

28 November 2019

## Automotive

### Longer Working Month, Year-End Promotion

**NEUTRAL**



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We maintain our NEUTRAL rating on the AUTOMOTIVE sector. According to the Malaysian Automotive Association (MAA), TIV for October 2019 registered sales of 53,870 units (+21% MoM, +14% YoY). MoM sales growth soared higher on a longer working month and year-end promotional activities, while YoY sales surged due to the low-base effect after the historic tax holiday which ended on 31<sup>st</sup> August 2018. 10MCY19 reported TIV of 496,861 units (-1%), within our expectation, at 83% of our 2019 TIV target of 600,000 units with Proton surpassing Honda to take second position in overall car sales with higher market share of 16% (10MCY18: 11%) and magnificent sales growth (+46% YoY) owing to the higher delivery of the all-new Proton X70, and supported by the existing face-lifted line-ups. Sales volume for November 2019 is expected to be maintained around October 2019 level on year-end promotions. Our sector top-pick is BAUTO (OP; TP: RM2.75) which offers a steady dividend yield of 7.5%.



**October 2019 registered sales of 53,870 units (+21% MoM, +14% YoY).** MoM sales growth soared higher on a longer working month and year-end promotional activities, while YoY sales surged due to the low-base effect after the historic tax holiday which ended on 31<sup>st</sup> August 2018.

**Taking a detailed look at the passenger vehicles segment (+22% MoM, +16% YoY),** overall for both MoM and YoY, October passenger car sales soared higher on the above mentioned reasons. Mazda (+122% MoM, -40% YoY) drove the highest MoM sales with the clearing of back-logged booking of the new face-lifted Mazda CX-5 after receiving pricing approval close to the end of October, while YoY, it was affected by the slower new launching

approval timeline compared to last year. On the other hand, the highest YoY gainer for the month was Proton (+9% MoM, +87% YoY) backed by its popular Proton X70 (30k bookings, 23.5k delivered) with 1,678 units sold (18% of October sales), and further supported by face-lifted Proton Saga, Iriz, and Persona, followed by Toyota (+28% MoM, +57% YoY) driven by the all-new Toyota Vios, all-new Toyota Yaris, and Toyota Hilux, which comprised 70% of UMW Toyota sales and Perodua (+34% MoM, +17% YoY) which has shifted its sales focus toward the all-new Perodua ARUZ (25k bookings, 24.4k delivered) recording 2,226 units sold (10% of October sales). Nissan (0% MoM, -37% YoY) remained weak due to dearth of all-new model launches to spur demand as well as lower traction from the face-lifted Nissan X-Trail, while Honda (+11% MoM, -12% YoY) was still awaiting pricing approval to launch its new model.

**Expecting November 2019 to remain strong.** Sales volume for November 2019 is expected to be maintained around October 2019 level on year-end promotions. Overall, car sales will be supported by the higher delivery of new models, including the all-new Perodua ARUZ (entry-level SUV segment), Honda HR-V facelift (includes Hybrid), all-new Toyota Vios, all-new Toyota Yaris, all-new Proton X70, face-lifted Proton Persona, Iriz, and Saga (X70 unique features), and face-lifted Nissan X-Trail as well as maiden delivery of the face-lifted CX-5 and all-new Mazda CX-8.

**We maintain our 2019 TIV target at 600,000 units (+0.2%).** We maintain our 2019 TIV target at 600,000 units, in line with MAA's target. We believe the absence of sales-boosting event such as the one-off 2018 tax holiday will be offset by exciting new launches and we have also factored in possible delays in new car launches given the backlog of pricing approvals from the authorities (3-5 months), and tepid purchasing power. MITI has decided to increase the frequency of the monthly meetings held by the Automotive Business Development Committee (ABDC), chaired by MITI, from once to twice a month to speed up the vehicles pricing approval. On the other hand, MITI has established a trade and advisory council (TIAC), which will discuss issues on subjects ranging from foreign direct investment (FDI) and domestic direct investment (DDI) to the National Automotive Policy (NAP) in its upcoming meetings (with a minimum of four meetings/year).

**Proton surpassed Honda in second position.** Perodua continued to lead the pack with a higher market share of 41% (10MCY18: 37%), with commendable sales growth (+7% YoY) driven by the all-new Perodua Myvi, and the all-new Perodua ARUZ. Proton surpassed Honda in second position for the first time since 2016 in overall car sales with higher market share of 16% (10MCY18: 11%) and magnificent sales growth (+46%) owing to the higher delivery of the all-new Proton X70, and also supported by the existing face-lifted line-ups. At the third position, Honda registered lower market share of 14% (10MCY18: 17%) with a lower sales growth (-18% YoY) as consumers held back purchases, expecting new models by December-19 (tentatively the face-lifted Honda Civic), which was delayed due to pricing approval issues. Drifting further down the list, Toyota sales volume plunged (-6% YoY) with unchanged market share of 11% (10MCY18: 11%) as Toyota recorded the highest sales volume in history during the tax holiday last year. However, it was cushioned by its best-selling all-new Toyota Vios, all-new Toyota Yaris, and Toyota Hilux which are expected to register better sales in 4QCY19. Meanwhile, Nissan (-25% YoY) saw its market share lowered to 3% (10MCY18: 5%), due to the lack of new volume-driven model launches, whereas Mazda recorded lower YoY sales (-22%), with a lower market share at 2% (10MCY18: 3%) after it fully delivered the discounted all-new CX-5 in May 2019, and is counting on face-lifted CX-5 and all-new CX-8 to push 4QCY19 volume sales.

**BAUTO (OP; TP: RM2.75) is our sector top pick:** We like the stock for its: (i) expected earnings recovery from the stream of all-new models, especially from its popular, face-lifted/turbo Mazda CX-5, (ii) superior margins which is above industry peers (average profit margin of c.9% vs. peers of c.2%), and (iii) steady dividend yield of 7.5%. BAUTO has launched its popular face-lifted and turbo variants of CX-5 on 30<sup>th</sup> Sept, and all-new Mazda CX-8 on 1<sup>st</sup> Oct. BAUTO is also looking to bring in the all-new CX-30 (CBU from Thailand) and face-lifted CX-3 (CBU) by 1HCY20. Our TP is based on 13x CY20E EPS (at -0.5SD of its 3-year Fwd. historical PER).



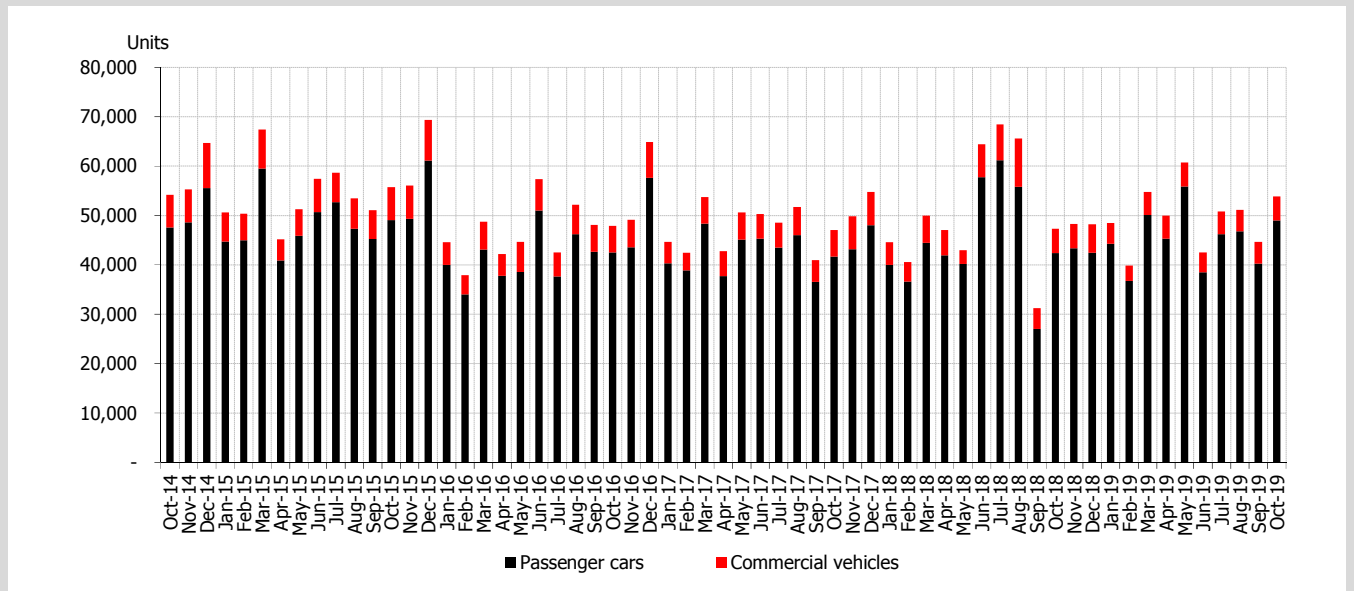
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## October 2019's sales for passenger and commercial vehicles according to top marques

Marques(units)	Oct-19	Oct-18	Sep-19	% m-o-m	% y-o-y	YTD 2019	YTD 2018	% y-o-y
<b>Passenger</b>								
Perodua	22,808	19,528	16,978	34%	17%	201,562	187,731	7%
Proton	9,503	5,093	8,685	9%	87%	79,423	54,326	46%
Honda	6,366	7,246	5,752	11%	-12%	71,489	87,161	-18%
Toyota	4,746	3,028	3,711	28%	57%	40,456	39,379	3%
Nissan	1,210	1,935	1,213	0%	-37%	13,356	17,466	-24%
Mazda	994	1,647	447	122%	-40%	9,846	12,434	-21%
Others	3,360	3,887	3,481	-3%	-14%	36,975	48,808	-24%
<b>Total</b>	<b>48,987</b>	<b>42,364</b>	<b>40,267</b>	<b>22%</b>	<b>16%</b>	<b>453,107</b>	<b>447,305</b>	<b>1%</b>
<b>Commercial</b>								
Toyota	1,735	1,729	1,189	46%	0%	13,251	18,027	-26%
Isuzu	804	790	663	21%	2%	6,987	9,100	-23%
Nissan	499	565	370	35%	-12%	4,029	5,807	-31%
Mitsubishi	456	382	412	11%	19%	4,685	4,966	-6%
Hino	409	450	451	-9%	-9%	4,535	4,789	-5%
Mazda	7	5	3	133%	40%	101	264	-62%
Others	973	988	1,311	-26%	-2%	10,166	11,870	-14%
<b>Total</b>	<b>4,883</b>	<b>4,909</b>	<b>4,399</b>	<b>11%</b>	<b>-1%</b>	<b>43,754</b>	<b>54,823</b>	<b>-20%</b>
<b>TIV</b>	<b>53,870</b>	<b>47,273</b>	<b>44,666</b>	<b>21%</b>	<b>14%</b>	<b>496,861</b>	<b>502,128</b>	<b>-1%</b>

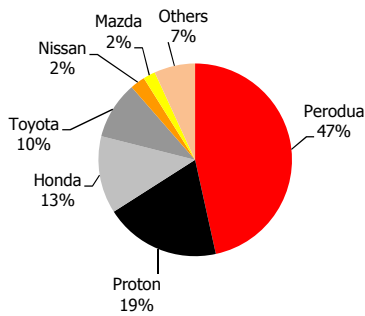
Source: MAA, Kenanga Research

## Total Industry Volume from October 2014 to October 2019

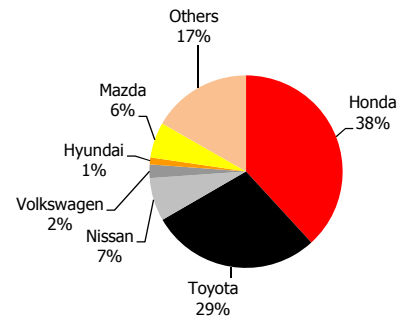


Source: MAA, Kenanga Research

Market share of top marques (Passenger) in Oct' 2019

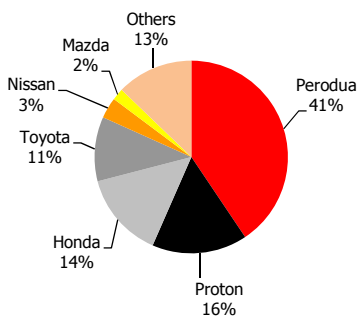


Market share of top non-national marques (Passenger)

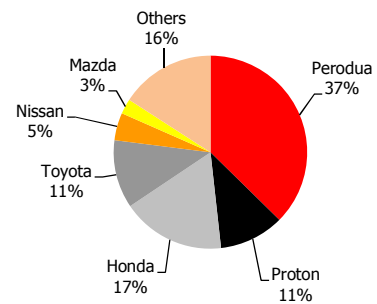


Source: MAA, Kenanga Research

Market share of 10M19 (Passenger and Commercial)

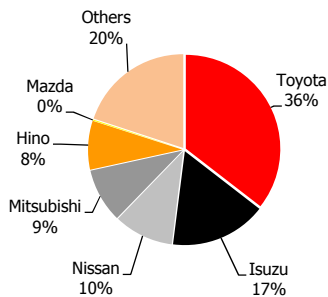


Market share of 10M18 (Passenger and Commercial)



Source: MAA, Kenanga Research

Market share of top marques (Commercial), Oct' 2019



Source: MAA, Kenanga Research



New Launches 2019

Perodua ARUZ (RM73-78k)-15<sup>th</sup> Jan



Toyota Vios (RM77-87k)-24<sup>th</sup> Jan/ (RM72-84k)-19<sup>th</sup> April



Face-lifted variants of Proton IRIZ, Persona, Saga



Mazda 3 (Sedan & Hatchback)- 17<sup>th</sup> July 2019 (CBU)



Face-lifted Perodua Axia (RM24k-RM43k) – 20<sup>th</sup> Sept



Mazda CX-8 (CKD) – 1<sup>st</sup> October 2019



Toyota Corolla Hybrid(CBU, RM129k-RM137k)-9<sup>th</sup> Oct



2019 Face-lifted Honda Civic – December 2019



Proton X70 CKD (c.RM95k-123k) in 1HCY20



Mazda CX-30 (CBU) – 1HCY20



Source: Various Sources

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
<b>STOCKS UNDER COVERAGE</b>																		
BERMAZ AUTO BHD	2.16	2,509.9	Y	04/2020	0.6%	0.5%	-16.3%	16.7%	9.5	11.3	9.7	4.1	3.6	34.0%	7.5%	2.75	OP	
DRB-HICOM BHD	2.43	4,697.8	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	25.7	27.0	15.2	0.7	0.7	2.6%	1.2%	2.60	MP	
MBM RESOURCES BERHAD	3.84	1,501.0	Y	12/2019	-3.7%	0.3%	19.6%	4.2%	9.1	7.6	7.3	1.0	0.9	12.0%	3.1%	4.75	OP	
SIME DARBY BERHAD	2.30	15,643.3	Y	06/2020	4.1%	4.4%	-9.4%	15.4%	16.5	18.2	15.7	1.1	1.1	5.8%	4.3%	2.20	MP	
TAN CHONG MOTOR HOLDINGS BHD	1.33	868.0	Y	12/2019	-10.2%	1.0%	-44.7%	15.5%	8.3	14.9	12.9	0.3	0.3	2.1%	3.0%	1.05	UP	
UMW HOLDINGS BHD	4.42	5,163.9	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	13.6	13.8	11.3	1.6	1.4	10.8%	1.7%	5.45	OP	
<b>Simple Average</b>					<b>-8.5%</b>	<b>14.0%</b>	<b>-11.1%</b>	<b>25.8%</b>	<b>13.8</b>	<b>15.8</b>	<b>12.2</b>	<b>1.4</b>	<b>1.3</b>	<b>11.3%</b>	<b>3.8%</b>			

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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