Automotive

An Affordable Luxury

OVERWEIGHT

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We maintain OVERWEIGHT on the automotive sector. We believe a new car is still an affordable luxury for most Malaysian households despite the high inflation and a slowing global economy. We maintain our CY23F TIV of 720k which will match the record level achieved in CY22, underpinned by: (i) strong consumer confidence supported by a stable economy and a healthy job market, (ii) the affordability of motor vehicle underpinned by 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 potentially cheaper hire purchase cost with the introduction of reducing balance method in the calculation of interest charges, and (iii) attractive new models. Earnings visibility of the industry is strong, backed by a booking backlog of 275k units as at end-May 2023. Our sector top picks are MBMR (OP; TP: RM4.70) and BAUTO (OP; TP: RM3.10), both with an attractive dividend yield more than 7%.

Record year in CY22 poised to be repeated in CY23. We believe a new car is still an affordable luxury for most Malaysian households despite the high inflation and a slowing global economy. We maintain our CY23 TIV projection of 720k units that will match the record level achieved in CY22. Our optimism is underpinned by: (i) strong consumer confidence supported by a stable economy and a healthy job market, (ii) the affordability of motor vehicle underpinned by 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 potentially cheaper hire purchase cost with the introduction of reducing balance method in the calculation of interest charges, and (iii) attractive new models. Our projection is about 11% higher than the 650k units projected by Malaysian Automotive Association (MAA).

The industry's total booking backlogs have held up at a fairly strong level of 275k units compared to 300k units three months ago despite heavy deliveries. This indicates sustained strong buying interest, lured by attractive new model launches by players. We foresee a similar pattern throughout the rest of the year.

Attractive new models. In the space of local brands, both Perodua and Proton models have been selling well, being competitively priced against the non-national brands. They also offer improved technological features (i.e. digital speedometer, fuel-efficient engine and highly-responsive gearbox) and safety features (i.e. autonomous braking assistance and 4-to-6 airbags). Perodua is ahead in the new model race with the launch of the all-new Perodua Axia (improved features such as digital speedometer and emergency braking assistance) followed by two more face-lifted models this year, and one new model in early 2024 (Perodua D66B, B-segment). On the other hand, Proton recently launch the first mild-hybrid electric vehicle (MHEV) for the local brand, its all-new Proton X90, and plan to launch all-new Proton S50 (C-segment Sedan) and Proton SMART (BEV) by year-end, and five face-lifted models, all within CY23.

In the space of non-national brands, automakers are shifting away from the highly competitive low-margin segment such as 7-seater SUVs and focus on premium products that will appeal to the middle-income group such as those offered by **BAUTO**. Honda, for instance, is replacing its 7-seater variant of Honda BR-V with WR-V (small 5-seater SUV) expected to be launched next month. Car buyers are spoilt for choice with new launches including Perodua D66B (1QCY24, B-segment), Toyota Innova Zenix (3QCY23), Mazda CX-30 CKD, Peugeot Landtrek, Peugeot e-2008 (EV), Kia Sorento, Kia Sportage, Kia Carens, Honda WR-V (3QCY23), Honda CR-V, Toyota Vios, Toyota Yaris, Toyota GR86, Toyota GR Corrolla and Nissan Serena.

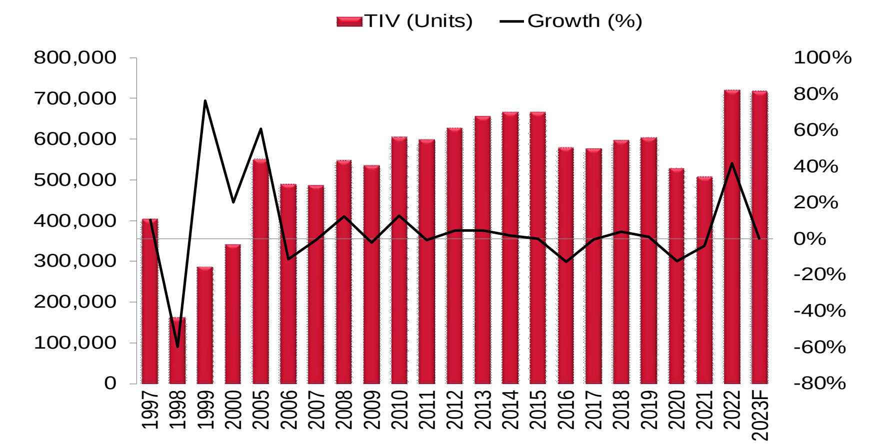
More battery electric vehicles (BEVs) in the market. Additionally, vehicle sales will be supported by new BEVs which enjoy SST exemption and other EV facilities incentives up to CY25 for CBU and CY27 for CKD. BEVs' new registration have leapt significantly for the past two years (from 274 units in CY21 to 2,631 units in CY22) and is on track to meet national target for EVs and hybrid vehicles which are 15% of total industry volume (TIV) by CY30, and 38% of TIV by CY40.

Better margins for players. Apart from the strong booking backlog of 275k units, earnings visibility of players will also be supported by margins improvement due to new models such as all-new Perodua Axia which is priced higher by between 11% and 14% at RM38.6k and RM49k, with 27k units in new booking. The improvement in margins will also be underpinned by: (i) softening prices of commodities and key components, (ii) stabilisation of the USD/MYR exchange rate, and (iii) gradual run-down of high-cost inventory as automakers ramp up production to deliver booking backlogs.

Our sector top picks are:

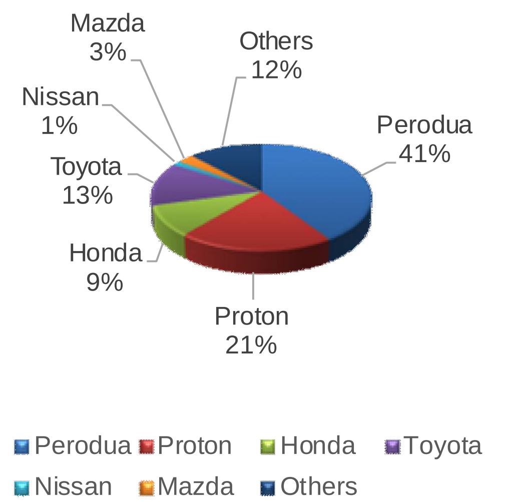
- **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 190k units (almost half of its CY23 target sales of 314k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 22.58% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 7%.
- **BAUTO** for: (i) its strong earnings visibility backed by an order backlog of 6.5k units for Mazda, Kia and Peugeot vehicles, (ii) its premium mid-market Mazda brand that offers the best of both worlds, i.e. products that appeal to the middle-income group and yet command superior margins than its peers in the mid-market segment, and (iii) its attractive dividend yield of about 8%.

TIV volume 1997-2023F



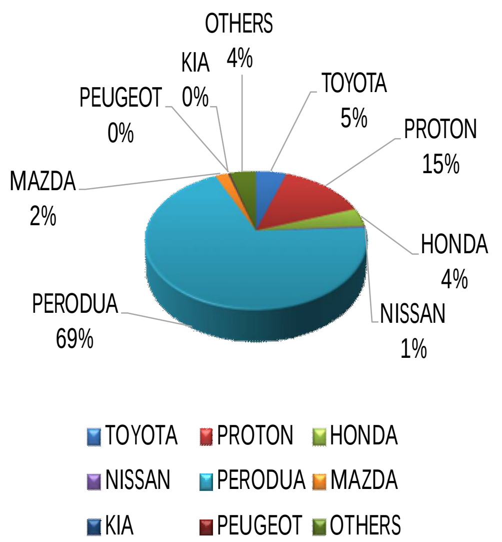
Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) 5MCY23



Source: MAA, Kenanga Research

Booking Backlog (Passenger) as of May-2023



Source: MAA, Kenanga Research

Exciting New Launches

All-New Perodua D66B (1QCY24)

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 x90 7-seater

Proton SMART#1 EV in 4Q23

Mazda CX-30

2022 Honda City Hatchback

All-new Toyota Innova Zenix (3QCY23)

All-new Honda WR-V 2023 (3QCY23)

Source: Paultan.org

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	2.30	3.10	34.8%	2,685.5	Y	04/2024	23.6	24.3	-9.7%	3.1%	9.7	9.4	3.3	34.6%	18.9	8.2%
DRB-HICOM BHD	MP	1.36	1.45	6.6%	2,629.2	Y	12/2023	16.5	17.7	4.9%	7.2%	8.3	7.7	0.3	3.6%	2.0	1.5%
HIL INDUSTRIES BHD	UP	0.985	0.780	-20.8%	327.0	Y	12/2023	9.2	10.1	28.0%	9.5%	10.7	9.8	0.7	6.9%	2.0	2.0%
HONG LEONG INDUSTRIES BHD	OP	8.88	11.40	28.4%	2,836.9	Y	06/2023	88.6	95.1	53.2%	7.3%	10.0	9.3	1.3	16.2%	57.0	6.4%
MBM RESOURCES BHD	OP	3.55	4.70	32.4%	1,387.7	Y	12/2023	65.6	67.7	14.5%	3.2%	5.4	5.2	0.6	12.0%	26.0	7.3%
SIME DARBY BHD	OP	2.06	2.40	16.5%	14,040.1	Y	06/2023	15.0	17.2	-14.6%	14.9%	13.7	11.9	0.9	6.3%	12.0	5.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.08	0.800	-25.9%	704.0	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.9%
UMW HOLDINGS BHD	OP	3.81	4.80	26.0%	4,451.2	Y	12/2023	35.5	37.9	5.3%	6.7%	10.7	10.1	1.0	9.3%	15.0	3.9%
SECTOR AGGREGATE					**29,061.5**					**-1.5%**	**10.2%**	**11.4**	**10.3**	**0.7**	**6.5%**		**4.6%**

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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