

18 December 2023

Automotive

Shifting to a Lower Gear

NEUTRAL



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We downgrade our call to NEUTRAL from OVERWEIGHT. We project industry-wide sales volume, also known as total industry volume (TIV), to contract by 8% to 710k units in CY24 as fuel subsidy rationalisation is likely to hurt the demand for mid-market models. However, we remain optimistic on vehicle sales in the affordable segment as the buyers, i.e. the B40 group, will be spared the impact of subsidy rationalisation, and also could potentially benefit from the introduction of the progressive wage model. Our sector top pick is MBBM (OP; TP: RM5.50), which is a good proxy to the affordable and fuel-efficient Perodua vehicle brand. It also offers an attractive dividend yield of about 11%.

We downgrade the automotive sector to NEUTRAL from OVERWEIGHT. We project a TIV of 710k units in CY24 (down 7.8% from an estimated 770k units in CY23). The industry's earnings visibility is still strong, backed by a booking backlog of 220k units as at end-Nov 2023. More than half of the backlog is made up of new models, alluding to how appealing new models are to car buyers. We expect a similar trend in CY24, given an equally strong line-up of new launches during the year. Meanwhile, excitement is building in the electric vehicle (EV) segment with the recent new launches of BYD Seal and Tesla Model 3 with expected introduction of locally-made first national EV (i.e. Perodua and Proton) in CY25.

We believe a new car is still an affordable luxury for most Malaysian households despite the high inflation and a slowing global economy 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 the reducing balance method in the calculation of interest charges, and (iii) attractive new models.

However, we acknowledge that the impending fuel subsidy rationalisation is likely to hurt the demand for mid-market models, while remaining optimistic on vehicle sales in the affordable segment as the buyers, i.e. the B40 group which is its main target market, will be spared the impact of subsidy rationalisation, and also could potentially benefit from the introduction of the progressive wage model.

Perusahaan Otomobil Kedua Sdn Bhd, the maker of the affordable and fuel-efficient Perodua vehicles, will be running at full capacity in CY24 to fulfil in a huge booking backlog of 140k units, which is equivalent to almost half its CY24 sales target of 330k units. As such, based on our estimates, Perodua is poised to expand its market share to 47% (from an estimated 42% in CY23).

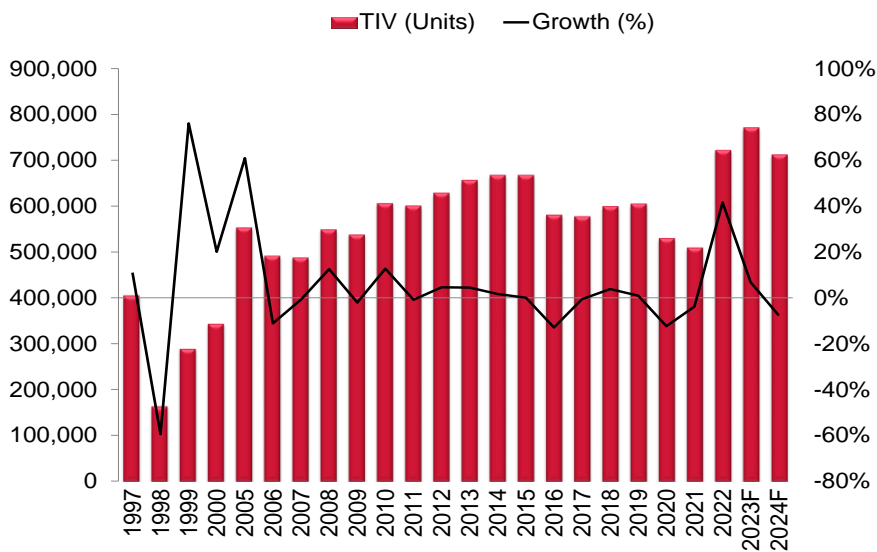
Attractive new models. In the space of local brands, both Perodua and Proton models have been selling well, being competitively priced against the non-national brands. They also offer improved technological features (i.e. digital speedometer, fuel-efficient engine and a highly-responsive gearbox) and safety features (i.e. advanced driver assistance systems (ADAS) and 4-to-6 airbags). Perodua is ahead in the new model race (in term of volume) 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 launched the first mild-hybrid electric vehicle (MHEV) for the local brand, its all-new Proton X90, and its first sedan under Geely partnership, all-new Proton S70 (C-segment sedan at the price of non-nationals B-segment), Proton-SMART (BEV), 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 (MP; TP: RM2.30)**. Honda, for instance, replaced its 7-seater variant of Honda BR-V with WR-V (small 5-seater SUV) which is the brand's current best-selling car. Generally, car buyers are spoilt for choice with new launches including Perodua D66B (1QCY24, B-segment), Proton S70, SMART EV, Toyota Innova Zenix, Mazda CX-30 CKD, Peugeot Landtrek, Peugeot e-2008 (EV), Kia Sorento, Kia Sportage, Kia Carens, Honda WR-V, Honda CR-V, Toyota Vios, Toyota Yaris, Toyota GR86, Toyota GR Corolla and Nissan Serena.

More battery electric vehicles (BEVs) in the market. Additionally, vehicle sales will be supported by new BEVs that enjoy SST exemption and other EV facilities incentives up to CY25 for CBU and CY27 for CKD. BEVs' new registration had leapt significantly for the past two years (from 274 units in CY21 to over 3,400 units in CY22 and 9,000 units by Nov 2023) 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. Meanwhile, the government's pledge to enable charge point operators (CPOs) to secure faster approvals for installation provide comfort as currently only 1,434 EV charging stations have been built to-date.

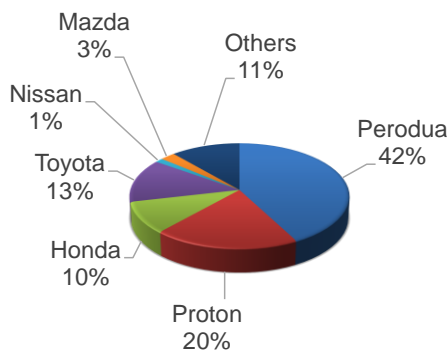
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 140k units, which is equivalent to almost half its CY24 sales target of 330k units, (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of 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 11%. We raise our TP for **MBMR** by 13% to RM5.50 (from RM4.85) as we now value it at 8x FY24F PER (from 7x previously). We narrow its forward PER discount to the sector's average of 11x to reflect its strengthening market position in the automotive industry.

TIV Volume 1997-2024F



Source: MAA, Kenanga Research

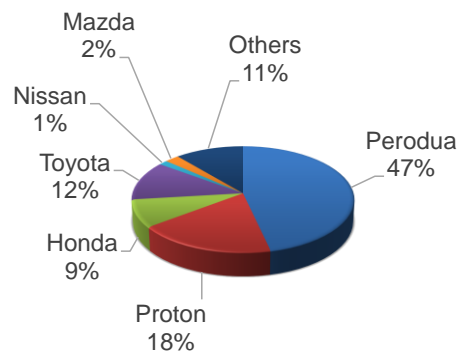
Market Share (Passenger and Commercial) CY23F



Legend: Perodua, Proton, Honda, Toyota, Nissan, Mazda, Others

Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) CY24F



Legend: Perodua, Proton, Honda, Toyota, Nissan, Mazda, Others

Source: MAA, Kenanga Research

Exciting New Launches



All-New Perodua D66B (1QCY24)



All-new Perodua Alza



All-new Toyota Veloz



All-new Toyota Vios



All-new Perodua Axia



All-new Honda City facelift



Proton x90 7-seater



Proton SMART#1 EV



Mazda CX-30



2022 Honda City Hatchback



All-new Toyota Innova Zenix



All-new Honda WR-V 2023

Source: Paultan.org

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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	MP	2.39	2.30	-3.8%	2,774.8	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.2	10.5	3.3	37.9%	20.1	8.4%
DRB-HICOM BHD	MP	1.39	1.45	4.3%	2,686.9	Y	12/2023	16.5	17.7	4.9%	7.5%	8.4	7.8	0.3	3.6%	2.0	1.4%
HIL INDUSTRIES BHD	MP	0.935	0.910	-2.7%	310.3	Y	12/2023	10.7	13.3	49.0%	24.2%	8.7	7.0	0.7	8.1%	2.0	2.1%
HONG LEONG INDUSTRIES BHD	OP	9.31	10.50	12.8%	3,052.7	Y	06/2024	87.8	92.3	-1.0%	5.2%	10.6	10.1	1.4	13.9%	60.0	6.4%
MBM RESOURCES BHD	OP	4.45	5.50	23.6%	1,739.5	Y	12/2023	67.7	69.2	18.2%	2.3%	6.6	6.4	0.8	12.6%	48.0	10.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.960	0.750	-21.9%	645.1	Y	12/2023	(18.3)	(9.0)	-426.9%	-149.3%	N.A.	N.A.	0.2	-4.3%	2.0	2.1%
SECTOR AGGREGATE					33,336.1					1.9%	4.3%	12.3	11.8	0.8	6.9%		5.0%

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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