

9 June 2020

Consumer Cyclical | Auto & Autoparts

Auto & Autoparts

Neutral (Maintained)

A Much-Needed Shot In The Arm

Stocks Covered 6
Rating (Buy/Neutral/Sell): 3 / 3 / 0
Last 12m Earnings Revision Trend: Negative

- **Maintain NEUTRAL.** The Government's decision to exempt sales tax on passenger car purchases should help to stimulate near-term demand for cars and help the sector regain its footing after being badly affected by the pandemic. CKD car prices could drop 5-6% and CBU cars 2-3%. We revise our TIV forecasts to 460,000 units from 400,000 units, implying a 24% YoY decline. We have BUY calls on Bermaz Auto, MBM Resources and DRB-HICOM.
- **Tax-free window revisited.** The auto industry's plea for assistance (refer to our [report](#) dated 30 Apr 2020) was answered after the Government proposed to exempt passenger cars from sales tax as part of its short-term economic recovery plan. The measure will give full exemption on the 10% sales tax for locally assembled (CKD) cars and 50% exemption on imported (CBU) cars. Based on our estimates, this will lower car prices by 5-6% and 2-3% for CKD and CBU cars. This exemption will be implemented from mid-Jun 2020 to end-Dec 2020.
- **Welcome relief.** This measure is a much-needed booster for the industry after being forced to close down for almost two months due to the Movement Control Order (MCO). Without this incentive, consumers are likely to be a lot more cautious in committing to big ticket discretionary purchases even after the economy resumes. Coupled with historical low interest rates, consumers will be motivated to take advantage of the lower cost of owning a car. The tax exemption may bring forward 2021 demand into 2020, but we believe the impact would be offset by an improving macroeconomic environment.
- **What happened during the 2018 tax-free window?** During the 3-month tax-free period in 2018, average monthly TIV was c.66,000 units vs 45,000 units during a normal month. Most distributors ran out of stock for many models despite production running at full capacity. Most auto players' margins expanded, benefiting from the improved operating leverage. However, the macroeconomic environment in 2018 was much more favourable, and we think the impact will be milder this time around. Commercial vehicles will not benefit from the recent announcement.
- **Maintain NEUTRAL.** The tax exemption would stimulate near-term demand for cars and help the sector to recover. We are revising our TIV forecasts to 460,000 units (from 400,000 units), with the view that many car buyers will want to take advantage of the reduced car acquisition costs. Our forecasts imply a 24% YoY decline for 2020. Accordingly, we upgrade Bermaz Auto to BUY (from Neutral) with a new MYR1.80 TP, while we maintain BUY on MBM Resources and DRB-HICOM with higher TPs of MYR4.00 and MYR2.45. There are no changes to our recommendations for the other stocks under coverage. There is a risk of consumers retaining a cautious outlook given the current state of the economy despite the sales tax incentive.

BUY calls

Bermaz Auto (BAUTO MK)
MBM Resources (MBM MK)
DRB-HICOM (DRB MK)

Target Price

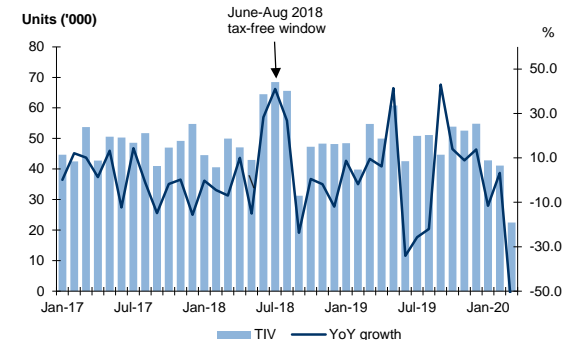
MYR1.80
MYR4.00
MYR2.45

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TIV trend during 2018's tax-free period



Source: Company data, RHB

Company Name	Rating	Target Price(MYR)	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Bermaz Auto	BUY	MYR1.80	21.9	11.3	2.9	6.7
DRB-HICOM	BUY	MYR2.45	32.9	34.8	0.5	-
MBM Resources	BUY	MYR4.00	16.6	8.6	0.7	5.3
Sime Darby	NEUTRAL	MYR1.85	(15.5)	15.2	1.0	3.3
Tan Chong Motor	NEUTRAL	MYR1.00	(13.8)	19.4	0.2	1.7
UMW	NEUTRAL	MYR2.65	(8.3)	13.5	0.9	2.1

Source: Company data, RHB

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Figure 1: Auto sales trend during 2018's tax-free period

(units)	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Proton	4,783	3,857	4,203	3,999	4,091	6,173	8,102	9,501	4,524	5,093	4,820	5,598	6,862
Perodua	17,693	17,137	20,738	19,939	21,980	19,611	23,830	17,804	9,471	19,528	21,110	18,402	20,124
Toyota/Lexus	3,584	4,003	5,239	5,597	2,033	11,678	9,235	9,065	3,070	4,787	3,891	4,380	3,184
Nissan/Renault	2,067	1,336	2,059	1,665	2,051	3,164	3,450	3,687	2,036	2,532	2,547	3,025	2,061
Honda	8,133	7,000	9,049	7,708	8,046	11,418	12,808	10,789	4,964	7,246	7,100	8,021	7,515
Mazda	1,300	1,014	1,125	1,127	616	1,514	1,200	1,948	1,202	1,652	1,889	1,451	1,605
Kia/Naza	302	362	335	406	407	540	620	610	470	576	520	510	552
Hyundai/Inokom	355	234	279	281	121	434	346	397	56	68	193	185	270
BMW	840	815	865	900	540	1,380	1,181	1,450	1,010	930	1,080	1,017	800
Mercedes-Benz	1,217	1,212	966	1,013	745	1,797	1,604	1,390	531	920	956	1,126	1,063
Ford	429	468	586	571	309	709	668	1,062	536	452	494	471	590
Mitsubishi	893	684	944	606	247	1,187	917	1,318	513	643	624	685	871
Volkswagen	426	420	651	488	155	1,204	891	1,130	303	457	635	241	586
Volvo	97	96	125	162	73	229	188	363	93	119	139	150	149
Isuzu	745	658	791	831	598	1,066	961	1,878	851	794	784	1,221	665
Others	1,696	1,267	2,030	1,754	965	2,398	2,464	3,175	1,610	1,476	1,500	1,705	1,553
TIV	44,560	40,563	49,985	47,047	42,977	64,502	68,465	65,567	31,240	47,273	48,282	48,188	48,450
Passenger	39,967	36,605	44,489	41,939	40,215	57,744	61,211	55,788	27,018	42,364	43,364	42,426	44,264
Commercial	4,593	3,958	5,496	5,108	2,762	6,758	7,254	9,779	4,222	4,909	4,918	5,762	4,186

Source: MAA, RHB

Figure 2: Sales tax and GST calculation

SALES TAX	GST
GOVERNMENT APPROVED SELLING PRICE + 10% SALES TAX + MARGINS	GOVERNMENT APPROVED SELLING PRICE + MARGINS
NETT SELLING PRICE	NETT SELLING PRICE
+ HANDLING/INSPECTION FEES, ACCESSORIES	+ HANDLING/INSPECTION FEES, ACCESSORIES
RETAIL PRICE W/O INSURANCE	RETAIL PRICE W/O INSURANCE
+ ROAD TAX + INSURANCE	+ 6% GST + ROAD TAX (NO GST) + INSURANCE (WHICH HAS ITS OWN 6% APPLIED)
FINAL PRICE	FINAL PRICE

Source: paultan.org

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Bermaz Auto (BAUTO MK)

Buy (from Neutral)

Sigh Of Relief; U/G To BUY

Target Price (Return): MYR1.80 (+22%)
Price: MYR1.48
Market Cap: USD403m
Avg Daily Turnover (MYR/USD): 3.71m/0.86m

- **Upgrade to BUY from Neutral with new MYR1.80 TP from MYR1.30, 22% upside and c.5% yield.** The Government has proposed to exempt car buyers from paying sales tax on passenger cars starting mid-June until end-December. CKD car prices could drop 5-6% and CBU cars 2-3%. Auto sales should improve as consumers are incentivised to take advantage of lower car prices, coupled with the low interest rates. However, weaker-than-expected consumer sentiment could dampen this measure and pose a downside risk.
- **Sales tax to be waived.** The Government has announced that passenger car purchases will be exempted from sales tax starting mid-June until end-December. This is an initiative to stimulate the sector under the short-term economic recovery plan. Locally assembled (CKD) cars will receive full exemption, while imported (CBU) cars are entitled for 50% exemption. CKD car prices could drop 5-6% and CBU cars 2-3%, but this could vary between models and brands due to the pricing structure and other variables.
- **Double deal.** With the interest rate level at historical lows, consumers will be encouraged to take advantage of this rare opportunity to own cheaper cars. Bermaz Auto's offer of a car insurance rebate for every purchase should further sweeten the deal. The current inventory level could last 3-4 months – this should be sufficient to meet the immediate demand. The 6-month tax-free period may bring forward future sales from 2021 into 2020, but the impact may be offset by an improved macroeconomic outlook. We note that the economy is currently not in the best shape and there is a risk of consumers staying cautious despite these measures being implemented.
- **During 2018's tax-free window,** Bermaz's average monthly sales were c.1,500 units vs 1,100 units in a normal month. The company went the extra mile by honouring the tax-free price for every order taken during the 3-month period, and bore the sales tax for deliveries made post tax-free period. The additional cost, however, was offset by a reduction in marketing expenditure. Backlog orders lasted five months after the tax-free period ended.
- **Key risks and forecasts.** We increase our FY21F (Apr) earnings by 28% after imputing higher sales volume assumption (Figure 2). Weaker-than-expected consumer sentiment could pose downside risk to earnings.
- **Upgrade to BUY** with higher MYR1.80 TP based on revised earnings. We also change the target P/E of its Malaysia operations to 12x (from 11x) as sentiment on the sector is likely to improve after this measure takes place. Our current TP implies 12x P/E, in line with Bermaz's 5-year historical average. The stock is a good option for investors liking to have exposure in the cyclical business to ride on the economic recovery. Compared to peers, it has a good track record of consistent new model launches. Potential earnings rerating catalysts are the revision of CX-5's excise duty rebate, stronger-than-expected sales recovery and the local assembly of the CX-30.

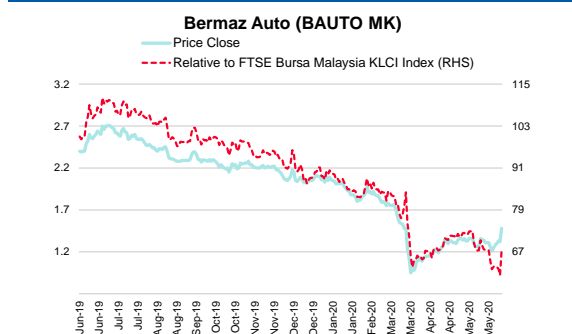
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.5)	8.8	(15.9)	(28.5)	(38.1)
Relative	(27.4)	(3.2)	(20.3)	(28.0)	(32.8)
52-wk Price low/high (MYR)				0.95 – 2.71	



Source: Bloomberg

Forecasts and Valuation	Apr-18	Apr-19	Apr-20F	Apr-21F	Apr-22F
Total turnover (MYRm)	1,993	2,492	1,911	2,376	2,571
Recurring net profit (MYRm)	140	265	112	172	187
Recurring net profit growth (%)	17.6	89.4	(57.8)	53.1	9.2
Recurring P/E (x)	12.20	6.47	15.32	10.01	9.16
P/B (x)	3.6	3.0	3.0	2.8	2.6
P/CF (x)	8.44	6.84	21.25	14.05	10.59
Dividend Yield (%)	7.0	14.4	4.9	7.5	8.2
EV/EBITDA (x)	7.56	4.35	9.22	6.13	5.35
Return on average equity (%)	30.4	50.9	19.7	28.9	29.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Apr-18	Apr-19	Apr-20F	Apr-21F	Apr-22F
Malaysia	Recurring EPS	0.12	0.23	0.10	0.15	0.16
Consumer Cyclical	DPS	0.10	0.21	0.07	0.11	0.12
Bermaz Auto	BVPS	0.41	0.49	0.49	0.53	0.57
BAUTO MK	Return on average equity (%)	30.4	50.9	19.7	28.9	29.3
Buy						
Valuation basis	Valuation metrics	Apr-18	Apr-19	Apr-20F	Apr-21F	Apr-22F
SOP	Recurring P/E (x)	12.20	6.47	15.32	10.01	9.16
	P/B (x)	3.6	3.0	3.0	2.8	2.6
	FCF Yield (%)	11.6	13.6	3.8	6.2	8.6
	Dividend Yield (%)	7.0	14.4	4.9	7.5	8.2
Key drivers	EV/EBITDA (x)	7.56	4.35	9.22	6.13	5.35
i. Strong growth from Philippines;	EV/EBIT (x)	7.61	4.43	9.58	6.30	5.49
ii. Better-than-expected consumer spending;						
iii. New model launches.						
Key risks	Income statement (MYRm)	Apr-18	Apr-19	Apr-20F	Apr-21F	Apr-22F
i. Unfavourable forex movements	Total turnover	1,993	2,492	1,911	2,376	2,571
ii. Disruption in product pipeline	Gross profit	282	364	247	322	352
iii. Lacklustre consumer spending	EBITDA	180	289	144	217	245
	Depreciation and amortisation	(1)	(5)	(5)	(6)	(6)
	Operating profit	179	284	139	211	239
	Net interest	(3)	8	4	4	4
	Pre-tax profit	197	342	163	241	269
	Taxation	(46)	(74)	(39)	(58)	(65)
	Reported net profit	140	265	112	172	187
	Recurring net profit	140	265	112	172	187
Company Profile	Cash flow (MYRm)	Apr-18	Apr-19	Apr-20F	Apr-21F	Apr-22F
Bermaz Auto is involved in the distribution, assembling, retailing and also the provision of after sales service of Mazda vehicles in Malaysia. The group is also involved in the domestic distribution of locally assembled Mazda vehicles and the export of the locally assembled Mazda vehicles. Its subsidiary Bermaz Auto Philippines distributes Mazda vehicles in the Philippines.	Change in working capital	46	(1)	46	(37)	(19)
	Cash flow from operations	202	251	81	122	162
	Capex	(4)	(18)	(15)	(15)	(15)
	Cash flow from investing activities	(3)	(25)	(21)	(21)	(21)
	Dividends paid	(99)	(183)	(84)	(129)	(141)
	Cash flow from financing activities	(119)	(237)	15	(150)	(162)
	Cash at beginning of period	245	308	320	348	306
	Net change in cash	80	(11)	74	(49)	(21)
	Ending balance cash	253	296	394	299	285
	Balance sheet (MYRm)	Apr-18	Apr-19	Apr-20F	Apr-21F	Apr-22F
	Total cash and equivalents	308	320	348	306	313
	Tangible fixed assets	20	31	88	95	102
	Total investments	134	185	185	206	207
	Total assets	843	960	952	1,003	1,049
	Short-term debt	46	0	90	60	30
	Total liabilities	319	349	322	319	300
	Total equity	525	611	630	684	748
	Total liabilities & equity	843	960	952	1,003	1,049
	Key metrics	Apr-18	Apr-19	Apr-20F	Apr-21F	Apr-22F
	Revenue growth (%)	20.1	25.0	(23.3)	24.3	8.2
	Recurrent EPS growth (%)	16.9	88.6	(57.8)	53.1	9.2
	Gross margin (%)	14.2	14.6	12.9	13.6	13.7
	Operating EBITDA margin (%)	9.0	11.6	7.6	9.2	9.5
	Net profit margin (%)	7.0	10.6	5.9	7.2	7.3
	Capex/sales (%)	0.2	0.7	0.8	0.6	0.6
	Interest cover (x)	31.7	406.8	27.8	42.3	47.8

Source: Company data, RHB

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Figure 1: Sales volume trend during 2018's tax-free period

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Sales volume (units)	1,300	1,014	1,125	1,127	616	1,514	1,200	1,948	1,202	1,652	1,889	1,451	1,605	696	1,010	1,302
Growth YoY (%)	61.7	120.4	37.5	14.1	-31.6	89	71	143	65.1	64.1	87.0	104.1	23.5	-31.4	-10.2	15.5
Growth MoM (%)	82.8	-22.0	10.9	0.2	-45.3	146	-21	62	-38.3	37.4	14.3	-23.2	10.6	-56.6	45.1	28.9

Source: Malaysian Automotive Association (MAA)

Figure 2: Price comparison during 2018's tax-free period

Mazda Model	Price With GST	Price Without GST	Price With SST (OTR Without Insurance)	Price Difference (SST vs GST)	Price Difference In Percentage (SST vs GST)
Mazda 2 1.5 Hatchback/Sedan (Mid Spec)	RM74,866.00	RM70,645.00	RM74,670.00	-RM196.00	-0.26%
Mazda 2 1.5 Hatchback/Sedan	RM87,586.30	RM82,645.00	N/A	N/A	N/A
Mazda 2 1.5 Hatchback/Sedan (LED)	RM92,886.30	RM87,645.00	RM92,670.00	-RM216.30	-0.23%
Mazda 3 2.0 Sedan GL	RM110,225.30	RM104,027.40	RM108,310.60	-RM1,914.70	-1.74%
Mazda 3 2.0 Sedan High	RM125,225.30	RM118,178.34	RM123,274.74	-RM1,950.56	-1.56%
Mazda 3 2.0 Hatchback High	RM128,225.30	RM121,008.53	RM126,276.13	-RM1,949.17	-1.52%
Mazda 6 2.0 Sedan	RM165,518.30	RM156,190.60	RM165,215.60	-RM302.70	-0.18%
Mazda 6 2.5 Sedan	RM201,007.30	RM189,698.47	RM202,723.47	+RM1,716.17	+0.85%
Mazda 6 2.5 Touring	RM205,007.30	RM193,472.06	RM206,497.06	+RM1,489.76	+0.73%
Mazda 6 2.2D Sedan	RM209,190.30	RM197,401.47	RM211,426.47	+RM2,236.17	+1.07%
CX-3 2.0	RM134,338.30	RM126,775.51	RM128,159.00	-RM6,179.30	-4.6%
CX-5 2.0 GL 2WD	RM135,265.50	RM127,653.63	RM132,389.59	-RM2,875.91	-2.13%
CX-5 2.0 GLS 2WD	RM149,265.50	RM140,861.18	RM148,214.45	-RM1,051.05	-0.7%
CX-5 2.5 GLS 2WD	RM161,656.70	RM152,573.13	RM160,004.00	-RM1,652.70	-1.02%
CX-5 2.2D GLS 2WD	RM165,239.09	RM155,939.30	RM164,693.85	-RM545.24	-0.33%
CX-5 2.2D GLS AWD	RM175,839.09	RM165,939.30	RM174,479.90	-RM1,359.19	-0.77%
CX-9 2.5T 2WD	RM281,449.69	RM265,585.40	RM288,610.40	+RM7,160.71	+2.54%
CX-9 2.5T 4WD	RM297,349.69	RM280,585.40	RM305,610.40	+RM8,260.71	+2.78%
Biante 2.0	RM148,898.50	RM140,514.95	N/A	N/A	N/A
BT-50 2.2 Mid Spec M/T	N/A	N/A	RM91,435.00	N/A	N/A
BT-50 2.2 High Spec M/T	RM107,457.70	RM101,428.88	RM101,538.78	-RM5,918.92	-5.51%
BT-50 2.2 A/T	RM112,457.70	RM106,145.86	RM106,755.76	-RM5,701.94	-5.07%
BT-50 3.2 A/T	RM123,816.10	RM116,938.22	RM118,048.12	-RM5,767.98	-4.66%
MX-5 RF 2.0 M/T	RM235,898.80	RM222,587.30	RM222,277.30	-RM13,621.50	-5.77%
MX-5 RF 2.0 A/T	RM241,198.80	RM222,587.30	RM227,277.30	-RM13,921.50	-5.77%

Source: paultan.org

Figure 3: Key assumptions

Sales (Units)	Apr-18A	Apr-19A	Apr-20F	Apr-21F	Apr-22F
Malaysia - Current	11,315	15,844	9,761	12,813	13,068
Malaysia - Previous			9,761	10,143	13,068
Philippines	5,202	3,160	2,500	2,500	3,600
Mazda exports	7,193	10,016	7,000	8,000	8,500
Inokom production	28,426	37,571	22,014	25,891	26,610
MYR/JPY100	3.75	3.72	3.92	3.90	3.90

Source: RHB

Figure 4: SOP valuation

Segment	Effective Interest (%)	Valuation Method	Value (MYRm)	Per Share (MYR)
Malaysia	100.0	12x FY21F P/E	1,918.2	1.65
Philippines	60.0	12x FY21F P/E	174.4	0.15
SOP			2,092.7	1.80

Source: Company data, RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-04	Neutral	1.30	1.32
2020-03-27	Buy	1.50	1.13
2020-03-17	Buy	1.70	1.23
2020-01-24	Buy	2.70	1.93
2019-09-17	Buy	2.75	2.36
2019-06-13	Buy	3.15	2.49
2019-03-14	Buy	2.90	2.31
2018-12-13	Buy	2.59	2.15

Source: RHB, Bloomberg

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DRB-HICOM (DRB MK)

Buy (Maintained)

Sigh Of Relief; Keep BUY

Target Price (Return): MYR2.45 (33.2%)
Price: MYR1.84
Market Cap: USD834m
Avg Daily Turnover (MYR/USD): 7.95m/1.84m

- **Maintain BUY with new MYR2.45 TP from MYR2.10, offering 33% upside.** The Government has proposed to exempt car buyers from paying sales tax on passenger cars starting mid-June until end-December. CKD car prices could drop 5-6% and CBU cars 2-3%. Auto sales should improve as consumers are incentivised to take advantage of lower car prices, coupled with the low interest rates. However, weaker-than-expected consumer sentiment could dampen this measure and pose a downside risk.

- **Sales tax to be waived.** The Government has announced that passenger car purchases will be exempted from sales tax starting mid-June until end-December. This is an initiative to stimulate the sector under the short-term economic recovery plan. Locally assembled (CKD) cars will receive full exemption while imported (CBU) cars are entitled for 50% exemption. Based on pricing during 2018's tax-free window, CKD car prices could drop 5-6% and CBU cars 2-3%. This could vary between models and brands due to the pricing structure and other variables.

- **Double deal.** With the interest rate level at historical lows, consumers will be encouraged to take advantage of this rare opportunity to own cars at a cheaper cost. The 6-month tax-free period may bring forward future sales from 2021 into 2020, but the impact should be offset by an improved macroeconomic outlook. During the 2018 tax-free window, DRB-HICOM brands sales were c.25k units vs c.15k units in a normal month (see Figure 1). Proton extended the tax-free pricing and absorbed the sales tax for another two months to Oct 2018, which resulted in a market share gain. We note that the current state of the economy is weaker than in 2018, and there is a risk of consumers staying cautious despite the incentives proposed.

- **Key risks and forecasts.** We cut our FY21F earnings by 36% after imputing Pos Malaysia's (POSM MK, BUY, TP: MYR1.10) new forecasts. We make no changes to our sales volume assumption for Proton and Honda – the expected increase in sales due to the tax exemption is offset by the impact of the extended Movement Control Order since our last report. Weaker-than-expected consumer sentiment could pose downside risk to earnings.

- **Maintain BUY** with higher MYR2.45 TP (from MYR2.10) after revising downwards the holding company discount to 10% (from 20%), as we expect the tax exemption being implemented to improve sentiment on the stock. We also update Pos Malaysia's TP to MYR1.10 (from MYR0.75). Proton's hopes to expand local market share and break into regional markets remain intact. The introduction of Proton X50 will likely be in 2H20, and could be a potential earnings rerating catalyst. Additionally, various attractive embedded assets within DRB provide significant value accretion potential, in our view.

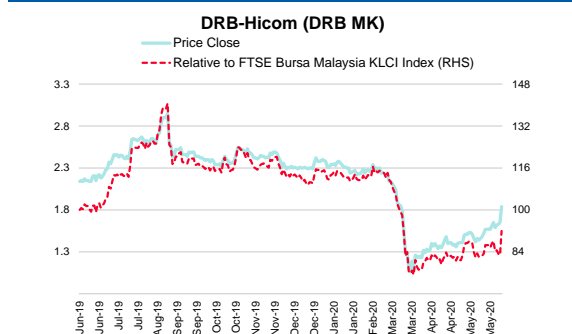
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.7)	22.7	(11.5)	(20.4)	(11.1)
Relative	(20.6)	10.7	(15.9)	(19.9)	(5.8)
52-wk Price low/high (MYR)				1.06 – 2.95	



Source: Bloomberg

Forecasts and Valuation	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	12,251	12,477	10,536	12,877	14,460	14,779
Recurring net profit (MYRm)	83	130	140	102	256	273
Recurring net profit growth (%)	-	55.8	7.7	(26.9)	150.8	6.5
Recurring P/E (x)	42.72	27.41	25.46	34.83	13.89	13.04
P/B (x)	0.5	0.5	0.5	0.5	0.5	0.5
P/CF (x)	3.19	na	27.36	4.50	2.44	2.12
Dividend Yield (%)	1.6	na	na	na	0.5	0.5
EV/EBITDA (x)	29.71	na	na	na	35.42	20.82
Return on average equity (%)	6.8	1.8	3.3	1.4	3.5	3.7
Net debt to equity (%)	30.6	36.4	37.8	37.8	28.3	17.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.04	0.07	0.07	0.05	0.13	0.14
Consumer Cyclical	DPS	0.03	-	-	-	0.01	0.01
DRB-HICOM	BVPS	3.42	3.47	3.62	3.67	3.79	3.93
DRB MK	Return on average equity (%)	6.8	1.8	3.3	1.4	3.5	3.7
Buy							
	Valuation metrics	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	42.72	27.41	25.46	34.83	13.89	13.04
SOP	P/B (x)	0.5	0.5	0.5	0.5	0.5	0.5
	FCF Yield (%)	8.7	(52.4)	(18.5)	7.6	32.5	38.7
Key drivers	Dividend Yield (%)	1.6	-	-	-	0.5	0.5
i. New model launches;	EV/EBITDA (x)	29.71	na	na	na	35.42	20.82
ii. Proton venturing into ASEAN.	EV/EBIT (x)	8.79	20.66	17.53	21.03	10.35	8.38
Key risks	Income statement (MYRm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Sluggish consumer sentiment;	Total turnover	12,251	12,477	10,536	12,877	14,460	14,779
ii. Slower-than-expected economic growth.	Gross profit	1,470	2,209	317	2,318	2,603	2,660
	EBITDA	296	(270)	(79)	(172)	246	383
	Depreciation and amortisation	705	711	603	614	596	568
	Operating profit	1,001	441	523	442	842	951
	Net interest	(360)	(380)	(346)	(340)	(327)	(313)
	Pre-tax profit	284	282	278	215	631	756
	Taxation	(92)	(231)	(33)	(24)	(124)	(153)
	Reported net profit	430	123	224	102	256	273
	Recurring net profit	83	130	140	102	256	273
Company Profile	Cash flow (MYRm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
DRB-HICOM is a conglomerate with three core business divisions: Automotive, property and services.	Change in working capital	166	(1,208)	(893)	(331)	(108)	(22)
	Cash flow from operations	1,116	(763)	130	790	1,456	1,675
	Capex	(807)	(1,100)	(787)	(520)	(300)	(300)
	Cash flow from investing activities	(142)	333	575	(519)	(297)	(296)
	Dividends paid	(58)	0	0	0	(19)	(19)
	Cash flow from financing activities	(566)	251	(845)	(590)	(596)	(582)
	Cash at beginning of period	1,544	1,605	2,510	2,521	2,320	2,882
	Net change in cash	409	(180)	(140)	(319)	562	796
	Ending balance cash	1,953	1,425	2,370	2,202	2,882	3,679
	Balance sheet (MYRm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	2,701	2,674	2,639	2,320	2,882	3,679
	Tangible fixed assets	5,909	6,101	6,434	6,340	6,044	5,776
	Total investments	294	340	323	353	383	413
	Total assets	42,730	42,677	41,675	42,308	43,517	44,303
	Short-term debt	2,324	2,771	1,969	2,019	2,069	2,119
	Total long-term debt	3,465	3,548	4,389	4,089	3,789	3,489
	Total liabilities	32,632	32,661	31,832	32,274	32,996	33,197
	Total equity	10,098	10,016	9,843	10,034	10,521	11,105
	Total liabilities & equity	42,730	42,677	41,675	42,308	43,517	44,303
	Key metrics	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	1.6	1.8	(15.6)	22.2	12.3	2.2
	Recurrent EPS growth (%)	0.0	55.8	7.7	(26.9)	150.8	6.5
	Gross margin (%)	12.0	17.7	3.0	18.0	18.0	18.0
	Operating EBITDA margin (%)	2.4	(2.2)	(0.8)	(1.3)	1.7	2.6
	Net profit margin (%)	3.5	1.0	2.1	0.8	1.8	1.8
	Dividend payout ratio (%)	13.5	0.0	0.0	0.0	7.5	7.1
	Capex/sales (%)	6.6	8.8	7.5	4.0	2.1	2.0
	Interest cover (x)	2.78	1.16	1.51	1.30	2.58	3.04

Source: Company data, RHB

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Figure 1: DRB-HICOM's auto sales

FYE 31 Mar	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Honda	8,133	7,000	9,049	7,708	8,046	11,418	12,808	10,789	4,964	7,246	7,100	8,021	7,515
Isuzu	745	658	791	831	598	1,066	961	1,878	851	794	784	1,221	665
Mercedes-Benz	1,217	1,212	966	1,013	745	1,797	1,604	1,390	531	920	956	1,126	1,063
Mitsubishi	893	684	944	606	247	1,187	917	1,318	513	643	624	685	871
Proton	4,783	3,857	4,203	3,999	4,091	6,173	8,102	9,501	4,524	5,093	4,820	5,598	6,862
VW	426	420	651	488	155	1,204	891	1,130	303	457	635	241	586
Total sales volume	16,197	13,831	16,634	14,645	13,882	22,880	25,283	26,006	11,686	15,153	14,919	16,892	17,562

Source: MAA

Figure 2: Honda models price comparison during 2018's tax-free period

Honda Model	Price With GST	Price Without GST	Price With SST (OTR Without Insurance)	Price Difference (SST vs GST)	Price Difference In Percentage (SST vs GST)
Jazz 1.5 S	RM72,510.00	RM68,422.00	RM70,242.00	-RM2,268.00	-3.13%
Jazz 1.5 E	RM78,540.00	RM74,110.00	RM76,316.00	-RM2,224.00	-2.83%
Jazz 1.5 V	RM85,750.00	RM80,912.00	RM83,633.00	-RM2,117.00	-2.47%
Jazz Hybrid	RM84,880.00	RM80,091.00	N/A	N/A	N/A
City 1.5 S	RM75,930.00	RM71,648.00	RM73,836.00	-RM2,094.00	-2.76%
City 1.5 E	RM82,030.00	RM77,403.00	RM79,955.00	-RM2,075.00	-2.53%
City 1.5 V	RM89,240.00	RM84,205.00	RM86,893.00	-RM2,347.00	-2.63%
City Hybrid	RM89,200.00	RM84,167.00	N/A	N/A	N/A
Civic 1.8 S	RM110,430.00	RM104,214.00	RM108,165.00	-RM2,265.00	-2.05%
Civic 1.5 TC	RM124,080.00	RM117,073.00	RM120,855.00	-RM3,225.00	-2.6%
Civic 1.5 TC-P	RM131,880.00	RM124,431.00	RM128,631.00	-RM3,249.00	-2.46%
Civic Type R	RM320,000.00	RM301,928.00	RM330,002.00	+RM10,002.00	+3.13%
Accord 2.0 VTi-L	RM149,350.00	RM140,937.00	RM148,512.00	-RM838.00	-0.56%
Accord 2.4 VTi-L Advance	RM169,800.00	RM160,250.00	RM168,998.00	-RM802.00	-0.47%
BR-V 1.5 E	RM83,210.00	RM78,516.00	RM80,989.00	-RM2,221.00	-2.67%
BR-V 1.5 V	RM90,010.00	RM84,931.00	RM87,701.00	-RM2,309.00	-2.57%
HR-V 1.8 S	RM98,060.00	RM92,545.00	N/A	N/A	N/A
HR-V 1.8 E	RM107,410.00	RM101,365.00	N/A	N/A	N/A
HR-V 1.8 V	RM117,430.00	RM110,818.00	N/A	N/A	N/A
HR-V 1.8 V Mugen	RM118,800.00	RM112,111.00	N/A	N/A	N/A
CR-V 2.0 2WD	RM142,400.00	RM134,384.00	RM138,308.00	-RM4,092.00	-2.87%
CR-V 1.5 TC 2WD	RM155,700.00	RM146,904.00	RM150,992.00	-RM4,708.00	-3.02%
CR-V 1.5 TC 4WD	RM161,600.00	RM152,470.00	RM156,732.00	-RM4,868.00	-3.01%
CR-V 1.5 TC-P 2WD	RM167,700.00	RM158,225.00	RM163,191.00	-RM4,509.00	-2.69%
Odyssey 2.4 EXV	RM254,800.00	RM240,438.00	RM258,896.00	+RM4,096.00	+1.61%

Source: paultan.org

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Figure 3: Sum-of-parts valuation

Segment	Effective Interest (%)	Valuation Method	Value (MYRm)	Per Share (MYR)
Automotive				
Proton	50.1	BV	1,406.9	
Proton Shah Alam & Glenmarie landbank		244.8 acres @ MYR125 psf	1,332.9	
DRB provision for warranties and construction of new test track			(511.0)	
NPV of pledged assets for RCCPS			(529.6)	
Transfer of other non-core assets from Proton		BV	140.0	
BV of other assoc and JV			1,107.4	
Deftech		DCF	475.0	
CTRM	96.87	P/E 9x	352.1	
			3,773.8	1.95
Services				
Puspakom	100	DCF	65.5	
Pos Malaysia	53.5	Implied value @ TP MYR1.10	464.9	
Bank Muamalat	70	FY19 P/B 0.8x	1,313.0	
			1,843.4	0.95
Property & Infrastructure				
RNAV surplus from property swap	100	RNAV surplus @ MV RM25 psf	849.4	
Property BV			3,090.3	
			3,939.7	2.04
Investment holdings		BV	129.2	
Total			9,686.0	4.94
Consolidated non-bank net debt (incl Sukuk)			(4,460.5)	
RNAV			5,225.5	
Net valuation after holding company discount	10%		4,729.1	2.45

Source: Company data, RHB estimates

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-27	Buy	2.10	1.25
2019-11-29	Buy	3.25	2.31
2019-10-23	Buy	3.30	2.54
2019-08-26	Buy	3.35	2.60
2019-05-31	Buy	3.05	2.08
2019-05-14	Buy	2.63	2.00
2019-03-01	Buy	2.30	1.87
2019-01-25	Buy	2.58	1.65
2018-10-12	Buy	2.92	1.90
2018-08-20	Buy	na	2.45
2018-08-02	Buy	2.67	2.32

Source: RHB, Bloomberg

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MBM Resources (MBM MK)

Buy (Maintained)

Sigh Of Relief; Maintain BUY

Target Price (Return): MYR4.00 (+17%)
Price: MYR3.43
Market Cap: USD314m
Avg Daily Turnover (MYR/USD) 1.73m/0.40m

- **Maintain BUY with new MYR4.00 TP from MYR3.50, 17% upside and c.5% yield.** The Government has proposed to exempt car buyers from paying sales tax on passenger cars starting mid-June until end-December. CKD car prices could drop 5-6% and CBU cars 2-3%. Auto sales should improve as consumers are incentivised to take advantage of lower car prices, coupled with the low interest rates. However, weaker-than-expected consumer sentiment could dampen this measure and pose a downside risk.
- **Sales tax to be waived.** The Government has announced that passenger car purchases will be exempted from sales tax starting mid-June until end-December. This is an initiative to stimulate the sector under the short-term economic recovery plan. Locally assembled (CKD) cars will receive full exemption, while imported (CBU) cars are entitled for 50% exemption. CKD car prices could drop 5-6% and CBU cars 2-3%, but this could vary between models and brands due to the pricing structure and other variables.
- **Double deal.** With interest rate level at historical lows, consumers will be encouraged to take advantage of this rare opportunity to own cheaper cars. The 6-month tax-free period may bring forward future sales from 2021 into 2020, but the impact should be offset by an improved macroeconomic outlook. Taking a cue from 2018's tax-free window, most MBM-related brands, ie Volvo, Volkswagen and Daihatsu, recorded strong sales during the 3-month window (Figure 1). Perodua benefited in the first two months (Jun-July 2018), but sales were later stunted in Aug 2018 after Myvi production was disrupted due to a supply issue. Hino and Daihatsu will not benefit from the recently announced tax exemption as it is only limited to passenger cars. We note that the economy is currently not in the best shape and there is a risk of consumers staying cautious despite these measures being implemented.
- **Key risks and forecasts.** We make no changes to our forecasts. Weaker-than-expected consumer sentiment and a second wave of the virus spread would pose downside risks to earnings.
- **Maintain BUY** with higher MYR4.00 TP from MYR3.50, based on FY21F. We apply a new target P/E of 8.5x from 7.5x to reflect improving sentiment on the sector with the sales exemption being implemented. Demand for high-value proposition products offered by Perodua should be relatively more resilient under the current environment. Future earnings growth should be driven by the expansion of Perodua's product range and improvements in operational efficiency. The market is anticipating Perodua's B-segment SUV – the D55L – to be introduced this year.

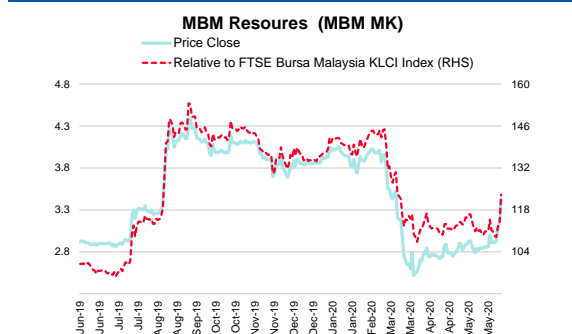
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.1)	20.4	(2.0)	(8.5)	18.3
Relative	(9.0)	8.4	(6.4)	(8.0)	23.6
52-wk Price low/high (MYR)				2.52 – 4.39	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	1,883	2,088	1,633	1,873	2,009
Recurring net profit (MYRm)	189	191	157	184	198
Recurring net profit growth (%)	71.1	1.0	(17.9)	17.8	7.3
Recurring P/E (x)	7.11	7.04	8.57	7.27	6.78
P/B (x)	0.9	0.8	0.7	0.7	0.7
P/CF (x)	21.18	42.22	17.23	30.00	25.45
Dividend Yield (%)	1.7	6.4	5.3	6.2	6.7
EV/EBITDA (x)	4.23	0.42	(1.41)	(2.70)	(4.12)
Return on average equity (%)	12.5	13.8	8.8	9.8	10.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.48	0.49	0.40	0.47	0.51
Consumer Cyclical	DPS	0.06	0.22	0.18	0.21	0.23
MBM Resources	BVPS	4.03	4.46	4.68	4.94	5.22
MBM MK	Return on average equity (%)	12.5	13.8	8.8	9.8	10.0
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	7.11	7.04	8.57	7.27	6.78
7.5x P/E on forward earnings	P/B (x)	0.9	0.8	0.7	0.7	0.7
	FCF Yield (%)	4.0	1.5	4.3	1.8	2.4
Key drivers	Dividend Yield (%)	1.7	6.4	5.3	6.2	6.7
i. Strength of consumer sentiment;	EV/EBITDA (x)	4.23	0.42	(1.41)	(2.70)	(4.12)
ii. Expansion of Perodua's product range.	EV/EBIT (x)	6.70	0.55	(2.14)	(3.93)	(5.93)
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	1,883	2,088	1,633	1,873	2,009
Weakening of the MYR vs USD and JPY	Gross profit	149	152	119	137	147
	EBITDA	49	80	54	60	64
Company Profile	Depreciation and amortisation	(18)	(19)	(18)	(19)	(20)
MBM Resources is a multi-brand automotive retailer for the Volvo, Volkswagen, Mitsubishi, Perodua and Hino marques. It is also the distributor of Daihatsu commercial vehicles, and owns associate stakes in Hino and Perodua. The company also manufactures automotive safety equipment.	Operating profit	31	61	35	41	44
	Net interest	(0)	3	4	4	2
	Pre-tax profit	228	263	180	211	226
	Taxation	(15)	(9)	(5)	(6)	(6)
	Reported net profit	190	229	157	184	198
	Recurring net profit	189	191	157	184	198
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	26	(9)	25	(13)	(7)
	Cash flow from operations	63	32	78	45	53
	Capex	(10)	(12)	(20)	(20)	(20)
	Cash flow from investing activities	103	147	(20)	(20)	(20)
	Dividends paid	(23)	(86)	(71)	(83)	(89)
	Cash flow from financing activities	(188)	(252)	(66)	(60)	(67)
	Cash at beginning of period	201	195	264	251	212
	Net change in cash	(21)	(73)	(8)	(35)	(34)
	Ending balance cash	180	122	255	216	178
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	195	264	251	212	176
	Tangible fixed assets	269	232	233	234	235
	Total investments	1,334	1,344	1,483	1,650	1,829
	Total assets	2,109	2,189	2,264	2,421	2,581
	Short-term debt	58	17	67	102	137
	Total long-term debt	85	19	(31)	(46)	(61)
	Total liabilities	281	181	152	188	216
	Total equity	1,829	2,008	2,112	2,234	2,365
	Total liabilities & equity	2,109	2,189	2,264	2,421	2,581
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	8.7	10.9	(21.8)	14.7	7.2
	Recurrent EPS growth (%)	71.1	1.1	(17.9)	17.8	7.3
	Gross margin (%)	7.9	7.3	7.3	7.3	7.3
	Operating EBITDA margin (%)	2.6	3.8	3.3	3.2	3.2
	Net profit margin (%)	10.1	10.9	9.6	9.8	9.8
	Dividend payout ratio (%)	12.4	37.6	45.1	45.1	45.1
	Capex/sales (%)	0.5	0.6	1.2	1.1	1.0
	Interest cover (x)	5.45	30.47	44.85	40.99	30.62

Source: Company data, RHB

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Figure 1: Sales volume trend during 2018's tax-free period

		Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Perodua	Sales volume (units)	17,693	17,137	20,738	19,939	21,980	19,611	23,830	17,804	9,471	19,528	21,110	18,402
	Growth YoY (%)	24.6	3.2	6.6	38.7	27.7	10	26	-4	-34.0	18.4	26.9	-8.8
	Growth MoM (%)	-12.3	-3.1	21.0	-3.9	10.2	-11	22	-25	-46.8	106.2	8.1	-12.8
Volvo	Sales volume (units)	97	96	125	162	73	229	188	363	93	119	139	150
	Growth YoY (%)	102.1	0.0	5.9	118.9	-46.3	83	203	163	-22.5	-10.5	-15.2	-22.3
	Growth MoM (%)	-49.7	-1.0	30.2	29.6	-54.9	214	-18	93	-74.4	28.0	16.8	7.9
Volks wagen	Sales volume (units)	426	420	651	488	155	1204	891	1130	303	457	635	241
	Growth YoY (%)	30.3	52.7	32.6	1.5	-68.2	84	99	64	-59.8	-15.5	-2.3	-67.4
	Growth MoM (%)	-42.4	-1.4	55.0	-25.0	-68.2	677	-26	27	-73.2	50.8	38.9	-62.0
Daihatsu	Sales volume (units)	56	29	63	86	56	59	69	133	103	92	75	170
	Growth YoY (%)	36.6	-48.2	-25.0	53.6	27.3	44	-5	90	45.1	-5.2	-21.9	129.7
	Growth MoM (%)	-24.3	-48.2	117.2	36.5	-34.9	5	17	93	-22.6	-10.7	-18.5	126.7
Hino	Sales volume (units)	555	210	555	352	205	633	731	688	410	450	501	518
	Growth YoY (%)	85.0	66.7	132.2	-28.5	-59.2	61	59	45	-12.4	5.9	47.4	-33.8
	Growth MoM (%)	-29.0	-62.2	164.3	-36.6	-41.8	209	15	-6	-40.4	9.8	11.3	3.4

Source: Malaysian Automotive Association (MAA)

Figure 2: Price comparison during 2018's tax-free period

Perodua Model	Price With GST	Price Without GST	Price With SST (OTR Without Insurance)	Price Difference (SST vs GST)	Price Difference In Percentage (SST vs GST)
Axia 1.0 Standard E M/T	RM23,965.89	RM22,621.78	RM22,990.00	-RM975.89	-4.07%
Axia 1.0 Standard G M/T	RM33,717.86	RM31,821.75	RM32,590.00	-RM1,127.86	-3.34%
Axia 1.0 Standard G A/T	RM35,662.73	RM33,656.54	RM34,390.00	-RM1,272.73	-3.57%
Axia 1.0 SE M/T	RM36,635.17	RM34,573.93	RM35,590.00	-RM1,045.17	-2.85%
Axia 1.0 SE A/T	RM38,580.05	RM36,408.73	RM37,490.00	-RM1,090.05	-2.83%
Axia 1.0 Advance A/T	RM41,497.38	RM39,160.92	RM40,390.00	-RM1,107.38	-2.67%
Myvi 1.3 Standard G M/T	RM44,300.00	RM41,807.74	RM42,790.00	-RM1,510	-3.41%
Myvi 1.3 Standard G A/T	RM46,300.00	RM43,694.53	RM44,590.00	-RM1,710	-3.69%
Myvi 1.3 Premium X A/T	RM48,300.00	RM45,581.32	RM46,590.00	-RM1,710	-3.54%
Myvi 1.5 H A/T	RM51,800.00	RM48,884.34	RM50,290.00	-RM1,510	-2.92%
Myvi 1.5 Advance A/T	RM55,300.00	RM52,186.23	RM54,090.00	-RM1,210	-2.19%
Bezza 1.0 GXtra M/T	RM35,500.00	RM33,503.02	RM34,490.00	-RM1,010	-2.85%
Bezza 1.0 GXtra A/T	RM37,500.00	RM35,389.81	RM36,290.00	-RM1,210	-3.23%
Bezza 1.3 Premium X M/T	RM41,397.37	RM39,069.41	RM40,090.00	-RM1,307.37	-3.16%
Bezza 1.3 Premium X A/T	RM43,342.25	RM40,904.20	RM41,890.00	-RM1,452.25	-3.35%
Bezza 1.3 Advance A/T	RM49,176.89	RM46,408.58	RM47,790.00	-RM1,386.89	-2.82%
Alza 1.5 S M/T	RM50,647.73	RM47,797.29	RM51,490.00	+RM842.27	+1.66%
Alza 1.5 S A/T	RM53,565.05	RM50,549.48	RM54,290.00	+RM724.95	+1.35%
Alza 1.5 SE M/T	RM54,537.49	RM51,466.88	N/A	N/A	N/A
Alza 1.5 SE A/T	RM57,454.81	RM54,219.07	RM56,890.00	-RM564.81	-0.98%
Alza 1.5 Advance A/T	RM62,889.44	RM59,346.08	RM62,690.00	-RM199.44	-0.32%

Source: paultan.org

Table 3: Forecast assumptions

FYE Dec	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Perodua TIV (units)	204,887	227,243	240,341	192,000	214,000	225,000
Daihatsu TIV (units)	803	991	1,409	935	1,150	1,200
Hino (units)	5,002	5,808	5,520	4,845	5,800	5,800
Volvo (units)	757	789	1,143	727	933	1,073
VW (units)	862	1,169	928	668	801	885
Forex (JPY/MYR)	3.85	3.70	3.80	3.92	3.90	3.90
Forex (USD/MYR)	4.00	4.00	4.15	4.28	4.25	4.00

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-21	Buy	3.50	2.85
2020-03-27	Buy	3.80	2.71
2019-11-22	Buy	4.95	3.73
2019-08-26	Buy	4.85	4.23
2019-08-21	Buy	4.20	4.00
2019-05-24	Buy	3.70	2.86
2019-02-28	Buy	4.10	2.75
2018-11-23	Buy	2.70	1.91
2018-03-12	Trading Buy	2.56	2.43

Source: RHB, Bloomberg

9 June 2020

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

Sigh Of Relief

Target Price (Return): MYR2.65 (-8%)
Price: MYR2.89
Market Cap: USD791m
Avg Daily Turnover (MYR/USD): 5.40m/1.25m

• Maintain NEUTRAL with new MYR2.65 TP from MYR2.40, 8% downside.

The Government has proposed to exempt car buyers from paying sales tax on passenger cars starting mid-June until end-December. CKD car prices could drop 5-6% and CBU cars 2-3%. Auto sales should improve as consumers are incentivised to take advantage of lower car prices, coupled with the low interest rates. However, weaker-than-expected consumer sentiment could dampen this measure and pose a downside risk.

• Sales tax to be waived.

The Government has announced that passenger car purchases will be exempted from sales tax starting mid-June until end-December. This is an initiative to stimulate the sector under the short-term economic recovery plan. Locally assembled (CKD) cars will receive full exemption, while imported (CBU) cars are entitled for 50% exemption. CKD car prices could drop 5-6% and CBU cars 2-3%, but this could vary between models and brands due to the pricing structure and other variables.

• Double deal.

With the interest rate level at historical lows, consumers will be encouraged to take advantage of this rare opportunity to own cheaper cars. The 6-month tax-free period may bring forward future sales from 2021 into 2020, but the impact should be offset by an improved macroeconomic outlook. During the 2018 tax-free window, Toyota/Lexus average monthly sales jumped to c.10,000 units vs c.4,000 units in a normal month (Figure 1). Perodua benefited in the first two months (Jun-July 2018), but sales were later stunted in Aug 2018 after Myvi production was disrupted due to a supply issue. Hino and Daihatsu will not benefit from the recently announced tax exemption as it is only limited to passenger cars. We note that the economy is currently not in the best shape and there is a risk of consumers staying cautious despite these measures being implemented.

• Key risks and forecasts.

We make no changes to our sales volume assumption; the expected increase in sales due to the tax exemption is offset by the impact of the extended Movement Control Order since our last report. Weaker-than-expected consumer sentiment could pose downside risk to earnings, while the aerospace component business could be affected by the parlous state of the aviation industry.

• Maintain NEUTRAL with new MYR2.65 TP based on 13x FY21F P/E (from 12x).

We revise the target P/E back to its historical average, as we expect sentiment on the stock will recover due to the sales tax exemption. However, intense competition in the local automotive market is likely to limit earnings growth. The recent weakening of the MYR vs the USD and JPY could also crimp margins. The anticipated introduction of several SUVs under the Toyota brand could bolster earnings. Its share price looks fairly valued, trading close to the sector average of 12x P/E.

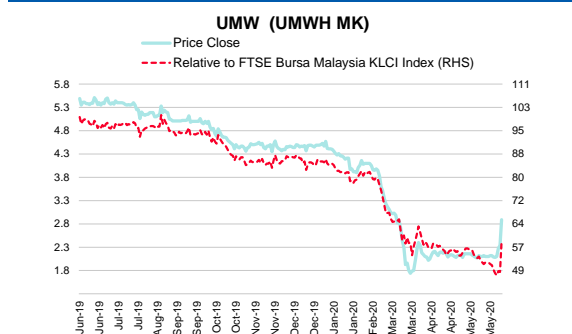
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(35.6)	33.8	(4.6)	(35.1)	(43.7)
Relative	(33.5)	21.8	(9.0)	(34.6)	(38.4)
52-wk Price low/high (MYR)				1.74 – 5.51	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	11,304	11,739	9,366	10,321	10,759
Recurring net profit (MYRm)	308	259	180	233	268
Recurring net profit growth (%)	6.6	(16.0)	(30.4)	29.2	14.9
Recurring P/E (x)	10.95	13.03	18.73	14.50	12.62
P/B (x)	1.0	0.9	0.9	0.8	0.8
P/CF (x)	na	6.34	4.66	10.26	9.17
Dividend Yield (%)	2.6	2.1	2.1	2.1	2.1
EV/EBITDA (x)	76.59	5.55	5.16	4.82	4.79
Return on average equity (%)	10.7	9.3	6.7	7.8	8.3
Net debt to equity (%)	26.6	17.0	4.1	6.0	7.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.26	0.22	0.15	0.20	0.23
Consumer Cyclical	DPS	0.08	0.06	0.06	0.06	0.06
UMW	BVPS	2.86	3.16	3.27	3.41	3.58
UMWH MK	Return on average equity (%)	10.7	9.3	6.7	7.8	8.3
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	10.95	13.03	18.73	14.50	12.62
P/E	P/B (x)	1.0	0.9	0.9	0.8	0.8
	FCF Yield (%)	(70.3)	5.5	9.6	(2.1)	(0.9)
Key drivers	Dividend Yield (%)	2.6	2.1	2.1	2.1	2.1
i. Introduction of attractive new car models;	EV/EBITDA (x)	76.59	5.55	5.16	4.82	4.79
ii. Turnaround at various legacy non-core oil and gas businesses;	EV/EBIT (x)	12.17	11.33	12.81	10.25	9.68
iii. Long-term growth potential from aerospace business.						
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	11,304	11,739	9,366	10,321	10,759
i. Weaker MYR;	Gross profit	3,109	3,228	2,576	2,838	2,959
ii. Weaker-than-expected economic growth.	EBITDA	53	679	568	627	644
iii. Higher start-up losses from aerospace venture.	Depreciation and amortisation	282	(346)	(339)	(332)	(325)
	Operating profit	335	333	229	295	319
Company Profile	Net interest	(13)	(58)	(44)	(71)	(72)
UMW is the largest company in the automotive sector. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia.	Pre-tax profit	593	567	406	489	537
	Taxation	(124)	(109)	(81)	(98)	(107)
	Reported net profit	344	329	250	303	338
	Recurring net profit	308	259	180	233	268
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(1,104)	(169)	350	(61)	(28)
	Cash flow from operations	(1,460)	533	725	329	368
	Capex	(915)	(346)	(400)	(400)	(400)
	Cash flow from investing activities	(431)	394	(232)	(232)	(232)
	Dividends paid	0	(88)	(70)	(70)	(70)
	Cash flow from financing activities	(145)	(518)	1,281	(106)	(208)
	Cash at beginning of period	1,163	1,312	1,472	3,731	3,693
	Net change in cash	(2,036)	409	1,774	(9)	(72)
	Ending balance cash	(1,187)	1,738	3,263	3,739	3,637
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	1,312	1,472	3,731	3,693	3,590
	Tangible fixed assets	2,821	2,757	2,266	2,334	2,409
	Total investments	2,069	2,130	2,350	2,616	2,907
	Total assets	10,758	11,148	12,181	12,689	13,050
	Short-term debt	534	386	386	386	386
	Total long-term debt	2,298	2,123	3,600	3,700	3,700
	Total liabilities	5,044	5,053	5,887	6,139	6,209
	Total equity	5,714	6,094	6,294	6,550	6,841
	Total liabilities & equity	10,758	11,148	12,181	12,689	13,050
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	2.1	3.9	(20.2)	10.2	4.2
	Recurrent EPS growth (%)	6.6	(16.0)	(30.4)	29.2	14.9
	Gross margin (%)	27.5	27.5	27.5	27.5	27.5
	Operating EBITDA margin (%)	0.5	5.8	6.1	6.1	6.0
	Net profit margin (%)	3.0	2.8	2.7	2.9	3.1
	Dividend payout ratio (%)	25.5	21.3	28.0	23.1	20.8
	Capex/sales (%)	8.1	2.9	4.3	3.9	3.7
	Interest cover (x)	3.41	2.64	2.05	2.12	2.27

Source: Company data, RHB

9 June 2020

Consumer Cyclical | Auto & Autoparts

Figure 1: Sales volume trend during 2018's tax-free period

		Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Toyota/ Lexus	Sales volume (units)	3,584	4,003	5,239	5,597	2,033	11,678	9,235	9,065	3,070	4,787	3,891	4,380	3,184
	Growth YoY (%)	-39.0	-12.6	-16.0	-5.2	-67.0	117	64	57	-30.1	-23.9	-43.3	-40.4	-11.2
	Growth MoM (%)	-51.2	11.7	30.9	6.8	-63.7	474	-21	-2	-66.1	55.9	-18.7	12.6	-27.3
Perodua	Sales volume (units)	17,693	17,137	20,738	19,939	21,980	19,611	23,830	17,804	9,471	19,528	21,110	18,402	20,124
	Growth YoY (%)	24.6	3.2	6.6	38.7	27.7	10	26	-4	-34.0	18.4	26.9	-8.8	13.7
	Growth MoM (%)	-12.3	-3.1	21.0	-3.9	10.2	-11	22	-25	-46.8	106.2	8.1	-12.8	9.4

Source: Malaysian Automotive Association

Figure 2: Toyota models price comparison during 2018's tax-free period

Toyota Model	Price With GST	Price Without GST	Price With SST (OTR Without Insurance)	Price Difference (SST vs GST)	Price Difference In Percentage (SST vs GST)
Vios 1.5 J MT	RM74,980.00	RM70,752.00	RM74,200.00	-RM780.00	-1.04%
Vios 1.5 J AT	RM77,980.00	RM73,582.00	RM77,200.00	-RM780.00	-1.00%
Vios 1.5 E AT	RM81,980.00	RM77,356.00	RM81,180.00	-RM800.00	-0.98%
Vios 1.5 G AT	RM87,980.00	RM83,016.00	RM87,280.00	-RM700.00	-0.80%
Vios 1.5 GX AT	RM90,980.00	RM85,847.00	RM90,180.00	-RM800.00	-0.88%
Vios 1.5 S AT	RM93,980.00	RM88,677.00	RM93,200.00	-RM780.00	-0.83%
Fortuner 2.4 AT 4x4	RM169,800.00	RM160,251.00	RM169,500.00	-RM300.00	-0.18%
Fortuner 2.4 VRZ AT 4x2	RM185,800.00	RM175,346.00	RM185,600.00	-RM200.00	-0.11%
Fortuner 2.4 VRZ AT 4x4	RM195,800.00	RM184,779.00	RM195,600.00	-RM200.00	-0.10%
Fortuner 2.7 SRZ AT 4x4	RM181,800.00	RM171,594.00	RM181,200.00	-RM600.00	-0.33%
Innova 2.0 E MT	RM107,800.00	RM101,739.00	RM107,280.00	-RM520.00	-0.48%
Innova 2.0 E AT	RM115,800.00	RM109,287.00	RM115,280.00	-RM520.00	-0.45%
Innova 2.0 G AT	RM123,800.00	RM116,834.00	RM123,400.00	-RM400.00	-0.32%
Innova 2.0 X AT	RM132,800.00	RM125,324.00	RM132,400.00	-RM400.00	-0.30%
Hiace Panel Van 2.5 Turbo Diesel	RM94,900.00	RM89,594.00	RM98,000.00	+RM3,100.00	+3.27%
Hilux Single Cab 2.4 MT 4x4	RM87,200.00	RM82,327.00	RM90,000.00	+RM2,800.00	+3.21%
Hilux Double Cab 2.4 STD MT 4x4	RM96,900.00	RM91,478.00	RM100,000.00	+RM3,100.00	+3.20%
Hilux Double Cab 2.4G MT 4x4	RM106,700.00	RM100,723.00	RM110,000.00	+RM3,300.00	+3.09%
Hilux Double Cab 2.4G AT 4x4	RM116,300.00	RM109,739.00	RM120,600.00	+RM4,300.00	+3.70%
Hilux Double Cab 2.4 L-Edition AT 4x4	RM119,300.00	RM112,610.00	RM123,600.00	+RM4,300.00	+3.60%
Hilux Double Cab 2.8G AT 4x4	RM130,900.00	RM123,581.00	RM134,000.00	+RM3,100.00	+2.37%
Hilux Double Cab 2.8 L-Edition AT 4x4	RM133,900.00	RM126,411.00	RM138,000.00	+RM4,100.00	+3.06%
Vellfire 2.5	RM350,800.00	RM331,010.00	RM362,000.00	+RM11,200.00	+3.19%
Alphard 3.5	RM429,800.00	RM405,626.00	RM443,000.00	+RM13,200.00	+3.07%
Corolla Altis 1.8 E	RM117,400.00	RM110,790.00	RM120,000.00	+RM2,600.00	+2.21%
Corolla Altis 1.8 G	RM120,300.00	RM113,526.00	RM123,000.00	+RM2,700.00	+2.24%
Corolla Altis 2.0 V	RM134,900.00	RM127,305.00	RM138,000.00	+RM3,100.00	+2.30%
Harrier 2.0T Premium	RM238,000.00	RM224,573.00	RM243,000.00	+RM5,000.00	+2.10%
Harrier 2.0T Luxury	RM259,900.00	RM245,233.00	RM266,000.00	+RM6,100.00	+2.35%
C-HR 1.8	RM145,500.00	RM137,300.00	RM150,000.00	+RM4,500.00	+3.09%

Source: paultan.org

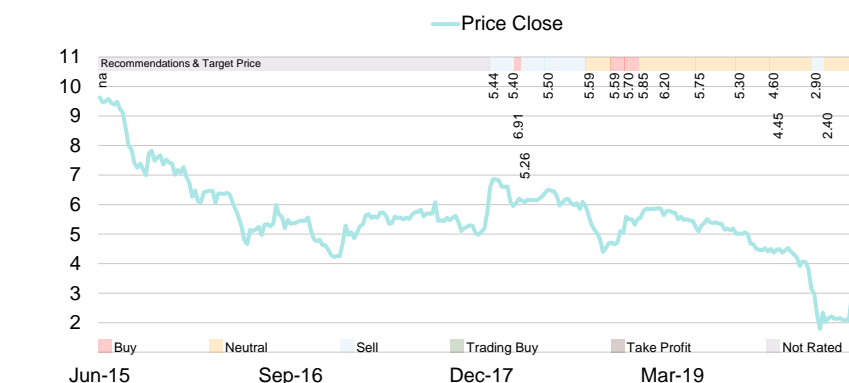
Figure 3: Forecast assumptions

FYE Dec	2016	2017	2018	2019	2020F	2021F	2021F
Toyota / Lexus (units)	65,110	70,474	66,562	70,009	50,000	57,000	60,000
Perodua (units)	207,110	204,887	227,243	240,341	192,000	214,000	225,000
Forex (JPY/MYR)*	3.82	3.85	3.65	3.80	3.92	3.90	3.90
Forex (USD/MYR)*	4.14	4.30	4.04	4.14	4.28	4.25	4.25

*average rate

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-27	Neutral	2.40	2.34
2020-02-28	Sell	2.90	3.16
2019-11-29	Neutral	4.45	4.37
2019-11-18	Neutral	4.60	4.47
2019-08-29	Neutral	5.30	5.01
2019-05-23	Neutral	5.75	5.28
2019-04-26	Neutral	6.20	5.48
2019-01-07	Neutral	5.85	5.45
2018-12-03	Buy	5.70	5.40
2018-10-30	Buy	5.59	4.69
2018-08-30	Neutral	5.59	5.94
2018-08-03	Sell	5.50	5.98

Source: RHB, Bloomberg

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Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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