

Automotive

4QCY22 Report Card: Marred by High Cost

OVERWEIGHT



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Reiterate **OVERWEIGHT**. The sector's 4QCY22 results were mixed with most players under our coverage dragged by high input costs. Nevertheless, the worst of margin squeeze is over as: (i) the high-cost inventories will be depleted over the next 3-6 months as production ramps up, and (ii) prices of commodities and key components had since softened. Our projection implies that 2023 TIV will sustain at the record 2022 level of 720k units versus a more conservative forecast of 650k (-9.8%) by the Malaysian Automotive Association (MAA) underpinned by: (i) a pause in OPR hikes, (ii) stable new car prices, thanks to the deferment of new excise duty regulations (that could have resulted in prices of locally assembled vehicles increasing by 8%-20%), and (iii) a healthy industry booking backlog of 350k units as at end-Jan 2023 (which is nearly half of our 2023 TIV projection of 720k units). Our sector top picks are MBMR (OP; TP: RM4.60) and UMW (OP; TP: RM4.70).

High production cost. The recently concluded 4QCY22 results season saw a slight QoQ deterioration in performance for automotive stocks under our coverage, weighed down by high production. Against expectations, 50% of the results was within and 50% below versus 17% above and 83% within for 3QCY22. BAUTO, DRBHCOR, and SIME performed within expectations whilst MBMR, UMW and TCHONG underperformed on higher-than-expected cost of production. Both MBMR (OP: TP cut by 4% to RM4.60 from RM4.80) and UMW (OP: TP cut by 5% to RM4.70 from RM4.95) were affected by the weaker-than-expected showing from manufacturing associate Perusahaan Otomobil Kedua Sdn Bhd on higher input costs despite record sales volume recorded in the fourth quarter. Nevertheless, during results briefing, both MBMR and UMW believe the worst of Perusahaan Otomobil Kedua Sdn Bhd's margin squeeze is over as: (i) the high-cost inventories will be depleted over the next 3-6 months as production is ramped up to full capacity, and (ii) prices of commodities and key components had since softened. On the other hand, TCHONG (UP: TP cut by 6% to RM0.80 from RM0.85) plunged deeper into the red losing to competitors which flooded the market with attractive new models and its inability to raise prices to pass on rising production cost.

Upbeat on sales volume. Looking forward, we project a more upbeat 2023 total industry volume (TIV) target at 720k units (+0%), compared to MAA's 650k (-9.8%), premised on strong reception to new models (at higher prices, resulting in better margins for auto players), a pause in the OPR hike and the deferment of new excise duty regulations resulting in stable car prices. In comparison, MAA is more cautious on the industry outlook as a whole, especially for the low-end segment, (we believe) due to the impact of high inflation on the low-income group especially with the rising cost of basic necessities.

An encouraging sign to note is that the backlogs booking raced up to the tune of 350k units (as at end-Jan 2023) which is higher than 300k units three months ago, indicating strong order replenishment especially for attractive new models (see page 3) even in the absence of SST exemption. Additionally, vehicle sales will be supported by new battery electric vehicles (BEVs) which will enjoy SST exemption and other EV facilities incentives up to 2025 for CBU and 2027 for CKD.

Our sector top picks are:

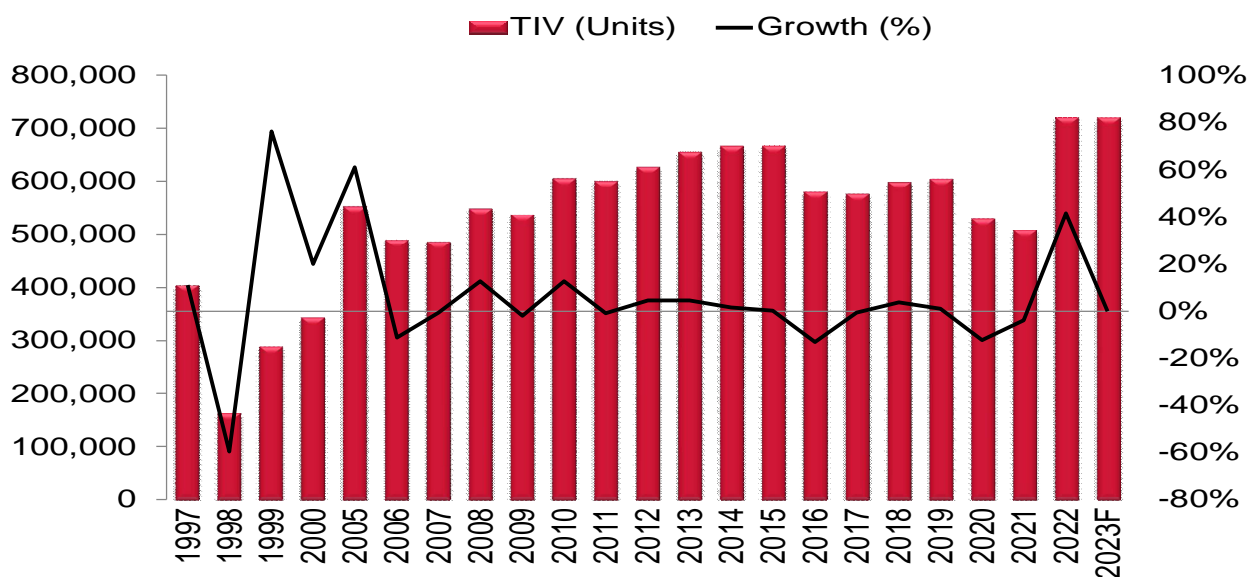
- **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 220k units, (ii) it being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 22.58% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its Tier-1 OEM auto parts manufacturing certification.
- **UMW** for: (i) the mass-market marques under its vehicle dealership business, i.e. Toyota and Perodua, but not without high-margin models such as Perodua Alza and Toyota Veloz, (ii) strong earnings visibility at its vehicle dealership business backed by order backlogs of >250k units of vehicles, and (iii) it being a reopening play, given the pick-up seen in its heavy/industrial equipment business and manufacturing of aero-engine fan cases.

Quarterly Results Performance

	4QCY22						3QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
BAUTO		1			1			1			1	
DRBHCOM		1		1			1			1		
MBMR			1		1			1			1	
SIME		1			1			1			1	
TCHONG			1			1		1			1	
UMW			1			1		1		1		
Total	0	3	3	1	3	2	1	5	0	2	4	0
Total (%)	0	50	50	17	50	33	17	83	0	33	67	0

Source: Kenanga Research, companies quarterly results,

TIV volume 1997-2023F



Source: MAA, Kenanga Research

Exciting New Launches



Perodua Ativa (plans for hybrid model)



All-new Perodua Alza



All-new Toyota Veloz



All-new Toyota Vios in 2023



All-new Perodua Axia 2023



All-New Kia Carnival 8-seater



Proton SUV 7-seater in early 2023



Proton SMART#1 EV in 4Q23



Mazda CX-30 CKD



2022 Honda City Hatchback



All-new 2022 Honda HR-V



All-new Honda BR-V -2023

Source: Various

29 December 2022

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.20	2.65	20.45%	2,563.5	Y	04/2023	16.7	18.3	24.7%	9.4%	13.2	12.0	3.2	26.2%	11.7	5.3%
DRB-HICOM BHD	MP	1.49	1.40	-6.04%	2,880.5	Y	12/2023	15.4	16.2	-1.9%	5.3%	9.7	9.2	0.3	3.4%	2.0	1.3%
MBM RESOURCES BHD	OP	3.64	4.60	26.37%	1,422.8	Y	12/2023	65.6	67.7	14.5%	3.2%	5.6	5.4	0.6	12.0%	26.0	7.1%
SIME DARBY BHD	OP	2.16	2.60	20.37%	14,721.7	Y	06/2023	17.3	19.0	-1.8%	10.1%	12.5	11.4	0.9	7.3%	12.0	5.6%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.13	0.800	-29.20%	736.9	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	3.0	2.7%
UMW HOLDINGS BHD	OP	3.79	4.70	24.01%	4,427.8	Y	12/2023	35.9	38.3	6.6%	6.7%	10.5	9.9	1.0	9.4%	15.0	4.0%
SECTOR AGGREGATE					26,753.2					2.6%	9.0%	11.7	10.7	0.7	6.2%		4.3%

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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