

## Auto Sector

(Neutral)

### “Losing its Grip”

Vehicle sales as at 8M15 came in weak at 434k units (-2% y-o-y), led by the drop in Proton (-15% y-o-y) and Toyota (-19% y-o-y) performance respectively. Perodua and Honda continued their strong grip for national and non-national marques segment in 8M15 after registering a creditable growth of 12% y-o-y and 16% y-o-y, raking-in respectable market share of 33% and 14% respectively. Note that we expect transport vehicle loan to record a slower growth of between 2% to 3% y-o-y in 2015 decimated by flat TIV expectation of 667k units (+0.2% y-o-y) amid weaker consumer sentiment at the back of higher cost of living post GST implementation. We maintain our Neutral call on the sector in view of: i) slowdown in Malaysia's economic performance, 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.

#### August TIV Analysis

August TIV declined by 9% m-o-m to 53k units after three consecutive months of gains (May: +13%, June: +12%, July: +2%) impacted by aggressive promotional campaigns for Hari Raya festive season in the previous month coupled with weaker consumer spending on big-ticket item including cars due to higher cost of living. To share our view of the industry state of flux, 8M15 TIV was down by 2% y-o-y to 434k units which seems to give a signal on backsliding growth of TIV towards the end of 2015. On national marques, Perodua's vehicle sales were still strong in 8M15 at 143k units (+12% y-o-y) despite posting weaker sales in August (-8% m-o-m) driven by strong demand of Perodua Axia and newly launched Perodua Myvi. We believe Perodua is on track to achieve new sales record in 2015 as 8M15 numbers already made-up 69% of its targeted sales of 208k units for the full year., Note that Proton continued its sluggish performance in August after its vehicle sales suffered a massive decline on m-o-m (-17%) and YTD basis (-15%) due to lukewarm sales of Proton Iriz sales.

On non-national marques, Honda continued its strong momentum in 8M15 despite recording lower m-o-m numbers after posting YTD impressive vehicles sales of 58k units (+16% y-o-y), lifted by higher demand of its new SUV's model, Honda HRV, as well as Honda City and Honda Jazz. Honda still maintained its strong grips as the top performer for foreign marques in Malaysia, raking-in 14% market share (Toyota: 13%) as at 8M15. Despite recording higher vehicle sales growth on m-o-

m basis (+10%), Toyota's sales performance remained pathetic in 8M15 after slipping by 19% y-o-y to 55k units, hammered by intense competition and new launches by competitors. Nissan maintained its 3<sup>rd</sup> spot for non-national marques for the 8M15 period with market share of 7%. Overall, Nissan posted a slight improvement in sales volume in 8M15 after its sales rose to 31k units (+7% 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 9k units (+17% y-o-y) in 8M15 thanks to solid demand of the new Mazda 2 (January 2015) and Mazda 3 CKD (April 2015).

### **New launches**

We expect 2015 to be a challenging year for auto players in Malaysia due to negative factors arising from fragile consumer sentiment due GST implementation in April 2015, weakening of Ringgit against USD/Yen and tightening of bank lending rules. 2015 TIV is estimated to stay flat at 667k units (2014: 666k units) impacted by lack of new launches by top 6 auto players particularly volume selling model as compared to 2014 (e.g. Perodua Axia, Honda Jazz and Honda City). So far only 11 new launches have been introduced in the market as at YTD August 2015 (2014: 15) and most are dominated by Mazda with 4 new launches followed by Nissan (2) and Toyota (2) while the rest are equally shared by Honda, Perodua and Proton.

### **Perodua D63D - long-term catalyst for Perodua**

The management re-affirmed that the highly awaited model, the new Perodua Sedan (D63D) which now in the prototype stage, will take 36 to 48 months to develop and expected to make a debut at the earliest in 2018. This will be the first Perodua's model based on "Sedan" concept and we do not rule out that this model would be a new Perodua's volume selling model after the success of Perodua Myvi and Axia. Moreover, this could be a new long-term catalyst for Perodua in maintaining its vigorous performance in Malaysia's automotive industry since the last 5-years with market share of between 30%-31% annually.

### **Proton to unveil 4 new models in 2016**

Proton is targeting to introduce 4 new models in 2016 which could be the catalyst to ramp-up its sales volume as the group had experienced a steady downfall in market share since the last 3 years in a row (2011: 26%, 2012: 22%, 2013: 21%, 2014: 17%). The management hinted the new Proton Perdana will be the first to be launched in 2016 out of other 3 new models (Proton Saga, Proton Perdana, Proton Compact Car). Note that the new Proton Perdana is a rebadge model based on the last generation of Honda Accord and equipped with new interior and exterior design and quite different compare to the current Proton Perdana which is a straight forward rebadge model for government official use. Furthermore, Proton has inked a collaboration agreement with Suzuki in June 2015 as a preparation to develop a new small compact car in order to garner a bigger slice of market share especially from Perodua A-segment model.

### **Transport Vehicle Loan growth**

Malaysia's transport vehicle loan rose at slower pace of 2% y-o-y in 1H2015, the slowest growth since 2009. The declining trend had started in 2014 where transport vehicle loan only grew at

3.2% y-o-y compared to 2010-2013 growth of between 7%-8% y-o-y (2010: 8.3%, 2011: 8.4%, 2012: 7.1%, 2013: 7.4%), coinciding with the minute 2014 TIV growth of 2% y-o-y. The current transport vehicle loan stood at RM169 billion (+2% y-o-y, +0.5% m-o-m) as at July 2015, which made up 12% of the total loan outstanding of RM1,240 billion. Note that passenger cars loan contributing around 95% of the transport vehicle loan. We expect transport vehicle loan to record a growth of between 2% to 3% y-o-y in 2015 underpinned by a flat TIV expectation of 667k units (+0.2% y-o-y) amid weaker consumer sentiment.

### Maintain Neutral on Auto Sector

2015 TIV is estimated to stay flat at 667K units (2014: 666k units) due to cautious consumer sentiment and margin pressure on some auto players including UMW (Toyota) and TCM (Nissan) in addition to intense competition particularly in the B-Segment market. We maintain our **Neutral** call on auto sector after taking into consideration of 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 implementation 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 1: Peers Comparison (Calenderised)

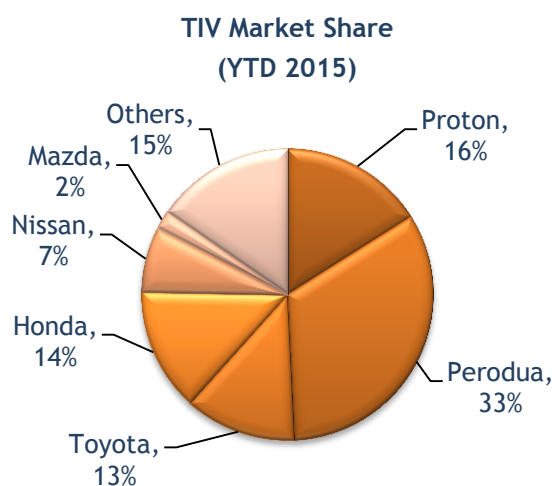
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	7.43	63	73	15.9	13.8	1.7	1.6	9	4	8.77	Hold
Tan Chong	Dec	2.37	19	26	14.5	10.5	0.6	0.6	3	2	2.55	Hold
MBM Resources	Dec	2.89	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	2.06	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	Aug-14	Jul-15	Aug-15	m-o-m	y-o-y	8M14	8M15	y-o-y
Proton	8,611	10,867	9,040	-17%	5%	82,696	70,113	-15%
Perodua	14,585	17,957	16,589	-8%	14%	128,203	143,048	12%
Toyota	7,880	7,491	8,233	10%	4%	68,230	55,414	-19%
Honda	6,689	8,443	6,853	-19%	2%	50,577	58,892	16%
Nissan	3,156	4,165	3,705	-11%	17%	29,106	31,164	7%
Mazda	1,014	1,333	1,192	-11%	18%	7,785	9,107	17%
Others	9,190	8,390	7,840	-7%	-15%	77,937	66,544	-15%
TIV	51,125	58,646	53,452	-9%	5%	444,534	434,282	-2%
Passenger	44,898	52,636	47,302	-10%	5%	395,255	386,341	-2%
Commercial	6,227	6,010	6,150	2%	-1%	49,279	47,941	-3%

Source: MAA, M&A Securities

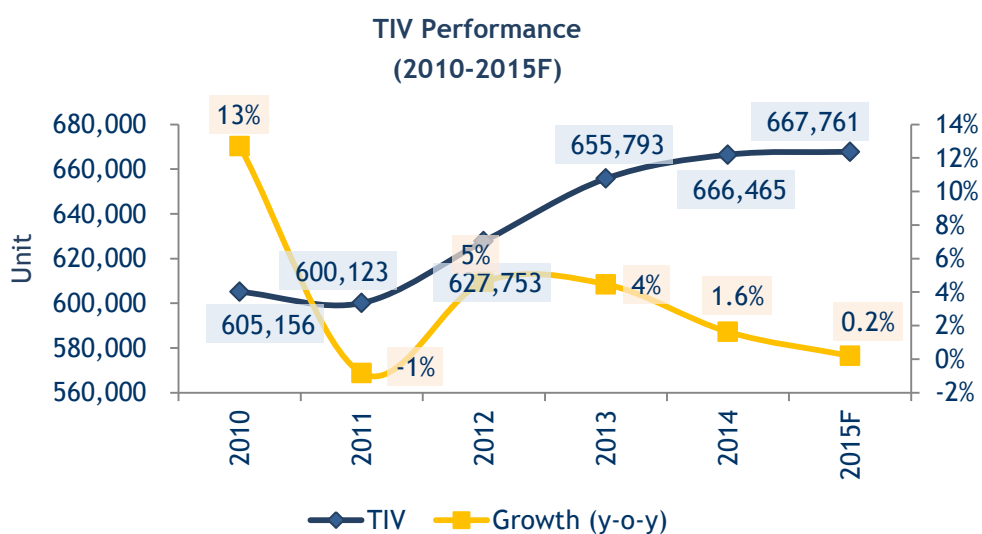


Source: MAA, M&A Securities

**Table 5: Selected New Launches 2015**

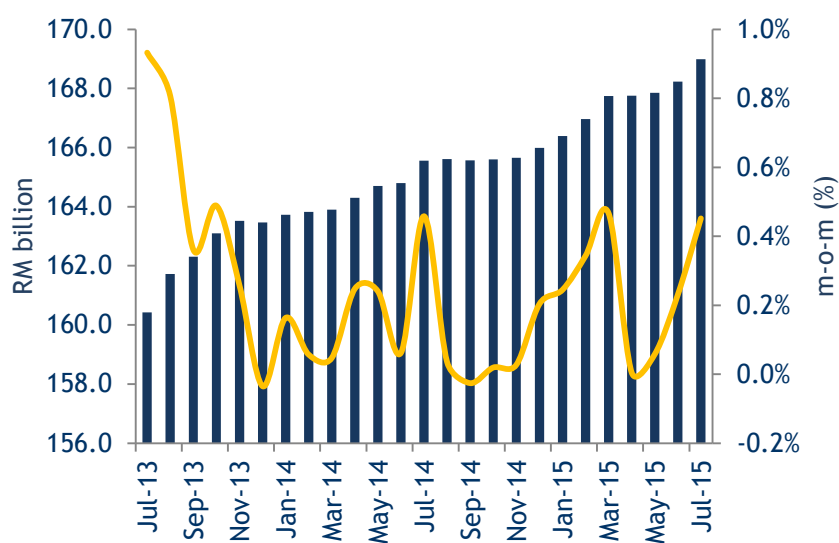
Model	Launch	Segment	OTR price (RM)
Mazda MX5	Aug-15	Sport Car	219k
Toyota Rush Facelift	Apr-15	SUV	98k-103k
Toyota Camry	Apr-15	D	150k-175k
Mazda CX-5 GL	Apr-15	SUV	126k-133k
Mazda 3	Apr-15	C	106k-121k
Honda H-RV	Feb-15	SUV	99k-119k
Proton Exora Facelift	Feb-15	MPV	57k-82k
Perodua Myvi Facelift	Jan-15	B	42k-59k
Mazda 2	Jan-15	B	88k
Nissan Almera Facelift	Jan-15	B	65k-78k
Nissan X-Trail	Jan-15	SUV	142k-165k

Source: Company, M&A Securities



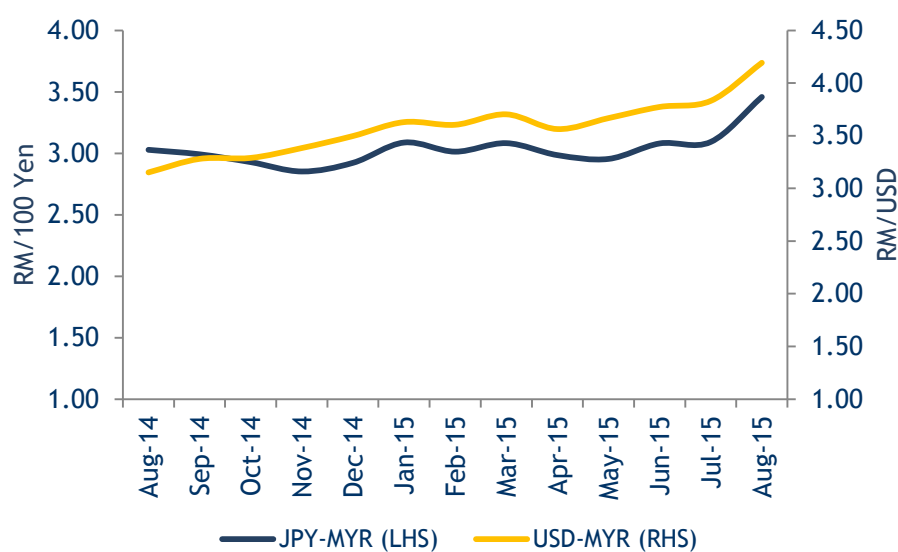
Source: MAA, M&A Securities

Transport Vehicle Loan  
(July 2013-July 2015)



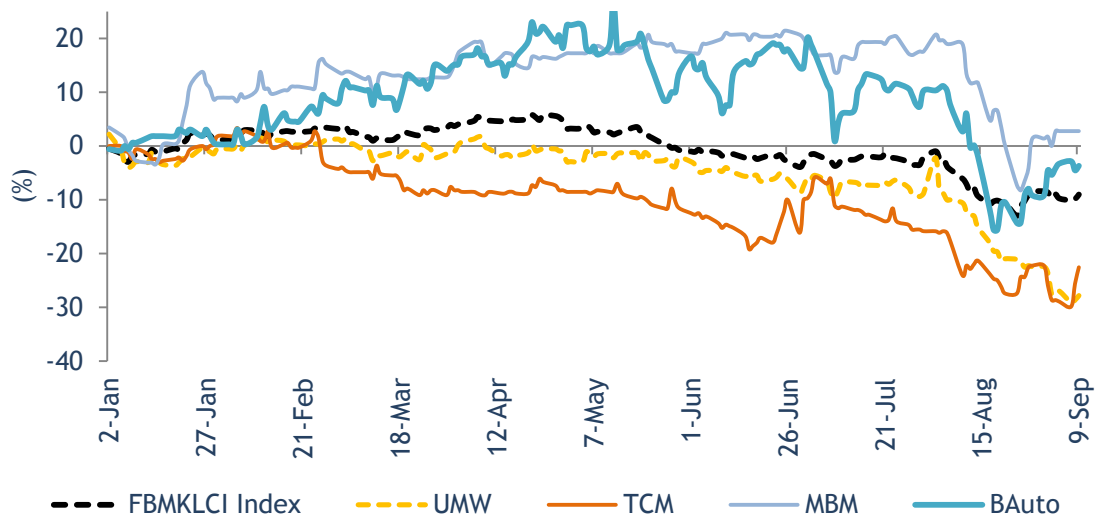
Source: BNM, M&A Securities

Ringgit Per 100 Yen/Ringgit Per Dollar  
(August 2014-August 2015)



Source: Bloomberg, M&A Securities

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



Source: Bloomberg

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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