.9 | 3.1 | 2.6 | 2.5 | 6.7 | 5.6 |
| Volkswagen | 80 | (51.5) | (85.0) | 80 | (85.0) | 0.2 | (0.2) | (0.8) | 0.2 | (0.8) |

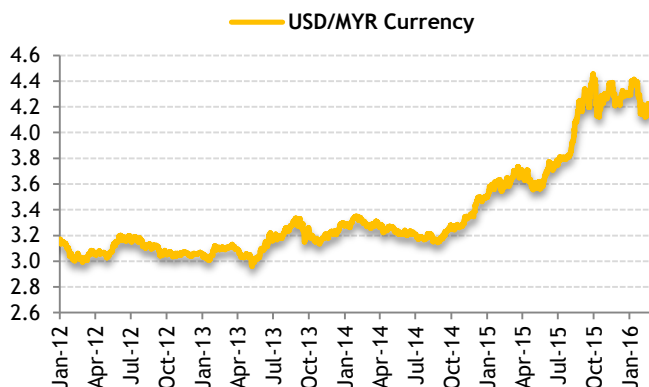
Source: MAA, Maybank KE

Total industry volume (TIV)



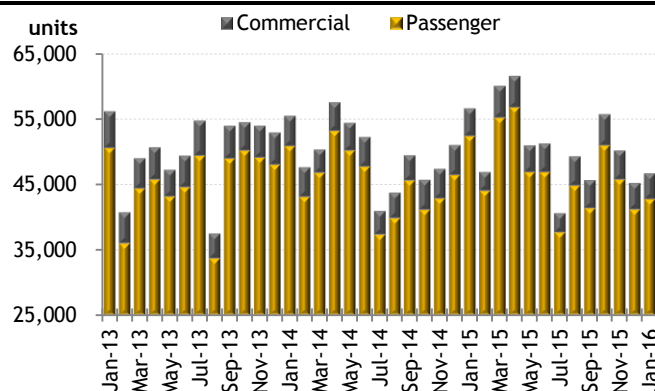
Source: MAA, Maybank KE

USD-MYR daily movement



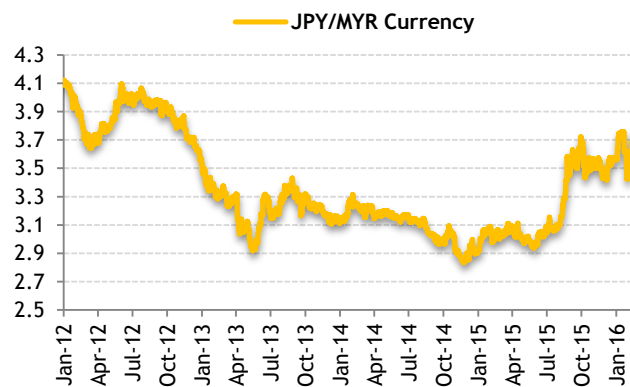
Source: Bloomberg, Maybank KE

Total industry production (TIP)



Source: MAA, 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 | 13,796 | 14,588 | 15,237 | - UMW Holdings | 2,558 | 3,371 | 2,692 | 2,617 | 2,555 |
| - Tan Chong Motors | 5,199 | 4,761 | 5,717 | 6,436 | 6,777 | - Tan Chong Motors | 313 | 342 | 166 | 322 | 286 |
| - Berjaya Auto* | 1,064 | 1,451 | 1,830 | 2,371 | 2,976 | - Berjaya Auto* | 182 | 186 | 281 | 289 | 347 |
| - 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 | 637 | 815 | 860 | - UMW Holdings | 2,989 | 4,190 | 4,432 | 3,705 | 2,979 |
| - Tan Chong Motors | 388 | 210 | 169 | 100 | 173 | - Tan Chong Motors | 1,452 | 1,413 | 1,489 | 1,389 | 1,289 |
| - Berjaya Auto* | 75 | 167 | 284 | 288 | 379 | - Berjaya Auto* | 129 | 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 | 696 | 930 | 982 | - UMW Holdings | (431) | (819) | (1,740) | (1,088) | (424) |
| - Tan Chong Motors | 360 | 171 | 115 | 54 | 136 | - Tan Chong Motors | (1,139) | (1,071) | (1,324) | (1,067) | (1,004) |
| - Berjaya Auto* | 69 | 180 | 299 | 310 | 401 | - Berjaya Auto* | 53 | 186 | 281 | 289 | 347 |
| - 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 | 850 | 380 | 498 | 522 | - UMW Holdings | 6,290 | 6,581 | 6,708 | 6,908 | 7,117 |
| - Tan Chong Motors | 293 | 69 | 52 | 43 | 89 | - Tan Chong Motors | 2,709 | 2,755 | 2,794 | 2,804 | 2,860 |
| - Berjaya Auto* | 49 | 141 | 223 | 215 | 282 | - Berjaya Auto* | 159 | 344 | 474 | 581 | 722 |
| - 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 | 5.74 | 5.91 | 6.09 |
| - UMW Holdings | 9.3 | 9.6 | 4.6 | 5.6 | 5.6 | - Tan Chong Motors | 4.13 | 4.20 | 4.26 | 4.27 | 4.36 |
| - Tan Chong Motors | 7.5 | 4.4 | 3.0 | 1.6 | 2.5 | - Berjaya Auto* | 0.14 | 0.30 | 0.41 | 0.51 | 0.63 |
| - Berjaya Auto* | 7.0 | 11.5 | 15.5 | 12.1 | 12.7 | - 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 | 5.0 | 6.4 | 6.4 | | | | | | |
| - Tan Chong Motors | 6.9 | 3.6 | 2.0 | 0.8 | 2.0 | | | | | | |
| - Berjaya Auto* | 6.5 | 12.4 | 16.3 | 13.1 | 13.5 | | | | | | |
| - MBM Resources | 7.9 | 7.5 | 5.4 | 8.4 | 8.7 | | | | | | |
| Recurring Net profit margins (%) | | | | | | | | | | | |
| - UMW Holdings | 5.4 | 5.7 | 2.8 | 3.4 | 3.4 | | | | | | |
| - Tan Chong Motors | 5.6 | 1.4 | 0.9 | 0.7 | 1.3 | | | | | | |
| - Berjaya Auto* | 4.6 | 9.7 | 12.2 | 9.0 | 9.5 | | | | | | |
| - 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 | 1,051 | 1,125 | 1,153 | - UMW Holdings | (811) | 204 | 50 | (1,026) | (1,040) |
| - Tan Chong Motors | (130) | 399 | (218) | 364 | 136 | - Tan Chong Motors | (76) | (118) | (8) | (133) | (133) |
| - Berjaya Auto* | 53 | 85 | 223 | 134 | 199 | - Berjaya Auto* | 96 | (87) | (94) | (107) | (141) |
| - MBM Resources | 81 | 44 | (4) | 34 | 36 | - MBM Resources | (139) | (119) | (64) | (52) | (52) |
| Investing (MYR'm) | | | | | | | | | | | |
| - UMW Holdings | (798) | (315) | (1,780) | (175) | (175) | | | | | | |
| - Tan Chong Motors | (122) | (256) | 39 | (75) | (40) | | | | | | |
| - Berjaya Auto* | (45) | 6 | (39) | (18) | 0 | | | | | | |
| - MBM Resources | 76 | 49 | 32 | 80 | 82 | | | | | | |

Note: *Berjaya Auto's FYE is at April

Source: Company, Maybank KE

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