

Auto Sector

(Neutral)

“Honda to Revise Upward Vehicle Prices by 2016”

As expected, Honda has followed the footstep of Toyota to increase the selling price of its vehicle sales by 2%-3% to mitigate the impact in higher operational cost. Overall, we foresee the hike in car prices as temporary setback. Despite this, we expect the readjustment of the selling price of car prices to be implemented gradually when Ringgit starts heading towards its fundamentals. We maintain our Neutral call on the sector with MBMR (BUY; TP: RM3.88) and Berjaya Auto (BUY; TP: RM2.45) emerge as our top call in the automotive sector space.

Honda car prices to increase by 2%-3%

According to *Starbiz*, Honda Malaysia will increase the selling prices of Honda vehicles by 2%-3% effective on January 2016 due to the weakness of Ringgit against USD which caused a significant increase to the cost of imported parts and components. Honda Malaysia's Managing Director and CEO, Yoichiro Ueno, said the price increase is an inevitable step for the group after weighing all possible options including their efforts to reduce operational cost and expenses. However, he also pointed out that Honda will reevaluate the pricing structure once again when Ringgit appreciates to the previous level. Note that Honda will made a final decision in December 2015 and will keep monitoring the movement of Ringgit closely before disclosing the final figures and models that will be affected by the price adjustment.

Our view

We are not surprise on Honda's decision to revise its vehicle prices which only added into the current list of auto players who adopt similar approach including UMW Toyota which recently announced the hike in their selling prices between 4%-16% in 2016. Willy nilly, we expect a potential spiral effect to the bulk of industry players to implement similar option as a buffer against the rising operational cost. Note that Nissan already hinted to raise their car prices in 2016. On the other side of view, we reckon the hike in car prices is a temporary setback especially for those whose imported parts and component (CKD) as well as CBU units which largely denominated in USD as the readjustment of the selling price will be implemented gradually when the Ringgit starts reversing its declining trend.

We do not rule out the possibility of inferior sales volume to be suffered by several industry players on the hike in vehicle prices. However, we do not see a vast dent to the sales volume of foreign marque as they have loyal base and strong followers for all their models. As such, we

expect only a small chip on Toyota and Honda future sales but we expect sales volume of Perodua and Proton to suffer quite glaringly if their car prices are adjusted.

Honda on the right track to achieve sales target

As at August 2015, Honda maintained its strong grip as the top performer for foreign marques in Malaysia with impressive vehicle sales of 58k units (+16% y-o-y), raking-in 14% market share (Toyota: 13%). We believe Honda will be able to achieve its 2015 sales target of 85k units lifted by higher demand of its new SUV's model, Honda HRV, as well as Honda City and Honda Jazz.

Maintain Neutral on Auto Sector

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 the 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)

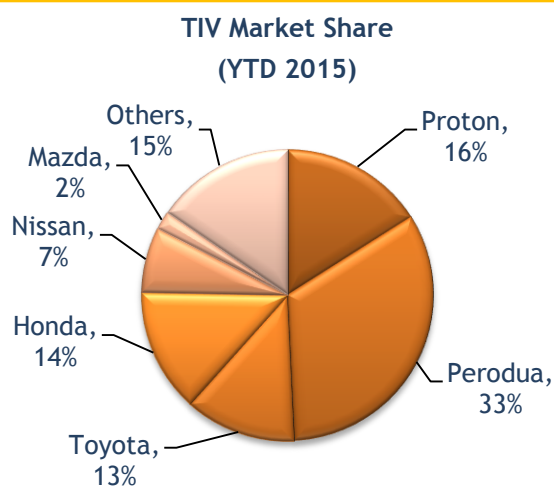
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	8.08	63	73	15.9	13.8	1.7	1.6	9	4	7.80	Hold
Tan Chong	Dec	2.57	19	26	14.5	10.5	0.6	0.6	3	2	2.55	Hold
MBM Resources	Dec	2.85	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	2.23	22	25	11.4	10.5	5.2	4.4	53	3	2.45	Buy
APM Automotive	Dec	4.16	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 2: 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

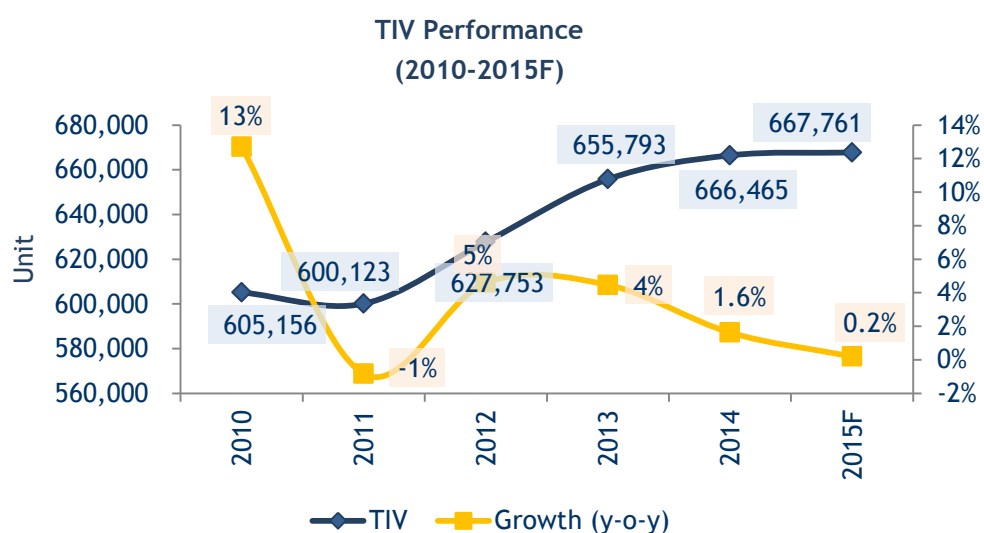


Source: MAA, M&A Securities

Table 3: Selected New Launches 2015

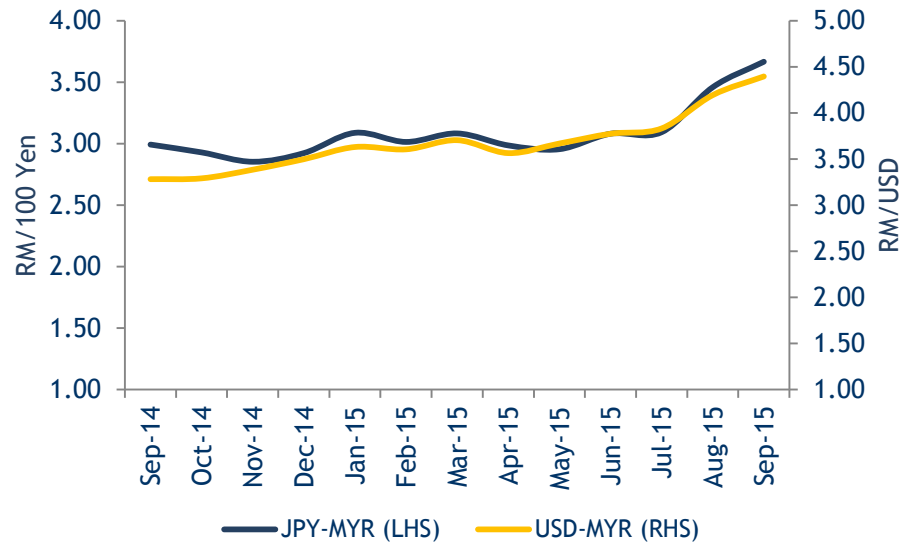
Model	Launch	Segment	OTR price (RM)
Mazda MX5	Aug-15	Sport Car	219k
Toyota Rush Facelift	Apr-15	SUV	98k-103k
Toyota Camry	Apr-15	D	150k-175k
Mazda CX-5 GL	Apr-15	SUV	126k-133k
Mazda 3	Apr-15	C	106k-121k
Honda H-RV	Feb-15	SUV	99k-119k
Proton Exora Facelift	Feb-15	MPV	57k-82k
Perodua Myvi Facelift	Jan-15	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



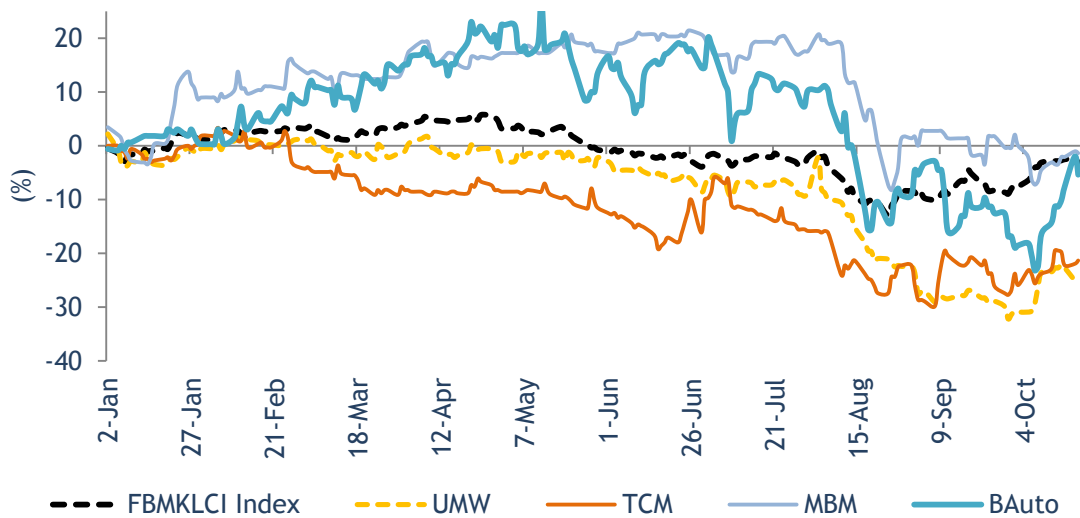
Source: MAA, M&A Securities

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



Source: Bloomberg, M&A Securities

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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