

AUTO SECTOR

(Overweight)

“Post GST, Reduction in Car Prices”

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%	5.0%
2015 Top Pick	<ul style="list-style-type: none"> • MBMR (BUY; TP: RM3.80) • Berjaya Auto (BUY; TP: 4.30) 	

Source: M&A Securities

We remain positive on the reduction in most car prices post-GST implementation which is expected to spur the TIV growth especially from April onwards. TIV from January to February has been tepid (+0.001% y-o-y), affected by consumer's cautious sentiment ahead of GST implementation. At this stage, with cheaper car price post-GST, we opine the positive consumer sentiment in buying cheaper car may be offset by higher cost of living which may increase consumers' cost in maintaining a car not to mention higher insurance payment due to additional GST charges. Nonetheless, putting all the catalysts together, 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 and; 3) potential implementation of cash for clunkers scheme. MBMR (BUY; TP: RM3.80) and Berjaya Auto (BUY; TP: RM4.30) emerge as our top call in the automotive sector space.

Price reduction between 0.01%-5.29%. Most national and non-national marques have revealed that their car prices post GST implementation on 1st April 2015 will be reduced between 0.01%-5.29% including Perodua, Proton, Toyota, Honda, Nissan and Mazda. On the national car producers, Proton has revised downward prices for all 38 variants by between 0.07%-3.25% respectively with a huge reduction coming from Proton Iriz 1.3 CVT Standard with price difference of RM1,475 (old: RM45k; new: RM44k). Meanwhile Perodua posted a minimal reduction of between 0.15%-1.57% led by the decrease in all Perodua Myvi variants with average price difference of RM598 (average old: RM49k; average new: RM48k).

For non-national marques, Toyota's car prices for 29 variants will see a reduction of between 0.07%-1.71% with Toyota Corolla Altis, Previa and Alphard are enjoying a price drop of between RM1,954-RM4,918. But, four Toyota Vios variants (1.5 J MT, 1.5 E AT, 1.5 G AT, 1.5 TRD Sportivo

AT) prices have been revised upwards by between 0.05%-0.14%. According to Honda's new price list, 19 variants including Honda Jazz, City, HR-V, Civic, CR-V and Accord were entitled for a price reduction between 0.46%-2.14% led by the drop in Honda City prices with price difference between RM1,346 to RM1,086 respectively. Nonetheless, two Odyssey variant (2.4 Ex, 2.4 EXV) prices will increase by 0.21%-0.44%. As for Tan Chong Motor (TCM), we notice that all Nissan's CBU models (Sylphy, Elgrand, Murano, 370Z and Leaf prices will remain unchanged while 22 variants including Nissan Almera, Teana, X-Gear, Grand Livina, Serena Hybrid, X-Trail, Navara and NV200 will see a price reduction of between 0.30%-2.00% respectively. Bermaz Motor said that eight Mazda's variants prices including Mazda 3 (2.0), Mazda 6 (2.5), Mazda 8 (2.3), CX-5 (2.0, 2.5), CX-9 and BT-50 will get a reduction of between 0.01%-5.29% respectively.

February TIV Analysis. February 2015 TIV registered flat numbers of 50,390 units (-1% y-o-y, -0.4% m-o-m), bringing YTD 2M15 figures to 100,992 units (+0.001% y-o-y). The weaker February TIV was attributable to shorter working days in February coupled with Chinese New Year holidays and adoption of wait-and-see approach by consumers post-GST implementation in April 2015. On national car marques, Perodua vehicle sales reached 18,589 units (+19% y-o-y, +16% m-o-m) in February 2015 benefitting on the strong demand of Perodua Axia and newly launched Perodua Myvi, thumping Proton's lower sales volumes of 8,254 units (-23% y-o-y, -7% m-o-m). On-national car marques, Honda, Nissan and Mazda sales have outperformed Toyota sales performance after registering a commendable growth of 40% y-o-y (Honda), 2% y-o-y (Nissan) and 83% y-o-y (Mazda) respectively. Overall, Perodua maintained its top spot with higher market share of 34% in 2M15 (2M14: 27%) followed by Proton 17% (2M14: 20%), Honda 12% (2M14: 11%), Toyota 9% (2M14: 14%), Nissan 8% (2M14: 8%) and Mazda 2% (2M14: 1%).

Conclusion and Recommendation. 2015 TIV is estimated to stay flat at 667K units (2014: 666k units) due to cautious sentiment on consumer's purchasing power post-GST and margin pressure on some auto players including UMW (Toyota) and TCM (Nissan) hammered by intense competition in the B-Segment market. 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, Proton Iriz and Honda City; 2) muted impact on potential hike in OPR 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) weakening of Ringgit against USD. MBMR (BUY; TP: RM3.80) and Berjaya Auto (BUY; TP: RM4.30) 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	11.10	85	92	12.9	11.9	1.8	1.7	12	3	11.57	Hold
Tan Chong	Dec	3.00	27	35	12.4	9.5	0.8	0.7	7	3	3.13	Hold
MBM Resources	Dec	3.46	37	42	8.6	7.5	0.8	0.7	8	2	3.80	Buy
Berjaya Auto	Apr	3.86	31	36	10.8	9.2	4.6	3.6	52	3	4.30	Buy
APM Automotive	Dec	4.85	59	62	8.4	8.0	1.0	0.9	11	4	NR	NR
Average					10.6	9.2	1.8	1.5				

Source: Bloomberg, M&A Securities

Table 3: Car Prices Post GST (Selected Top 5 Players)

Marques	Price Reduction		Price Increase	
	Variant	Change (%)	Variant	Change %
Perodua	17 Variant: Axia, Myvi, Alza	(0.15%)-(1.57%)	-	-
Proton	38 Variant: Saga, Iriz, Satria Neo, Persona, Preve, Suprima, Inspira, Exora	(0.07%)-(3.25%)	-	-
Toyota	29 Variant: Vios (1.5 J AT), Altis, Avanza, Innova, Alphard, Hilux, Fortuner, Hiace	(0.07%)-(1.71%)	4 Variant: Vios (1.5 J MT, 1.5 E AT, 1.5 G AT, 1.5 TRD Sportivo AT	0.05%-0.14%
Honda	19 Variant: Jazz, City,HR-V, Civic, CR-V, Accord	(0.46%)-(2.14%)	2 Variant: Odyssey (2.4 EX, 2.4 EXV)	0.21%-0.44%
Nissan	22 Variant: Almera, Teana, X-Gear, Grand Livina, Serena Hybrid, X-Trail, Navara, NV200	(0.30%)-(2.00%)	-	-
Mazda	11 Variant: Mazda 3 (2.0), Mazda 6 (2.5), Mazda 8 (2.3), CX-5 (2.0, 2.5), CX-9, BT-50	(0.01%)-(5.29%)	-	-

Source: Company, M&A Securities

Table 4: YTD 2015 TIV

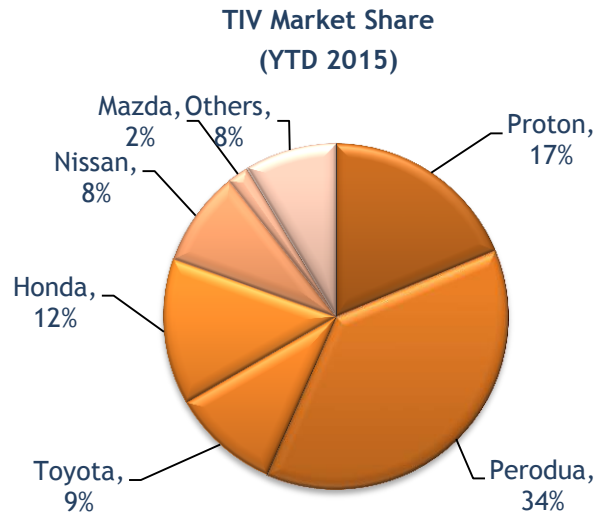
Marque	Feb-14	Jan-15	Feb-15	m-o-m	y-o-y	YTD14	YTD15	y-o-y
Proton	10,684	8,900	8,254	-7%	-23%	20,419	17,154	-16%
Perodua	15,609	16,067	18,589	16%	19%	27,700	34,656	25%
Toyota	7,901	4,109	5,159	26%	-35%	14,588	9,268	-36%
Honda	4,319	6,522	6,042	-7%	40%	10,712	12,564	17%
Nissan	3,455	4,706	3,515	-25%	2%	7,963	8,221	3%
Mazda	542	875	994	14%	83%	1,339	1,869	40%
Others	8,208	9,423	7,837	-17%	-5%	7,837	7,837	0%
TIV	50,718	50,602	50,390	0%	-1%	100,991	100,992	0%
Passenger	45,704	44,697	44,917	0%	-2%	90,406	89,614	-1%
Commercial	5,014	5,905	5,473	-7%	9%	10,585	11,378	7%

Source: MAA, M&A Securities

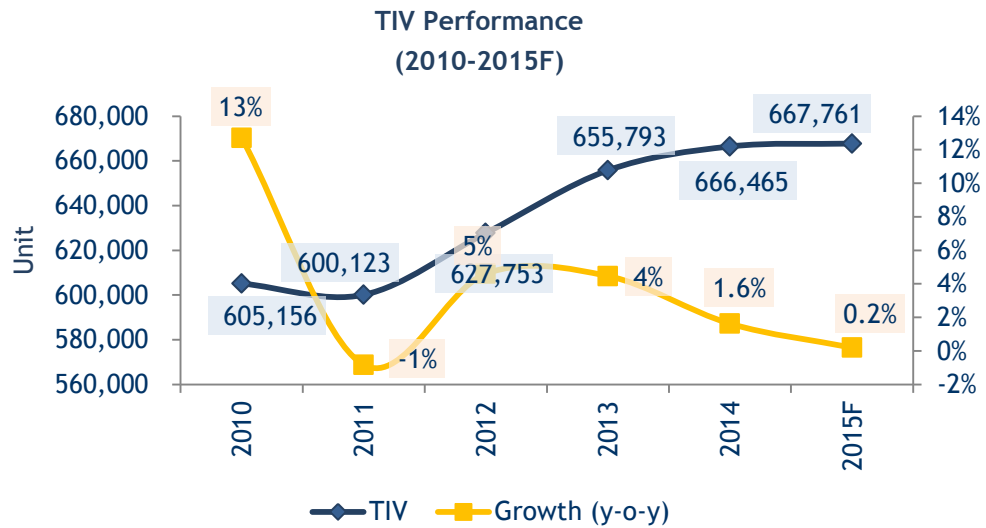
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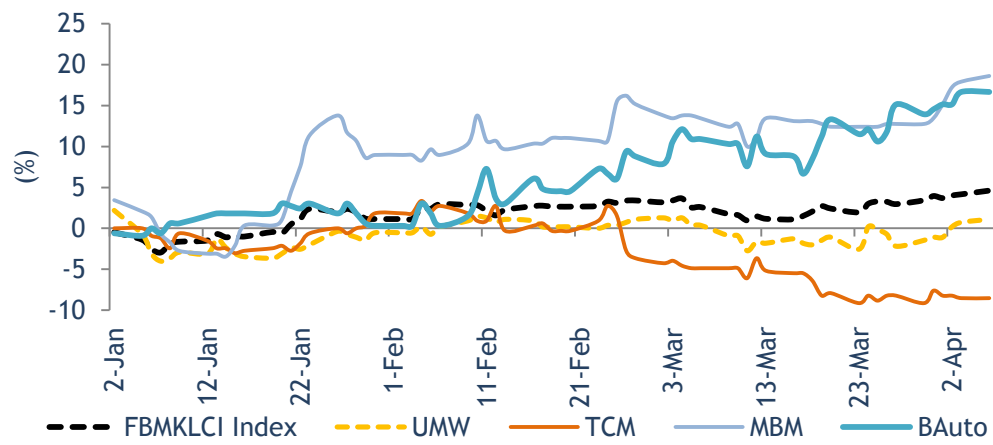


Source: MAA, M&A Securities



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YTD Performance: Automotive Players Share Price vs. FBMKLCI
(January 2015-YTD)



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.

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