

AUTO SECTOR

(Overweight)

“Stronger Pre-GST TIV, Banking on Aggressive Promotional Campaign”

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

1Q15 TIV recap showed an improvement in vehicle sales growth of 5% y-o-y mainly driven by aggressive promotional and marketing activities which captured a strong buying momentum among consumers prior to the implementation of good and services tax (GST) in April 2015. Perodua and Honda maintained the top industry performer for national and non-national marques after registering creditable growth of 30% y-o-y and 42% y-o-y respectively as at 1Q15. 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, and Honda City; 2) muted impact of 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.

1Q15 TIV Analysis. 1Q15 TIV registered a strong numbers of 168,306 units (+5% y-o-y) driven by higher March TIV growth of 67,314 units (+14% y-o-y) ahead of the implementation of GST by April 2015 as most of the players offered attractive incentives to clear stocks prior to the implementation of GST. On national car marques, Perodua vehicle sales reached 57,153 units (+30% y-o-y) in 1Q15, benefitting on strong demand of Perodua Axia and newly launched Perodua Myvi, thumping Proton's lower sales volumes of 27,682 units (-15% y-o-y, -7% m-o-m). Note that Perodua has received robust bookings of 100,000 units for Perodua Axia by mid-April 2015 and already delivered 60,000 units by the end of March 2015.

On non-national car marques, Honda, Nissan and Mazda sales have outperformed Toyota sales performance after registering a commendable growth of 42% y-o-y (Honda), 11% y-o-y (Nissan) and 49% y-o-y (Mazda) respectively as at 1Q15. Honda was the top performer in 1Q15 after posting impressive vehicles sales of 22,145 units (+42% y-o-y) lifted by higher demand of its new SUV's model, Honda HRV, which was launched in February 2015. Nissan's vehicles sales surged to 13,226

units (+11% y-o-y) in 1Q15 on the back of aggressive promotional campaign to clear inventory prior to the GST implementation. Mazda registered commendable vehicle sales of 3,372 units (+49% y-o-y) in 1Q15 thanks to solid demand of the new Mazda 2 which was launched in January 2015. Nonetheless, Toyota's vehicle sales dropped to 16,603 units (-33% y-o-y) impacted by intense competition and new launches by competitors. Overall, Perodua maintained its top spot with higher market share of 34% in 3M15 (3M14: 28%) followed by Proton 16% (3M14: 20%), Honda 13% (3M14: 10%), Toyota 10% (3M14: 15%), Nissan 8% (3M14: 7%) and Mazda 2% (3M14: 2%).

Post-GST, 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 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.

We expect vehicle sales to normalize post-GST implementation and projected a lower TIV figures for April 2015 compared to March 2015 numbers as consumers were already buying in advance prior to the implementation of 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 and the hike in pump prices.

Update on 'Cash for clunkers' scheme. Based on our channel checks, the 'cash for clunkers' scheme has been put on 'Hold' by the government due to the GST's related issue but the scheme will not be cancelled and 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%).

To recap, Malaysian Automotive Institute (MAI) has proposed the ‘cash for clunkers’ scheme to the government agencies and original equipment manufacturers (OEMs) where car owners may turn in their old car of above 10 years age for cash rebate RM5,000 to buy a new car. MAI projects 2015 TIV could reach 750k units, exceeding its initial 2015 forecast of 700k if the scheme being implemented in 2015.

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, and Honda City; 2) muted impact of 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)

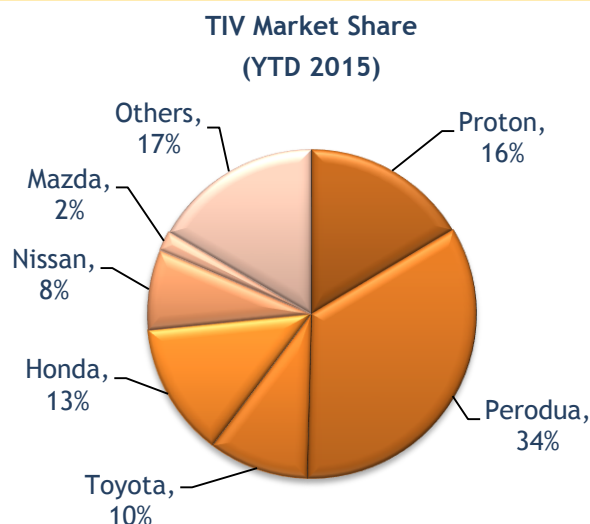
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	10.80	77	84	14.1	13.0	1.8	1.7	10	4	11.57	Hold
Tan Chong	Dec	3.00	22	29	14.0	10.3	0.7	0.7	4	2	3.13	Hold
MBM Resources	Dec	3.40	37	41	9.3	8.3	0.8	0.8	8	2	3.80	Buy
Berjaya Auto	Apr	3.92	23	29	15.6	13.8	6.9	5.8	52	3	4.30	Buy
APM Automotive	Dec	5.20	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	Mar-14	Feb-15	Mar-15	m-o-m	y-o-y	3M14	3M15	y-o-y
Proton	12,315	8,254	10,528	28%	-15%	32,734	27,682	-15%
Perodua	16,324	18,589	22,497	21%	38%	44,024	57,153	30%
Toyota	10,046	5,159	7,335	42%	-27%	24,634	16,603	-33%
Honda	4,915	6,042	9,581	59%	95%	15,627	22,145	42%
Nissan	3,994	3,515	5,005	42%	25%	11,957	13,226	11%
Mazda	918	994	1,503	51%	64%	2,257	3,372	49%
Others	10,407	7,837	10,865	39%	4%	28,677	28,125	-2%
TIV	58,919	50,390	67,314	33.6%	14%	159,910	168,306	5.250%
Passenger	52,122	44,917	59,318	32%	14%	52,122	148,932	186%
Commercial	6,797	5,473	7,996	46%	18%	17,382	19,374	11%

Source: MAA, M&A Securities

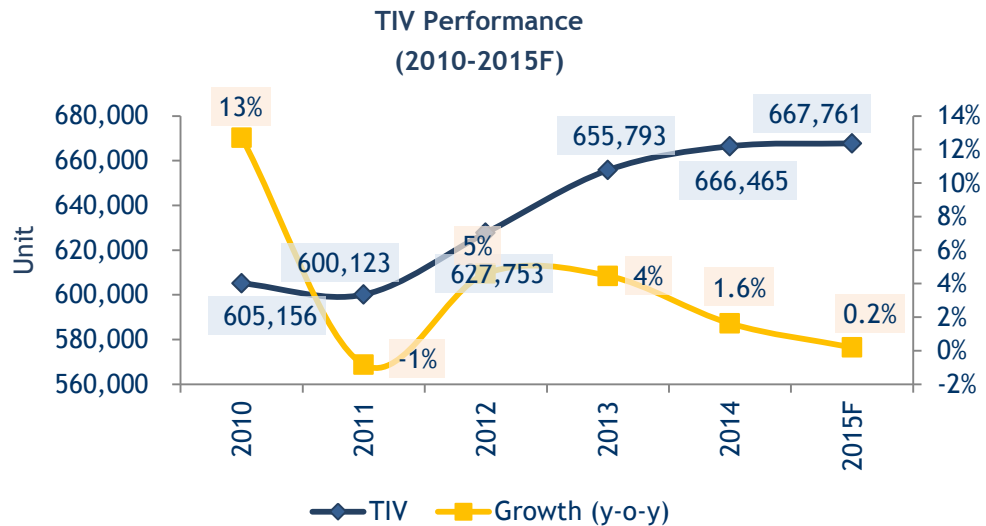


Source: MAA, M&A Securities

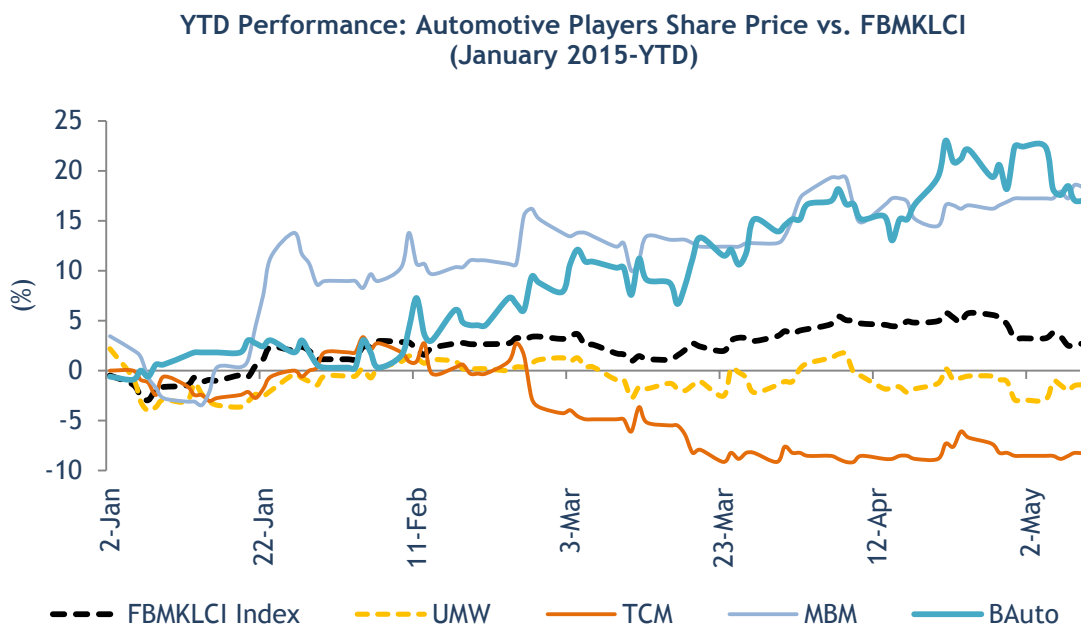
Table 4: Car Prices Post GST (Selected Top 5 Players)

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



Source: MAA, 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.

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