

## Auto Sector

(Overweight)

“1H15 TIV Down, MAA Lowering 2015 TIV to 670k units”

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"> <li>• MBMR (BUY; TP: RM4.17)</li> <li>• Berjaya Auto (BUY; TP: 3.32)</li> </ul>	

Source: M&A Securities

We are not surprise on MAA’s decision to lower 2015 TIV target to 670k units from 680k units, which is still in line with our TIV estimates of 667k units target for the year, due to cautious sentiment on consumer’s purchasing power post-GST implementation and current global economic uncertainties. We see increasing downside risk to revise our “Overweight” call to “Neutral” call pending the outcome of upcoming 2Q15 GDP next month to analyse further the private consumption trend. At this juncture, we still maintain our 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.

**MAA revise 2015 TIV to 670k.** According to the news report, Malaysian Automotive Association (MAA) has revised downwards 2015 TIV target to 670k units from 680k units previously due to the moderation in consumer spending as a result of economic uncertainties and increase cost of living. We are not surprise on the TIV revision by MAA as we have already addressed our concern on the effect of the implementation of GST. In our view, consumers will remain cautious on buying a new car added while factors like current global economic uncertainties including the credit crisis in Greece, lower commodity prices and slowdown in China’s economy will also weigh on consumers’ spending cautiousness. Nonetheless, MAA’s new TIV target of 670k units is relatively parallel with our 2015 TIV assumption of 667k units.

**1H15 recaps.** 1H15 TIV registered a weak numbers of 322k units (-3% y-o-y) mainly impacted by hefty sales contraction in April (-33% m-o-m) on post-GST implementation with all top 5 industry players suffered a massive drop in vehicle sales of between 16%-53% m-o-m before it started to

normalize in May and June respectively. As at June, vehicle sales surged to 57k units (+12% m-o-m) thanks to the aggressive promotional campaign for pre-Hari Raya festival. As at 1H2015, Perodua and Honda have outperformed their competitors by registering a creditable growth of 15% y-o-y and 17% y-o-y respectively.

**Perodua and Proton.** Perodua vehicle sales reached 108k units (+15% y-o-y) in 1H2015, benefitting on strong demand of Perodua Axia and newly launched Perodua Myvi, thumping Proton's lower sales volumes of 50k units (-20% y-o-y). Note that Perodua has received robust bookings of more than 130k units for Perodua Axia since its launch in September 2014 and already delivered 84k units to the customers. Perodua's vehicle sales of 108k units in 1H2015 already made-up 52% of its targeted sales of 208k units and hence, we believe Perodua is on the right track to achieve a new sales records in 2015. Meanwhile, Proton has inked a collaboration agreement with Suzuki in June 2015 as a preparation to develop a new small compact car sooner in order to garner a slice of market share especially from Perodua A-segment model. Note that Proton has experienced a downfall in market share since the last 3 years. (2011: 26%, 2012: 22%, 2013: 21%, 2014: 17%).

**Honda - top performer for non-national marques.** Honda continued its strong momentum in 1H2015 after posting impressive vehicles sales of 44k units (+17% y-o-y) lifted by higher demand of its new SUV's model, Honda HRV, which received a strong 18,000 units orders from customers since its launch in February 2015. Honda has successfully overtook Toyota's position as the top performer for foreign marques in Malaysia, raking-in 14% market share (Toyota: 12%) as at 1H2015. We opine that Honda is able to achieve its 2015 sales target of 85k units (FY14: 77k units) fuelled by robust sales volume of Honda City and Honda Jazz added with the strong demand of its new Honda HRV.

**2015 not a good year for Toyota.** Toyota's vehicle sales dropped to 39k units (-24% y-o-y) in 1H2015 hammered by intense competition and new launches by competitors. Based on our analysis, Toyota's vehicle sales badly tanked in 1Q15 with January sales of only 4.1k units, the lowest monthly level since the last 3 years. However, Toyota's sales volume has started to pick-up in 2Q15 especially in June where its sales soared to 9k units (+19% m-o-m) driven by aggressive promotional activities ahead of Hari Raya festive season. Nonetheless, 2015 will not be a great year for Toyota due to stiff competition from other foreign marques such as Honda and Nissan and lack of new launches to spur its TIV volume further. Therefore, the management has set a lower sales target for 2015 of 90k, 12% lower against 2014 sales of 103k units.

**Nissan maintain 3<sup>rd</sup> position.** Nissan has maintained its 3<sup>rd</sup> spot for non-national marques as at 1H2015 with market share of 7%. Nissan posted a slight improvement in sales volume in 1H2015 of 23k units (+5% y-o-y) on the back of new launches consisting Nissan Almera Facelift (January 2015) and Nissan X-Trail (January 2015). The management is aiming to sell the new Nissan X-Trail of 400-500 units monthly while we reckon a stiff competition in the B-segment market will continue to dampen the sales volume of Nissan Almera following the entrance of Perodua Myvi Facelift and the all new Mazda 2 in January 2015. Therefore, we expect Nissan vehicle sales to slightly

improve in FY15 to 48k units (FY14: 46k units) to be supported by the upcoming launch of Nissan Navarra in 2H2015.

**Mazda sales to accelerate.** Mazda registered commendable vehicle sales of 6k units (+14% y-o-y) in 1H15 thanks to solid demand of the new Mazda 2 (January 2015) and Mazda 3 CKD (April 2015). We predict Mazda's vehicle sales to reach approximately 12k units in 2015 (2014: 11k units) fuelled by slew of new launches including the all new CX-3, Mazda 6 (facelift) and CX-5 (facelift) coupled with Mazda's strong sales volume of its existing Mazda 2, Mazda 3, and CX-5.

**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 implementation 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: RM4.17)** and **Berjaya Auto (BUY; TP: RM3.32)** emerge as our top call in the automotive sector space. As mentioned, we will review the call on the sector pending the release of 2Q15 GDP next month.

Table 2: Peers Comparison (Calendarised)

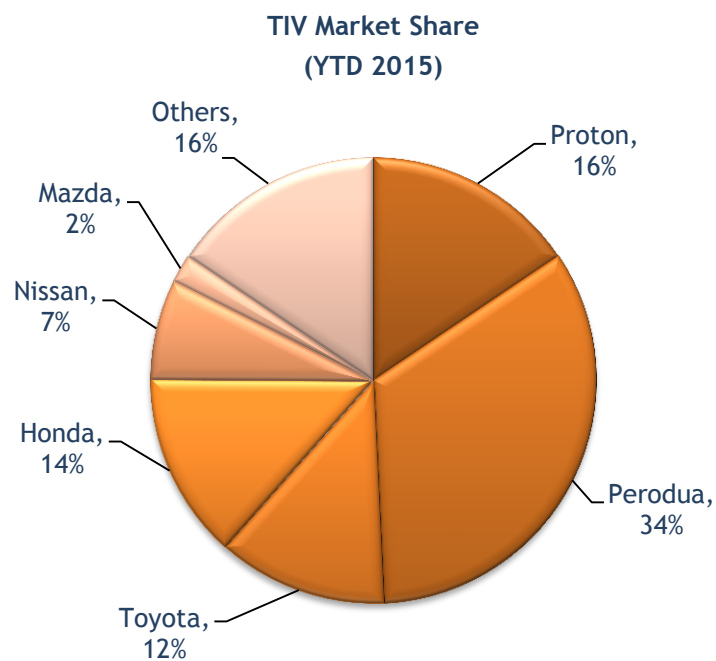
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	9.93	77	84	14.1	13.0	1.8	1.7	10	4	10.77	Hold
Tan Chong	Dec	2.77	22	29	14.0	10.3	0.7	0.7	4	2	3.00	Hold
MBM Resources	Dec	3.41	37	41	9.3	8.3	0.8	0.8	8	2	4.17	Buy
Berjaya Auto	Apr	2.53	23	29	15.6	13.8	6.9	5.8	52	3	3.32	Buy
APM Automotive	Dec	4.38	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

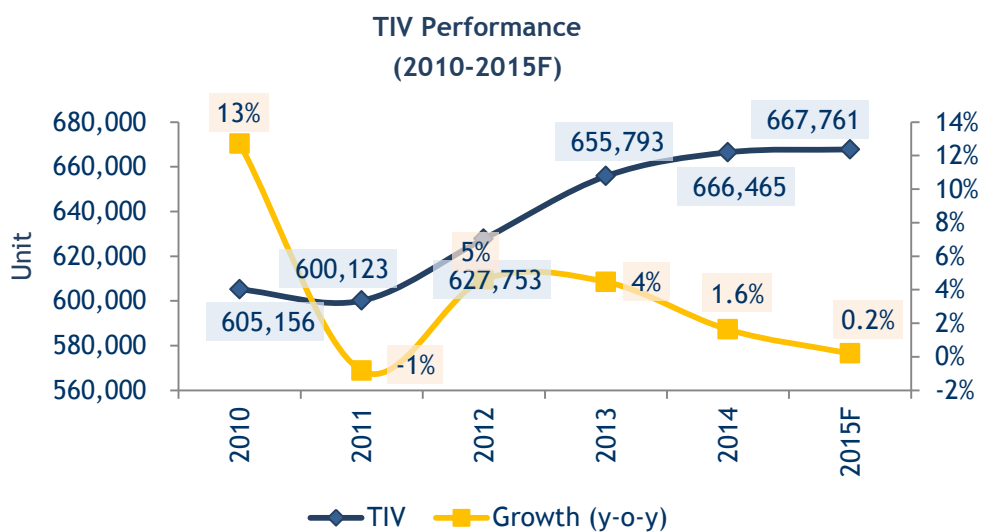
Table 3: YTD 2015 TIV

Marque	Jun-14	May-15	Jun-15	m-o-m	y-o-y	1H14	1H15	y-o-y
Proton	10,060	8,285	9,267	12%	-8%	63,040	50,206	-20%
Perodua	16,834	17,290	16,475	-5%	-2%	94,500	108,502	15%
Toyota	9,755	7,724	9,173	19%	-6%	51,938	39,690	-24%
Honda	7,295	6,221	8,668	39%	19%	37,203	43,596	17%
Nissan	3,519	3,300	3,765	14%	7%	22,113	23,294	5%
Mazda	1,063	1,155	1,350	17%	27%	5,794	6,582	14%
Others	10,035	7,277	8,739	20%	-13%	58,554	50,314	-14%
TIV	58,561	51,252	57,437	12%	-2%	333,142	322,184	-3%
Passenger	51,898	45,874	50,695	11%	-2%	296,779	286,533	-3%
Commercial	6,663	5,380	35,651	563%	435%	36,363	35,651	-2%

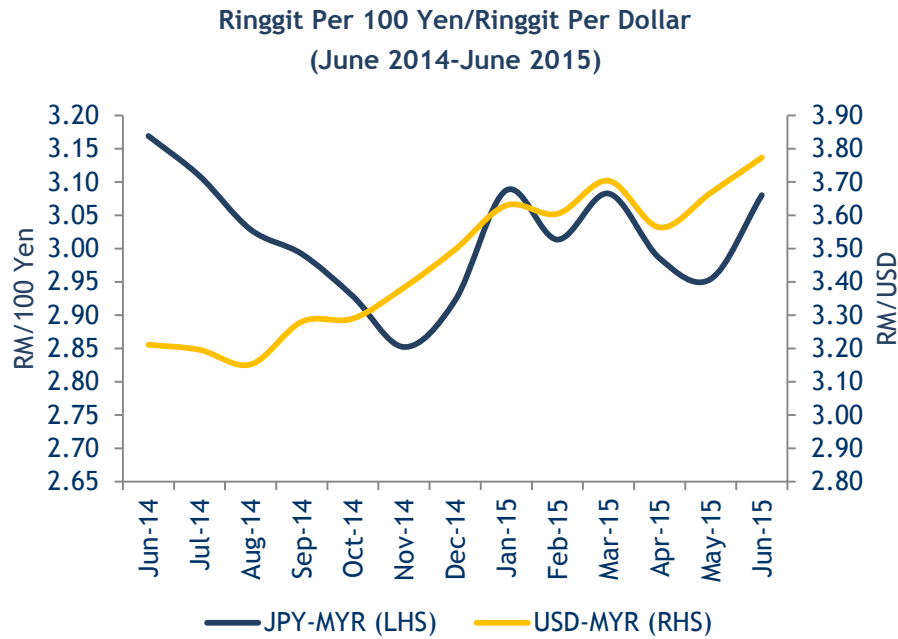
Source: MAA, M&A Securities



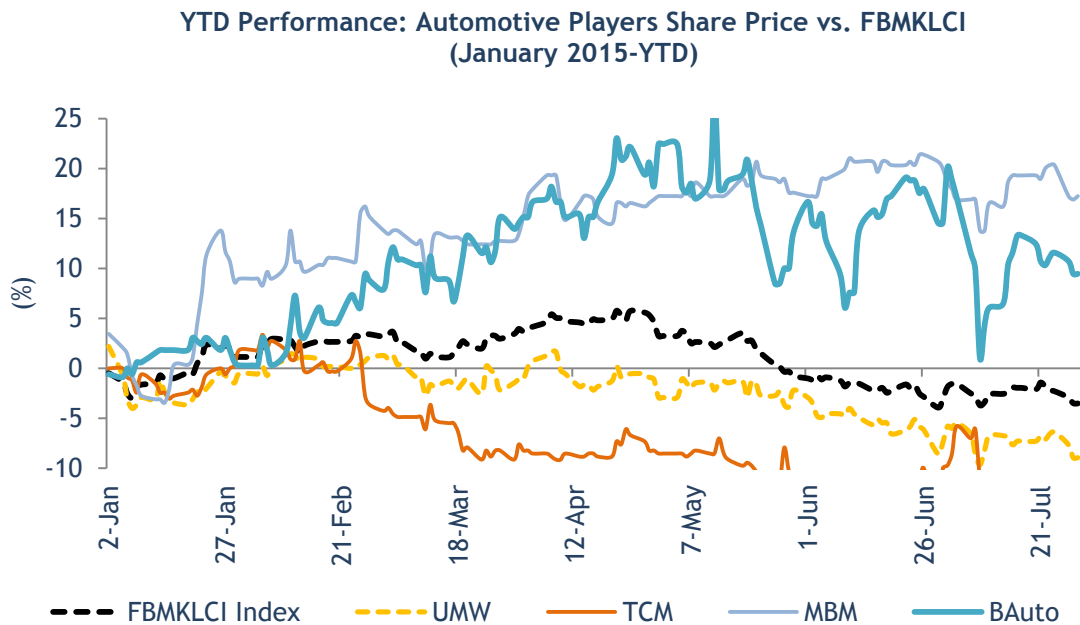
Source: MAA, M&A Securities



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.

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