

10 July 2020

Automotive

Driving Cautiously on High Value Purchases

UNDERWEIGHT



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We maintain UNDERWEIGHT on the sector with 2020 TIV target units of 420k (-31% YoY). The MIER CSI (Consumer Sentiment Index) score for 1QCY20 was at 51.1 points (-31.2ppt QoQ, -34.5ppt YoY), which is below the optimistic threshold (>100pts) and is at the lowest since 1988 with household income at its weakest due to cautious spending patterns observed especially on high-value discretionary items coupled with the closure of stores during the MCO. Furthermore, passenger vehicles loan approval rate remains unexciting averaging just 50% up to May 2020. That said, we are expecting consumer sentiment to remain subdued in the upcoming quarters on the back of worsening household income and loan approval rate in line with rising unemployment rate to 5% in April 2020, the highest level since 1989. We believe that national marques would fare worse than non-national marques as their target markets of lower to mid-income range is the most financially distressed segment. Furthermore, the planned new CKD launches, for 2HCY20 could be delayed given the weak consumer sentiment and non-national marques could re-position their launches toward CBU, as they entailed less investment cost and inventory holding compared to CKD.



We maintain UNDERWEIGHT on the sector with 2020 TIV target units of 420k (-31% YoY). We believe that national marques would fare worse than non-national marques as their target markets of lower to mid-income range is the most financially distressed segment. With the economy slowing sharply, MAA envisaged lower TIV forecast for 2020 at 400k units (-34% YoY).

Furthermore, the planned new CKD launches for 2HCY20 could be delayed given the weak consumer sentiment, but some relief could arise from sales tax exemption until the end-of the year, better incentives program under NAP 2020, and the positive impact from BNM's overnight policy rate (OPR) cut and pre-emptive measures to assist those who might be financially challenged by Covid-19 impact. On the other hand, non-national marques could re-position their launches

toward CBU, as they entailed less investment cost and inventory holding compared to CKD.

Our economic research team is of the view that the MCO to contain the outbreak will adversely impact the economy in the short term with 2020 GDP expected to contract by 2.9%. Going forward, the final impact would depend on the outcome of containment measures and economic stimulus from the government. Overall, we believe that the quantum of TIV decline will not be as severe as the 1997-98 Asian Financial Crisis (-60%), but below the 2007-08 sub-prime crisis (+13%) based on the current state of the Malaysian economy, and cushioned by the tax exemption on passenger vehicles until the end of the year.

Consumer sentiment to remain subdued. The Malaysian Institute of Economic Research's (MIER) posted 51.1 points (-31.2ppt QoQ, -34.5ppt YoY) for its 1QCY20 Consumer Sentiment Index (CSI). The CSI is well below the optimistic threshold (>100pts) and at the lowest since 1988 with household income at its weakest due to cautious spending patterns observed especially on high-value discretionary items (such as vehicles, imported goods and overseas travels), coupled with the closure of stores and international borders during MCO. That said, we are expecting consumer sentiment to remain subdued in the upcoming quarters on the back of worsening household income in line with the rising unemployment rate of 5% in April 2020, the highest level since the end of the communist insurgency in Malaysia in 1989 as the labour market bears the brunt of the government's Movement Control Order (MCO) policy. Furthermore, passenger vehicles loan approval rate remains unexciting at average of 50% up to May 2020.

Both marques suffering from MCO in 1QCY20. For 1QCY20 reporting season, 3 stocks (BAUTO, DRBHCOR, and TCHONG) came below expectation, with the rest coming in (SIME, MBMR and UMW) within expectations. Overall weaker 1QCY20 unit sales was seen for carmakers, dampened by weaker consumer sentiment caused by the Covid-19 pandemic and further worsened by the unfavourable forex movement during this global outbreak.

Looking forward to 2QCY20/3QCY20, We expect most of the carmakers to perform weaker in 2QCY20 with the closure of showrooms, factory and delayed delivery up to 12th May 2020, as well as the surge in unemployment rate in April 2020. Some relief could arise from the tax exemption on passenger vehicles starting 15th June 2020, which could also improve 3QCY20 results to meet our targeted 2020 TIV target units of 420k (-31% YoY). Another push could be from the upcoming new launches, including the Proton X50 (CKD, 2HCY20), Perodua D55L/Raizen (2HCY20), all-new Honda City 1.0 Turbo (2HCY20/2021), and all-new Nissan Almera 1.0 turbo (2HCY20). There are also streams of unannounced all-new launches pending pricing approvals which could lean towards CBU. The quantum of vehicles price reduction under sales tax exemption are :- (i) Perodua - average price lower by 3%-6%, (ii) Proton - average price lower by 1%-6%, (iii) Honda - average price lower by 3%-5%, (iv) Toyota - average price lower by 1%-5%, (v) Mazda - average price lower by 2%-4%, and (vi) Nissan - average price lower by 1%-6%.



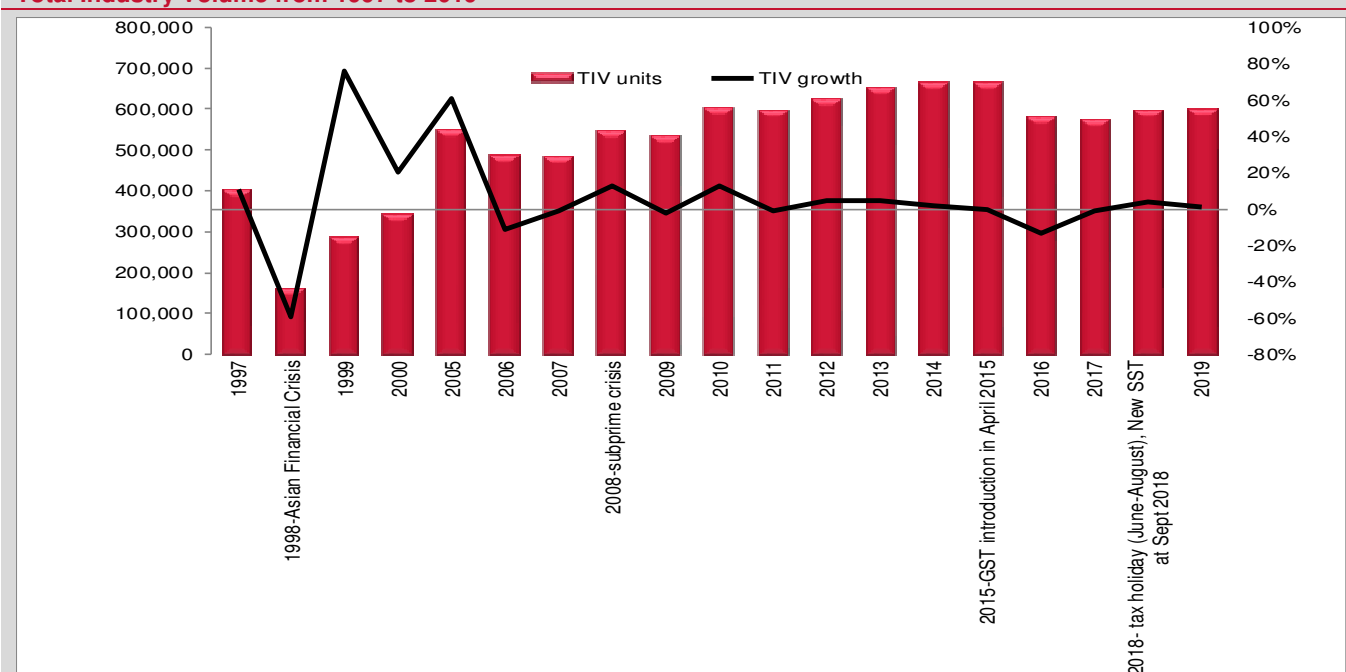
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TIV Market Share Movement

Position	Marques	5M20	5M19	Market Share	Sales	Comment
1st	Perodua	41%	42%	▼	-50%	Driven by the all-new Perodua Myvi, and the all-new Perodua Bezza
2nd	Proton	21%	14%	▲	-24%	Higher delivery of the all-new Proton X70 CKD, and also supported by the existing face-lifted line-ups
3rd	Honda	11%	15%	▼	-64%	Consumers held back purchases, expecting new models (tentatively all-new Honda City 2020)
4th	Toyota	11%	10%	▲	-47%	The all-new Toyota Vios, all-new Toyota Yaris, and Toyota Hilux, which comprised 77% of UMW Toyota sales
5th	Nissan	3%	4%	▼	-62%	Lack of new volume-driven model launches
6th	Mazda	2%	2%	◀▶	-43%	Renew Interest for face-lifted CX-5 and all-new CX-8 which showed increased delivery starting December 2019
National Marques		62%	56%	▲		Outstanding sales from Perodua, and boosted by a surge in Proton sales.
Non-national Marques		38%	44%	▼		Lack of volume-driven launches, and losing market share to local carmakers

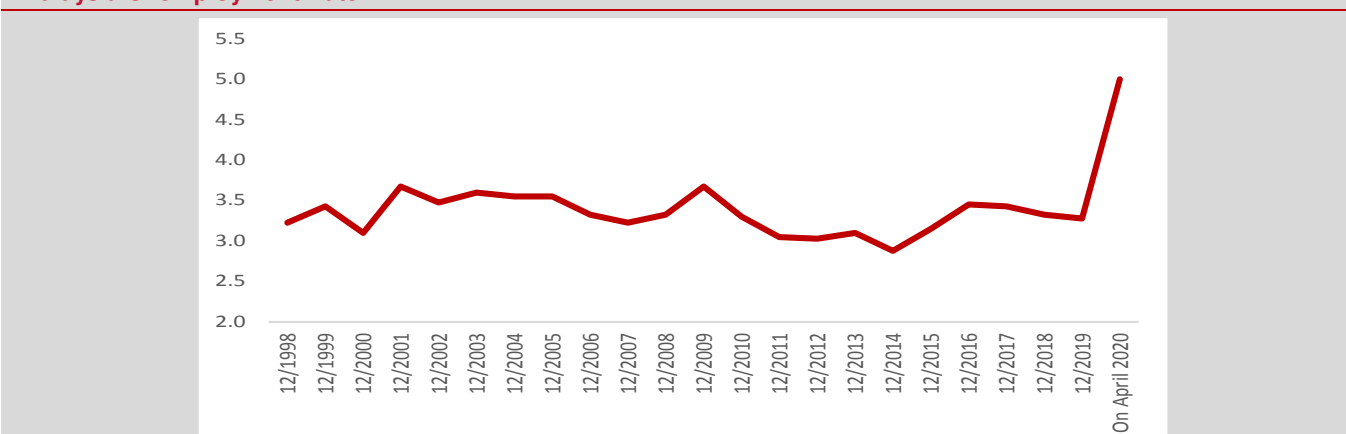
Source: MAA, Kenanga Research

Total Industry Volume from 1997 to 2019



Source: MAA, Kenanga Research

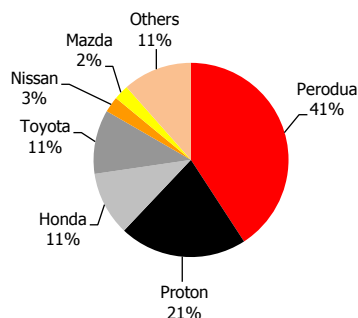
Malaysia Unemployment Rate



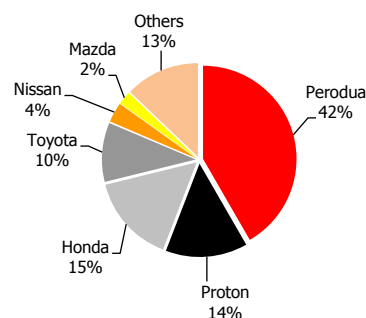
Source: CEIC, Kenanga Research

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Market share of 5M20 (Passenger and Commercial)

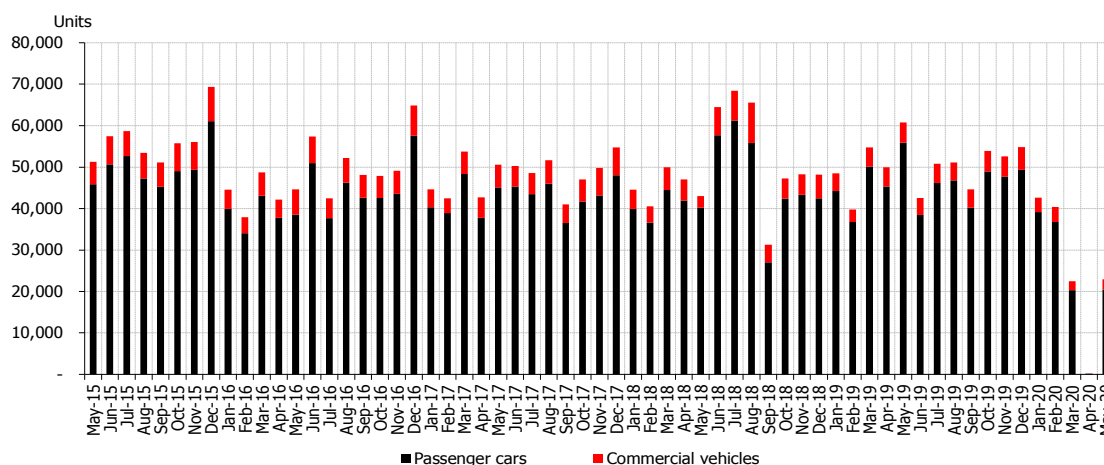


Market share of 5M19 (Passenger and Commercial)



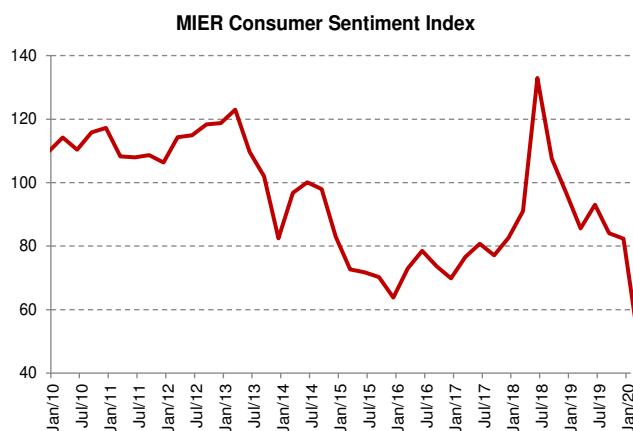
Source: MAA, Kenanga Research

Total Industry Volume from May 2015 to May 2020

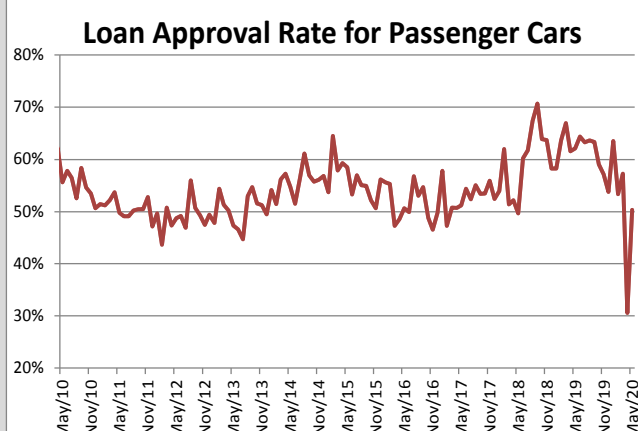


Source: MAA, Kenanga Research

MIER Consumer Sentiment Index up to 1QCY20



Loan Approval Rate for Passenger Cars up to May'20



Source: MIER, Kenanga Research

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New Launches 2020/2021

Mazda CX-8 (CKD) – 13th November 2019Face-lifted Perodua Bezza (RM34.5k-RM49.8k)-8th Jan 2020

2020 Face-lifted Honda BR-V– June 2020

Proton X70 CKD (c.RM95k-123k)-12TH Feb 2020Toyota RAV4 (CBU) – 18th June 2020

All-New Honda City 1.0 Turbo (CKD) – 2HCY20



All-New Nissan Almera 1.0 Turbo (CKD) – 2HCY20



All-New Perodua D55L/Raize(CKD) – 2HCY20



All-New Proton X50 (CKD) – 2HCY20



All-New Perodua D27A MPV/ Alza (CKD) – 2021



Source: Various Sources

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Valuation & Justification For Calls

Company	New TP (RM)	New Calls	Previous valuation basis	New Valuation Basis	TP Revision (%)	Calls Action	Comments
BAUTO	1.30	UP	10x CY21E EPS (-1.0 SD, 5-year fwd historical mean PER)	10x CY21E EPS (-1.0 SD, 5-year fwd historical mean PER)	0%	Maintain	Maintain Call and TP. BAUTO had earlier launched the all-new Mazda 3 Sedan and Hatchback (CBU, July 2019), face-lifted and turbo variants of CX-5 (CKD, 22nd Oct 2019), all-new CX-8 (CKD, 13th November 2019), all-new CX-30 (CBU, 15th January 2020), 2020 Mazda CX-9, face-lifted Mazda 2 and 2020 Mazda MX-5 RF (3rd March 2020). BAUTO will also introduce the face-lifted CX-3 (CY2020), and all-new Mazda MX-30 (CY2021).
DRBHCOR	1.30	UP	SoP Valuation (implying PER of 17x, on FY21E EPS)	SoP Valuation (implying PER of 17x, on FY21E EPS)	0%	Maintain	Maintain Call and TP. The group noted that, the full recovery of automotive sales to pre-COVID-19 level is unlikely and will however respond with promotions and new model launches to recover lost ground. Meanwhile, the prospects for its other businesses in defence, aerospace, postal and logistics, banking, services and construction segments remain volatile as these have also been impacted by the uncertainty of a prolonged battle against COVID-19 and it will continue to implement prudent cost optimisation and cashflow management to ensure ability to meet its financial and operational obligations.
MBMR	2.80	UP	7x FY20E EPS (-1.0 SD of its 5-year forward historical mean PER)	7x FY21E EPS (-1.0 SD of its 5-year forward historical mean PER)	+17%	Maintain	Maintain Call with a higher TP. We roll-over our valuation base to FY21E EPS (from FY20 EPS). MBMR's business strategy lies in: (i) its deep value stake in 22.58%-owned Perodua, and (ii) dual-income streams as the largest Perodua dealer and as parts supplier for most of the popular marques. Perodua market share of 42% is supported by higher delivery of all-new Myvi, all-new Perodua ARUZ, and face-lifted Bezza. Perodua is cautious on 2020 due to challenging factors such as intense competition, weakening consumer sentiment, stringent hire purchase requirement as well as global economic uncertainties.
SIME	1.75	UP	SoP (implied PER of 12x on FY21 EPS)	SoP(implied PER of 12x on FY21 EPS)	0%	Maintain	Maintain Call and TP. SIME noted that BMW Malaysia have paid dividend income of RM120m in May 2020 which could cushion the negative impact from total business closures in April and part of May for Malaysia operation and an expected weak 4QFY20. Management noted that the Covid-19 outbreak could slow down its Motor Sales, while awaiting the government stimulus to soften the negative impact until the outbreak is contained. Furthermore, Covid-19 is expected to impact industrial supply chain in Australasia for certain construction equipment and parts. Despite volatility in order-book numbers, the Industrial division in Australia continued to show growth as a result of the mining business recovery.
TCHONG	0.700	UP	14x FY21E EPS (at -1.0 SD of its 5-year historical mean PER)	14x FY21E EPS (at -1.0 SD of its 5-year historical mean PER)	0%	Maintain	Maintain Call and TP. Intense competition and insufficient new large volume launches have cost TCHONG its market share which is further dampened by losses from heavy discounting activities and an under-utilised Vietnam Danang plant. Note that, the Vietnam CBU agreement with its principal will expire on 30 th September 2020, but could be cushioned by the recent overseas Distribution Agreement (ODA) with SAIC Motor International Co., Ltd (SMIL) as the sole and exclusive importer and distributor for the sale of CBU MG brand vehicles and after-sales spare parts, and after-sales services in Vietnam. On the other hand, TCHONG will be launching the new Nissan Almera, slated for 2HCY20/2021 (B-segment sedan), and depending on market demand, the Nissan Kicks (B-segment crossover), and all-new Nissan Sylphy.
UMW	1.80	UP	14x FY21E EPS (at -1.0 SD of its 5-year historical mean PER)	14x FY21E EPS (at -1.0 SD of its 5-year historical mean PER)	0%	Maintain	Maintain Call and TP. UMW derives its earnings mostly from: (i) stream of all-new models (especially Vios, and Yaris, and recently launched Toyota RAV4 CBU and Lexus UX200, with expected 2 new CKD models starting 2HCY20), and (ii) its deep value stake in 38%-owned Perodua. We are cautious on its Automotive segment with its high level of plant depreciation and stiff competition from local carmakers. For Equipment division, the group will continue to leverage on its partners (KOMATSU & TICO)'s strengths, while UMW Aerospace had turned profitable in 2019. SST exemption from government has reduced vehicles prices for Toyota up to 5.7% (average at 3%), while for Perodua, reduction is up to 6% (average at 3%).

Source: Kenanga Research

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Peer Comparison

Name	Price@ 30/06/20 (RM)	Market Cap (RM'm)	Shariah Compliant	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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
BERMAZ AUTO BHD	1.48	1,720.0	Y	04/2021	36.6%	8.8%	17.0%	42.6%	17.1	14.6	10.2	3.3	2.7	20.4%	5.8%	1.30	UP
DRB-HICOM BHD	1.71	3,305.8	Y	12/2020	-22.2%	24.6%	-215.6%	-21.9%	20.0	N.A.	22.2	0.5	0.5	-2.7%	-	1.30	UP
MBM RESOURCES BERHAD	3.24	1,266.5	Y	12/2020	-8.1%	1.2%	-30.5%	16.1%	6.6	9.5	8.2	0.6	0.6	6.5%	1.9%	2.80	UP
SIME DARBY BERHAD	2.15	14,623.1	Y	06/2020	-0.7%	2.0%	2.0%	2.0%	15.4	15.1	14.8	1.0	1.0	6.5%	4.7%	1.75	UP
TAN CHONG MOTOR HOLDINGS BHD	1.09	711.2	N	12/2020	-30.5%	17.7%	-132.7%	113.1%	15.7	N.A.	22.5	0.2	0.2	-0.5%	1.8%	0.700	UP
UMW HOLDINGS BHD	2.55	2,979.1	Y	12/2020	-22.8%	27.2%	-48.8%	13.6%	11.7	22.8	20.1	0.5	0.5	2.1%	2.4%	1.80	UP
Simple Average					-7.9%	13.6%	-68.1%	27.6%	14.4	15.5	16.3	1.0	0.9	5.4%	2.8%		

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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