CIMB

APM Automotive Holdings

APM MK / APMA.KL

NOT RATED

Market Cap	Avg Daily Turnover	Free Float
US$346.8m	US$0.18m	25.0%
RM1,145m	RM0.58m	195.7 m shares

Current	RM5.85
Target	N/A
Prev. Target	N/A
Up/Downside	N/A

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Company Visit	☐	Expert Opinion	☑
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Share price info

Share price perf. (%)	1M	3M	12M
Relative	13.1	11.2	11.9
Absolute	8.3	8.3	16.3

Major shareholders	% held
Tan Chong Consolidated	42.2
Wealthmark Holdings	7.8

Ripe for unprecedented re-rating

APM's recent rally could signal investors' anticipation of its next earnings cycle where every 3-5 years, the company experiences a jump in revenue and margins on the back of scale and productivity gains.

During its last earnings cycle, APM's EPS had grown 43% in 2009 and 72% in 2010. Its stock was re-rated to 11x P/E. Consensus estimates expect 0% growth for 2013. If APM were indeed in a new earnings cycle with EPS possibly growing 20% in 2014, we believe it could trade at RM7.70, applying an 11x 1-year forward P/E. This P/E is in line with our current regional auto-parts peer average.

Plenty of growth sources

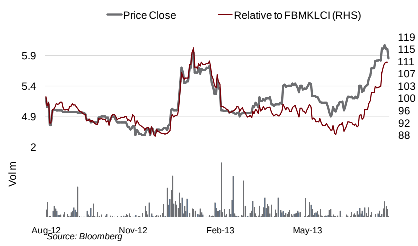
APM's earnings have traditionally been powered solely by Malaysia's total industry volume (TIV) of vehicle sales. It is by far the largest auto-parts supplier in the country with an estimated 10% share of industry revenue and a 90% penetration rate i.e. nine out of every 10 vehicles assembled in Malaysia have an APM component. This time around, APM will not only benefit from its dominance of the local market but regional expansion, as global suppliers rush to set up shop in ASEAN to support their major leading marques. APM is positioned as the regional partner of choice in the post-AFTA landscape, in our view.

Dividends galore?

With its Section 108 tax credits expected to expire at the end of the year, we believe APM has the potential to pay out its excess capital. At the end of 2012, it had net cash of RM402m or cash per share of RM2.05. We believe APM could easily pay 50 sen/share for FY13 which would imply an 8% yield. This compares to a DPS of 32 sen last year. Although there are capex plans to relocate some of its production facilities to low-cost centres in the region, the relocations should be easily funded by the sale of vacated landbank in Malaysia.

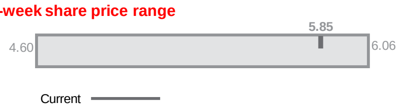
Transitioning to regional champion

With plenty of growth sources at home and abroad, it is not unrealistic to assume that APM's revenue could double over the next five years. APM could be heading for an unprecedented re-rating as it makes the transition from a dominant local player to regional champion.



Source: Bloomberg

52-week share price range



Financial Summary

	2008	2009	2010	2011	2012
Revenue (RMm)	943.5	918.5	1178.8	1182.1	1198.5
EBITDA (RMm)	46.2	66.0	136.7	125.5	115.8
Pretax Profit (RMm)	80.4	100.6	184.5	175.0	160.7
Net Profit (RMm)	51.2	72.7	124.5	118.1	113.6
EPS (RM)	0.26	0.37	0.64	0.60	0.58
Core EPS Growth	-4%	43%	72%	-5%	-4%
P/E (x)	22.6	15.8	9.2	9.7	10.1
DPS (RM)	0.15	0.16	0.22	0.32	0.32
Dividend Yield	2.6%	2.7%	3.8%	5.5%	5.5%
EV/EBITDA	20.0	13.0	6.2	6.4	6.6
Net Gearing	-39%	-42%	-42%	-44%	-44%
P/BV (x)	1.75	1.50	1.48	1.34	1.26
ROE	8%	9%	16%	14%	13%

SOURCE: CIMB, COMPANY REPORTS

1. BACKGROUND

1.1 Largest auto-parts supplier with 10% market share

APM was originally part of Tan Chong Motor Holdings (TCM). It was spun off and listed separately in Dec 99. APM is by far the biggest auto-parts company in Malaysia by revenue. With RM1.2bn of sales, we estimate it has about 10% of industry revenue in Malaysia, where competition is very fragmented.

Its products can divided into four groups:

i) suspension systems - leaf springs, coil springs, shock absorbers

ii) interior/plastic components - car seats and plastic parts

iii) electrical and heat exchanges - air conditioning systems, alternators

iv) turnkey solutions - totally integrated pre-assembled modules.

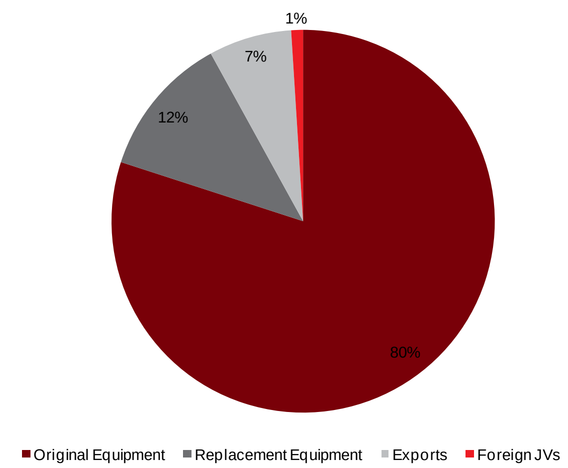
Figure 1: What APM sells

Turnover (RMm)	2009	2010	2011	2012	% of 2012 sales
Suspension systems	207	220	108	110	9%
Interior and plastics	506	713	529	569	48%
Electical and heat exchanges	212	266	235	225	19%
Exports	166	189	198	199	17%
Production JVs outside Malaysia	110	160	109	93	8%

SOURCES: CIMB, COMPANY REPORTS

Turnkey solutions fall under the interior and plastics segment whereby APM not just designs and manufactures components but also assembles them in entire interior modules. This segment currently accounts for 5% of its revenue but is growing very quickly because of the value add. With 80% of auto component costs underpinned by raw materials, the business is very competitive and commoditised. Turnkey solutions are where APM is further differentiating itself.

Figure 2: Estimated breakdown of APM sales



SOURCE: CIMB

1.2 90% of TIV

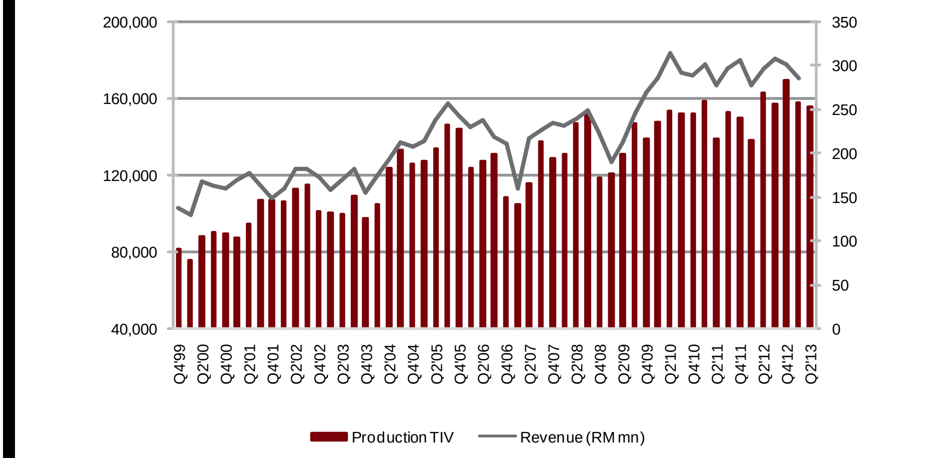
APM's product breadth and scale have allowed it to penetrate 90% of Malaysia's vehicle market i.e. there will be an APM part in some shape or form in nine out of every 10 new vehicles sold in Malaysia as its top 10 customers account for 90% of the TIV sold. With turnkey solutions, APM is positioning itself as a one-stop shop and supplier of choice.

2. OUTLOOK

2.1 Growing faster than TIV

Going by its long-term revenue since 1999, APM appears to be a virtual proxy for growth in TIV. Its revenue growth has in fact overtaken TIV growth in recent years, as it becomes the vendor of choice and increasingly has the privilege of cherry-picking marques and models i.e. the potential market winners and not just bread-and-butter models, which are usually found in the non-national segment.

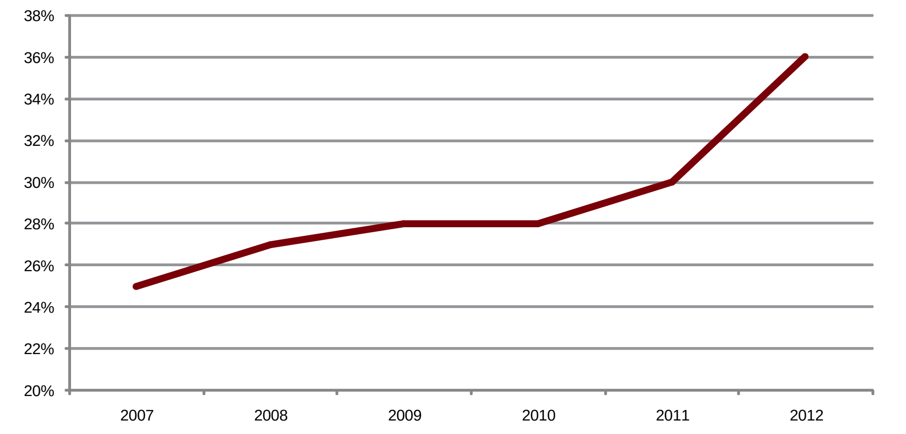
Figure 3: APM's revenue is starting to grow faster than TIV



SOURCES: COMPANY REPORTS, MALAYSIAN AUTOMOTIVE ASSOCIATION

Its recent contracts to supply parts to the Proton Saga, Mazda hybrid CX5, Subaru XV and Hyundai Sante Fe illustrate APM's ongoing ability to secure business from important base models in the national car segment, with the added kicker of niche, high-scoring models in the international market that are proving to be popular in Malaysia as well.

Figure 4: Estimated % of sales from non-national marques



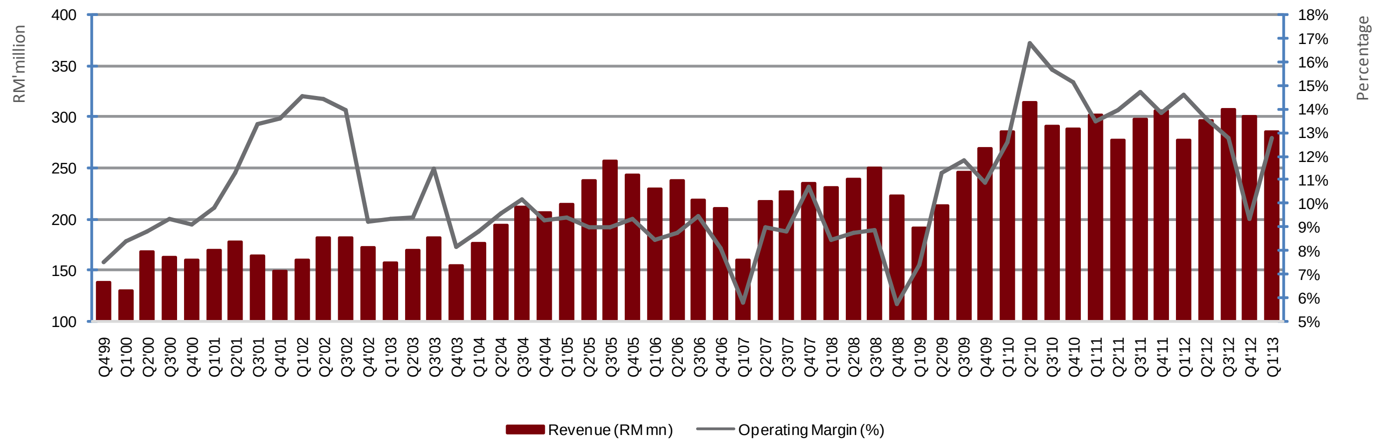
SOURCES: CIMB

2.2 Jump in growth and profitability every 3-5 years

On top of its above-industry revenue growth, APM enjoys scale benefits that are reaped every 3-5 years. These relate to product life cycles whereby initial product designs are sold at low volumes to just one customer but over time, other customers start ordering the same components and productivity is maximised via technological advancement allowing staff costs to be reduced. The number of employees at APM has actually fallen from 5,000 10 years ago to 3,000 now.

From the chart below, it would seem that we are at the tail end of the 2010-13 cycle. If so, APM could be in the midst of its next big step-up in revenue and margins, which would suggest a sustained period of strong earnings growth over the next few years.

Figure 5: Escalation in APM revenue and/or margins every 3-5 years



SOURCES: CIMB, COMPANY REPORTS

2.3 Turnkey solutions an added kicker

Its turnkey solutions form only 5% of revenue but have the highest margins and the potential to grow very rapidly. With the evolution of the auto-parts industry, major auto assemblers are outsourcing the design and production of entire modules to suppliers i.e. auto-parts companies are providing more value-add services by designing and assembling entire segments of a vehicle themselves.

Figure 6: Front dashboard modules assembled

SOURCE: COMPANY REPORTS

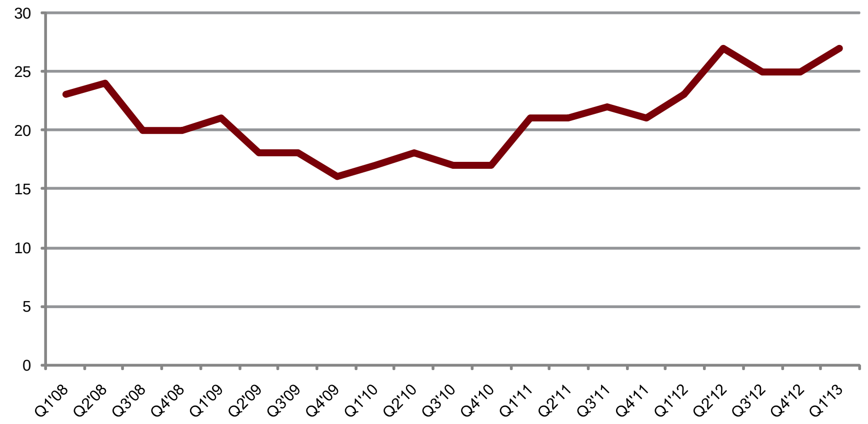
Figure 7: Door module components assembled

SOURCE: COMPANY REPORTS

2.4 Exports are showing real promise

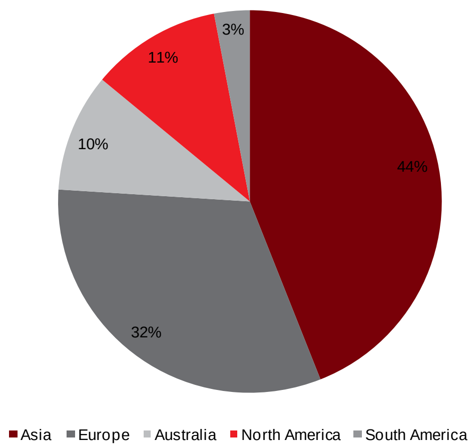
APM exports to 42 different countries and books RM100m of export sales every year. Although its exports are still small, they have reached a point of real traction. After many years of supplying disparate parts to companies all around the world, APM has established enough of a reputation to cross-sell more products globally. APM used to view its exports as a "nice-to-have" advantage but is now restructuring this business into a separate entity and positioning it for long-term vibrant growth.

Figure 8: Exports turning into an important source of growth (RMm)



SOURCES: CIMB, COMPANY REPORTS

Figure 9: Export markets (% of APM export sales)



SOURCES: CIMB, COMPANY REPORTS

2.5 The pull of ASEAN markets

Another paradigm shift in APM's business is the growing significance of the ASEAN market to global automakers. While China could remain their focus for some time, ASEAN may prove to be their next frontier, especially after the expected inclusion of Indochina and Myanmar in the ASEAN Free Trade Agreement (AFTA).

With over 600m people, ASEAN's market is bigger than the European Union and although markets like Malaysia are maturing and becoming saturated, current consolidated regional sales of 4m vehicles a year are nowhere near their potential. Global automakers and their suppliers realise the importance of taking advantage of the current window of opportunity to set up shop now. AFTA's minimum 40% local-content policy is the main push factor. We therefore expect APM to seal many more JV agreements with international vendors which currently support the major global marques.

Figure 10: JV partners are setting up shop in ASEAN; more to come

APM Tachi-S Seating Systems Sdn Bhd

JV Partners	Tachi-S (Thailand) Co., Ltd. (40%)
Business Activities	Developing, manufacturing, assembling and sale of automotive seats for original equipment manufacturers in Malaysia.

APM IAC Automotive Systems Sdn Bhd (Bukit Beruntung)

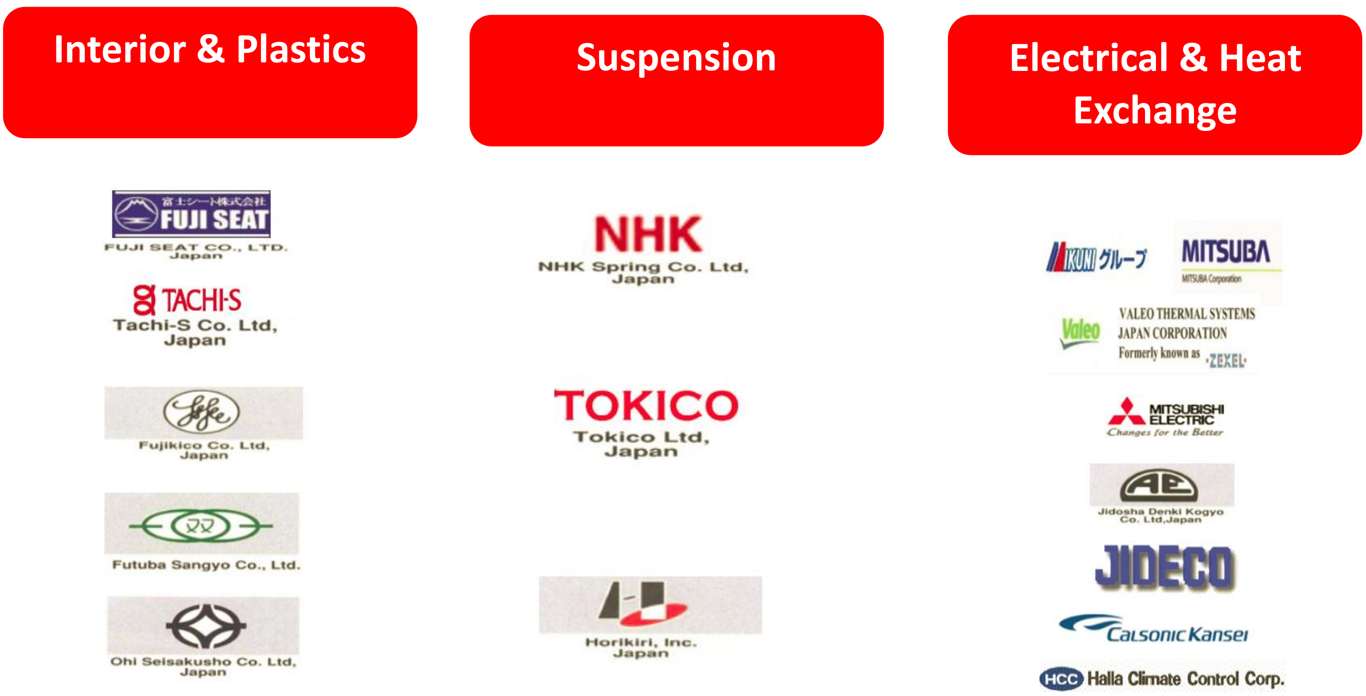
JV Partners	IACG Holdings Lux S.a.r.l. (40%)
Business Activities	Manufacturing and sale of automotive interior plastic components and systems to the domestic and multinational original equipment manufacturers (OEMs) in Malaysia.

IAC APM Automotive Systems Ltd

JV Partners	IACG (59.99%) and IACG Holdings Lux S.a.r.l. (0.01%)
Location	Thailand
Business Activities	Manufacturing and sale of automotive interior plastic components and systems to the domestic and multinational original equipment manufacturers (OEMs) in Thailand.

SOURCES: CIMB, COMPANY REPORTS

Figure 11: Technical JV Partners



SOURCE: COMPANY REPORTS

2.6 Relocation of ASEAN production

Just as AFTA is expected to drive many more JVs and integrate APM with the global vendor network, APM is expected to match this with the relocation of its production centres out of Malaysia into low-cost-producing countries. It already has plants in Indonesia, Thailand and Vietnam and is likely to move into Myanmar.

With the Tan Chong Group having established a beachhead of operations in these countries via TCM, the learning curve of APM's relocation should be increasingly easier. The long-term significance of APM's relocation cannot be overrated. Lower costs of production and economies of scale could accelerate its transition from a dominant Malaysian player to a leading regional supplier of choice.

Figure 12: Overseas operations established

APM Springs (Vietnam) Co Ltd

Location	Vietnam
Business Activities	Manufactures Leaf Springs and related parts for its local OEM, REM and Export market

APM Auto Components (Vietnam) Co Ltd

Location	Vietnam
Business Activities	Manufacture and sale of automotive seats and its components, shock absorbers radiators and air-conditioner parts for automobiles.

PT ATM Armada Autoparts (50%), PT Armada Suspension, PT Armada Johnson Controls (50%) and PT APM Auto Components Indonesia

Location	Indonesia
Business Activities	Manufacture of automotive interior products, coil springs, head exchange, and seats respectively. These products are distributed to the REM and OEM markets in Indonesia as well as being exported to ASEAN countries and Japan.

APM Auto Components (USA) Inc.

Location	USA
Business Activities	Marketing and sale of automotive parts and accessories.

SOURCE: COMPANY REPORTS

2.7 Monetising its landbank

The expected relocation of APM's facilities out of Malaysia could offer immediate restructuring value, from the sale of vacant land, in our opinion. This would mirror the experience of the manufacturing MNCs which have relocated and unlocked the value of their land banks. APM has five manufacturing locations around the Klang Valley and Tanjun Malim area. Of these, we believe its land at Seri Kembangan probably has the greatest value.

Figure 13: APM plants in Malaysia

	Interior & Plastics	Suspension	Electrical & Heat Exchange
	Auto Parts Manufacturers Co. Sdn Bhd (Bukit Beruntung)	**APM Shock Absorbers Sdn Bhd (Port Klang)**	**APM Climate Control Sdn Bhd (Seri Kembangan)**
Land Area/ Build Up	174,240 sq ft/ 87,120 sq ft	74,055 sq ft/ 52,528 sq ft	452,626 sq ft/ 90, 800 sq ft
Major Product	Automotive Seats including Car Seats, Bus Seats, and Industrial Seats.	Shock Absorber & Gas Spring	Starter Motors, Alternators, Wiper Motor System, Windshield Washer System
Production Capacity	18,000 vehicle seats per month	Shock Absorber 200,000 units per month. Gas Spring 100,000 units per month.	Starter Motor 16,000 units p/m. Alternators 16,000 units p/m. Wiper Motor System 10,000 units p/m. Windshield Water System 10,000 units p/m.
	Fuji Seats (Malaysia) Sdn Bhd (Bukit Beruntung)	**APM Coil Springs Sdn Bhd (Port Klang)**	**APM Auto Electrics Sdn Bhd (Tanjung Malim)**
Land Area/ Build Up	87,120 sq ft/ 43,560 sq ft	242,978 sq ft/ 100,998 sq ft	118,403 sq ft/ 55,820 sq ft
Major Product	Vehicle Seats	Coil Spring	Air-Conditioning System, Condenser, and Evaporator Radiators (Aluminium & Copper Brass)
Production Capacity	20,000 vehicle seats per month	150,000 units per month	Air-Cond 25,000 units per month. Radiators 15,000 units per month.
	APM Plastics Sdn Bhd (Bukit Beruntung)	**APM Springs Sdn Bhd (Port Klang)**	
Land Area/ Build Up	348,480 sq ft/ 187,453 sq ft	217,800 sq ft/ 140,198 sq ft	
Major Product	Interior Injection Parts, Exterior Injection Parts, Extrusion Components & PU Padding	Leaf Springs & Parabolic Springs	
Production Capacity	180 tonnes per month for Polyurethane. 120 tonnes per month for Plastic Injection	1,500 tonnes per month (Malaysia). 500 tonnes per month (Vietnam).	

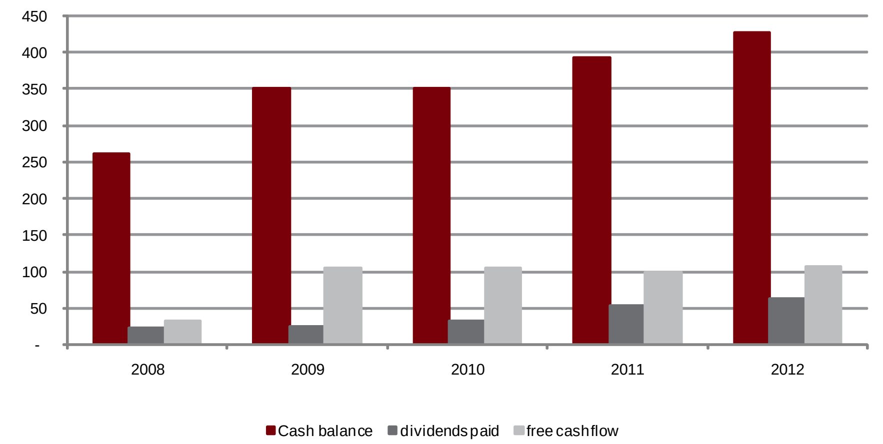
SOURCES: CIMB, COMPANY REPORTS

3. FINANCIALS

3.1 Dividends and growth

If the expected jump in revenue and margins takes place in the next 3-5 years, capex-light growth would imply a faster build-up of cash. We also understand that much of APM's Section 108 tax credit on dividends will end this year which implies the potential for special dividends. At the end of 2012, APM had net cash of RM402m or cash of RM2.05/share.

Figure 14: High ability to pay out more cash (RMm)



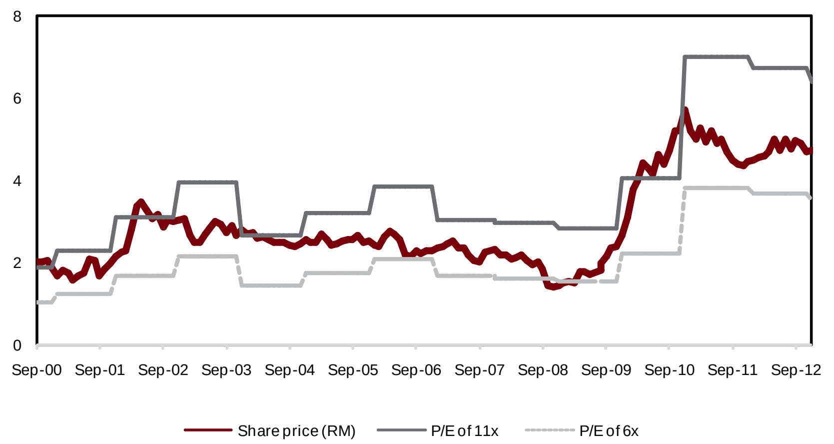
SOURCES: CIMB, COMPANY REPORTS

4. VALUATIONS

4.1 Re-rated to 11x P/E in every earnings upcycle

APM's P/E band tracks its revenue and margin evolution during its 3-5 earnings cycles, with its stock re-rated to as high as 11x P/E during upcycles and down to 6x during an earnings trough. The last time it reached a PER valuation of 11x was in 2009, at the start of its last earnings upcycle.

Figure 15: APM shares trade between 6x-11x PER



SOURCES: CIMB, COMPANY REPORTS

Consensus is expecting no growth in 2013, with EPS staying flat at 58 sen. Back in 2009-10 when APM's revenue and margins surged, its EPS grew by 43% in 2009 and 72% in 2010. If APM manages to book 20% EPS growth in 2014 to mark the start of its next earnings cycle, its implied EPS would be 70 sen. Applying an 11x 1-year forward P/E would suggest a possible share price of RM7.70 over the next 12 months. APM's 1-year forward 11x P/E valuation is in keeping with our current regional auto-parts peer average. The sector is trading at 11.2x 2014 P/E.

Figure 16: Sector Comparison

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2013	CY2014		CY2013	CY2014	CY2013	CY2014	CY2013	CY2014
Minth Group	425 HK	Neutral	13.70	9.80	1,833	12.1	10.7	11.8%	1.52	1.38	13.2%	13.5%	2.6%	3.0%
Selamat Sempurna	SMSM IJ	Neutral	2,600.00	2,700.00	339	15.2	13.6	7.0%	5.05	4.77	36.4%	36.1%	4.2%	3.0%
Weichai Power Co Ltd-H	2338 HK	Neutral	28.75	28.60	6,291	11.2	9.3	13.7%	1.28	1.13	12.1%	12.9%	0.3%	3.0%
Regional average					**8,462**	**13.5**	**11.2**	**13.0%**	**1.48**	**1.33**	**13.3%**	**14.0%**	**0.9%**	**3.0%**

SOURCES: CIMB, COMPANY REPORTS

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Score Range:	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
Description:		Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock	Sector
OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.
TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.
TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

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Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

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- Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Goo
CENTEL – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excelle
GLOBAL - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Ve
Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Goo
MCOT - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excelle
RS – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – r
available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excelle
TRUE - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.