Automotive

4QCY23 Report Card: Cruising Ahead

NEUTRAL
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The sector's earnings delivery (against our expectations) was better sequentially as 3 out of 7 companies surpassed our expectations. Their CY23 earnings growth was mainly driven by the record automotive industry sales led by Perodua, as well as strong margins from new models. We maintain our CY24 forecast of new vehicle sales in Malaysia, also known as total industry volume (TIV), at 710k units which is a tad lower than the 740k units projected by Malaysia Automotive Association (MAA). We hold the view that the impending fuel subsidy rationalisation will likely hurt demand for mid-market models, while remaining optimistic on the sales of affordable vehicles. The industry's earnings visibility will be backed by a booking backlog of 200k units. Our sector top pick is MBMR (OP; TP: RM5.80), which focuses on the affordable segment. It also offers an attractive dividend yield of about 9%.

Most automakers ended the year on a high note. The sector's earnings delivery (against our expectations) was better sequentially with 3 out of 7 companies surpassing our expectations in the recently-concluded 4QCY23 results season. Their CY23 earnings growth was mainly driven by the record automotive industry sales led by Perodua, as well as strong margins from new models. **HLIND (OP; TP: RM11.70)** beat expectations riding on price hikes, a shift toward more premium products, and strong margins realised for new models, while **HIL (MP; TP: RM0.94)**, and **MBMR** continued to ride on Perusahaan Otomobil Kedua Sdn Bhd's sustained CY23 sales volume at 330,325 units (+17%). Moreover, **HIL** benefitted from the stronger property profits on the back of strong take-up for its projects.

Meanwhile, **SIME (OP; TP: RM2.80)** was driven by strong operating results from its industrial and automative segments, coupled with maiden contribution (17 days) from the newly acquired UMW Holdings bhd. On the other hand, **BAUTO (MP; TP: RM2.30)** met our expectation but disappointed the market as we expect an even weaker 4Q on intensifying competition from Chinese automakers. We expect **BAUTO** to continue having to resort to heavy promotions to defend its turf from the like of new Chery Omada and BYD Seal.

On a less bright note, **DRBHCOM (MP; TP: RM1.40)** was weighed down by losses at its postal and aerospace & defence segments, which negated profits from Proton, Honda Malaysia and Bank Muamalat. Meanwhile, **TCHONG (UP; TP: RM0.72)** recorded a widened loss due to: (i) the lack of new launches while its competitors flooded the market with attractive new models, and (ii) its inability to raise prices to pass on rising production cost, more so amidst MYR's weakness vs. USD.

Resilient demand for the affordable segment. For CY24, we project a TIV of 710k units (-11%) which is closely in line with the 740k units projected by Malaysia Automotive Association (MAA). The industry's earnings visibility is still strong, backed by a booking backlog of 200k units as at end-Jan 2024, unchanged compared to a month ago. 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 new launches of BYD Seal and Tesla Model 3 as well as the 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.

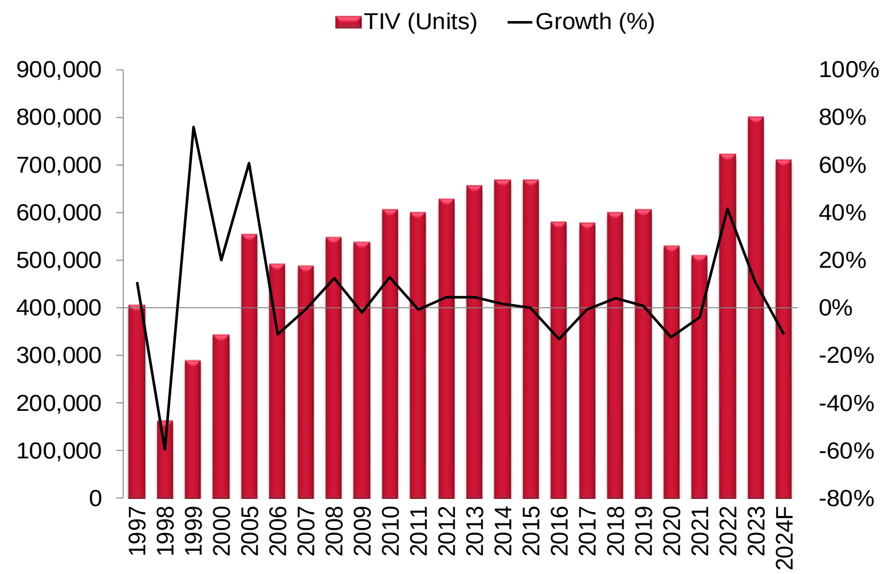
However, we acknowledge that the impending fuel subsidy rationalisation is likely to hurt the demand for mid-market models, while remaining optimistic on vehicle sales in the affordable segment as the buyers, i.e. the B40 group which is its main target market, will be spared the impact of subsidy rationalisation,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

Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 120k units (almost half of its CY24 target sales of 340k 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 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 9%.

Quarterly Results Performance	4QCY23						3QCY23					
	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	
HIL	1			1			1			1		
HLIND	1			1				1			1	
MBMR	1			1				1			1	
SIME		1			1			1			1	
TCHONG			1			1			1			1
Total	**3**	**2**	**2**	**3**	**1**	**3**	**2**	**4**	**1**	**2**	**4**	**1**
Total (%)	**43**	**29**	**29**	**43**	**14**	**43**	**29**	**57**	**14**	**29**	**57**	**14**

Source: Kenanga Research, companies quarterly results

TIV volume 1997-2024F



Source: MAA, Kenanga Research

Exciting New Launches


All-New Perodua D66B (April 2024)


All-new Perodua Alza


All-New Proton S70


All-new Toyota Yaris Cross (April 2024)


All-new Perodua Axia


All-new Honda City facelift


Proton x90 7-seater


Proton-SMART#1 EV

Mazda CX-30


All-new Honda CR-V


All-new BYD Seal EV


All-new Honda WR-V

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	MP	2.41	2.30	-4.6%	2,798.0	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.2	10.6	3.4	37.9%	20.1	8.3%
DRB-HICOM BHD	MP	1.34	1.40	4.5%	2,590.2	Y	12/2024	15.9	18.6	14.2%	17.0%	8.4	7.2	0.2	3.1%	2.0	1.5%
HIL INDUSTRIES BHD	MP	0.905	0.940	3.9%	300.4	Y	12/2024	13.6	14.3	11.9%	4.6%	6.6	6.4	0.6	9.7%	2.0	2.2%
HONG LEONG INDUSTRIES BHD	OP	10.64	11.70	10.0%	3,488.9	Y	06/2024	92.7	97.4	4.6%	5.0%	11.5	10.9	1.8	15.2%	110.0	10.3%
MBM RESOURCES BHD	OP	4.38	5.80	32.4%	1,712.1	Y	12/2024	72.5	73.3	-7.2%	1.1%	6.0	6.0	0.8	12.9%	40.0	9.1%
SIME DARBY BHD	OP	2.70	2.80	3.7%	18,362.7	Y	06/2024	17.7	19.3	4.4%	9.1%	15.2	14.0	1.1	7.4%	12.0	4.4%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.900	0.720	-20.0%	604.8	Y	12/2024	(16.8)	(16.2)	-187.2%	-196.8%	N.A.	N.A.	0.2	-4.2%	1.0	1.1%
SECTOR AGGREGATE					**29,857.1**					**4.5%**	**6.3%**	**12.8**	**12.0**	**0.8**	**6.6%**		**5.3%**

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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