Automotive

Plant Closure Weighs on June 2024 TIV

NEUTRAL
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New vehicle sales in Malaysia, also known as total industry volume (TIV), eased 15% MoM to 58,046 units in June 2024 mainly due to the closure of Perodua & Proton plants for a week during the Aidiladha festive as well as weaker commercial vehicle sales following the roll-out of diesel subsidy rationalisation. With 6MCY24 TIV making up 53% of our full-year projection of 740k units (-8% YoY), we consider the number meeting our expectation. Our CY24 TIV projection is a tad more conservative than 765k units projected by Malaysia Automotive Association (MAA) as we believe e-invoicing and petrol subsidy rationalisation in 2HCY24 will weigh down on vehicle sales. We believe while it will be business as usual for the affordable segment, fuel subsidy rationalisation will likely hurt the demand for mid-market models, giving rise to a two-speed automotive market locally in CY24. In general, the industry's earnings visibility is still good, backed by a booking backlog of 170k units. Our sector top pick is MBMR (OP; TP: RM6.30), a good proxy to the affordable and fuel-efficient Perodua brand. It also offers an attractive dividend yield of about 7%.

TIV eased 15% MoM to 58,046 units in June 2024 mainly due to the closure of Perodua & Proton plants for a week during the Aidiladha festive for routine maintenance (closure week during the celebration) as well as weaker commercial vehicle sales following the roll-out of diesel subsidy rationalisation. With 1HCY24 TIV making up 53% of our full-year projection of 740k units (-8% YoY), we consider the number meeting our expectation. Our CY24 TIV projection is a tad more conservative than 765k units projected by MAA as we believe e-invoicing and petrol subsidy rationalisation in 2HCY24 will weigh down on vehicle sales.

Looking ahead, we believe July 2024 TIV will improve MoM in the absence of major plant closure.

A detailed analysis of the passenger vehicle segment in June 2024 at 52,487 units (-17% MoM, -6% YoY) are as follows:-

Overall, passenger vehicles segment plunged MoM and YoY mainly due to the closure of Perodua & Proton plant as it undergoes routine maintenance (closure for a week during the Aidiladha festive celebration).

Nissan (+4% MoM, -7% YoY) is still losing out in the all-new vehicles race and mainly dependent on its massive rebates to stay in competition. Currently, Nissan depends on the face-lifted Nissan Serena S-Hybrid, Navara, and Almera Turbo with 1k backlogged orders (1−2 months). **Honda**'s **(+3% MoM, +30% YoY)** sales were driven by the City, Civic and all-new HR-V. Based on sales projection, Honda currently has 15k backlogged orders (2−4 months). Competition-wise, Honda top-variants i.e. HR-V and CR-V are also seen to be losing market share to the newcomer, Chery. **Toyota**'s **(-8% MoM, -11% YoY)** sales were driven by its popular top models, namely the all-new Vios, Yaris, Corolla Cross and Hilux. Based on sales projection, Toyota currently has 20k backlogged orders (3−6 months).

Proton's **(-11% MoM, -23% YoY)** sales were mainly driven by the all-new X70, X50 and X90 (2,262 SUV units sold, making up 21% of sales), and supported by the all-new S70, as well as face-lifted Persona, Iriz, Exora and Saga (collectively known as PIES). Based on sales projection, Proton currently has 25k backlogged orders (up to 12 months for the X50 and by five months for other models). **Mazda (-18% MoM, -33% YoY)** was driven by exceptional response for its Mazda CX-30 CKD, the CX-5 and CX-8. Based on sales projection, Mazda currently has 2.5k backlogged orders (3−5 months). Competition-wise, Mazda is seen to be losing market share to the newcomer, **Chery (YTD 2024 sales at units closing in to Mazda's at 8,329 units). Perodua**'s **(-29% MoM, +5% YoY)** sales continued to be propelled by the all-new Perodua Alza and all-new Perodua Axia, with equally strong sales of the Bezza, MyVi, and Ativa models. Based on sales projection, Perodua currently has 100k backlogged orders (up to 8 months for the Axia, Alza and Bezza, and up to 3 months for the Ativa/Myvi models).

We believe there will be to a two-speed automotive market locally in CY24. It will be business as usual for the affordable segment as its target customers, i.e. the B40 group, will be spared the impact of the impending fuel subsidy rationalisation and also could potentially benefit from the introduction of the progressive wage model. The 13% pay rise for most civil servants in Dec 2024 will also partially restore their spending power eroded by high inflation. However, the same cannot be said for the mid-market segment as its target customers, i.e. the M40 group may hold back from buying a new car, or they may down trade to a smaller car or switch to an EV to cut their fuel bills) upon the introduction of fuel subsidy rationalisation. Moreover, the implementation of e-invoicing is set to have a major impact on new car purchases especially on the mid-market segment, given that it will essentially cease the common practice of providing 100% hire purchase financing (under the Hire Purchase Act 1967, customers are required to make a minimum down payment of 10%).

In general, the industry's earnings visibility is still good, backed by a booking backlog of 170k units as at end-June 2024, which is just a bit lower than 200k units, a month ago. More than half of the backlog is made up of new models, alluding to the appeal of new models to car buyers. This trend is likely to persist throughout CY24 given a strong line-up of new launches.

More battery electric vehicles (BEVs) in the market. Vehicle sales will also be supported by new battery electric vehicles (BEVs) that enjoy SST exemption and other EV facilities incentives up until CY25 for CBU and CY27 for CKD. The new registration for BEVs leapt from 274 units in CY21 to over 3,400 units in CY22, 10,159 units in CY23, and 6,617 units for the 1H 2024 (quarterly reporting). We expect more favourable incentive from the government that has set a national target for EVs and hybrid vehicles of 15% of TIV by CY30 and 38% by CY40. Meanwhile, the government will speed up the approval for charging stations. The number of charging stations in operation currently at 3,951 should almost triple to 10,000 by end-CY25.

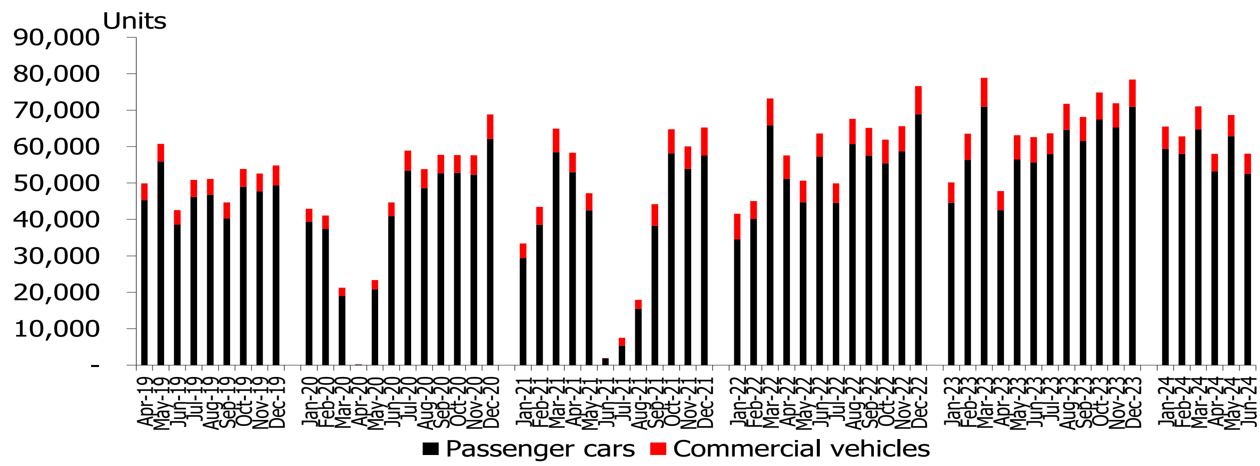
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of more than 100k units (almost half of its CY24 target sales of 340k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua 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 7%.

Monthly Sales for Passenger and Commercial Vehicles by Marque

Marque (units)	Jun-24	Jun-23	May-24	% M-o-M	% Y-o-Y	YTD 2024	YTD 2023	% Y-o-Y
Passenger								
Perodua	23,736	22,553	33,268	-29%	5%	169,849	144,690	17%
Proton	10,735	13,862	12,013	-11%	-23%	72,088	76,012	-5%
Honda	6,538	5,023	6,374	3%	30%	39,226	33,727	16%
Toyota	5,505	6,169	5,997	-8%	-11%	33,286	33,746	-1%
Nissan	517	554	499	4%	-7%	3,156	3,578	-12%
Mazda	1,116	1,661	1,367	-18%	-33%	8,329	9,432	-12%
Others	4,340	5,876	3,344	30%	-26%	30,925	25,512	21%
Total	**52,487**	**55,698**	**62,862**	**-17%**	**-6%**	**356,859**	**326,697**	**9%**
Commercial								
Toyota	2,008	2,390	2,284	-12%	-16%	12,676	14,399	-12%
Isuzu	1,163	1,571	987	18%	-26%	6,509	8,504	-23%
Nissan	313	266	272	15%	18%	1,446	1,456	-1%
Mitsubishi	624	1,073	713	-12%	-42%	3,834	5,548	-31%
Hino	454	506	511	-11%	-10%	2,605	2,944	-12%
Mazda	2	19	1	100%	-89%	60	96	-38%
Others	995	1,078	1,035	-4%	-8%	6,307	6,532	-3%
Total	**5,559**	**6,903**	**5,803**	**-4%**	**-19%**	**33,437**	**39,479**	**-15%**
TIV	**58,046**	**62,601**	**68,665**	**-15%**	**-7%**	**390,296**	**366,176**	**7%**

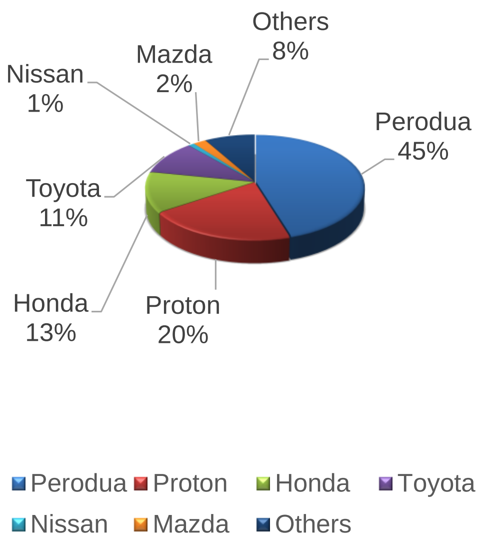
Source: MAA, Kenanga Research

Monthly TIV



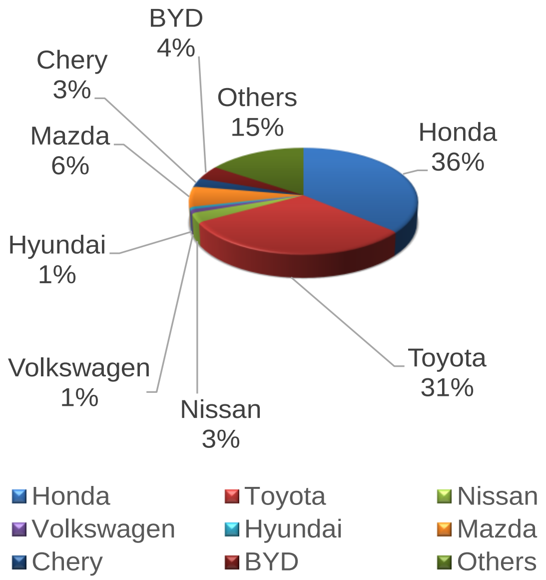
Source: MAA, Kenanga Research

Market Share (Overall Passenger) June 2024



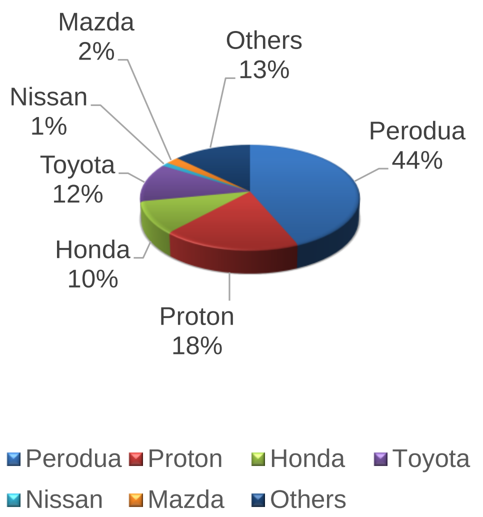
Source: MAA, Kenanga Research

Market Share (Non-National Passenger) June 2024



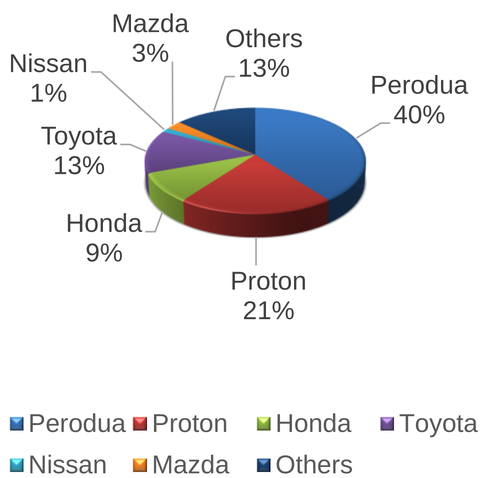
Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) YTD 2024



Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) YTD 2023



Source: MAA, Kenanga Research

Exhibit 4: Various New EV Models

Perodua emo-1 EV concept

BYD BAO 5

Jetour Dashing

Tesla Cybertruck (SUV)

All-new SMART #3 (2024)

Nissan's e-Power hybrid system

MINI Countryman U25 SE EV

Jaecoo J6 EV

Neta X EV SUV

GAC Aion Y Plus

GAC Aion Hyper HT

Chery Tiggo 8 Pro e+ PHEV

Source: Paultan.org, Kenanga Research

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	2.51	2.45	-2.4%	2,933.7	Y	04/2025	24.0	24.9	-20.6%	3.7%	10.5	10.1	3.3	32.8%	20.2	8.0%
DRB-HICOM BHD	MP	1.37	1.40	2.2%	2,648.5	Y	12/2024	15.9	18.6	14.2%	17.0%	8.6	7.4	0.2	3.1%	2.0	1.5%
HIL INDUSTRIES BHD	MP	0.965	1.10	14.0%	320.3	Y	12/2024	13.7	15.6	12.4%	14.1%	7.1	6.2	0.7	9.8%	3.0	3.1%
HONG LEONG INDUSTRIES BHD	OP	11.34	12.60	11.1%	3,622.8	Y	06/2024	98.3	105.3	10.9%	7.2%	11.5	10.8	1.9	16.0%	107.0	9.4%
MBM RESOURCES BHD	OP	5.30	6.30	18.9%	2,071.7	Y	12/2024	75.9	78.7	-2.8%	3.7%	7.0	6.7	0.9	13.5%	40.0	7.5%
SIME DARBY BHD	OP	2.68	2.90	8.2%	18,265.8	Y	06/2024	18.4	20.2	8.1%	10.0%	14.6	13.3	1.1	7.7%	12.0	4.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.840	0.740	-11.9%	547.4	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.2%
SECTOR AGGREGATE					**30,410.3**					**6.1%**	**10.0%**	**12.6**	**11.4**	**0.9**	**6.8%**		**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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