Auto Sector

(Neutral)

"Jittery Sentiment in 2H15"

Vehicle sales as at 7M15 came in weak at 381k units (-3% y-o-y) led by the drop in Proton (-18% y-o-y) and Toyota (-22% y-o-y) performance respectively. Perodua and Honda continued their strong grip for national and non-national marques in 7M15 after registering a creditable growth of 11% y-o-y and 19% y-o-y, raking-in market share of 33% and 14% respectively. In addition, auto players including 3 stocks under our coverage ended 2Q15/6M15 reporting season with disappointing performance, missing our initial forecast mainly impacted by margin compression due to the weakening of Ringgit against USD. We downgrade our call from Overweight to Neutral on the sector in view of: i) slowdown in Malaysia economy, forecast to grow at 5.0% in 2015 (2014: 6.0%), ii) a flat 2015 TIV growth of 0.2% (2014: 1.6%), iii) tightening of bank lending rules and iv) prolong weakening of Ringgit against USD/Yen which will further weigh on local auto players margin. MBMR (BUY; TP: RM3.88) and Berjaya Auto (BUY; TP: RM2.45) emerge as our top call in the automotive sector space.

July TIV Analysis

July TIV surged by 2% m-o-m at 58k units in spite of shorter working days lifted by aggressive promotional campaigns for Hari Raya festive season. However, 7M15 TIV declined by 3% y-o-y to 381k units no thanks to weaker consumer sentiment on GST implementation in 1H15. On national marques, Perodua's vehicle sales rose to 18k units (+9% m-o-m) in July, bringing total 7M15 figures to 126k units (+11% y-o-y) driven by strong demand of Perodua Axia and newly launched Perodua Myvi. We believe Perodua is on the right track to achieve a new sales record in 2015 as 7M15 numbers already made-up 62% of its targeted sales of 208k units. Proton's sales volume improved by 17% m-o-m at 11k units but still weak on YTD basis (-18% y-o-y) due to weaker-than-expected Proton Iriz sales. 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 bigger 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 in a row. (2011: 26%, 2012: 22%, 2013: 21%, 2014: 17%).

On non-national marques, Honda continued its strong momentum in 7M15 despite recording lower m-o-m numbers after posting YTD impressive vehicles sales of 52k units (+19% y-o-y) lifted by higher demand of its new SUV's model, Honda HRV as well as Honda City and Honda Jazz. Honda has overtook Toyota's position as the top performer for foreign marques in Malaysia, raking-in 14% market share (Toyota: 12%) as at 7M15. Toyota's vehicle sales performance remained weak in

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July, down by 18% m-o-m to 7k units, contributing into total 7M15 figures of 47k units (-22% y-o-y) hammered by intense competition and new launches by competitors. Nissan maintained its 3rd spot for non-national marques for the 7M15 period with market share of 7%. Nissan posted a slight improvement in sales volume in July (+11% m-o-m), bringing total 7M15 numbers to 27k units (+6% y-o-y) on the back of new launches consisting Nissan Almera Facelift (January 2015) and Nissan X-Trail (January 2015). Mazda registered commendable vehicle sales of 7k units (+17% y-o-y) in 7M15 thanks to solid demand of the new Mazda 2 (January 2015) and Mazda 3 CKD (April 2015).

6M15 Results Round-up

The 2Q15/6M15 analysis on 3 stocks under our coverage namely UMW, TCM and MBM showed all the stocks had failed to meet our projection, only accounting 29% (UMW), 28% (TCM) and 37% (MBM) of our full year earnings estimates. Therefore, we made several adjustments to our earnings for all companies comprising of: i) UMW - trimming FY15 earnings forecast by 10% due to the tough outlook on Toyota sales throughout 2015 and cautious sentiment on current softness of global oil prices which may dampen the contribution from oil and gas division, ii) TCM - cutting FY15 by 11% due to softer sales of Nissan Almera and higher marketing cost pressurised by stiff competition, and iii) MBM – cutting FY15 earnings forecast by 6% as we factor in lower sales assumption from Federal Auto and Hino in line with weaker consumer sentiment post-GST implementation. Briefly, below are the summary of each player performance in 6M15:

Table 1: Earnings Summary

Company	Earnings	Remarks
UMW Holdings (UMW)	Below	Disappointing earnings performance in 6M15 were hurt by lower PBT contribution from automotive segment (-39% y-o-y) weighed further by margin compression arising from the strengthening of USD against Ringgit, putting further hit on UMW's PBT margin. Furthermore, oil and gas segment also registered a lower PBT contribution (-59% y-o-y) in 6M15 due to the discount on charter rates in tandem with the decline in oil prices as well as the termination of contract of UMW NAGA 7 with Frontier Oil Corporation (FOC).
Tan Chong Motor (TCM)	Below	Below-than-expected 6M15 earnings were due to EBITDA margin compression which plunged by 5pps y-o-y to 5% (6M14: 10%), impacted by heavy discounting activities coupled with the strengthening of USD against Ringgit which further pressurised TCM's EBITDA margin.
MBM Resources (MBM)	Below	Lower bottom-line numbers were impacted by weaker PBT contribution from auto parts manufacturing division (-72% y-o-y) due to lower demand from major customers. Nonetheless, excluding one-off property contribution, MBMR 6M15 PBT remained steady at RM66

		million (+2% y-o-y) supported by strong PBT contribution from motor trading division which grew by 16% y-o-y to RM74 million coupled with higher associates contribution which improved by 11% y-o-y to RM65 million due to higher vehicle sales from Perodua thanks to sturdy demand of Perodua Axia and the new Myvi facelift.

Table 2: Results Review 2Q15/6M15 - Percentage Change

Companies	FYE	Revenue (2Q15)		PBT (2Q15)		Revenue (6M15)	PBT (6M15)
		q-o-q	y-o-y	q-o-q	y-o-y	y-o-y	y-o-y
UMW	Dec	8%	-12%	-35%	-51%	-11%	-41%
TCM	Dec	-19%	16%	-48%	-72%	21%	-54%
MBM	Dec	-37%	-24%	-48%	-7%	3%	54%

Source: Companies, M&A Securities

Unfavourable Ringgit Movement

The weakening trend of Ringgit will continue to post downside risk to auto players' earnings predominantly to the company with high denominated USD cost including UMW and TCM. This can be witnessed from poor 2Q15/6M15 results where both EBITDA margin depressed by 2pps y-o-y (UMW) and 5pps y-o-y (TCM) respectively coincided with stronger USD against Ringgit within the period. Ringgit averaged at RM3.66/USD in 2Q15, down by 13% y-o-y against 2Q14 average of RM3.23/USD. Hence, we expect UMW and TCM to incur further margin erosion in 2H15 as Ringgit movement continued to tumble in July (RM3.80/USD) and August (4.06/USD). Ringgit has so far touched a low point of RM4.35 on 10th September 2015, weakening by 24% YTD. Meanwhile, we also remain concern on the current strengthening of Yen against Ringgit since August, hovering at average of RM3.30/Yen (2014: RM3.09/Yen) which will negatively impact Berjaya Auto's importation costs. Ringgit has now depreciated to RM3.61/Yen as at 10th September 2015, a deterioration of 24% YTD.

MAA revise 2015 TIV to 670k

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 in 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 while factors like current global economic uncertainties including 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.

Downgrade to Neutral

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 particularly in the B-

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Segment market. We revised our call on auto sector from **Overweight** to **Neutral** after taking into consideration slower Malaysia 2015 GDP growth of 5.0% forecast (1Q15: 5.6%, 2Q15: 4.9%). Of note, private consumption growth in 2Q15 has plunged to 6.4% (1Q15: 8.8%) in tandem with GST adjustment and is expected to remain in the same growth range against the historical trend. Furthermore, tightening of bank lending rules and weakening of Ringgit against USD/Yen will further dampen the sentiment on local auto players. **MBMR (BUY; TP: RM3.88)** and **Berjaya Auto (BUY; TP: RM2.45)** emerge as our top call in the automotive sector space.

Table 2: Peers Comparison (Calenderised)

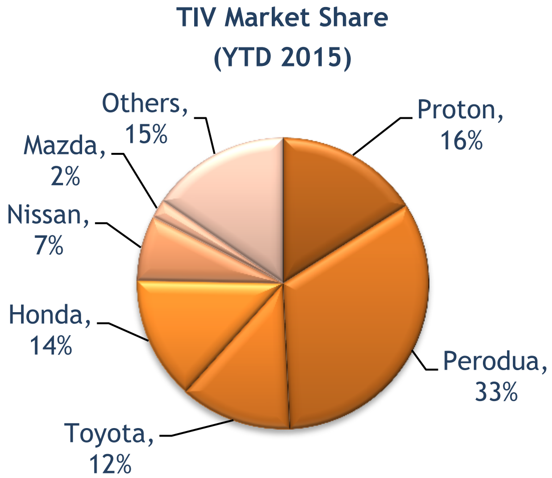
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	7.84	63	73	15.9	13.8	1.7	1.6	9	4	8.77	Hold
Tan Chong	Dec	2.61	19	26	14.5	10.5	0.6	0.6	3	2	2.55	Hold
MBM Resources	Dec	2.94	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	1.98	22	25	11.4	10.5	5.2	4.4	53	3	2.45	Buy
APM Automotive	Dec	4.00	52	55	8.5	8.0	0.9	0.8	9	4	NR	NR
Average					12.0	10.3	1.8	1.7	16	3		

Source: Bloomberg, M&A Securities

Table 3: YTD 2015 TIV

Marque	Jul-14	Jun-15	Jul-15	m-o-m	y-o-y	7M14	7M15	y-o-y
Proton	11,045	9,267	10,867	17%	-2%	74,085	61,073	-18%
Perodua	19,138	16,475	17,957	9%	-6%	113,638	126,459	11%
Toyota	8,412	9,173	7,491	-18%	-11%	60,350	47,181	-22%
Honda	6,685	8,668	8,443	-3%	26%	43,888	52,039	19%
Nissan	3,837	3,765	4,165	11%	9%	25,950	27,459	6%
Mazda	977	1,350	1,333	-1%	36%	6,771	7,915	17%
Others	10,173	8,739	8,390	-4%	-18%	68,727	58,704	-15%
TIV	60,267	57,437	58,646	2%	-3%	393,409	380,830	-3%
Passenger	53,578	50,695	52,636	4%	-2%	350,357	339,039	-3%
Commercial	6,689	35,651	6,010	-83%	-10%	43,052	41,791	-3%

Source: MAA, M&A Securities



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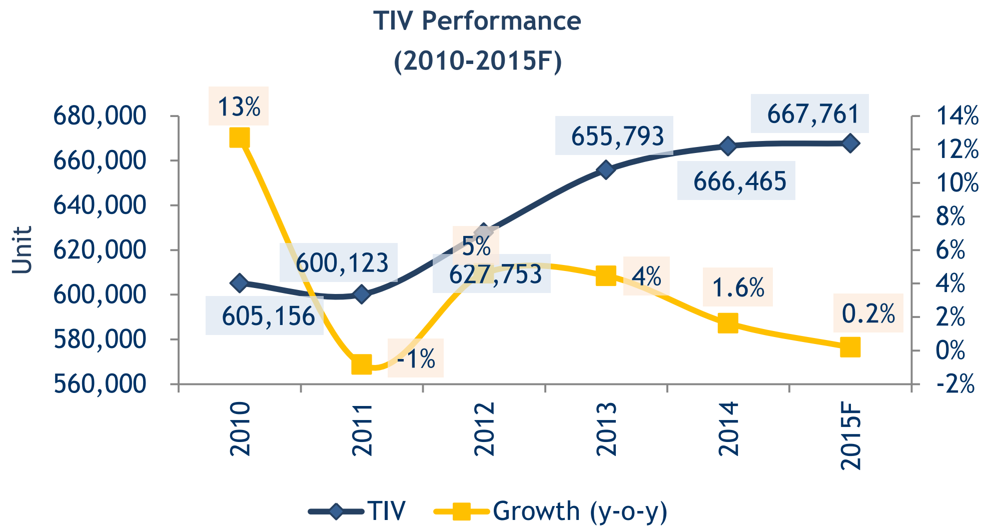

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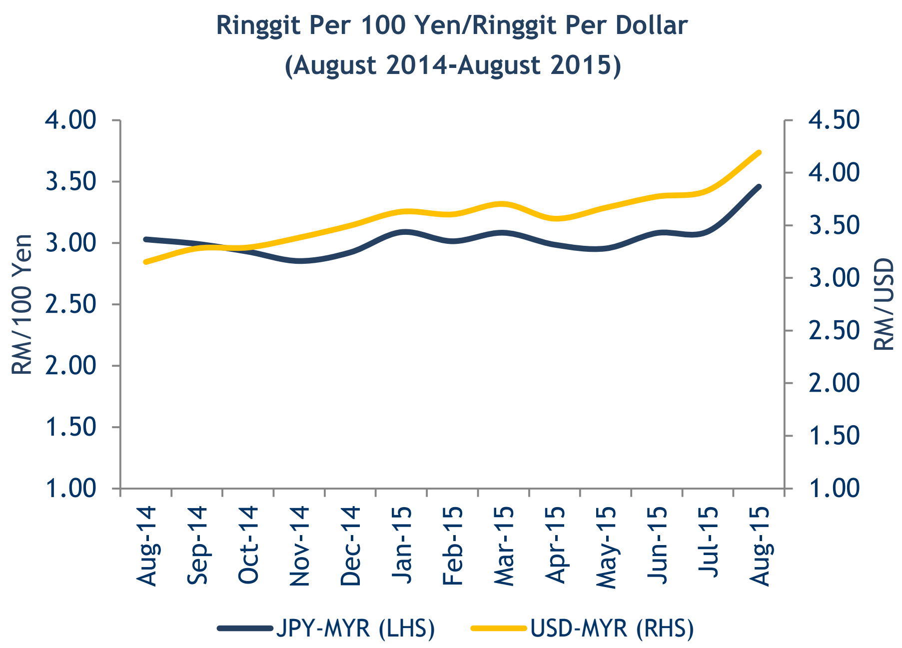

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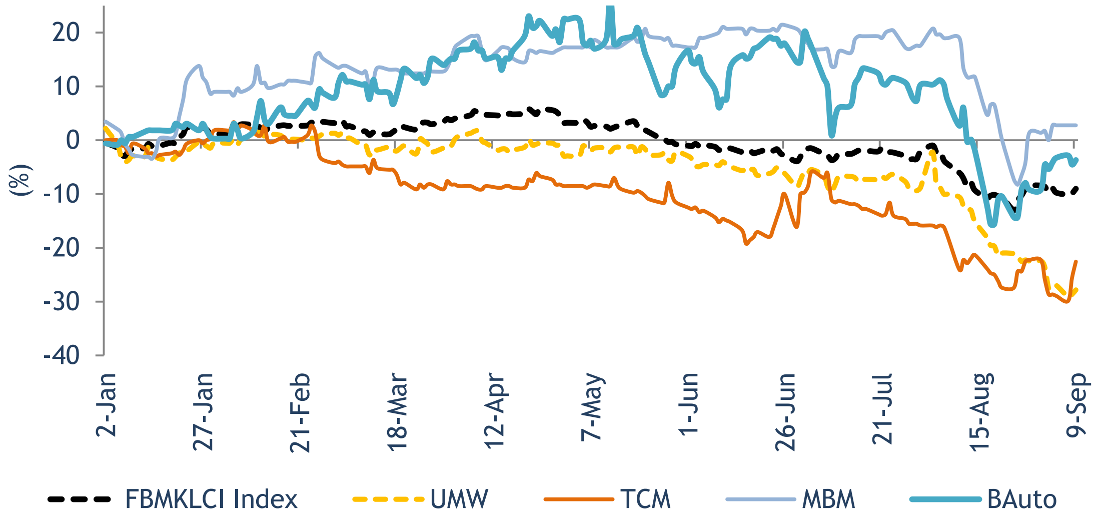
YTD Performance: Automotive Players Share Price vs. FBMKLCI (January 2015-YTD)



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STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+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 ≥-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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