

APM's new contracts shield it from auto slowdown

Supplying to Proton Iriz, Hyundai and Mazda and newly-acquired mass-transit seat manufacturing business to boost earnings

by Ho Chung Teng

APM Automotive Holdings Bhd, which manufactures automotive parts and components, is well-placed to weather any slowdown in the automotive sector despite seeing a dip in profit for its latest quarter.

Apart from bagging an additional contract from national carmaker Proton for its new mass-market model Iriz, the company is expected to benefit from a new tie-up with Berjaya Auto Bhd, which sells Mazda cars. Moving forward, APM also hopes to leverage on its new acquisition McConnell Seats Australia Pty Ltd, a public-sector mass-transit seating manufacturing business based in Australia.

Being the auto parts supplier for both national automakers Proton and Perodua, an analyst tells *FocusM* that earnings from the supply of components for the new Proton Iriz and increased localisation efforts by original equipment manufacturers (OEMs) will be the key earnings driver for APM this year.

"As for the [Iriz] contract with Proton, APM has never supplied the seats for its previous models as they were supplied by its competitors. However due to some issue, APM has managed to secure the contract to supply for the Iriz model," says iCapital.biz in a recent research report.

iCapital says APM has been supplying to all the Perodua models. As its models are based on Japan's Daihatsu cars, APM will gain from the long-term manufacturing contract as its 60% subsidiary Fuji Seats (Malaysia) Sdn Bhd is linked to Japan's Fuji Seat Co Ltd which is supplying to Daihatsu models.

With its major customers being Perodua, Proton and Tan Chong (Nissan), iCapital says these top-three customers represent 40%, 12-15% and 10-12% of its total sales, respectively.

Mazda boost

In addition, iCapital says APM is setting up a plant in Kulim, Kedah to supply seats and plastic parts to Hyundai and Mazda vehicles. The plant is expected to be ready by year-end.

The analyst says the new tie-up with Mazda will further enhance APM's earnings. "APM could significantly gain following new attractive and mass-market model launches expected this year," he adds. Completely-knocked-down variants of Mazda cars are produced at the Inokom facility in Kulim.

"Once the auto parts manufacturer is appointed as an OE supplier, the carmaker will not change the OE

manufacturer. This is because to be an OE supplier like APM, the company has to spend a lot of time on research and development and preparation for the production, sometimes one to two years. Hence its OE parts are model-designated products," says iCapital.

It adds APM has also gained from the weakening Japanese yen. "The depreciation of the yen and gradual fall in steel prices have worked in APM's favour," iCapital explains.

APM AUTOMOTIVE HOLDINGS BHD

Key board members and management

Datuk Tan Heng Chew (chairman)
Low Seng Chee (CEO)
Datuk Tan Eng Hwa (chief operating officer)

Major shareholders

Tan Chong Consolidated Sdn Bhd **37.5%**
Wealthmark Holdings Sdn Bhd **7.8%**
Mondrian Investment Partners Ltd **5.14%**

Market cap (Jan 8) **RM943.2m**

Share price (Jan 8) **RM4.82**

52-week high (May 12, 2014) **RM6.40**

52-week low (Dec 16, 2014) **RM4.65**

Financial results (Q3 ended Sept 30, 2014)

Revenue **RM291.9m**

Net profit **RM22.8m**



APM is an auto parts supplier to both Perodua and Proton

"To assess the impact of movement in the yen on APM's operating costs, a 10% movement in yen will have a 7% movement in APM's manufacturing costs."

With the company poised to gain from the weakening yen following Japan's massive US\$712 bil (RM2.49 tril) annual stimulus, analysts expect APM's customers to demand a price cut in the light of the lower raw material cost.

The analyst also notes the introduction of the National Automotive Policy (NAP) in January last year has benefited APM. "One of the main thrusts of NAP is the increase of localisation of auto parts."

Overseas expansion

The company targets to expand its overseas market to contribute 10% of total revenue in five years. And its acquisition of McConnell Seats Australia for A\$4.7 mil in the second half of last year is expected to play a major role in that effort.

AmResearch Sdn Bhd in a research report says: "If APM is successful in meeting its post-acquisition incremental RM300 mil revenue target, we estimate the impact on its earnings could be well over 30%."

With the purchase of the 63-year-old Australian seat manufacturing company, AmResearch says APM could gain from margin expansion following the leverage of McConnell's gross margins of 40%, against APM's 30%.

In addition, APM will have access to a new clientele base in the form of key commercial vehicle manufacturers such as Bombardier and Scania. "APM generates RM100 mil in export sales and targets to expand this to over RM300 mil post-acquisition via McConnell's premium pricing and cross-selling of existing APM products," says AmResearch.

With auto manufacturers expecting to exit Australia within the next two to three years, AmResearch sees APM taking advantage of the hollowing-out of the Australian auto sector by FY17 by acquiring assets in the supply chain at cheap valuation.

"APM has the advantage of being a big regional player in Asean and is likely to cross-sell the McConnell brand and products in existing markets, and leverage on its lower-cost manufacturing base

in Vietnam, Indonesia, and Malaysia," AmResearch explains.

For its Q3FY14 ended Sept 30, APM reported a 37% decline in net profit to RM22.8 mil from RM36.3 mil a year earlier, on the back of a lower revenue of RM291.9 mil due to a lower off-take from OEMs as a result of softer vehicle sales.

APM says excluding the RM10 mil net gain from a partial divestment of shares in the same period a year ago, the actual decline in profit before tax was 17%.

In a press release, the Malaysian Automotive Association (MAA) announced the total industry production (TIP) as of November 2014 had fallen by around 1% to 545,352 vehicles as compared to 548,420 recorded a year earlier.

Explaining the weaker vehicle sales, the analyst says many consumers are refraining from making big-ticket purchases. He adds that car loans constitute the second-largest debt segment for consumers in the country.

Slow sales prior to launches

Further, he adds that the much-anticipated unveiling of Proton Iriz and Perodua Axia has further affected car sales prior to their launches. "Consumers withheld their purchases as models launched by our national automakers are mass-market models. Another thing is that both automakers have been issuing sneak peeks on their products and prices, garnering successful pre-bookings as a result."

Another factor contributing to the lower vehicle sales was the slow production ramp-up of the Proton Iriz and the year-on-year decline in Nissan sales, the analyst says.

Following a muted year with limited model launches or upgrade by Tan Chong, the analyst notes the weaker Nissan sales volume has badly affected APM as Tan Chong constitutes 40% of APM's total sales.

Although the introduction of the goods and services tax (GST) in April may negatively impact the automotive sector, Frost and Sullivan senior partner Kavan Mukhtar expects this year's baseline growth to be 3.15% following the introduction of the mass-market Perodua Axia and Proton Iriz last September. *FocusM*



APM has secured a new contract to supply components for the Proton Iriz and another to supply to Hyundai and Mazda vehicles