

Outthink. Outperform.

Sector Update

Auto & Autoparts**OVERWEIGHT (maintain)****Aruz, the continuing saga of Perodua**

We took several institutional investors to test drive the all-new Perodua sports utility vehicle (SUV), Aruz, launched on 15th January 2019. We are convinced that the Aruz will attract consumer interest, given its affordability and appealing infotainment features. Notable beneficiaries of the likely demand for the Aruz include **MBM Resources (BUY)**, **UMW Holdings (BUY)**, **Oceancash Pacific (BUY)**, **Pecca Group (HOLD)** and **APM Holdings (HOLD)**.

Not your ordinary run-of-the-mill Perodua

The Aruz is packed with best-in-class safety features (5-star ASEAN NCAP rating), a prestigious image, family-pleasing combination of space and versatility, an elevated driver view and exceptional value for money (OTR before insurance price of RM72.2k-RM77.2k). These qualities affirm our belief that the Aruz will likely be Malaysians' next SUV darling. This 7-seater compact B segment SUV may steal the limelight from the Honda BR-V (RM81k), Toyota's all-new Rush (est. RM93k) and possibly Perodua's Alza to a lesser extent. We think the Aruz Advance variant is the better value buy (only RM5k difference vs. basic variant) as it comes with premium features like leather upholstery, leather-wrapped steering wheel, digital video recorder and Advanced Safety Assist (ASA) 2.0. The upgraded ASA 2.0 is a range of safety features that include pre-collision warning, pre-collision braking, front departure alert and pedal misoperation control with additional pedestrian detection.

Perodua Aruz likely to drive continued sales momentum...

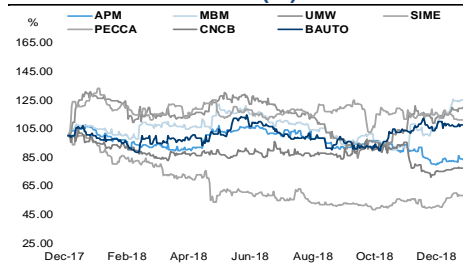
We think Perodua's 2019 sales target growth of 1.7% yoy to 231k is achievable (2018 record sales of 227k units), driven by the newly launched Aruz and popular demand for the existing model line-up. Feedback for the Aruz has been encouraging; **about 5.7k bookings** have been registered since the order taking on 3rd January 2019, ahead of Perodua's monthly sales target of 2.5k units (or 30k units/annum). Alongside the Aruz, Perodua's existing model line-up (ie. Myvi, Axia, Bezza and Alza) should remain at the top of their respective segments, given these models would **benefit from the targeted fuel subsidies introduced in the Budget 2019**. The higher sales volume should translate to higher associate contribution for **UMW** and **MBM**, which hold 38% and 22.58% stakes in Perodua respectively.

... that translates to higher production volume

The higher demand for Perodua cars will also draw higher production volume and in turn benefit the Perodua autopart suppliers, namely MBM, Oceancash (OCP MK, RM0.46, BUY), Pecca and APM. Perodua hopes to increase its production volume by 10.5% yoy to 242k units in 2019; the market leader **announced** that it would increase component purchases by 20% to RM6bn. About 95% of the Aruz components come from Malaysian auto-part suppliers. For instance, **MBM's** auto-part manufacturing unit will benefit from being the key supplier of: (i) alloy wheels, and (ii) rear seat belts for the Aruz. **Pecca** is the sole leather seat supplier for the Aruz (Perodua contributes circa 50% of Pecca's car seat cover sales). **APM** is one of two key suppliers of car seats for the Aruz (9M18 interior and plastic segment contributes circa 49% of revenue). **Oceancash** also supplies felt materials to the Aruz (9M18 insulation felt contributes circa 37% of revenue).

Absolute Performance (%)

	1M	3M	12M
APM MK	1.9	-15.4	-28.6
MBM MK	18.8	24.5	8.8
UMWH MK	12.6	27.7	-12.6
SIME MK	-2.5	9.5	-21.7
PECCA MK	16.6	15.0	-44.4
CNCB MK	6.7	-15.0	-26.0
BAUTO MK	4.7	17.6	-1.0

Relative Performance (%)

Source: Affin Hwang, Bloomberg

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Maintain OVERWEIGHT

We maintain our OVERWEIGHT rating on the Automobile sector. Top sector BUYs are UMW, Bermaz Auto and MBM. Key downside risks are: i) a prolonged tightening of auto financing that hinders the borrowing ability of car buyers; ii) exchange rate risk; and iii) a slowdown in the economy affecting car demand.

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Fig 1: Aruz front/side view



Source: Affin Hwang

Fig 2: Aruz rear view



Source: Affin Hwang

Fig 3: Aruz seats are produced by APM's Fuji Seats; leather coating in the advance variant made by Pecca



Source: Affin Hwang

Fig 4: Aruz' 17-inch wheels are solely manufactured by MBM's alloy wheel unit



Source: Affin Hwang

Peer Comparison

Company Name	Rating	Share Pr	TP	Upside	Mkt Cap	Year end	Core PE		Core EPS growth		P/BV	ROE		Div Yield	
							(x)	(x)	(%)	(%)		(%)	(%)	(%)	(%)
		(RM)	(RM)	(%)	(RMmn)		CY18E	CY19E	CY18E	CY19E	(x)	CY18E	CY19E	CY18E	FY19E
APM AUTOMOTIVE	HOLD	2.75	2.90	5.5	537.7	Dec	17.1	17.9	(10.8)	(4.5)	0.5	2.5	2.4	3.2	3.3
BERMAZ AUTO	BUY	2.21	2.85	29.0	2,562.6	Apr	12.3	10.5	52.5	17.4	4.7	38.5	38.2	5.3	5.7
CYCLE & CARRIAGE	SELL	1.59	1.48	(6.9)	160.2	Dec	23.2	40.2	<100	(42.4)	0.5	3.2	1.8	-	-
MBMR	BUY	2.59	3.70	42.9	1,012.4	Dec	7.4	7.0	18.7	7.0	0.7	8.8	8.7	2.3	2.3
PECCA	HOLD	0.85	0.80	(5.3)	155.2	Jun	14.3	12.7	(12.0)	12.7	1.0	6.8	7.5	5.9	5.9
SIME DARBY	BUY	2.30	2.70	17.4	15,641.9	Jun	18.8	17.2	(0.3)	8.8	1.2	5.8	6.1	3.6	3.8
UMW	BUY	5.99	6.45	7.7	6,998.1	Dec	11.5	12.0	>100	(4.0)	1.9	14.2	12.1	1.8	1.9
Average					27,068.1		14.7	14.0	42.0	4.9	1.5	10.7	8.1	3.2	3.3

Source: Affin Hwang forecasts, Bloomberg

Note: Pricing as of close of 28 Jan 2019

Important Disclosures and Disclaimer

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Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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