

# Investment analysis for proton holdings engineering essay



**ASSIGN  
BUSTER**

Proton Holdings was incorporated in 1983 and is based in Subang Jaya, Malaysia. Proton Holdings Berhad, an investment holding company, engages in the manufacture, assembly, and sale of motor vehicles and related products in Malaysia and internationally. The company also imports and distributes motor vehicles and related products, as well as manufactures automotive components. In addition, it involves in the property development and management operations, as well as provides engineering consultancy services.

The objectives of this project are to perform common stock valuation on a major company listed on the Bursa Malaysia and our group had decided to choose Proton Holdings as mentioned the detail above. We also have to estimate the intrinsic value of the company's common stock using the general approaches such as Price/Earnings Ratio, Price/Cash Flow Ratio, Price/Book Value Ratio and Price/ Sales Ratio. From the various values that we estimated using the methods above, we have to find a single value that most appropriate as company's common stock price and compare it with the current market price and then determine whether the stock is overvalued, undervalued or correctly priced. Based on the valuation, we also have to appropriate recommendation to investors (Buy/Sell/Hold).

## **HISTORY OF PROTON**

It was established in 1983 under the direction of the former Prime Minister, Dr. Mahathir Mohamad. Since then, it was Malaysia's dominant carmaker until the establishment of Perodua in 1993. Based on technology and parts from Mitsubishi Motors, production of the first model, the Proton Saga began in September 1985 at its first manufacturing plant in Shah Alam, Selangor.

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Initially the components of the car were entirely manufactured by Mitsubishi but slowly local parts were being used as technologies were transferred and skills were gained. The 100, 00th Proton Saga was produced in January 1989.

Until the end of the 1990s, the car's logo featured the crest from Malaysia's coat of arms, featuring a crescent and a fourteen-pointed star. The new Proton logo features a stylized tiger head, as well as the change from the lowercase italic text " proton" to uppercase " PROTON".

In 1993, a model called Proton Wira was introduced based on the Mitsubishi Lancer/Colt. More than 220, 000 units were sold between 1996 and 1998. Proton Perdana, based on the Mitsubishi Galant/Eterna, was first produced in 1995, intended for higher end market. The Proton Waja (Proton Impian in UK), which launched early 2001, is the first car model designed internally by Proton. By 2002 Proton held a market share of over 60% in Malaysia, which was reduced to barely 30% by 2005 and is expected to reduce further in 2008 when AFTA mandates reduce import tariffs to a maximum of 5%.

With the acquisition of Lotus technologies in 1996 from ACBN Holdings (a company owned by the owner of Bugatti), Proton has gained an additional source of engineering and automotive expertise. This led to the production of Proton Gen-2 which was code name Wira Replacement Model (WRM) before the launch. The Gen-2 is the first of cars to be manufactured and assembled at the new manufacturing plant in Tanjung Malim, Perak which is part of Proton City development project. The plant was opened in 2004. On 8 June 2005 Proton introduced the second model to be manufactured in Tanjung

Malim, the 1, 200 cc 5-door supermini, the Proton Savvy. Both the Gen-2 and Savvy, were models that MG Rover was looking to rebadge when the

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British firm entered into collaboration talks with Proton. However these joint-venture talks were unsuccessful and MG Rover subsequently collapsed.

In 2007, Proton launch its new sedan as replacement version for Wira Sedan but with new name, Persona, which was previously used as an export name for models outside Malaysia. The new Proton Saga replacement model (codename Proton BLM) was launched on 18 January 2008. The new Saga is based on the Savvy platform, but using Campro 1. 3L instead of Renault engine. It was announced on August 8, 2008 that Proton is developing a new, fuel-efficient hybrid car to beat rising costs and address environmental concerns. Prime Minister Abdullah Ahmad Badawi told reporters that he had already test-driven the car and urged the company to continue researching energy-saving technologies. In addition, Proton has entered talks with Mitsubishi Motors once again, and talks are going positive. This includes the Waja replacement based on the Mitsubishi Lancer and the rebadging of Proton Persona and Proton Exora as Mitsubishi vehicles in certain markets.

As of 3 August 2008, Proton has produced 3 million cars since 1985, where the 3 millionth car is a second-generation Saga.

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## **PROFILE OF PROTON**

PROTON was incorporated on 7 May 1983 with three primary national policy objectives: To spearhead the automotive industrialisation process and

manufacturing industries; To acquire/upgrade technology and industrial skills within the

automotive manufacturing industry; and to strengthen the international competitiveness of Malaysia's industrial capability.

PROTON commands a substantial share of the domestic market for passenger cars and over the years has been building up distribution networks in key market centres across the

four regions, South-East Asia, the Middle East, United Kingdom / Western Europe, and Australasia.

The main business activities of the Group encompass vehicle engineering, research & development, manufacturing, distribution and after-sales services. The Group is also involved

in financial services and property management in supporting the main business activities. The Group designs and produces cars for diverse consumer preferences. The portfolio of PROTON models includes the reliable family-sedan Waja, the stylish Gen. 2, the elegant Perdana V6, the versatile Arena, the proven Saga range, the fun-to-drive Savvy, the desirable sporty Satria Neo and the '2008 Best Model of the Year' winner, the Persona. The Group also has in its portfolio, the world-renowned Lotus sports cars, with

models such as Elise, Esprit, Exige, Europa and the recently Exora to suit a range of customer demands and preferences. The Group conducts research in its centres in Malaysia and the United Kingdom on new technologies to create cars that are unique in both design and driving performance. Through Lotus, the Group provides comprehensive and versatile consultancy services to many of the world's OEMs and Tier 1 suppliers.

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Currently, the Group has almost 12, 000 employees who are involved in the whole value chain of the business, from research, design, development, testing, stamping, casting, machining and assembly to marketing, distribution and after-sales services. Strong customer orientation and competitively priced products are the foundation of our business and essential to our success. We aim to maintain market leadership by continuing to develop innovative products and satisfy our customers needs better and enhance profitability.

## **FINANCIAL PERFORMANCE**

The markedly improved market condition during the first half of the year under review saw an improvement in terms of sales and revenue for PROTON. With sales increase of 9%, our revenue was positively impacted with an increase of 15% compared to 2008. Nevertheless, Proton are mindful of the challenges to be faced in the next financial year and beyond. The gloomier second half of the year under review was a reflection and clear

indication of the foreseeable future, which will be tough in light of the financial crisis which is greatly impacting the global automotive industry. In light of this, the immediate and prime concern is to reinforce PROTON's foundation and strengthen its balance sheet in order to confidently strive forward and overcome obstacles in order to focus on and aggressively enhance our export programme.

Accordingly, for the financial year ended 31 March 2009, PROTON recorded a loss after tax of RM301. 8 million albeit on the back of improved revenue of RM6. 5 billion. This decline was largely due to the one-off exceptional provision for the impairment of property, plant and equipment and inventory write-down for certain models impacted by declining demand. Additionally, PROTON's financial performance for the second half of the financial year was also adversely affected by the accelerated amortisation of dies and jigs for certain models as well as higher commodity prices, increased costs of components and raw materials which arose from higher foreign currency exchange rates, particularly, the Japanese Yen and the US Dollar, coupled with allowance for doubtful debts.

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On a more positive note, the Group's cash and cash equivalents as at 31 March 2009 was maintained close to the RM1 billion mark. This was after taking into account the various

research and development (R&D) expenditure undertaken during the financial year to develop its recently launched first home grown multi-purpose vehicle, the Exora; initiatives to take their successful Saga and  
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Persona models into international markets; launch of product refreshers, namely the Persona SE and Satria Neo CPS; and commitment for powertrain development, further product refreshers, as well as new product introduction.

In addition, PROTON has received an R&D grant from the Government amounting to RM81 million, under the National Automotive Policy (NAP), in recognition of the Group's

investment in R&D amounting to RM162 million.

## **SWOT ANALYSIS**

Data monitor's Proton Holdings Berhad - SWOT Analysis company profile is the essential source for top-level company data and information. Proton Holdings Berhad - SWOT Analysis examines the company's key business structure and operations, history and products, and provides summary analysis of its key revenue lines and strategy.

Proton Holdings (Proton) designs and produces cars for diverse consumer markets. The portfolio of Proton models includes the Waja, the Gen. 2, the Arena/Jumbuck, the Savvy, and the Satria Neo. It is headquartered in Shah Alam, and employs about 11, 000 people. The company recorded revenues of MYR7, 796. 9 million (approximately \$2, 115. 2 million) during the financial year ended March 2006 (FY2006), a decrease of 8. 1% over 2005. The net profit was MYR4, 908. 7 million (approximately \$1, 331. 7 million) in 2006, a decrease of 0. 2% from 2005. the company recorded revenues or MYR6, 486. 6 million (\$1, 901million) during the financial year ended March (FY2009), an increase of 15% over FY2008. The net profit loss was MYR301.  
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8 million (\$88.4 million) in FY 2009, as compared to net profit of MYR 184.6 million

(54.1 million) in FY2008.

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Furthermore, a major scope of the report is to provide all the crucial information on Proton Holdings Berhad required for business and competitor intelligence needs. It's also to contain a study of the major internal and external factors affecting Proton Holdings Berhad in the form of a SWOT analysis as well as a breakdown and examination of leading product revenue streams of Proton Holdings Berhad. Besides that, data is supplemented with details on Proton Holdings Berhad history, key executives, business description, locations and subsidiaries as well as a list of products and services and the latest available statement from Proton Holdings Berhad.

## **ECONOMIC ANALYSIS**

Malaysia economy outlook for 2009 will bound to be a very challenging year for Malaysia, although Malaysia economy is holding up pretty well. The first half of 2009 is expected to be a very tough period for Malaysia. As a conclusion, the impact on Malaysia this year has somehow been cushioned but many are beginning to feel the economic downturn towards the year-end.

GDP of Malaysia was contracted by a steep 6.2% year on year in the first quarter of 2009. The economy is particularly sensitive to changes in world trade such as exports and imports of goods and services that are equivalent

to more than 100% of GDP. The output decline eased to 3.9% in the second quarter. During the first 6 months of this year, the economy contracted by 5.1% in a broad based downturn that saw weakness spread from exports to investment and private consumption. There is only a decline in imports and increased government consumption provided some offset. Exports in volume terms fell by 16.3% in the first half of 2009 from the prior-year period reflecting dwindling demand from most of Malaysia's important export markets. This was offset by a 21.5% fall in import volumes and thus net exports registered growth for the period. Fixed investment contracted by 10.3%, a sign that many firms deferred or canceled proposed investments seeking to safeguard their balance sheets. Whereby, the private consumption which accounts for around one half of GDP had declined by 0.1% on account of a fall in disposable incomes in several sectors of the economy.

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Besides that, the more moderate pace of GDP contraction during the second quarter owed much to increased public expenditure and growth in private consumption. Public consumption rose by 1.0% in the quarter as the Government implemented two fiscal stimulus packages. The first drawn up in November 2008 and a second, larger set of measures in March 2009. The higher public spending together with some stabilization in the labor market and lower

consumer prices improved consumer sentiment and led to a 0.5% increase in private consumption after a decline of 0.7% in the first quarter.

Meanwhile, the inflation has decelerated sharply from a peak of 8.5% in July-August 2008, so that the consumer price index rose by just 1.7% in the first 7 months of 2009. Indeed, the index declined by 2.4% from its year-earlier levels in July 2009 due to falling global commodity prices, slower domestic demand and the base effect of an increase in administered fuel prices in June 2008. However, on a month on-month basis consumer prices edged up by 0.1% in July, suggesting an easing in deflation pressures.

In response to the deteriorating domestic economy and slowing inflation, Bank Negara Malaysia the central bank, reduced its policy interest rate in steps from 3.5% at the beginning of November 2008 to 2.0% in February 2009 and its reserve ratio for commercial banks to a record low of 1.0% from 3.5% in November 2008. A trade-weighted depreciation of the currency has further relaxed financial conditions. The monetary authorities said in July that the easing of monetary policy, coupled with the two fiscal stimulus packages, are sufficient to support economic activity.

## **Monetary Policy**

Prior to the 1997 Asian Financial Crisis, the Malaysian ringgit was an internationalized currency, which was freely traded around the world. Just before the crisis, the Ringgit was traded RM2.50 at the dollar. Due to speculative activities, the Ringgit fell as much as RM4.10 to the dollar in matter of weeks. Bank Negara Malaysia, the nation's central banks decided to impose capital controls to prevent the outflow of the Ringgit in the open market. The fixed change rate was abandoned to floating exchange rate in July 2005. At this point, the Ringgit is still not 8

internationalized. The Ringgit continue to strengthen to 3.18 to the dollar in March 2008. Meanwhile, many aspect of the capital control has been slowly relaxed by Bank Negara Malaysia. However, the government continues to not internalized the Ringgit. The government stated that the Ringgit will be internationalized once it is ready.

Monetary policy in Malaysia was indicate by Overnight Policy Rate (OPR) based on the current 3.5%, inter bank rate, plus or minus 0.25% will used as the main basis of BLR computation. Further, the OPR will be the indicator of the monetary policy stance. While, BLR is determined by bank itself and it will attracts investors to invest in any projects in Malaysia.

## **MALAYSIA: SECTORAL FORECASTS 2009**

### **SectorGrowth (%)**

Agriculture 3.3

Mining 2.7

Manufacturing 3.0

Construction 0.0

Services 4.7

### **Real GDP 4.0**

9

## RELATIVE VALUATION TECHNIQUES

### a) Year Ended 31 March 2009

Stock price = 1.58

#### 1) Price / Earning Ratio

Price / Earning Ratio =

=

= 2.88

It stock (1.58) was trading at 2.88 times the company basic net earning of 0.54 per share. This mean that Proton Holding would be paying RM2.88 for every ringgit of Proton earnings.

#### 2) Price / Cash Flow Ratio

Price / Cash Flow Ratio =

=

= 3.92

It stock (1.58) was trading at 3.92 times the company cash flow of 0.40 per share.

#### 3) Price / Book Value Ratio

Price / Book Value Ratio =

=

= 0.17

It stock (1.58) was trading at 0.17 times, the company book value of 9.29 per share.

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#### **4) Price / Sales Ratio**

Price / Sales Ratio =

=

= 0.13

It stock (1.58) was trading at 0.13 times, the company sales of 11.81 per share. This means that investor would paying RM 0.13 for every ringgit of Proton Holding sales.

#### **b) Year Ended 31 March 2008**

Stock price = 3.76

#### **1) Price / Earning Ratio**

Price / Earning Ratio =

=

= 3.50

#### **2) Price / Cash Flow Ratio**

Price / Cash Flow Ratio =

=

= 2.44

11

**3) Price / Book Value Ratio**

Price / Book Value Ratio =

=

= 0.38

**4) Price / Sales Ratio**

Price / Sales Ratio =

=

= 0.36

**c) Year Ended 31 March 2007**

Stock price = 6.47

**1) Price / Earning Ratio**

Price / Earning Ratio =

=

= 19.25

12

**2) Price / Cash Flow Ratio**

Price / Cash Flow Ratio =

=

= 36.78

### 3) Price / Book Value Ratio

Price / Book Value Ratio =

=

= 0.67

### 4) Price / Sales Ratio

Price / Sales Ratio =

=

= 0.75

2009

2008

2007

Price / earning ratio

2.88

3.50

19.25

Price/ cash flow ratio

3.92

2.44



36.78

Price/book value ratio

0.17

0.38

0.67

Price/sales ratio

0.13

0.36

0.75

13

**PROTON**

**KLSE**

**Date**

**Adj Close**

**Return**

**ks-k bars**

**(ks-k bars)<sup>2</sup>**

**Date**

**Adj Close**

**Return**

**km-k barm**

**(km-k barm)<sup>2</sup>**

**(ks-k bars)(kM-k barM)**

1

12/28/2009

3.91

12/28/2009

1272.78

2

12/21/2009

3.96

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0.00552

0.00422

0.0000178

12/21/2009

1263.94

-0.00303

-0.00248

0.0000061

-0.00001045537

3

12/14/2009

3.83

-0.01450

-0.01580

0.0002495

12/14/2009

1266.97

0.00104

0.00159

0.0000025

-0.00002509608

4

12/7/2009

3.9

0.00787

0.00657

0.0000431

12/7/2009

1260

-0.00240

-0.00185

0.0000034

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5

11/30/2009

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11/30/2009

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0. 00405

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6

11/23/2009

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0. 0000382

11/23/2009

1270. 61

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0. 00069

0. 0000005

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7

11/16/2009

3. 68

-0. 04694

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0. 0023266

11/16/2009

1274. 36

0. 00128

0. 00183

0. 0000033

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8

11/9/2009

3.72

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0.00340

0.0000115

11/9/2009

1270.96

-0.00116

-0.00061

0.0000004

-0.00000207604

9

11/2/2009

3.7

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-0.00364

0.0000133

11/2/2009

1260.76

-0.00350

-0.00295

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10

10/26/2009

3.79

0.01044

0.00914

0.0000835

10/26/2009

1243.23

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11

10/19/2009

4.06

0.02989

0.02859

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10/19/2009

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10/12/2009

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10/5/2009

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14

9/28/2009

3.94

-0.00656

-0.00786

0.0000618

9/28/2009

1206.25

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15

9/23/2009

4. 22

0. 02982

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0. 0008132

9/22/2009

1217. 39

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0. 00454

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16

9/14/2009

4. 44

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0. 02077

0.0004315

9/14/2009

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0.00136

0.00191

0.0000036

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17

9/7/2009

3.75

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-0.07465

0.0055727

9/7/2009

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9/1/2009

3.17

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9/1/2009

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8/24/2009

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8/17/2009

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8/17/2009

1163.79

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8/10/2009

2.96

-0.00292

-0.00422

0.0000178

8/10/2009

1188.57

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0.00970

0.0000941

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22



8/3/2009

2.92

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-0.00721

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8/3/2009

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7/27/2009

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7/27/2009

1174.9

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7/20/2009

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7/20/2009

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25

7/13/2009

2.69

0.00324

0.00194

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7/13/2009

1120.9

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0.0001638

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26

7/6/2009

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7/6/2009

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27

6/29/2009

2.69

0.00000

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6/29/2009

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28

6/22/2009

2.77

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6/22/2009

1075.77

0.00125

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29

6/15/2009

2. 65

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6/15/2009

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6/8/2009

2. 82

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0. 0006607

6/8/2009

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0.01239

0.01293

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6/1/2009

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6/1/2009

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5/25/2009

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0.0001445

5/25/2009

1044.11

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5/18/2009

2.88

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-0.01612



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5/18/2009

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5/11/2009

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5/11/2009

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5/4/2009

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5/4/2009

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4/27/2009

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4/20/2009

3. 06

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38

4/13/2009

2.65

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4/13/2009

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4/6/2009

1. 99

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-0. 12569

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4/6/2009

941. 38

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40

3/30/2009

1. 84

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-0. 03533

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3/30/2009

907.01

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41

3/23/2009

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3/23/2009

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3/16/2009

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0.00427

0.0000182

3/16/2009

856.82

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3/10/2009

1.55

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3/10/2009

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3/2/2009

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3/2/2009

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45

2/23/2009

1. 77

0. 04385

0. 04255

0. 0018109

2/23/2009

890. 67

0. 01612

0. 01667

0. 0002778

0. 00070925722

46

2/16/2009

1. 75

-0. 00494

-0. 00623

0. 0000389

2/16/2009

889. 71

-0. 00047

0. 00008

0. 0000000

-0. 00000050242

47

2/10/2009

1. 74

-0. 00249

-0. 00379

0. 0000143

2/10/2009

909.84

0.00972

0.01027

0.0001054

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48

2/3/2009

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2/3/2009

896.64

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-0.00580

0.0000336

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1/28/2009

1.72

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-0.00632

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1/28/2009

884.45

-0.00594

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0.0000291

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50

1/19/2009

1.75

0.00751

0.00621

0.0000386

1/19/2009

872.69

-0.00581

-0.00526

0.0000277

-0.00003269448

51

1/12/2009

1.92

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1/12/2009

896.47

0.01168

0.01222

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52

1/5/2009

1.93

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1/5/2009

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53

12/30/2008

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12/30/2008

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54

12/22/2008

1.83

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-0.00367

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12/22/2008

867.35

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-0.01277

0.0