

04 July 2019

Automotive National Marques' Affirming the Lead

NEUTRAL



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We maintain our NEUTRAL rating on the AUTOMOTIVE sector. The MIER consumer sentiment index scored 85.6 pts (-11.2pts QoQ, -5.4pts YoY) in 1Q19 which is below the optimistic threshold (>100pts) due to muted growth post the zero-rated tax holiday as well as post-year end sales and is expected to record only marginal improvement in subsequent quarters due to tepid purchasing power. Nevertheless, we believe that consumers are turning to value-for-money (volume-driven sales) national marques, while non-national marques are focusing on higher-margin lower-volume models (catering to higher-purchasing power consumers). Notable developments in Automotive industry in 2019 include: (i) National Marques surpassed Non-National marques' market share, (ii) Proton expected to surpass Honda as no.2 trailing behind Perodua in total industry market share TIV powered by the all-new Proton X70, supported by upcoming all-new and face-lifted models, (iii) increasing number of new model launches, and (iv) introduction of third national car under National Automotive Policy 2019. No changes to our 2019 TIV target of 600,000 units matching MAA's target factoring the extra boost from national marques (Proton and Perodua). Our sector top-pick is MBMR (OP; TP: RM3.45). Our other preferred pick is BAUTO (OP; TP: RM3.00).



National marques affirming leading market position. As of 5M19, the national marques (56%) continued to stay above non-national marques (44%) in terms of market share, marking a year not seen since 2013, attributed to the outstanding sales from Perodua, especially after the introduction of its all-new Perodua Myvi and supported by the all-new Perodua Aruz (25k bookings, 13k delivered). This volume was also boosted by a surge in Proton sales, after the introduction of its all-new Proton X70 (30k bookings, 14.9k delivered), and supported by fresh new face-lifted, improved technological variants of existing line-ups (Iriz, Persona, and Exora). Proton will be launching an all-new X70 CKD in 2H19, while in 2020, an all-new X50 (based on Geely Binyue) and Proton/Geely Jiaji (MPV) are in the pipeline. On the other hand, Perodua plans on launching an all-new SUV in 2H2020, probably a 5-seater version, indirectly competing against Proton X50. Notable

changes include Honda targeted lower sales for 2019 at 95,000 units, versus 102,282 units sold in 2018. The marque's 2018 market share was 17.1% premised on Honda City (32%), Civic (16%) and CR-V (13%). Nevertheless, the reported 5M19 sales showed Honda losing market share – down to 15%, just slightly above Proton at 14%. Moving forward, we expect a stronger growth for National Marques, hence, we **upgrade DRBHCOC to MP from UP with a TP of RM2.20 from RM1.80** based on revised sum-of-parts (refer to overleaf table) to factor in the stronger contribution from Proton, and we **downgrade TCHONG to MP from OP with a lower TP of RM1.60 from RM2.15** based on a lower targeted PER of 10x (refer to overleaf table) to factor in its diminishing market share, especially in non-national marques.

National marques improved sales volume, while Non-nationals achieved better margin sales in 1Q19. In 1Q19, only 2 out of the 6 stocks (BAUTO, SIME) performed above expectation while 3 stocks (MBMR, TCHONG, and UMW) were within expectation. One (DRBHCOC) was below expectation. Overall, Perodua-linked companies (UMW, MBMR), recorded stronger performance mainly from the higher associates' contribution buoyed by all-new Perodua Myvi and Aruz, as well as supported by better core segments. BAUTO and TCHONG recorded higher margin sales, while SIME saw stronger sales of Industrials and DRBHCOC's stronger 4Q Automotive contribution was mitigated by weakness in its other segments.

Looking forward to 2HCY19. As expected, 2QCY19 car sales were stronger than 1Q19 on the usual Hari Raya Aidilfitri promotional activities. Looking forward to 3QCY19/4QCY19, overall car sales volume for 3QCY19 is expected to be weaker than 2QCY19 but to recover with a better sales number on 4QCY19 from the usual year-end promotion and new model launches. Nevertheless, we expect that overall, 2H19 sales to be supported by better financing rate as banks have cut their Base Lending Rate (BLR) by 20-25bps. Recent new launches include Proton X70, Perodua ARUZ, the face-lifted Honda HR-V (includes Hybrid), face-lifted Proton IRIZ and Persona, Toyota Vios, Toyota Yaris, Toyota Rush, T32 Nissan X-Trail facelift (April 2019) and 2019 Proton Exora RC. Upcoming new launches include the all-new A90 Toyota GR Supra (2H19), Mazda CX-8 (CKD, 2H19), Mazda CX-30 (CBU, 2H19), and Proton X70 (CKD).

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 one-off 2018 tax holiday will be offset by exciting new launches in 2019. Note that, we have factored in a possible delay in new launches' timing given the backlog of pricing approvals from the authorities (to 3-5 months, improving from 5-7months, previously), absence of sales boosting tax-holiday, and tepid purchasing power. The Ministry of International Trade and Industry (MITI) has decided to increase the frequency of the monthly meetings held by the Automotive Business Development Committee (ABDC), which is chaired by MITI, from once to twice a month to speed up the vehicles pricing approval process. On the other hand, MITI has established a trade and advisory council (TIAC), which will play a crucial role in shaping the ministry's policies, strategies and potential reforms in international trade as well as investment promotion and industry development. The council 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 to be held annually.



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SUV, the new trend. For segmental targeted sales, 2019 will be the year of SUV segment led by the introduction of Proton SUV X70 (launched on 12th December 2018), Proton X70 face-lifted CKD on 2H19, all-new Perodua SUV ARUZ (launched 15th January 2019), all-new Toyota C-HR (1Q18), Toyota Rush (End-February 2019), face-lifted Mazda CX-5, all-new Mazda CX-8 CKD (2H19), and all-new Mazda CX-30 CBU (2H19). Note that, the market share of 4WD/SUV segment had increased from 12.2% in 2017 to 13.5% in 2018 due to increasing popularity of these vehicles. This will be supported by the value-for-money segment which will be focusing on the affordable variants led by Perodua (Axia, Myvi, Bezza, and Aruz), followed by Honda (with its entry-level Hybrid segment, Jazz and City Sport Hybrid, as well as entry-level SUV segment, the BR-V). Sliding down the list, Proton edges closer to Honda in terms of market share with its all-new Proton X70 SUV (30k bookings, 14.9k delivered) and supported by Proton (Saga, Persona and Exora), whereas, Toyota boosted its recent line-ups with the introduction of all-new Vios, all-new Yaris and supported by other models (Hilux, Innova).

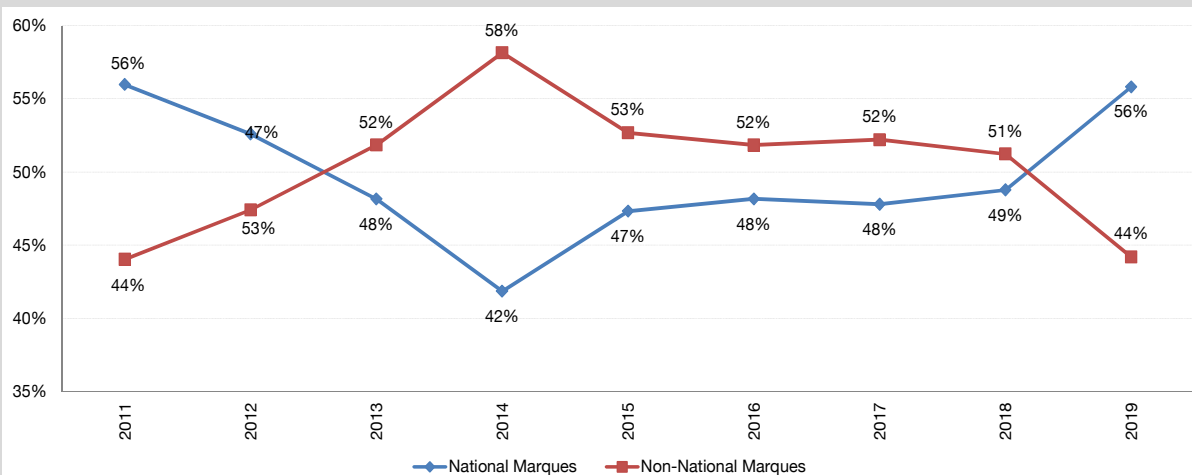
National marques continued to lead. Perodua continued to lead the pack with a lower market share of 42% (5M18: 43%), but at a higher sales growth (+8% YoY) driven by higher deliveries of the all-new Perodua Myvi, and the all-new Perodua ARUZ (25k bookings, 13k delivered). At the number two position, Honda registered lower market share of 15% (5M18: 18%) with a lower sales growth (-3% YoY) as consumers held back purchases expecting new models in 2H19, which was delayed due to pricing approval issues. On the other hand, Proton (+72% YoY) gained higher market share of 14% (5M18: 9%) owing to the higher delivery of the all-new Proton X70 (30k bookings, 14.9k delivered). Drifting further down the list, Toyota scored stronger sales (+29% YoY) and higher market share of 10% (5M18: 9%) with higher delivery of its best-selling all-new Toyota Vios, all-new Toyota Yaris, and Toyota Hilux. Meanwhile, Nissan (-1% YoY) saw its market share remain unchanged at 4% (5M18: 4%), due to the lack of new volume-driven model launches; whereas, Mazda's sales soared 9%, with an unchanged market share at 2% (5M18: 2%) attributed to higher delivery of its all-new Mazda CX-5.

Consumer Sentiment Index fell QoQ due to muted demand post-zero tax holiday. The Malaysian Institute of Economic Research's (MIER), Consumer Sentiment Index (CSI) scored 85.6 pts (-11.2pts QoQ, -5.4pts YoY) in 1Q19. The fall, QoQ, was due to muted growth post zero-rated tax holiday as well as post year-end sales, as expected. Furthermore, the CSI is well below the optimistic level (>100%) as consumers remain cautious on their spending decisions, particularly on high-value discretionary spending such as vehicles, tertiary education, imported goods and overseas travels. Moving forward, business environment for 3Q19 and 4Q19 is expected to be moderate, especially with the lingering concern on the cost pressure from the weakening of local currency against other major currencies (i.e. USD).

MBMR (OP; TP: RM3.45) is our sector top pick: We like the stock for its: (i) its deep value stake in 22.58%-owned Perodua, (ii) dual-income streams as the largest Perodua dealer and as a parts supplier for most of the popular marques, and (iii) expected improvement in earnings with the recent cessation of alloy wheels business. Our TP is based on 8x FY19E EPS, which is at -0.5SD of its 5-year forward historical mean PER and the stock is currently trading at an undemanding 6.7x FY19E PER. Our other preferred pick is **BAUTO (OP; TP: RM3.00)** for its: (i) superior margins, above-industry margin (average profit margin of c.10% vs. peers of c.4%), and (ii) steady dividend yield at 8%. Our TP is based on 13x CY20E EPS, which is at -0.5SD of its 3-year forward historical mean PER.

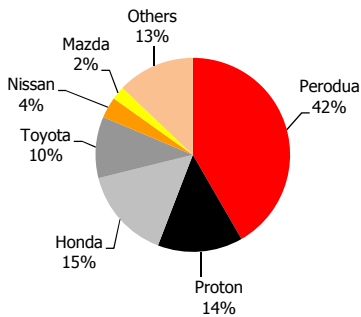
MBMR primed for takeover? It has been almost a year since the expiration of UMW's proposal to acquire MBMR at consideration price of RM2.56/share (5.9x FY19E EPS, -1.0 SD) to gain controlling shareholding over Perodua (UMW owned 38% of Perodua, while MBMR effective stake at 22.58%). As of the cut-off date, MBMR is trading at RM2.88 (6.7x FY19E EPS), far from to the proposed price. However, MBMR has since grown stronger in earnings (>20%) premised on the stronger Perodua contribution. Given the recent positive development that MBMR has ceased its alloy-wheel plant business (switching Perodua supply to other alloy wheel players, namely, Citic Dicastal and Pako Automotive), we believe a potential acquirer may need to offer a much higher price now, say close to our fair value of RM3.45 (8x FY19E EPS, -0.5 SD of its 5-year historical Fwd. PER). Recall that, last year, despite MBMR's major shareholders leaning towards agreement with the take-over proposal, its board of directors (BOD) and Perodua's principal (Daithatsu) seem to be in disagreement. Nonetheless, after a few rounds of change in its BOD since last year, MBMR could be primed for takeover again. Note that, UMW and MBMR have the same direct/indirect major shareholders, which is Permodalan Nasional Bhd (PNB).

Comparison between National Marques and Non-National marques market share (2019 is based on 5M19)

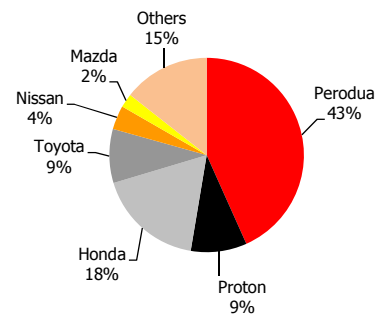


Source: Bloomberg, Kenanga Research

Market share of 5M19 (Passenger and Commercial)

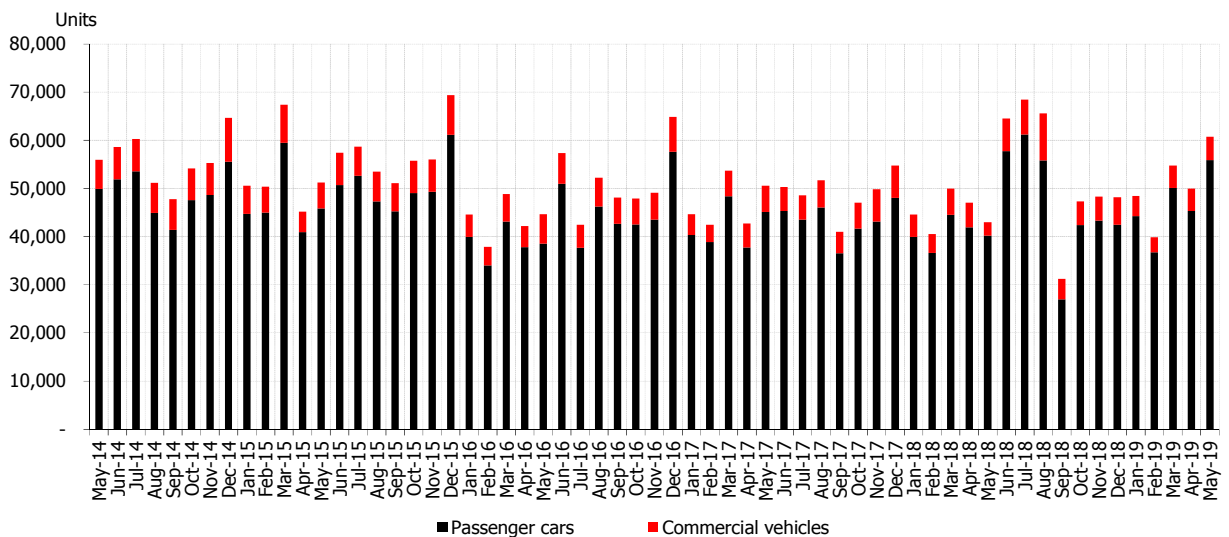


Market share of 5M18 (Passenger and Commercial)



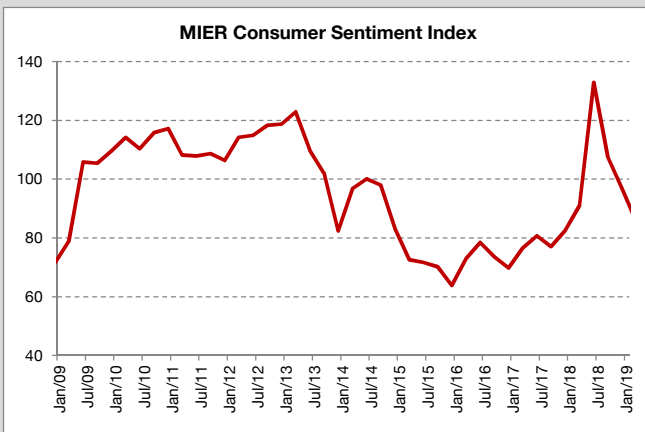
Source: MAA, Kenanga Research

Total Industry Volume from May 2014 to May 2019



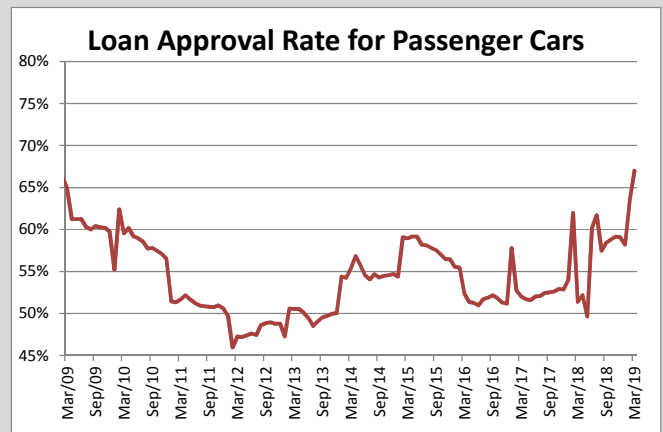
Source: MAA, Kenanga Research

Malaysia Institute of Economic Research (MIER) index



Source: MIER, Kenanga Research

BNM Loan Approval Rate for Passenger Cars



Source: Bank Negara Malaysia (BNM), Kenanga Research

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New Launches 2019

Perodua ARUZ (RM73-78k), launched 15th Jan' 2019



Honda HR-V facelift (RM109-125k), launched 16th Jan' 19



Toyota Vios (RM77-87k) launched 24th Jan' 2019



Toyota Yaris (RM72-84k), launched 19th April 2019



Face-lifted variants of Proton IRIZ and Persona launched 23rd April 2019, Saga and Exora Next

2019 Toyota Alza facelift (RM80-88k), launched 17th May 2019



Mazda CX-8 (CKD) – Aug/Sep 2019

Proton X70 (CKD) – 2H19



Source: Various Sources

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DRBHCOR earnings table before revision

DRBHCOR earnings table after reflecting better Proton sales and margin, with targeted 90k units for FY20E and 95k units for FY21E (FY20E CNP+47%, FY21E CNP +40%)

Summary Earnings Table

FYE Mar (RM'm)	2019A	2020E	2021E
Turnover	12,477	12,947	13,441
EBIT	441	739	845
PBT	282	506	579
Net Profit (NP)	123	209	251
Core Net Profit	183	209	251
Consensus (NP)	-	309	358
Earnings Revision	-	-	-
Core EPS (sen)	9.5	10.8	13.0
C.EPS growth(%)	-41.5	14.4	19.8
NDPS (sen)	3.0	3.0	3.0
BV/Share (RM)	3.47	3.55	3.65
Core PER	20.9	18.3	15.3
P/BV (x)	0.6	0.6	0.5
Gearing (x)	0.6	0.7	0.7
Net Divd Yield (%)	1.5	1.5	1.5

Summary Earnings Table

FYE Mar (RM'm)	2019A	2020E	2021E
Turnover	12,477	13,047	13,566
EBIT	441	867	975
PBT	282	678	755
Net Profit (NP)	123	307	351
Core Net Profit	183	307	351
Consensus (NP)	-	309	358
Earnings Revision	-	+47%	+40%
Core EPS (sen)	9.5	15.9	18.1
C.EPS growth(%)	-41.5	68.0	14.2
NDPS (sen)	3.0	3.0	3.0
BV/Share (RM)	3.47	3.60	3.75
Core PER	20.9	12.5	10.9
P/BV (x)	0.6	0.5	0.5
Gearing (x)	0.6	0.7	0.7
Net Divd Yield (%)	1.5	1.5	1.5

Source: Company, Kenanga Research

DRBHCOR Revised Sum-of-parts valuation

Proton	51%	Based on 8x PER, which is the same as MBMR ascribed PER	1,499
Puspakom	100%		DCF 286
Alam Flora		Proposed Sale Value	945
Bank Muamalat	70%		1.4x PBV 990
Pos Malaysia	54%	Based on Kenanga Research TP of RM1.30	550
CTRM			12x PER 235
Deftech			13x PER 330
Property and construction	100%		BV 2,403
Others (extricated assets)			BV 565
Subtotal			7,802
Less: Net debt			(2,532)
Total			5,270
Holding co. discount (20%)			(1,054)
No. of shares			1,933
SOP/share (TP)			2.20

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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	3.00	OP	13x CY20E EPS (-0.5 SD, 3-year fwd historical mean PER)	13x CY20E EPS (-0.5 SD, 3-year fwd historical mean PER)	0.0%	Maintain	Maintain Call and TP. BAUTO is our other preferred pick for its: (i) superior margins, above-industry margin (average profit margin of c.10% vs. peers of c.4%), (ii) steady dividend yield at 8%, and (iii) upcoming new models for the local and export market to sustain sales volume. For CY19, BAUTO will introduce the all-new Mazda 3 in end-2QCY19, all-new Mazda CX-8 (CKD), all-new Mazda CX-30 (CBU) and face-lifted Mazda CX-5 (CKD) in 2HCY19. Elsewhere, in the Philippines, the TRAIN law is affecting the demand for motor vehicles, but BAUTO plans to preserve its sales volume by increasing its Philippines dealerships and introducing the all-new Mazda CX-8 which they expect to attract huge demand over there.
DRBHCOM	2.20	MP	SoP Valuation	SoP Valuation (implying PER of 14x, on FY20E EPS, inline with local peers average PER)	+22.2%	Upgrade	Upgrade Call and TP We upgrade the stock to MP from UP as we believe that Proton will deliver a better volume this year, with a better margin from its supplier restructuring program which saw lower supplier costs up to 30%. However, we are still cautious on the consumer response for its first batch CKD version of Proton X70 (2HCY19). Proton is in the midst of finalising a 10-year business road map targeting 30% share of the domestic market and 10% of regional market via introduction of new models in the A, B, SUV and MPV segments. A new manufacturing plant in Tanjung Malim will be fully ready in five years' time, but the first Proton car made with Geely's technology will be rolled out by 2H19.
MBMR	3.45	OP	8x FY19E EPS (-1.0 SD of its 5-year forward historical mean PER)	8x FY19E EPS (-1.0 SD of its 5-year forward historical mean PER)	0.0%	Maintain	Maintain Call and TP MBMR is our sector top pick , for: (i) its deep value stake in 22.58%-owned Perodua and (ii) dual-income streams as the largest Perodua dealer and from its manufacturing division as a parts supplier for Perodua as well as other popular marques. Perodua continued to record stronger sales, with a market share of 43%, premised on the higher delivery of all-new Myvi and with further boost from the all-new Perodua ARUZ (bookings at 25k units, 13k delivered). Perodua has surpassed its 2018 target and targeting a stronger year in 2019 at 231k unit sales (+1.7%).
SIME	2.35	MP	SoP Valuation (implied PER of 19.4x on FY20 EPS, +1.5 SD of local peers average PER)	SoP Valuation (implied PER of 19.4x on FY20 EPS, +1.5 SD of local peers average PER)	0.0%	Maintain	Maintain Call and TP. The Industrial division's product support operations in Australia has continued to show growth as a result of the mining business recovery, whilst the China operation is benefiting from strong demand in the construction industry. Nevertheless, the Motors operation will continue to be impacted by strong competition and cautious consumer sentiment, whereas its Port operation will be facing competition from other ports as well as environmental controls implemented by local authorities limiting the operating time of the ports. SIME will continue to rationalize its logistics operations (with remaining 4 ports) which could see value unlocking of RM1.2b of its net book value (RM0.18/share).
TCHONG	1.60	MP	13.5x FY19E EPS (at -1.0 SD of its 5-year historical mean PER)	10x FY19E EPS (at -2.0 SD of its 5-year historical mean PER)	-25.6%	Downgrade	Downgrade Call and Cut TP. We downgrade the stock to MP from OP based on a lower targeted PER of 10x, as we believe that TCHONG can only register low-single digit sales volume and earnings growth moving forwards. TCHONG has shifted its strategy from volume-play to margin-play as it is focusing more on product mix skewed that towards higher-margin models. For 2019, TCHONG has launched the face-lifted Nissan X-Trail (18 th April 2019) and will be launching the all-new Nissan Leaf, in 2H19. Tentatively, based on market demand, other upcoming all-new models will be N18 Nissan Almera (B-segment sedan, slated for 2020), Nissan Kicks (B-segment crossover), and all-new Nissan Sylphy.
UMW	5.80	MP	17x FY19E EPS (at its 5-year historical mean PER)	17x FY19E EPS (at its 5-year historical mean PER)	0.0%	Maintain	Maintain Call and TP. UMW Toyota is targeting a better year for 2019 at 75k units (+15%) for Toyota and Lexus models. UMW has launched the all-new Toyota Vios (RM78-88k), all-New Toyota Yaris (RM72-84k) and will be launching the A90 Toyota GR Supra (CBU by 2H19). Elsewhere, 38%-owned Perodua is targeting higher 2019 sales of 231k (+1.7%), from the all-new ARUZ (bookings at 20k units, 9.8k delivered) and MyVi. For Equipment, the group will continue to leverage on its partners (KOMATSU & TICO)' strength to boost product range and market penetration while, expanding total solutions services.

Source: Kenanga Research

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Peer Comparison

Name	Price@ 21/06/19 (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.			
STOCKS UNDER COVERAGE																	
BERMAZ AUTO BHD	2.60	3,019.8	Y	04/2020	2.9%	0.5%	0.7%	2.0%	11.4	11.3	11.1	5.3	4.9	45.1%	7.5%	3.00	OP
DRB-HICOM BHD	2.21	4,272.5	Y	03/2020	4.6%	4.0%	68.0%	14.2%	23.4	13.9	12.2	0.6	0.6	4.5%	2.7%	2.20	MP
MBM RESOURCES BERHAD	2.88	1,125.8	Y	12/2019	0.3%	1.0%	1.7%	2.1%	6.8	6.7	6.6	0.6	0.6	8.9%	2.1%	3.45	OP
SIME DARBY BERHAD	2.30	15,641.9	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	18.3	18.5	18.2	1.1	1.1	5.8%	3.3%	2.35	MP
TAN CHONG MOTOR HOLDINGS BHD	1.50	979.0	Y	12/2019	0.3%	1.8%	-3.8%	4.7%	9.3	9.7	9.2	0.4	0.3	3.6%	2.7%	1.60	MP
UMW HOLDINGS BHD	5.51	6,437.3	Y	12/2019	2.9%	6.1%	5.0%	18.7%	17.0	16.1	13.6	1.9	1.8	11.5%	1.4%	5.80	MP
Simple Average					2.2%	2.1%	13.0%	5.0%	13.8	12.0	11.4	1.6	1.5	13.6%	3.4%		
CONSENSUS NUMBERS																	
APM AUTOMOTIVE HOLDINGS BHD	2.80	547.5	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	14.2	14.4	13.8	0.4	0.5	3.0	0.1	2.63	SELL
PECCA GROUP BHD	1.11	203.5	Y	06/2019	13.2%	5.5%	77.6%	5.7%	19.9	11.2	10.6	1.3	1.3	11.1	0.1	1.40	BUY

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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