

Automotive New Launches to Soften the End of Moratorium

NEUTRAL



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We maintain NEUTRAL on the sector with 2020 TIV target sales of 475k units (-21% YoY). The MIER CSI (Consumer Sentiment Index) score for 2QCY20 was at 90.1 points (+39ppt QoQ, -2.9ppt YoY) that showed significant recovery which came from relaxation in the movement control order (MCO) starting May 2020, and boosted by various government assistance under PENJANA and KITA PRIHATIN. Nevertheless, the CSI remained below the optimistic threshold (>100pts) as consumers are still observing cautious spending patterns especially on high-value discretionary items with passenger vehicles loan approval rate remaining unexciting at 54.3% as of July 2020 due to stringent bank approvals on employment criteria for several economic sectors that still see high risk impact from COVID-19 restrictions i.e. aviation. We believe the upcoming new volume-driven launches in 4QCY20 (i.e. Proton X50, Honda City and Nissan Almera) could help offset the cautious consumer sentiment from the ending of loan moratorium by 30th September 2020. We upgrade rating to MARKET PERFORM from UNDERPERFORM with higher TP for the following stocks; (i) DRBHCOM (TP to RM2.10 from RM1.80), (ii) MBMR (TP to RM3.15 from RM2.80), (iii) TCHONG (TP to RM1.00 from RM0.700), and (iv) UMW (TP to RM2.70 from RM2.40). On the other hand, we maintain our MARKET PERFORM call for BAUTO (TP higher at RM1.40 from RM1.30).



Maintain NEUTRAL with unchanged TIV target of 475k units (-21% YoY). We believe the upcoming new volume-driven launches in 4QCY20 (i.e. Proton X50, Honda City and Nissan Almera) could help soften the cautious consumer sentiment from the ending of loan moratorium by 30th September 2020. Note that, MAA envisaged TIV for 2020 at 470k units (-22% YoY). We believe that sales tax exemption until end of the year may help to spur sales along with better incentives program under NAP 2020, 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. Nevertheless, we remain concerned with the economic impact from the pandemic with our economic research team having the view that 2020 GDP is expected to contract by 5.9%. 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.

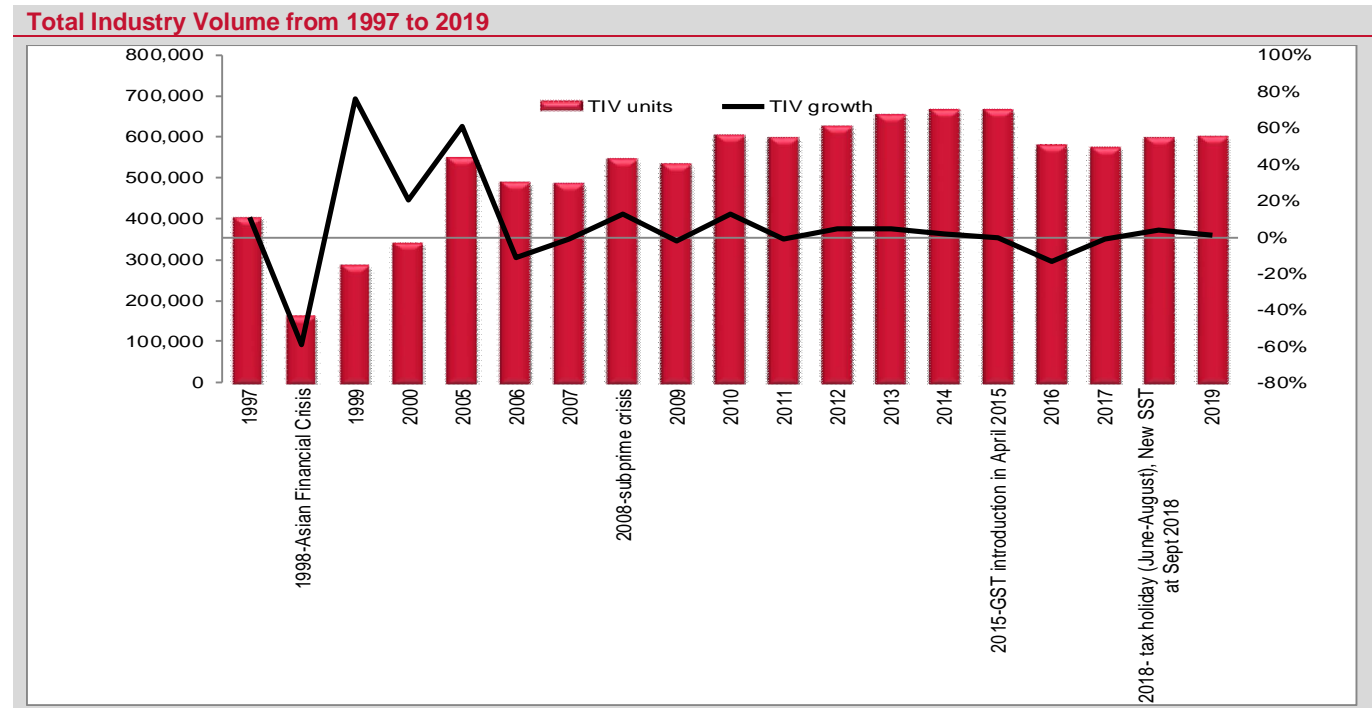
Significant recovery in consumer sentiment post-MCO. The Malaysian Institute of Economic Research's (MIER) posted 90.1 points (+39ppt QoQ, -2.9ppt YoY) for its 2QCY20 Consumer Sentiment Index (CSI). The significant recovery came from relaxation in the movement control order (MCO) starting May 2020 and boosted by various government assistance under PENJANA and KITA PRIHATIN, particularly exemption in sales tax for passenger vehicles (mid-June to December 2020) and loan moratorium for 6 months up until September 2020. Nonetheless, the CSI is still below the optimistic threshold (>100pts) as consumers are still observing cautious spending patterns especially on high-value discretionary items (such as vehicles, imported goods and overseas travels), coupled with the stores' limited operating time (under RMCO) and still-closed international borders. Note that, passenger vehicles loan approval rate remains unexciting at 54.3% as of July 2020 due to stringent bank approval on employment criteria for several economic sectors that still see high risk impact from COVID-19 restriction i.e. aviation.

Mostly weak in 2QCY20. For 2QCY20 reporting season, only one performed above expectation (SIME), and one within expectation (DRBHCOM) while others were severely below expectations (BAUTO, TCHONG, UMW and MBMR). Overall, all Automotive players suffered from the closure of businesses during the MCO, and further worsened by the unfavourable forex movement during this global outbreak. Only essential services such as SIME's industrial segment reported stronger-than-expected results.

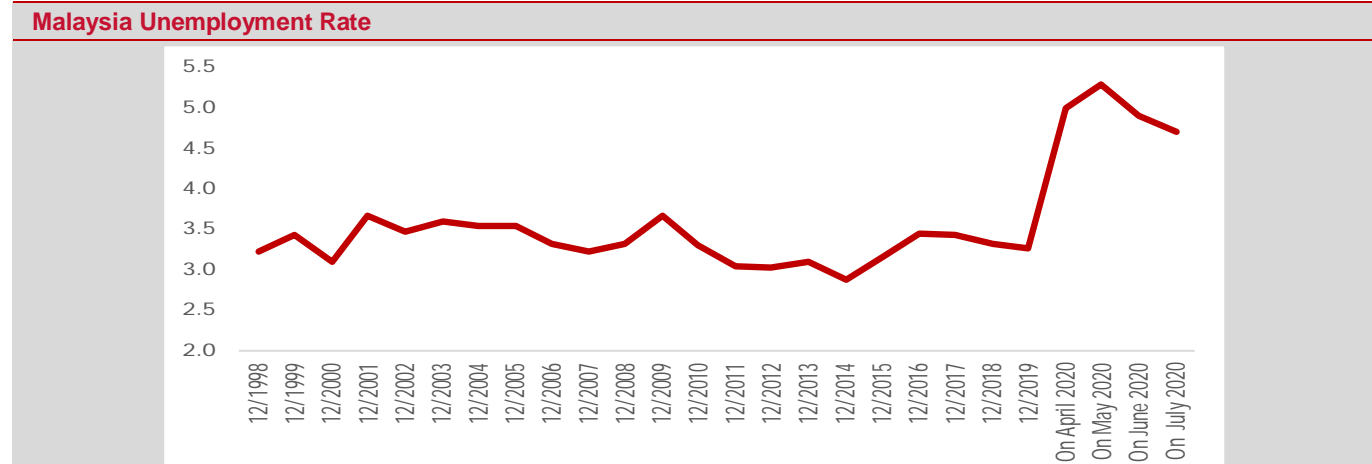
Looking forward to 3QCY20/4QCY20, we expect most of the auto players to chart stronger recoveries during the sales tax exemption on passenger vehicles starting from 16th June 2020 up to the end of year which should nudge sales to fall within our targeted 2020 TIV target units of 475k (-21% YoY). Another push could come from the upcoming new launches, including the Proton X50 (CKD, 4QCY20), all-new Honda City 1.5 RS (4QCY20), and all-new Nissan Almera 1.0 turbo (4QCY20). There are also streams of other all-new launches pending pricing approvals which could lean towards CBU. With this in mind, we make a few housekeeping changes in valuation and earnings estimates to better reflect the current operating sentiment for stocks under coverage. **We upgrade rating to MARKET PERFORM from UNDERPERFORM with higher TP for the following stocks; (i) DRBHCOM (TP to RM2.10 from RM1.80), (ii) MBMR (TP to RM3.15 from RM2.80), (iii) TCHONG (TP to RM1.00 from RM0.700) and (iv) UMW (TP to RM2.70 from RM2.40).** On the other hand, **we maintain MARKET PERFORM call for BAUTO (TP higher at RM1.40 from RM1.30)** and we made no changes to SIME (MP; TP: RM2.30).

TIV Market Share Movement						
Position	Marques	8M20	8M19	Market Share	Sales	Comment
1st	Perodua	42%	41%	▲	-26%	Driven by the all-new Perodua Axia, Myvi, and Bezza
2nd	Proton	22%	15%	▲	1%	Higher delivery of the all-new Proton X70 CKD, and also supported by the existing face-lifted line-ups
3rd	Honda	10%	15%	▼	-52%	Consumers held back purchases, expecting new models (City 2020)
4th	Toyota	11%	11%	◀▶	-26%	The all-new Toyota Vios, all-new Toyota Yaris, and Toyota Hilux, which comprised 76% of UMW Toyota sales
5th	Nissan	3%	3%	◀▶	-47%	Lack of new volume-driven model launches
6th	Mazda	2%	2%	◀▶	-22%	Renew Interest for face-lifted CX-5 and all-new CX-8 which showed increased delivery starting December 2019
National Marques		64%	56%	▲		Outstanding sales from Perodua, and boosted by Proton.
Non-national Marques		36%	44%	▼		Lack of volume-driven launches

Source: MAA, Kenanga Research

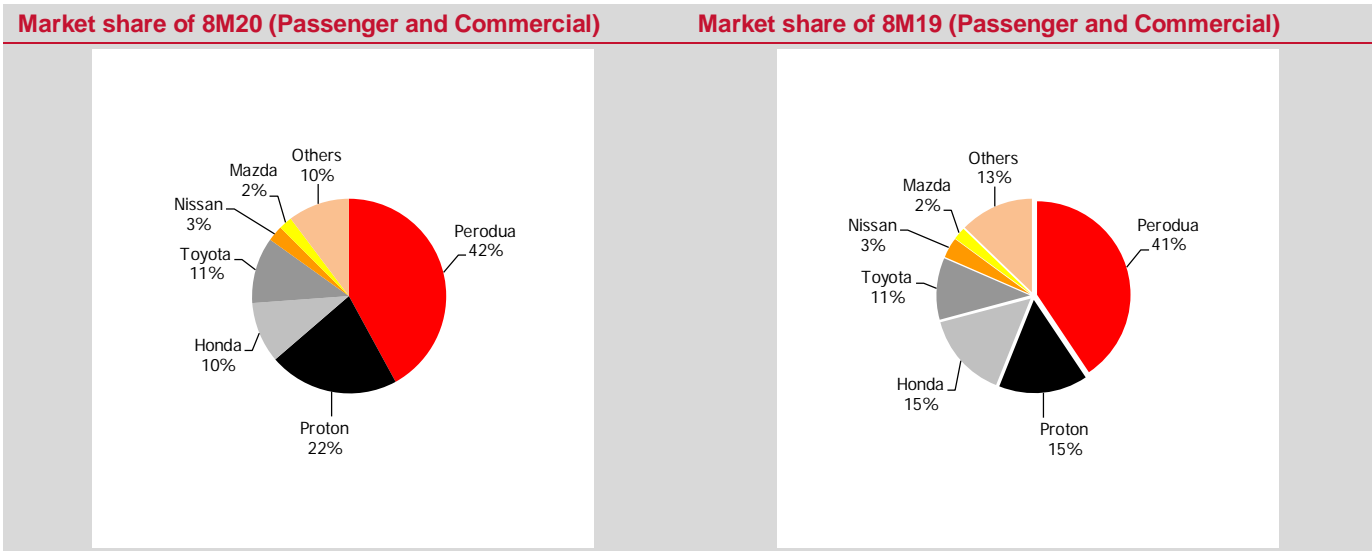


Source: MAA, Kenanga Research

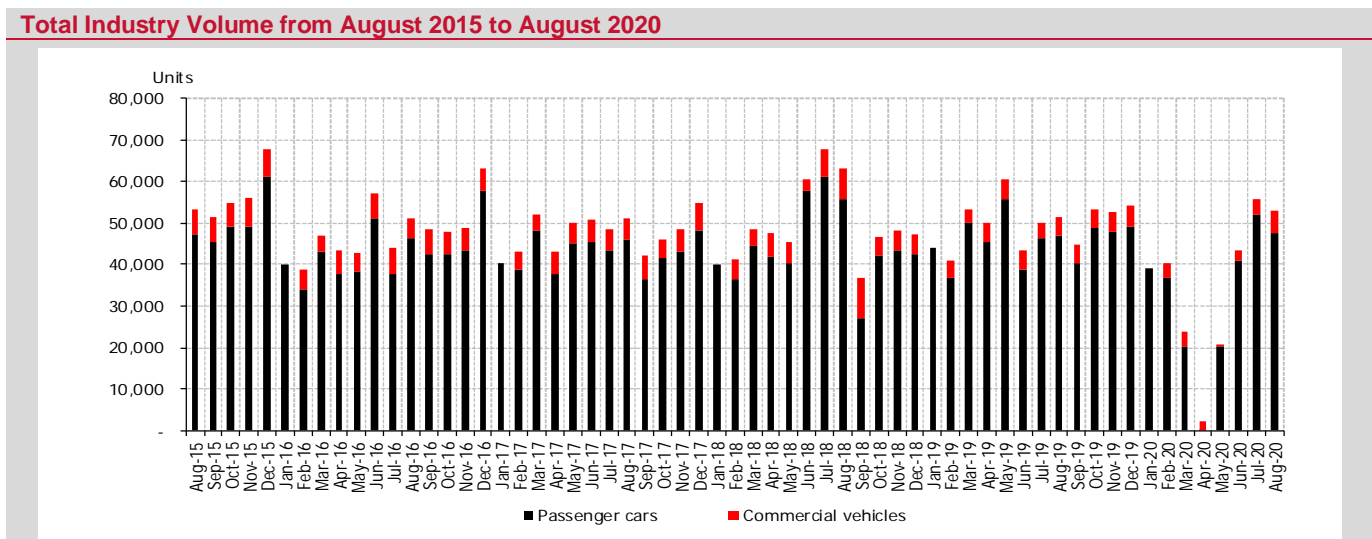


Source: CEIC, Kenanga Research

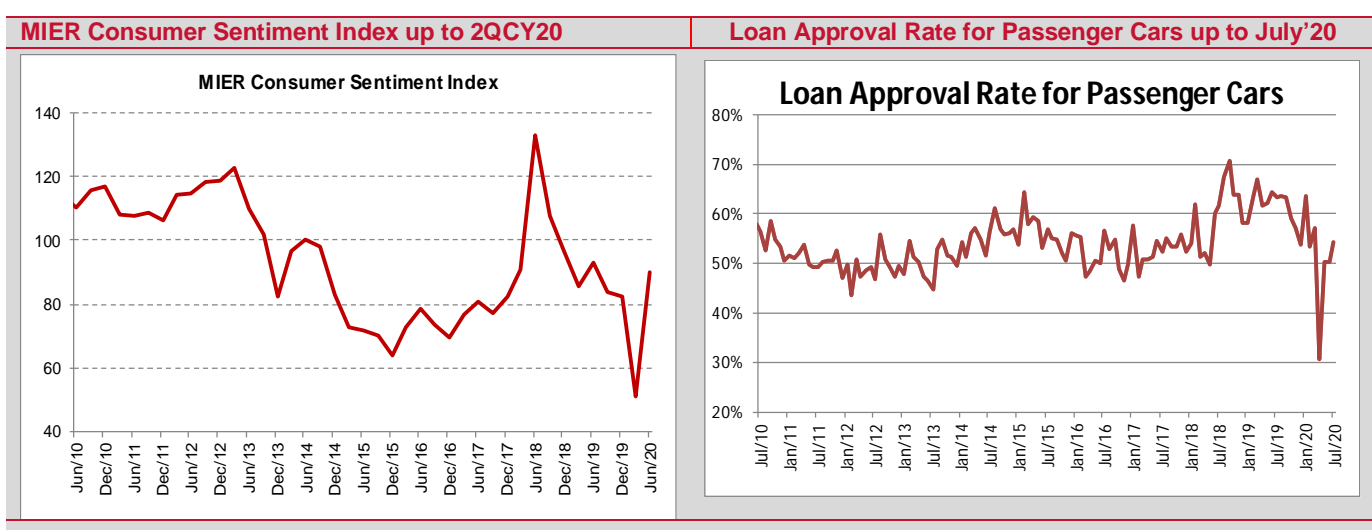
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Source: MAA, Kenanga Research



Source: MAA, Kenanga Research



Source: MIER, Kenanga Research

New Launches 2020/2021

Face-lifted Honda BR-V –2nd June 2020



Face-lifted Perodua Bezza -8th Jan 2020



Face-lifted Honda Accord/Civic – Feb/August 2020



Face-lifted Toyota Hilux Rogue- 4QCY20



Toyota RAV4 (CBU) – 18th June 2020



All-New Honda City 1.5 RS (CKD) – 4QCY20



All-New Nissan Almera (CKD) –4QCY20



All-New Perodua D55L/Raize (CKD) – 2021



All-New Proton X50 (CKD) – 4QCY20



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	Comments
BAUTO	1.40	MP	10x CY21E EPS (-1.0 SD, 5-year fwd historical mean PER)	12x CY21E EPS (at 5-year fwd historical mean PER)	+8%	Maintain	Maintain Call and Upgrade TP. BAUTO had 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). We revised our FY21E and FY22E CNP lower by -21.0% and -16.0% respectively to better reflect the current operating sentiment. Nonetheless, we upgrade BAUTO TP to RM1.40 (from RM1.30) as we believe that all the negatives could have been priced in at this juncture.
DRBHCOR	2.10	MP	SoP Valuation (implying PER of 17x, on FY21E EPS)	SoP Valuation (implying PER of 16x, on FY21E EPS)	+17%	Upgrade	Upgrade Call and TP. We revised our FY21E CNP higher by 19% to factor in stronger spill-over delivery of upcoming Proton X50 and Honda City. As such, we upgrade DRBHCOR to MP from UP, with a higher TP of RM2.10 from RM1.80. We made no changes to our FY20E CNP. During this sales tax exemption, the group's marques are expected to boost their sales performance in 2HCY20 by featuring new or revised models. Volkswagen launched Arteon, Tiguan Allspace SUV and the Passat R-Line, while Audi launched the Q3 Sportback. Proton will launch the Proton X50 (Geely Binyue) soon. Honda has launched the face-lifted BR-V in July 2020 and will launch the all-new Honda City soon.
MBMR	3.15	MP	7x FY21E EPS (-1.0 SD of its 5-year forward historical mean PER)	9x FY21E EPS (at 5-year forward historical mean PER)	+13%	Upgrade	Upgrade Call and TP. 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. While Perodua's market share is supported by Myvi, ARUZ, and Bezza, Perodua is however cautious for the rest of 2020 due to challenging economic factors. We revised our FY20E and FY21E CNP lower by -10.6% and -11.5% respectively to better reflect the current operating sentiment. Nonetheless, we upgrade MBMR to MP from UP and TP to RM3.15 from RM2.80, respectively as we believe that all the negatives could have been priced in at this juncture and the launching of all-new Perodua D55L SUV next year could be a fresh catalyst to boost the group TIV.
SIME	2.30	MP	SoP (implied PER of 13x on FY21 EPS)	SoP (implied PER of 13x on FY21 EPS)	0%	Maintain	Maintain Call and TP. Management noted that government measures to increase infrastructure spending would support equipment sales of the Industrial division while fiscal incentives such as the sales tax exemption for car sales in Malaysia would help bolster sales. However, the risks from trade tensions remain high, which may lead to supply chain disruptions or changes in purchasing preference. Despite volatility in order-book, the Industrial division in Australia continued to show growth driven by the mining industry recovery. The Motors operation will continue to be impacted by strong competition, whereas its Port operation will be facing competition from other ports especially with the Chinese government rationalizing ports operations to create a larger ports entity.
TCHONG	1.00	MP	14x FY21E EPS (at -1.0 SD of its 5-year historical mean PER)	0.22x FY21E BVPS (at -1.0 SD of its 5-year historical mean PBV)	+43%	Upgrade	Upgrade Call and TP. Due to volatility in quarterly earnings, we change our valuation method to PBV from PER valuation which prompted in revision of our TP to RM1.00 from RM0.700, and we upgrade TCHONG to MP from UP. With the upcoming launching of long-awaited all-new Nissan Almera, we believe that this could be a fresh catalyst for TCHONG to return to profitability, and to offset the negative impact from Vietnam side from under-utilised Vietnam Danang plant and the expiration of both Vietnam CBU and CKD agreement with its principal on 30th September 2020 and 19th September 2020 respectively. On other hand, the overseas Distribution Agreement (ODA) with SAIC Motor International Co., Ltd (SMIL) could be a saving grace in the next 5 years.
UMW	2.70	MP	14x FY21E EPS (at -1.0 SD of its 5-year historical mean PER)	17x FY21E EPS (at 5-year historical mean PER)	+13%	Upgrade	Upgrade Call and TP. UMW derives its earnings mostly from: (i) the stream of all-new models (especially Vios, and Yaris, and recently launched Toyota RAV4 CBU and Lexus UX200, Toyota Hilux CKD (open for order-taking) with two new CKD models expected, namely the Innova & Fortuner, expected in Jan 2021, with order-taking in 4QCY20), and (ii) its deep value stake in 38%-owned Perodua. While Perodua's market share is supported by Myvi, ARUZ, and Bezza, Perodua is however cautious for the rest of 2020 due to challenging economic factors. Nonetheless, we upgrade UMW to MP from UP and TP to RM2.70 from RM2.40, respectively as we believe that all the negatives could have been priced in at this juncture and the launching of all-new Perodua D55L SUV next year could be a fresh catalyst to boost the group TIV.

Source: Kenanga Research

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Peer Comparison

Name	Price @ 25/09/20 (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.			
STOCKS UNDER COVERAGE																	
BERMAZ AUTO BHD	1.40	1,627.1	Y	04/2021	55.6%	5.0%	-7.2%	51.6%	16.2	17.4	11.5	3.1	2.5	16.0%	3.4%	1.40	MP
DRB-HICOM BHD	2.04	3,943.8	Y	12/2020	-9.3%	30.1%	-215.7%	29.5%	23.9	N.A.	15.9	0.6	0.6	-2.7%	0.0%	2.10	MP
MBM RESOURCES BERHAD	3.17	1,239.1	Y	12/2020	-8.1%	1.2%	-43.8%	27.7%	6.5	11.5	9.0	0.6	0.6	5.3%	3.8%	3.15	MP
SIME DARBY BERHAD	2.40	16,323.5	Y	06/2021	5.3%	5.2%	13.5%	1.4%	15.7	13.8	13.6	1.1	1.1	7.7%	4.2%	2.30	MP
TAN CHONG MOTOR HOLDINGS BHD	1.04	678.5	N	12/2020	-30.5%	17.7%	-168.8%	0.9%	14.9	N.A.	21.5	0.2	0.2	-1.1%	1.9%	1.00	MP
UMW HOLDINGS BHD	2.53	2,955.8	Y	12/2020	-22.8%	28.1%	-66.1%	113.9%	11.6	34.2	16.0	0.5	0.5	1.4%	1.2%	2.70	MP
Simple Average					-1.6%	14.6%	-81.4%	37.5%	14.8	19.2	14.6	1.0	0.9	4.4%	2.4%		

Source: Bloomberg, Kenanga Research

Housekeeping Changes in Net Profit to better reflect the current operating sentiment

Company (RMm)	Previous FY20E/FY21 E	Previous FY21E/FY22 E	New FY20E/FY21 E	New FY21E/FY22 E	FY20E/FY21E Revision (%)	FY21E/FY22E Revision (%)
BAUTO	117.6	167.7	93.3	141.4	-21.0%	-16.0%
DRBHCOM	-191	207	-191	248	0%	+19%
MBMR	120.8	155.8	107.9	137.8	-10.6%	-11.5%
SIME	1,180	1,196	1,180	1,196	0%	0%
TCHONG	-32.2	32.5	-32.2	32.5	0%	0%
UMW	86.5	185.0	86.5	185.0	0%	0%

Source: 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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