

### Neutral (unchanged)

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## Automotive Insights From KLIAC

**Maintain Neutral.** The recently-concluded fourth Kuala Lumpur International Automotive Conference (KLIAC) offered a tiny glimpse of the National Automotive Policy (NAP), to be unveiled in mid-Jan 2014. The policies mentioned may not be coherent enough to move the nation's automotive sector into a higher gear, in our view. With demand expected to slow after a high base established this year, we think that sector valuations are fair; maintain Neutral. Nonetheless, there is still a growth stock in the sector which we continue to like – BUY TCM.

**NAP to be unveiled in Jan 2014.** We note three key areas worth highlighting. The upcoming automotive policy will likely tackle the implementation of: (i) an end-of-life vehicle (ELV) procedure, (ii) a mandatory inspection of old passenger vehicles (>10 years) and (iii) developing Malaysia as a regional hub for energy-efficient vehicles (EEVs). Policies (i) and (ii) are aimed at improving road safety while policy (iii) is targeted at enhancing the auto parts industry. There was no mention of the policy or direction of Approved Permits (APs) and extension of duty exemptions for the hybrid vehicles.

**Our views.** While the ELV structure is not new, there was no indication of a definitive scrap policy (in years). In ASEAN, only Singapore has a clear-cut scrapping policy, whereby vehicles older than 10 years must either (i) be scrapped or (ii) apply for an extension of use. Executing the ELV policy will be a challenge. Most old vehicles are in the rural areas. Vehicle replacement will be tough and will likely face strong resistance from the rural and low-income earners, in light of rising living costs. The mandatory inspection for old vehicles is likely to affect 5m vehicles (~40% of vehicles on the road). **DRB-Hicom**, via PUSPAKOM, would be the main beneficiary should the inspection policy be implemented.

**No excitement in October**, as reported TIV of 55k units was flat MoM. Toyota was the biggest winner with 43% MoM growth in vehicle sales followed by Honda (+17% MoM) and Nissan (+4% MoM). VW was the biggest loser as vehicle sales plunged 21% MoM, followed by the national marques where sales fell 12% MoM collectively.

**Higher sales period expected in Nov-Dec 2013.** We note that auto players continue to offer attractive cash discounts for existing models to compete against their peers' new launches. Intensive price wars coupled with aggressive model launches, especially at the recent KL International Motor Show (KLIMS), will drive vehicle sales in Nov-Dec. 10M13 TIV of 543k tracks our 2013 TIV forecast of 655k (+4% YoY).

**Stock picks.** We continue to like TCM as its vehicle sales remain resilient, supported by strong model launches in 2013. TCM revealed the A-segment Nissan *Note* at the KLIMS last week, much earlier than we had expected. We believe that this is a strong catalyst for TCM, as it will strengthen sales of Nissan vehicle further. We project a 3-year net profit CAGR of 39%. TCM now offers 22% upside to our MYR7.77 TP, pegged at 12x FY15 PER. We remain HOLDers of UMW and MBM while BAUTO is under review following a strong share price performance since it was listed early this week (18 Nov 2013).

#### Snapshot of auto sales data

	Oct 13 (Units)	% chg MoM	% chg YoY	YTD (Units)	% chg YoY
<b>TIV</b>	55,078	0.2	-0.7	543,048	5.7
Passenger	47,930	-1.0	-1.2	478,418	5.8
Commercial	7,148	9.4	3.0	64,630	5.1
<b>National</b>	28,480	-11.9	-2.0	283,920	3.0
Non-national	26,598	17.6	0.8	259,128	8.7
<b>Marque</b>					
<i>Proton</i>	12,941	-12.7	-1.1	120,983	0.7
<i>Perodua</i>	15,539	-11.2	-2.6	162,937	4.9
<i>Toyota</i>	8,215	43.3	-9.8	73,144	-15.6
<i>Honda</i>	3,883	17.3	5.2	40,465	51.4
<i>Nissan</i>	4,018	3.5	34.9	43,750	55.3
<i>Mazda</i>	606	-4.9	-15.6	8,066	58.6
<i>Hyundai</i>	934	2.1	-1.2	9,907	-3.1
<i>Volkswagen</i>	692	-20.6	-38.8	7,522	-22.3
<b>Mkt share</b>	Oct 13 (%)	ppt chg MoM	ppt chg YoY	YTD (%)	ppt chg YoY
Passenger	87.0	-1.1	-0.5	88.1	0.1
Commercial	13.0	1.1	0.5	11.9	-0.1
<b>National</b>	51.7	-7.1	-0.7	52.3	-1.3
Non-national	48.3	7.1	0.7	47.7	1.3
<b>Marque</b>					
<i>Proton</i>	23.5	-3.5	-0.1	22.3	-1.1
<i>Perodua</i>	28.2	-3.7	-0.6	30.0	-0.2
<i>Toyota</i>	14.9	4.5	-1.5	13.5	-3.4
<i>Honda</i>	7.1	1.0	0.4	7.5	2.3
<i>Nissan</i>	7.3	0.2	1.9	8.1	2.6
<i>Mazda</i>	2.1	0.2	-0.3	1.5	0.5
<i>Hyundai</i>	3.3	0.4	0.0	1.8	-0.2
<i>Volkswagen</i>	2.6	-1.3	-1.7	1.4	-0.5

Source: MAA

## Automotive sector – Peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROE (%)	ROE (%)	Net yield (%)
		MYR	MYR m	MYR	CY13E	CY14E	CY15E	CY12F	CY13F	CY12F	CY13F	CY14F
UMWH	Hold	12.78	14,930.8	13.20	15.3	13.6	12.6	3.2	2.2	19.6	13.9	3.7
Tan Chong	Buy	6.39	4,171.5	7.77	13.3	11.0	9.9	2.2	2.0	8.2	14.6	1.4
MBMR	Hold	3.61	1,410.5	3.80	9.9	9.5	8.6	1.1	1.0	9.8	9.8	2.1
BAuto	Buy*	1.80	1,115.6	1.30	20.5	16.2	14.1	9.2	5.9	32.4	28.9	1.6
<b>Simple avg</b>			<b>21,628.3</b>		<b>14.7</b>	<b>12.5</b>	<b>11.3</b>	<b>3.9</b>	<b>2.7</b>	<b>17.5</b>	<b>16.8</b>	<b>2.2</b>

Note: BAuto's BUY call and TP are under review

Source: Maybank KE

**ASEAN as an automotive powerhouse.** ASEAN-10 implemented the ASEAN Economic Community (AEC) blueprint in 2008 via a four-phase approach. The aim of the AEC is to promote cross supplies based on competitive advantages within ASEAN and elevate its auto sector to becoming the fourth-largest automotive hub globally by 2020.

**AEC reached 80% overall completion as of Sep 2013.** Currently in its third phase, the AEC has reached 80% overall completion and is slated to enter into the fourth phase in 2014.

## Strategic Schedule of the AEC Blueprint (2008-2015)

Pillar 1	Pillar 2	Pillar 3	Pillar 4
Single market and production base	Competitive economic region	Equitable economic development	Integration into the global economy
<ul style="list-style-type: none"> <li>• Free flow of goods and services</li> <li>• Free flow of investments</li> <li>• Freer flow of capital</li> <li>• Free flow of skilled labour</li> <li>• Priority integration sectors</li> <li>• Food, agriculture and forestry</li> </ul>	<ul style="list-style-type: none"> <li>• Competition policy</li> <li>• Consumer protection</li> <li>• Intellectual property rights</li> <li>• Infrastructure development</li> <li>• Taxation</li> <li>• E-commerce</li> </ul>	<ul style="list-style-type: none"> <li>• SME development</li> <li>• Initiative for ASEAN integration</li> </ul>	<ul style="list-style-type: none"> <li>• Coherent approach towards external economic relations</li> <li>• Enhanced participation in global supply networks</li> </ul>

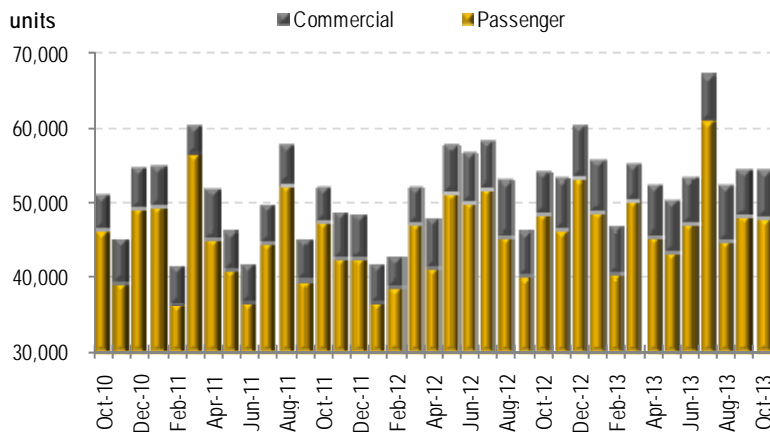
Source: ASEAN Economic Community

## Car model unveilings and launches

KL International Motor Show (KLIMS)	Mazda Motor Show 2013
VW Polo Hatchback 1.6L CKD	Mazda 3
Nissan Note	Mazda Biante
Nissan Almera Nismo Performance Package	Mazda CX-9
Nissan Leaf EV	
Honda Odyssey	
Honda Accord Plug-in Hybrid	
Toyota Camry Hybrid	
Toyota Previa	
Infinity Q50	
Ford Ecosport	
Ford Fiesta Ecoboost	
Ford Fusion Hybrid	
Ford Mustang Shelby GT500	
Hyundai i30	
Hyundai i40 Sedan	
Hyundai i40 Tourer	
Hyundai Tucson facelift	
Hyundai Veloster Turbo	
Peugeot 2008	
Citroen DS3	
Citroen DS4 CKD	
Citroen DS5 CKD	

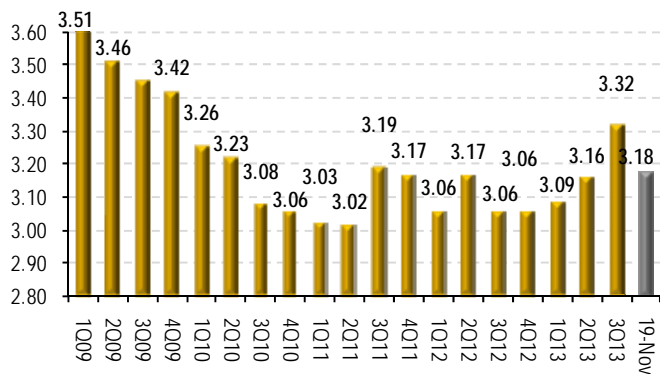
Source: 2013 KLIMS, 2013 Mazda Motor Show, Maybank KE

**Total industry volume**



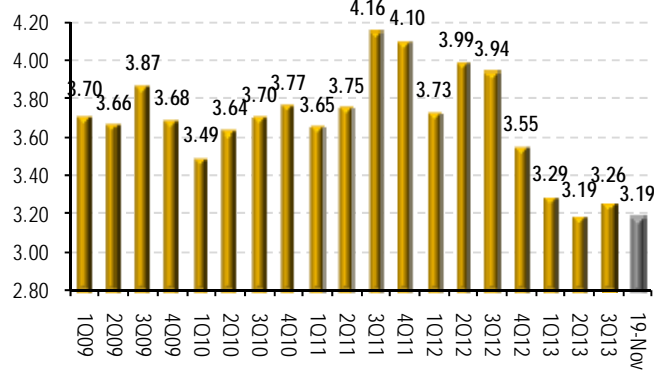
Source: MAA, Maybank KE

**USD-MYR movement**



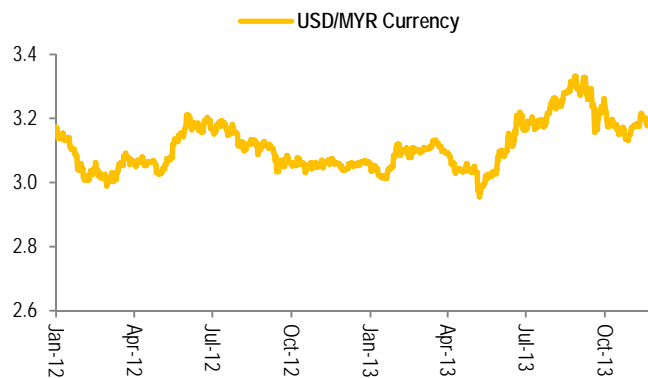
Source: Bloomberg, Maybank KE

**JPY-MYR movement**



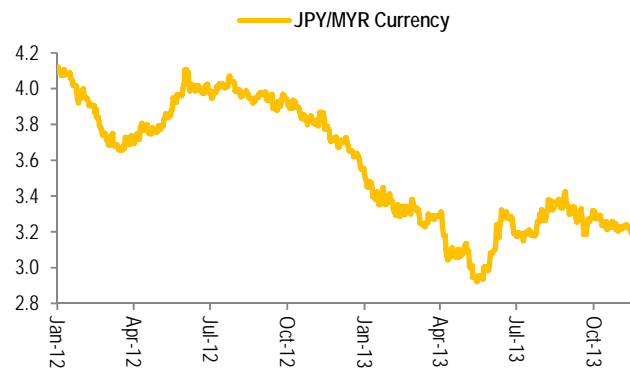
Source: Bloomberg, Maybank KE

**USD-MYR daily movement**



Source: Bloomberg, Maybank KE

**JPY-MYR daily movement**



Source: Bloomberg, Maybank KE

## Auto sector summary (yearly)

	FY 11	FY 12	FY 13F	FY 14F	FY 15F		FY 11	FY 12	FY 13F	FY 14F	FY 15F
<b>PROFIT AND LOSS</b>						<b>BALANCE SHEET</b>					
<b>Revenue (MYR'm)</b>						<b>Gross Cash (MYR'm)</b>					
- UMW Holdings	13536	15799	14203	16120	16788	- UMW Holdings	2219	2495	3742	5086	6257
- Tan Chong Motors	3860	4086	5892	6793	7666	- Tan Chong Motors	325	634	869	1047	1414
- Berjaya Auto	593	664	1064	1504	1797	- Berjaya Auto	34	77	193	258	334
- MBM Resources	1706	2268	2336	2417	2588	- MBM Resources	253	291	272	351	428
<b>EBIT (MYR'm)</b>						<b>Gross Debt (MYR'm)</b>					
- UMW Holdings	1257	1880	1709	2089	2183	- UMW Holdings	2594	2881	2775	3580	3379
- Tan Chong Motors	318	244	456	546	605	- Tan Chong Motors	800	1418	1718	2018	2318
- Berjaya Auto	51	58	76	116	139	- Berjaya Auto	80	40	129	169	209
- MBM Resources	42	92	76	86	98	- MBM Resources	428	552	552	552	552
<b>Pretax profit (MYR'm)</b>						<b>Net Cash (MYR'm)</b>					
- UMW Holdings	1365	2020	1867	2256	2412	- UMW Holdings	-375	-386	967	1506	2878
- Tan Chong Motors	305	218	437	530	589	- Tan Chong Motors	-475	-783	-849	-971	-904
- Berjaya Auto	49	55	69	109	131	- Berjaya Auto	-46	38	64	89	125
- MBM Resources	151	197	207	214	236	- MBM Resources	-175	-261	-280	-201	-124
<b>Recurring Net profit (MYR'm)</b>						<b>Shareholders fund (MYR'm)</b>					
- UMW Holdings	837	951	977	1101	1182	- UMW Holdings	4249	4851	7039	7590	8181
- Tan Chong Motors	216	158	314	381	423	- Tan Chong Motors	1841	1937	2148	2470	2834
- Berjaya Auto	36	41	49	79	95	- Berjaya Auto	68	108	160	278	349
- MBM Resources	121	131	143	149	164	- MBM Resources	1108	1339	1453	1572	1703
<b>PROFIT RATIO</b>						<b>BVPS / Share (MYR)</b>					
<b>EBIT margins (%)</b>						- UMW Holdings					
- UMW Holdings	9.3	11.9	12.0	13.0	13.0	- UMW Holdings	3.47	4.01	5.88	6.35	6.86
- Tan Chong Motors	8.2	6.0	7.7	8.0	7.9	- Tan Chong Motors	2.80	2.95	3.27	3.76	4.32
- Berjaya Auto	8.7	8.7	7.1	7.7	7.8	- Berjaya Auto	0.09	0.15	0.22	0.35	0.43
- MBM Resources	2.5	4.1	3.3	3.5	3.8	- MBM Resources	2.94	3.43	3.72	4.02	4.36
<b>Pretax margins (%)</b>						- UMW Holdings					
- UMW Holdings	10.1	12.8	13.1	14.0	14.4	- UMW Holdings	10.1	12.8	13.1	14.0	14.4
- Tan Chong Motors	7.9	5.3	7.4	7.8	7.7	- Tan Chong Motors	7.9	5.3	7.4	7.8	7.7
- Berjaya Auto	8.2	8.3	6.5	7.3	7.3	- Berjaya Auto	8.2	8.3	6.5	7.3	7.3
- MBM Resources	8.8	8.7	8.8	8.9	9.1	- MBM Resources	8.8	8.7	8.8	8.9	9.1
<b>Recurring Net profit margins (%)</b>						- UMW Holdings					
- UMW Holdings	6.2	6.0	6.9	6.8	7.0	- UMW Holdings	6.2	6.0	6.9	6.8	7.0
- Tan Chong Motors	5.6	3.9	5.3	5.6	5.5	- Tan Chong Motors	5.6	3.9	5.3	5.6	5.5
- Berjaya Auto	6.1	6.1	4.6	5.2	5.3	- Berjaya Auto	6.1	6.1	4.6	5.2	5.3
- MBM Resources	7.1	5.8	6.1	6.1	6.3	- MBM Resources	7.1	5.8	6.1	6.1	6.3
<b>CASH FLOW</b>						<b>CASH FLOW</b>					
<b>Operating (MYR'm)</b>						<b>Financing (MYR'm)</b>					
- UMW Holdings	1308	1191	1797	1997	2234	- UMW Holdings	-793	-470	-595	255	-793
- Tan Chong Motors	177	11	372	307	376	- Tan Chong Motors	40	561	197	241	241
- Berjaya Auto	-9	88	53	33	87	- Berjaya Auto	39	-43	91	71	7
- MBM Resources	-9	-89	79	86	83	- MBM Resources	354	174	-53	-55	-58
<b>Investing (MYR'm)</b>						- UMW Holdings					
- UMW Holdings	-518	-428	1180	-220	-220	- UMW Holdings	-518	-428	1180	-220	-220
- Tan Chong Motors	-37	-261	-335	-370	-250	- Tan Chong Motors	-37	-261	-335	-370	-250
- Berjaya Auto	-10	-2	-28	-38	-17	- Berjaya Auto	-10	-2	-28	-38	-17
- MBM Resources	-302	-21	-45	48	51	- MBM Resources	-302	-21	-45	48	51

Source: Company, Maybank KE

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CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
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