

Auto Sector

(Overweight)

“Combustible Performance”

Table 1: Auto Sector Operational Metrics Target

	2014	2015F
TIV (units)	666k	667k
OPR	3.25%	3.50%
Inflation rate	3.16%	4%-5%
Crude oil (WTI)	USD53 p.b.	USD70-USD80 p.b.
Ringgit per Dollar	RM3.27	RM3.40-RM3.50
GDP	6%	5%
2015 Top Pick	<ul style="list-style-type: none">• MBMR (BUY; TP: RM4.17)• Berjaya Auto (BUY; TP: 4.41)	

Source: M&A Securities

We expect Malaysia’s 2015 TIV to reach new high of 667k units (2014: 666K) despite cautious sentiment post-GST implementation. Perodua will continue to drive our TIV higher in the long-term as it is planning to launch a new Sedan model in 2016-2018. We have an Overweight call on the sector supported by 1) steady roll out of volume selling models in 2015 including Perodua Axia, Perodua Myvi facelift, Proton Iriz and Honda City; 2) muted impact on potential OPR hike (if any) and; 3) potential implementation of cash for clunkers scheme. MBMR (BUY; TP: RM4.17) and Berjaya Auto (BUY; TP: RM3.32) emerge as our top call in the automotive sector space.

Perodua to launch Sedan soon? Perodua has officially announced that its new Perodua Sedan is now entering into prototype stage and expected to make debut between 2016-2018. This could be a new catalyst for Perodua in maintaining its vigorous performance in Malaysia’s automotive industry since the last 5 years. Perodua has garnered market share of between 30%-31% annually. The new Sedan model is expected to become Perodua’s new important asset alongside the strong selling model of Myvi and Axia. We remain optimistic that the two key models (Myvi and Axia) would drive Perodua to achieve its 2015 sales target of 208k units (+6% y-o-y) in 2015.

Waiting for ‘Cash for clunkers’ scheme. Based on our channel checks, the ‘cash for clunkers’ scheme has been put on ‘hold’ by the government due to GST’s related issue but the scheme will not be cancelled. It is waiting for the right time to be implemented, sooner or later. We expect this to be a positive catalyst for the national car player such as Perodua and Proton to ramp-up their sales volume. Previously, Proton has already introduced similar scheme called ‘Proton XChange Programme’ from March-October 2009 where the outcome was quite impressive. Proton registered a commendable growth of 4% y-o-y in 2009 and managed to outperform the industry’s TIV (-2% y-o-y) and other players’ including Perodua (-1%) and Toyota (-20%) during the program.

Pre-GST and Post-GST impact. Pre-GST implementation, a strong buying momentum has been captured in March that resulted in massive upsurge in overall TIV by 34% m-o-m as consumers took advantage of attractive incentives and aggressive marketing campaign offered by most players (note:

stocks clearing prior to GST). As a results, top 6 players have registered a strong m-o-m growth led by Honda (+59%), Mazda (+51%), Toyota (+42%), Nissan (+42%), Proton (+28%) and Perodua (+21%) respectively. Post-GST implementation, most national and non-national marques have revealed that their car prices will see a price reduction of between 0.01%-5.29 starting from 1st April 2015. However, April TIV has contracted by 33% m-o-m due to higher sales base in March including the market leader, Perodua (-22%) and Proton (-53%). We expect TIV to normalize in May onwards as consumer getting a clear view on post-GST prices.

YTD TIV Analysis. Perodua’s vehicle sales remained intact at 74,737 units (+21% y-o-y) as at YTD 2015, benefitting from strong demand of Perodua Axia and newly launched Perodua Myvi. Note that Perodua has received robust bookings of 100,000 units for Perodua Axia by mid-April and already delivered 60,000 units by the end of March. Honda maintained its strong position as the top performer for non-national marques despite recording a weaker sales in April (-32% m-o-m) thanks to higher demand of its new SUV’s model, Honda HRV, which has received a strong 13,000 units orders from customers since its launch in February 2015. Post-GST sales impact has also affected sales volumes of the other players including Toyota (16% m-o-m), Nissan (-40% m-o-m) and Mazda (53% m-o-m) respectively. However, on YTD basis, Nissan and Mazda both registered improving sales growth of 5% y-o-y and 19% y-o-y respectively underpinned by the newly launch of Nissan X-Trail as well as Mazda 2 and Mazda 3 (CKD).

Ringgit movement against USD and Yen. The weakening trend of Ringgit against USD could result in further margins compression for the auto players especially with those that have large exposure in USD. Ringgit has tumbled to RM3.67/USD in May 2015 compared to 2014 average of between RM3.15/USD-RM3.49/USD. TCM and UMW will be slightly impacted on higher imported component cost if Ringgit continues to weaken against the USD in the near term. Nonetheless, we expect Berjaya Auto which has a large exposure in Yen (45% of its component cost denoted in Yen) to emerge as a winner due to the weakening Yen against Ringgit. Ringgit vs. Yen currently hovers between RM2.95/Yen compared to 2014 average of RM3.07/Yen.

1QCY15 results round-up. The 1QCY15 analysis on 4 stocks under our coverage showed the results of Berjaya Auto and MBMR have met our projection with both stocks posted stronger y-o-y growth in core net profit (Berjaya Auto: +15% , MBMR: +4% y-o-y). Berjaya Auto wrapped-up FY15 with a tremendous achievement as Mazda’s domestic sales volume surged to approximately 12,020 units (+28% y-o-y) coupled with strong earnings contribution from the Philippines segment (+104% y-o-y). MBMR continued its positive momentum in 1Q15 thanks to the robust demand of Perodua Axia and the new Myvi facelift, lifted by strong consumer buying sentiment ahead of GST implementation. Nonetheless, the stiff competition in the B-Segment has put pressure on TCM and UMW earnings in 1Q15 coupled with margin compression arising from the strengthening of USD against Ringgit and heavy discounting activities which further weighed their profit margin. Moving forward, we expect MBMR and Berjaya Auto to register better earnings in 2QCY16 underpinned by strong deliveries of Perodua Axia and slew of Mazda’s upcoming new launches in 2H15 including the like of Mazda 6 (facelift) and CX-5 (facelift). On the other hand, we expect UMW and TCM earnings will be slightly impacted by continuous weakening of Ringgit against USD as well as lack of new launches in the B-Segment market.

Conclusion and Recommendation. 2015 TIV is estimated to reach new high of 667K units (2014: 666k units) despite cautious sentiment post-GST implementation. We have an **Overweight** call on the sector in 2015 supported by 1) steady roll out volume selling models in 2015 including Perodua Axia, Perodua Myvi facelift, and Honda City; 2) muted impact of potential hike in OPR (if any) and; 3) potential implementation of ‘cash-for-clunkers’ scheme. The key risks to our call are 1) tightening of bank lending rules; 2) slower Malaysia 2015 GDP growth from 5.0% forecast and 3) sharp weakening of Ringgit against USD. **MBMR (BUY; TP: RM4.17)** and **Berjaya Auto (BUY; TP: RM3.32)** emerge as our top call in the automotive sector space.

Table 2: Peers Comparison (Calenderised)

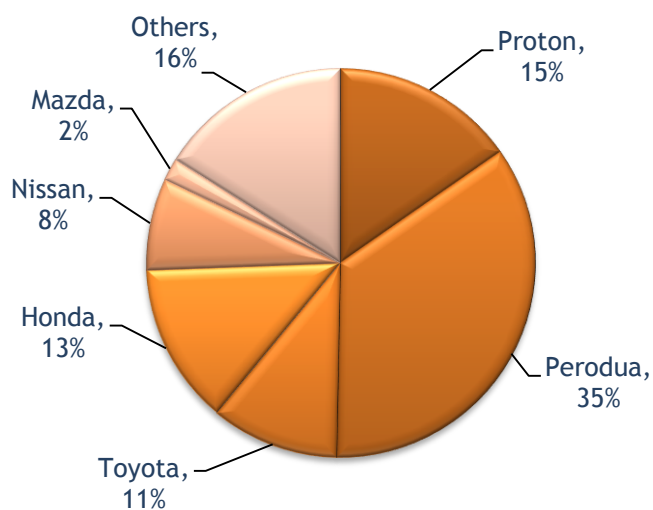
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	10.14	77	84	14.1	13.0	1.8	1.7	10	4	10.77	Hold
Tan Chong	Dec	2.95	22	29	14.0	10.3	0.7	0.7	4	2	3.00	Hold
MBM Resources	Dec	3.48	37	41	9.3	8.3	0.8	0.8	8	2	4.17	Buy
Berjaya Auto	Apr	2.70	23	29	15.6	13.8	6.9	5.8	52	3	3.32	Buy
APM Automotive	Dec	4.78	53	56	9.7	9.2	1.0	1.0	10	4	NR	NR
Average					12.5	10.9	2.3	2.0	17	3		

Source: Bloomberg, M&A Securities

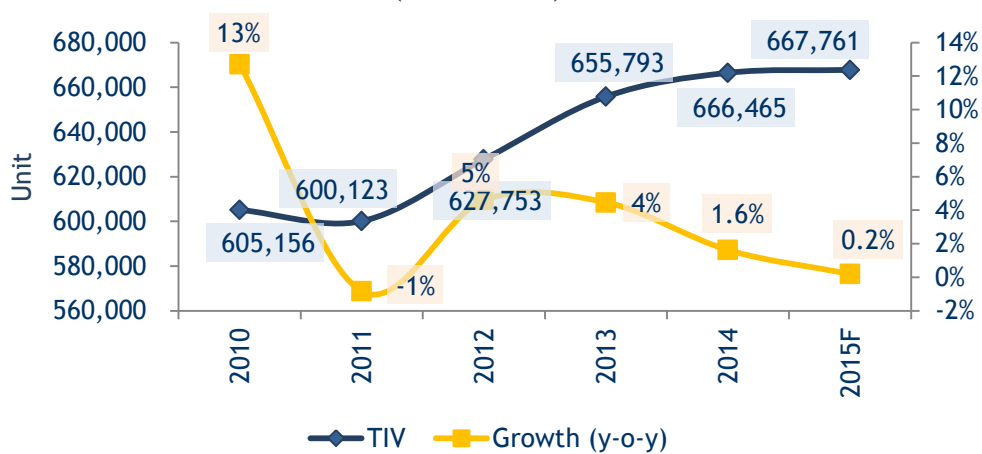
Table 3: YTD 2015 TIV

Marque	Apr-14	Mar-15	Apr-15	m-o-m	y-o-y	4M14	4M15	y-o-y
Proton	10,091	10,528	4,972	-53%	-51%	42,825	32,654	-24%
Perodua	17,538	22,497	17,584	-22%	0%	61,562	74,737	21%
Toyota	9,282	7,335	6,190	-16%	-33%	33,916	22,793	-33%
Honda	6,916	9,581	6,562	-32%	-5%	22,543	28,707	27%
Nissan	3,493	5,005	3,003	-40%	-14%	15,450	16,229	5%
Mazda	1,182	1,503	705	-53%	-40%	3,439	4,077	19%
Others	10,230	10,865	6,171	-43%	-40%	38,907	34,296	-12%
TIV	58,732	67,314	45,187	-33%	-23%	218,642	213,493	-2%
Passenger	52,488	59,318	40,902	-31%	-22%	195,016	189,834	-3%
Commercial	6,244	7,996	4,285	-46%	-31%	23,626	23,659	0%

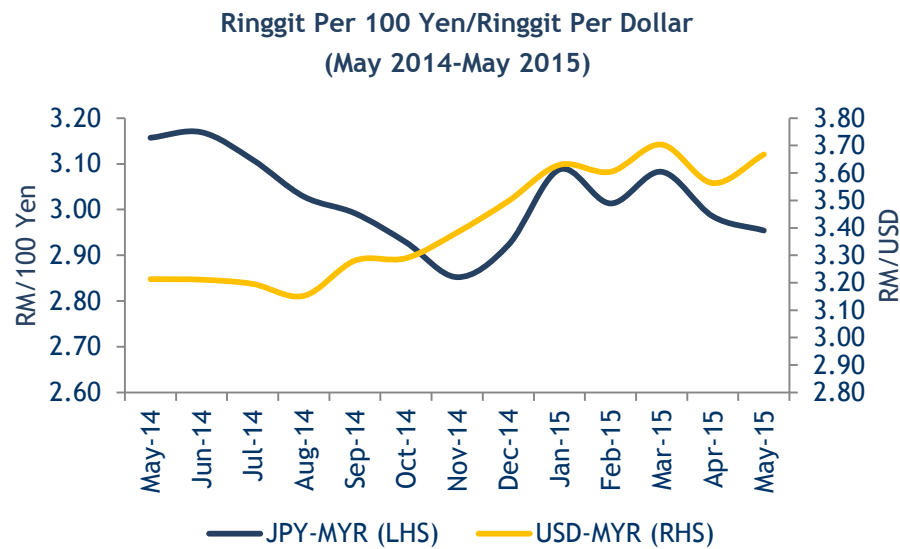
Source: MAA, M&A Securities

TIV Market Share
(YTD 2015)

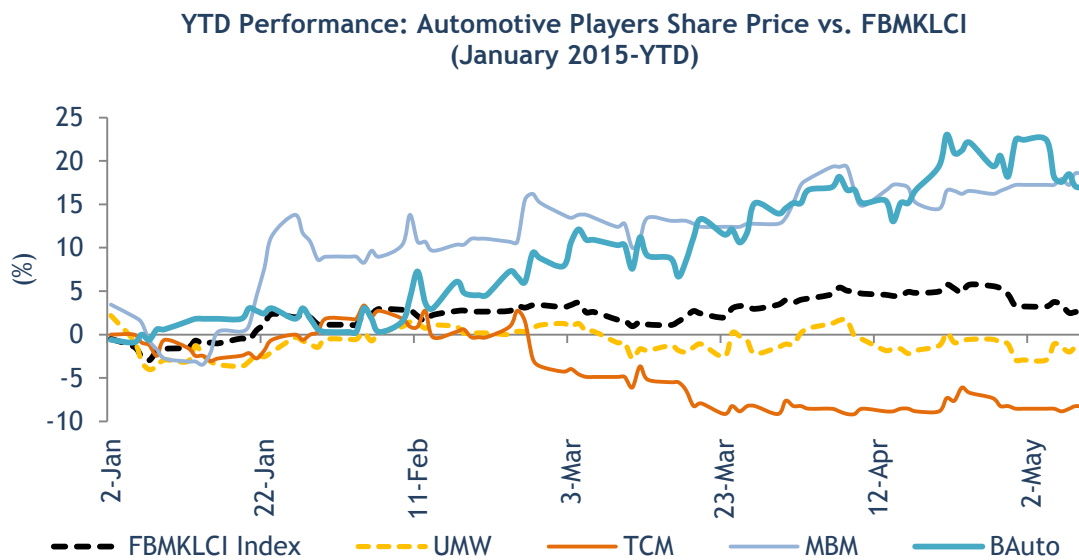
Source: MAA, M&A Securities

TIV Performance
(2010-2015F)

Source: MAA, M&A Securities



Source: Bloomberg, M&A Securities



Source: Bloomberg

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities SdnBhd (15017-H)
(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45-47 & 43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 - 2282 1820 Fax: +603 - 2283 1893
Website: www.mnaonline.com.my