

## Automotive

### Longer Working Month Drive MoM Sales Higher

**NEUTRAL**



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We maintain our NEUTRAL rating on the AUTOMOTIVE sector. According to the Malaysian Automotive Association (MAA), TIV for July 2019 registered sales of 50,853 units (+20% MoM, -26% YoY). MoM sales growth was stronger on a longer working month compared to the extended Raya holiday last month. Meanwhile, YoY sales plunged due to higher base effect from the historic tax holiday which started on 1<sup>st</sup> June 2018. Only Proton recorded positive YoY growth backed by its popular Proton X70, and supported by face-lifted Proton Iriz, Persona and Exora. 7M19 reported TIV of 347,187 units (-3%), within our expectation at 58% of our 2019 TIV target of 600,000 units. Sales volume for August 2019 is expected to be around the same level as July 2019. Our sector top-pick is MBMR (OP; TP: RM4.40) while the other preferred selection is BAUTO (OP; TP: RM3.00).



**July 2019 registered sales of 50,853 units (+20% MoM, -26% YoY).** MoM sales growth was stronger on longer working month compared to extended Raya holiday last month. Meanwhile, YoY sales plunged due to higher base effect from the historic tax holiday which started on 1<sup>st</sup> June 2018. Only Proton recorded positive YoY growth backed by its popular Proton X70, and supported by the fresh new face-lifted, improved technological variants of existing line-ups (Iriz, Persona, and Exora).

**Taking a detailed look at the passenger vehicles segment (+20% MoM, -25% YoY),** overall July passenger car sales were stronger MoM from the longer working month. However, the numbers were unable to match last year's historic tax holiday sales. The highest MoM gainer for the month was Honda (+40% MoM, -41% YoY) from a lower base last month as well as better

traction from its face-lifted Honda HR-V facelift (includes hybrid) and Mugen-face-lifted variants of Honda CR-V, HR-V and BR-V. Honda is still awaiting pricing approval to launch new model, which is the reason for its recording the highest YoY drop. On the other hand, Proton is the only gainer YoY (+13% MoM, +6% YoY), backed by its popular Proton X70 (30k bookings, 18.5k delivered) with 1,932 units sold (22% of July sales), and supported by face-lifted Proton Iriz, Persona and Saga. On the other hand, Perodua (+24% MoM, -16% YoY) has shifted their sales toward the all-new Perodua ARUZ (25k bookings, 17.9k delivered) and recorded 2,773 units sold (14% of July sales). Toyota sales (+11% MoM, -32% YoY) was cushioned by the all-new Toyota Vios, all-new Toyota Yaris and Toyota Hilux, which comprises 70% of UMW Toyota sales, while Nissan (+21% MoM, -42% YoY) was cushioned by its Nissan Serena S-Hybrid (launched in May 2018) and Mazda (+22% MoM, -13% YoY) from its all-new Mazda CX-5.

**Expecting flat August 2019 sales.** Sales volume for August 2019 is expected to be around the same level as July 2019, but weaker YoY due to stronger tax-holiday base last year. 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.

**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 and we have factored in a possible delay in new launches' timing 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), 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 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. **For stock (DRBHCNM) that has deviated from the rating definition, we make no changes to our call and TP pending upcoming results announcement this month (tentatively on 23<sup>rd</sup> August 2019).**

**National marques continued to be in the lead.** Perodua continued to lead the pack with a higher market share of 41% (7M18: 39%), with marginal sales growth (+1% YoY) driven by the all-new Perodua Myvi, and the all-new Perodua ARUZ. This was followed by Honda and Proton at the same position. Honda registered lower market share of 15% (7M18: 18%) with a lower sales growth (-19% YoY) as consumers held back purchases expecting new models in 2H19, which was delayed due to pricing approval issues. Proton (+48% YoY) gained higher market share of 15% (7M18: 10%) owing to the higher delivery of the all-new Proton X70, and supported by the existing face-lifted line-ups. Drifting further down the list, Toyota sales volume plunged (-10% YoY) with a lower market share of 11% (7M18: 12%) 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. Meanwhile, Nissan (-19% YoY) saw its market share lowered to 3% (7M18: 4%), due to the lack of new volume-driven model launches; whereas, Mazda recorded lower sales (-5% YoY), with an unchanged market share at 2% (7M18: 2%) 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 2H19 volume sales.

**MBMR (OP; TP: RM4.40) is our sector top pick:** We like the stock or 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) better earnings with the cessation of loss-making alloy wheels business. Our TP is based on 9x FY20E EPS, which is at its 5-year forward historical mean PER and the stock is currently trading at an undemanding 8.4x FY20E 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.



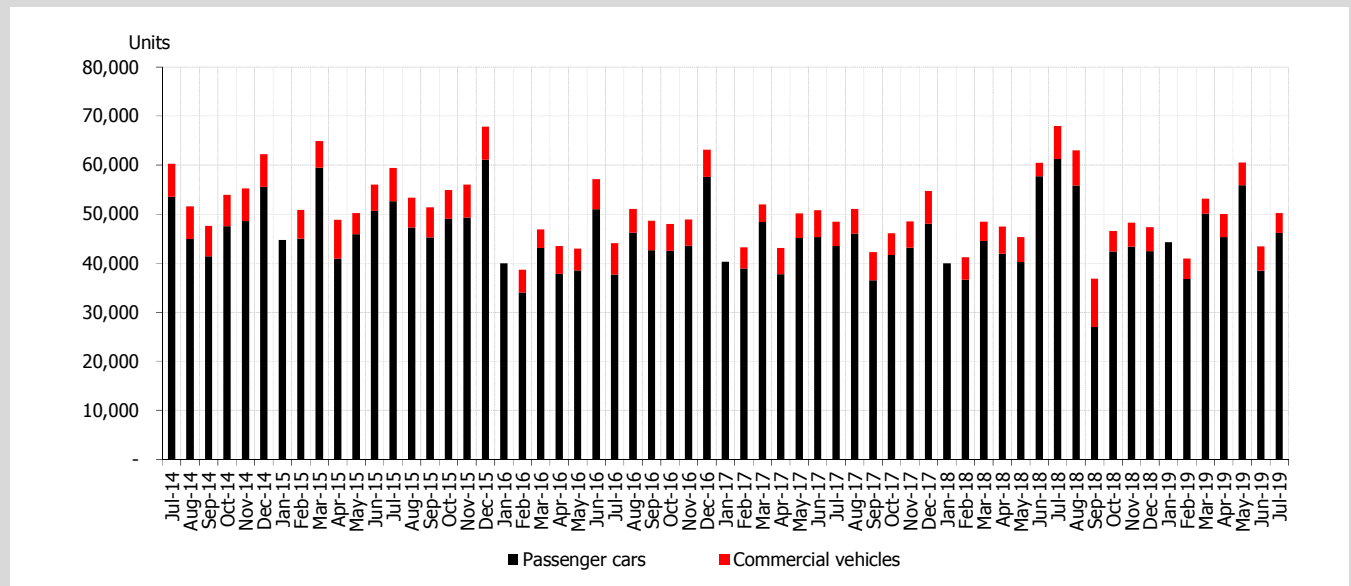
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## July 2019's sales for passenger and commercial vehicles according to top marques

Marques(units)	Jul-19	Jul-18	Jun-19	% m-o-m	% y-o-y	YTD 2019	YTD 2018	% y-o-y
<b>Passenger</b>								
Perodua	19,924	23,830	16,037	24%	-16%	141,706	140,928	1%
Proton	8,590	8,102	7,615	13%	6%	52,108	35,208	48%
Honda	7,534	12,808	5,386	40%	-41%	51,794	64,162	-19%
Toyota	4,217	6,182	3,799	11%	-32%	27,885	28,700	-3%
Nissan	1,476	2,544	1,217	21%	-42%	9,626	11,459	-16%
Mazda	998	1,152	816	22%	-13%	7,405	7,677	-4%
Others	3,450	6,594	3,643	-5%	-48%	26,540	34,001	-22%
<b>Total</b>	<b>46,189</b>	<b>61,212</b>	<b>38,513</b>	<b>20%</b>	<b>-25%</b>	<b>317,064</b>	<b>322,135</b>	<b>-2%</b>
<b>Commercial</b>								
Toyota	1,443	2,948	1,423	1%	-51%	9,026	12,139	-26%
Isuzu	727	951	678	7%	-24%	4,862	5,607	-13%
Nissan	527	759	289	82%	-31%	2,760	3,810	-28%
Mitsubishi	426	572	380	12%	-26%	3,315	3,215	3%
Hino	494	731	486	2%	-32%	3,238	3,241	0%
Mazda	4	48	2	100%	-92%	88	219	-60%
Others	1,043	1,245	755	38%	-16%	6,834	7,699	-11%
<b>Total</b>	<b>4,664</b>	<b>7,254</b>	<b>4,013</b>	<b>16%</b>	<b>-36%</b>	<b>30,123</b>	<b>35,930</b>	<b>-16%</b>
<b>TIV</b>	<b>50,853</b>	<b>68,466</b>	<b>42,526</b>	<b>20%</b>	<b>-26%</b>	<b>347,187</b>	<b>358,065</b>	<b>-3%</b>

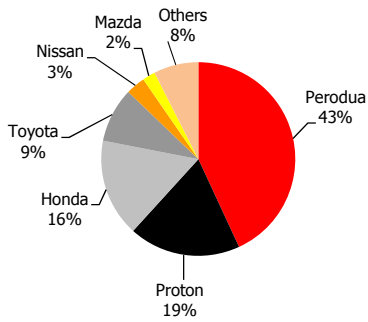
Source: MAA, Kenanga Research

## Total Industry Volume from July 2014 to July 2019

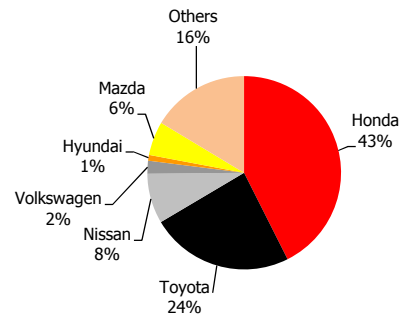


Source: MAA, Kenanga Research

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

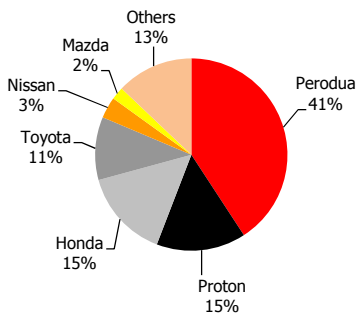


Market share of top non-national marques (Passenger)

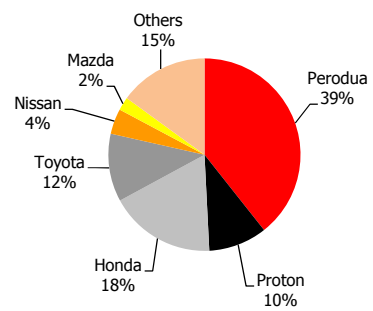


Source: MAA, Kenanga Research

Market share of 7M19 (Passenger and Commercial)

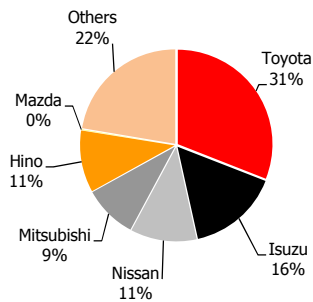


Market share of 7M18 (Passenger and Commercial)



Source: MAA, Kenanga Research

Market share of top marques (Commercial), July 2019



Source: MAA, Kenanga Research

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New Launches 2019

Perodua ARUZ (RM73-78k)- launched 15<sup>th</sup> Jan' 2019



Honda HR-V facelift (RM109-125k)-16<sup>th</sup> Jan' 19



Toyota Vios (RM77-87k)-24<sup>th</sup> Jan' 2019



Toyota Yaris (RM72-84k)-19<sup>th</sup> April 2019



Face-lifted variants of Proton IRIZ, Persona, Saga



2019 Toyota Alza facelift (RM80-88k), 17<sup>th</sup> May 2019



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



Mazda CX-8 (CKD) – Sep 2019



Source: Various Sources

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## Peer Comparison

Name	Last Price (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.			
<b>STOCKS UNDER COVERAGE</b>																	
BERMAZ AUTO BHD	2.45	2,845.9	Y	04/2020	2.9%	0.5%	0.7%	2.0%	10.7	10.7	10.4	5.0	4.6	45.1%	8.0%	3.00	OP
DRB-HICOM BHD	2.90	5,606.4	Y	12/2019	4.6%	4.0%	68.0%	14.2%	30.7	18.3	16.0	0.8	0.8	4.5%	2.1%	2.20	MP
MBM RESOURCES BERHAD	4.00	1,563.6	Y	12/2019	-3.7%	0.3%	13.0%	2.5%	9.4	8.4	8.2	1.0	0.9	11.4%	3.0%	4.40	OP
SIME DARBY BERHAD	2.09	14,213.8	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	16.6	16.8	16.5	1.0	1.0	5.8%	3.6%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.48	965.9	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	9.2	12.4	11.0	0.4	0.3	2.8%	2.7%	1.40	MP
UMW HOLDINGS BHD	5.24	6,121.9	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	16.1	16.3	13.5	1.8	1.7	10.8%	1.4%	5.45	MP
<b>Simple Average</b>					<b>-1.3%</b>	<b>1.8%</b>	<b>10.8%</b>	<b>6.8%</b>	<b>15.3</b>	<b>13.3</b>	<b>12.4</b>	<b>1.6</b>	<b>1.5</b>	<b>13.9%</b>	<b>3.9%</b>		
<b>CONSENSUS NUMBERS</b>																	
APM AUTOMOTIVE HOLDINGS BHD	2.42	473.2	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	12.3	12.4	11.9	0.4	0.4	3.0	0.1	2.63	SELL
PECCA GROUP BHD	1.25	229.2	Y	06/2019	13.2%	5.5%	77.6%	5.7%	22.4	12.6	11.9	1.3	1.4	11.1	0.1	1.40	SELL

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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