

05 May 2020

Automotive Hitting the Brakes on High Value Items

UNDERWEIGHT



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We maintain UNDERWEIGHT on the sector with 2020 TIV target units of 420k (-31% YoY) as we envisaged worse-than-expected impact of the Covid-19 pandemic on vehicles sales. Because of the MCO, the impact is especially severe in the 2QCY20. With the economy slowing sharply, the Malaysian Automotive Association (MAA) has lowered its TIV forecast for 2020 from the 607k units it projected in January to 400k units (-34% YoY). Following our downgrade in TIV earlier in our sector report dated 30th April 2020, we now revise calls and TPs for most of the stocks under our coverage (please refer to the table below). We believe that national marques would fare worse than non-national marques with target markets of lower to mid-income range being the most financially stressed segment. Note that, BAUTO (MP;TP: RM1.40), DRBHCOM (MP;TP: RM1.40) and UMW (MP;TP: RM1.60) have performed well since our last OP call in our strategy report dated 2nd April 2020 with share prices surging 34%, 18%, and 16%, respectively. Despite most of the economic sectors starting to re-open on 4th May 2020, the MCO is still in effect with revised measures (conditional MCO) which we believe will continue to restrict consumer spending on high value items.



Maintain UNDERWEIGHT with 2020 TIV target of 420k (-31% YoY), as we envisaged worse-than-expected impact of the Covid-19 pandemic on vehicles sales, mindful that 2QCY20 is a lost quarter. This is only to be expected given that showrooms are closed during the MCO and consumers are cautious on spending on high-value discretionary spending such as vehicles, imported goods and overseas travels. Furthermore, the planned new launches for 2HCY20 could be delayed given the weak consumer sentiment, but some relief could arise from better incentives program under NAP 2020, and positive impact from BNM's cut in the overnight policy rate (OPR) and pre-emptive measures to assist those who might be financially challenged by Covid-19 impact. Our economic research team views that the MCO to contain the outbreak will adversely impact the economy in the short term with 2020's GDP expected to contract by 1.9%. Going forward, the final impact would depend on the outcome of containment measures and whether the movement restriction would be extended.

No sales recorded for April 2020 as MCO was extended to 3rd May 2020. All the marques' showrooms, vehicle productions and deliveries are temporarily closed, halted and delayed for the period of 18th March till 3rd May 2020. Despite the Federal Government allowing most of the economic sectors to re-open on 4th May 2020, including showrooms, the MCO is still in effect with revised measures (i.e conditional MCO) which, together with nine states still maintaining strict MCOs, will continue to restrict consumer spending appetite on high value items in our view. Selected showrooms have been re-opened on 4th May 2020 such as Perodua, Nissan, Toyota and Honda, while Mazda is planned for next week, and Proton will gradually restart operations from May 5th, covering both sales and production. Nevertheless, most assembly plants including Inokom and Proton remain closed, while a few others indicate a possible re-opening next week such as Honda and Toyota, pending approvals from authorities to comply with the new safety regulation.

Following our revision of 2020 TIV numbers in earlier report, we now revise calls and TPs for most of the stocks under our coverage. We believe that national marques would fare worse than non-national marques with their target market of lower to mid-income segment likely to suffer most financially (please refer to the table below). BAUTO (to MP from OP with unchanged of TP: RM1.40), DRBHCOM (to MP from OP with a lower TP of RM1.40 from RM1.90) and UMW (to MP from OP with a lower TP RM1.60 from RM2.70) have performed well since our last OP call in strategy report dated 2nd April 2020 with share prices surging 34%, 18%, and 16%, respectively. Our downgrade on BAUTO, DRBHCOM and UMW is premised on the weakening demand from the lower to middle-income range during the MCO period, with new launches could be postponed given the weak consumer sentiment (i.e. all-new models of Honda City, Proton X50 and Perodua D55L). We downgrade MBMR (to UP from MP with a lower TP of RM2.40 from RM2.90) as we expect lower contribution from Perodua, and SIME (to UP from MP, with unchanged TP of RM1.75) as we believe the upside is limited on weakening global demand for BMW vehicles and reduction in construction and mining activities during the outbreak. No changes for TCHONG (UP: TP: RM0.750) as we already factored in the negatives as it will continue to be impacted by the dearth of all-new models and losses on Vietnam Danang Plant with or without MCO.

Changes in Net Profit (with corresponding changes in targeted TIV numbers)

Company (RMm)	Previous FY20E	Previous FY21E	New FY20E	New FY21E	FY20E Revision (%)	FY21E Revision (%)
BAUTO	136.0	176.4	136.0	176.4	0%	0%
DRBHCOM	265.0	325.0	112	149	-58%	-54%
MBMR	163.1	192.1	133.9	155.8	-18%	-19%
SIME	969	989	969	989	0%	0%
TCHONG	48.7	57.9	48.7	57.9	0%	0%
UMW	222.8	223.5	130.5	148.20	-41%	-34%

Source: Kenanga Research

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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	1.40	MP	10x CY20E EPS (-1.0 SD, 5-year fwd historical mean PER)	10x CY20E EPS (-1.0 SD, 5-year fwd historical mean PER)	0%	Downgrade	Downgrade Call and Maintain TP. The share price has surged 34% since our last OP call in strategy report dated 2 nd April 2020. With the extension of MCO until May 12 th , there were no sales recorded for April 2020, which could negatively impact its 1HCY2020 performance. Thus, we downgrade it to MP from OP with unchanged TP of RM1.40. BAUTO had earlier launched the all-new Mazda 3 Sedan and Hatchback (CBU, July 2019), face-lifted and turbo variants of CX-5 (CKD, 22 nd Oct 2019), all-new CX-8 (CKD, 13 th November 2019), all-new CX-30 (CBU, 15 th January 2020), 2020 Mazda CX-9, face-lifted Mazda 2 and 2020 Mazda MX-5 RF (3 rd March 2020). BAUTO will introduce the face-lifted CX-3 (CY2020), and all-new Mazda MX-30 (CY2021). BAUTO could be able to weather the economic uncertainties better than its counterparts with its premium target market experiencing lesser impact from the economic downturn, in our opinion.
DRBHCOR	1.40	MP	SoP Valuation (implying PER of 14x, on FY20E EPS)	SoP Valuation (implying PER of 24x, on FY20E EPS)	-26%	Downgrade	Downgrade Call and Cut TP The share price has surged 18% since our last OP call in strategy report dated 2 nd April 2020. With the extension of MCO until May 12 th , there were no sales recorded for April 2020, which could negatively impact its 1HCY2020 performance. Thus, we downgrade it to MP from OP with a lower TP of RM1.40 from RM1.90. Proton X70 CBU was rolled out on 12th December 2018, and the CKD version (RM4k-5k cheaper than CBU) was rolled out on 12 th February 2020, in between the launching of face-lifted existing models' variants. For 2H20, Proton will launch Proton X50 (Geely Binyue). Proton recorded higher CY19 sales at 100,183 units (+56%) and is targeting stronger 2020 at 132k units (+32%), while Honda continued to record weak sales at 85,418 units (-17%) due to stiff competition from local carmakers. Nevertheless, with the MCO in effect and the ensuing economic contraction, Proton sales could be negatively affected and may not achieve its target.
MBMR	2.40	UP	7x FY20E EPS (-1.0 SD of its 5-year forward historical mean PER)	7x FY20E EPS (-1.0 SD of its 5-year forward historical mean PER)	-17%	Downgrade	Downgrade Call and TP MP to UP with lower TP of RM2.40 from RM2.90. MBMR's business strategy lies on: (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%, supported by higher delivery of all-new Myvi, all-new Perodua ARUZ, and face-lifted Bezza. Perodua is cautious on 2020 with a flat growth target at 240k unit sales due to challenging factors such as intense competition, weakening consumer sentiment, stringent hire purchase requirement as well as global economic uncertainties. Nevertheless, with the MCO in effect and the ensuing economic contraction, Perodua's sales could be negatively affected and it may not achieve its target.
SIME	1.75	UP	SoP (implied PER of 12x on FY20 EPS)	SoP(implied PER of 12x on FY20 EPS)	0%	Downgrade	Downgrade Call and Maintain TP. MP to UP. Management noted that the Covid-19 outbreak could slow down its 2HFY20 motor sales especially in China, while awaiting the government stimulus to soften the negative impact until the outbreak is contained. Note that China has partially recovered and is ready to support the group with some "pent-up spending" from the Auto segment (BMW vehicles). Furthermore, the Covid-19 outbreak is expected to impact industrial supply chain in Australasia for certain construction equipment and parts (unquantified at the moment). Nevertheless, the Industrial division in Australia continued to show growth as a result of the mining segment recovery and in the longer term, sales contribution from Gough Group NZ at c.RM1b/year could boost its order-book further.
TCHONG	0.750	UP	10x FY20E EPS (at -2.0 SD of its 5-year historical mean PER)	10x FY20E EPS (at -2.0 SD of its 5-year historical mean PER)	0%	Maintain	Maintain Call and TP. Intensifying competition and insufficient new volume driven launches have cost TCHONG its market share which is further dampened by losses from heavy discounting activities and underutilised Vietnam Danang plant (currently running at less than 50% capacity solely on Nissan models). Tentatively, depending 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	1.60	MP	14x FY20E EPS (at -1.0 SD of its 5-year historical mean PER)	14x FY20E EPS (at -1.0 SD of its 5-year historical mean PER)	-41%	Downgrade	Downgrade Call and Cut TP. The share price has surged 16% since our last OP call in strategy report dated 2 nd April 2020. With the extension of MCO until May 12 th , there were no sales recorded for April 2020, which could negatively impact its 1HCY2020 performance. Thus, we downgrade it to MP from OP with a lower TP of RM1.60 from RM2.70. UMW derived its earnings mostly from: (i) stream of all-new models (especially Vios, and Yaris) with better margins, and (ii) its deep value stake in 38%-owned Perodua. Nonetheless, we are still 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 has turned profitable in 2019.

Source: Kenanga Research

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Peer Comparison

Name	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.			
STOCKS UNDER COVERAGE																	
BERMAZ AUTO BHD	1.34	1,555.7	Y	04/2020	-32.1%	6.0%	-48.7%	29.7%	5.9	11.4	8.8	2.5	2.2	20.9%	7.0%	1.40	MP
DRB-HICOM BHD	1.41	2,725.5	Y	12/2019	-12.5%	7.7%	-32.2%	32.9%	16.5	24.3	18.3	0.4	0.4	4.3%	2.1%	1.40	MP
MBM RESOURCES BERHAD	2.82	1,102.3	Y	12/2020	-8.1%	1.2%	-30.5%	16.1%	5.7	8.3	7.1	0.5	0.5	6.5%	2.1%	2.40	UP
SIME DARBY BERHAD	2.00	13,602.0	Y	06/2020	-0.7%	2.0%	2.0%	2.0%	14.3	14.0	13.8	0.9	0.9	6.5%	5.0%	1.75	UP
TAN CHONG MOTOR HOLDINGS BHD	1.05	705.6	N	12/2020	2.2%	2.6%	4.1%	20.3%	15.1	14.5	12.0	0.2	0.2	1.6%	3.8%	0.750	UP
UMW HOLDINGS BHD	2.08	2,430.1	Y	12/2020	-22.8%	27.2%	-48.8%	13.6%	9.5	18.6	16.4	0.4	0.4	2.1%	2.9%	1.60	MP
Simple Average					-12.3%	7.8%	-25.7%	19.1%	11.2	15.2	12.7	0.8	0.8	7.0%	3.8%		

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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