

17 October 2024

Automotive

Plant Closure Weighs on September 2024

OVERWEIGHT



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New vehicle sales in Malaysia, also known as total industry volume (TIV) eased 18% MoM to 58,032 units in September 2024, mainly due to the closure of Perodua plants for 10 days during the Malaysia Day week for routine maintenance as expected. With 9MCY24 TIV making up 74% of our full-year projection of 800k units (flat YoY), we consider the number meeting our expectation. Our CY24 TIV projection looks set to surpass forecast of 765k (-4%) by Malaysia Automotive Association (MAA) backed by strong sustained demand in the affordable segment, attractive new launches, softer-than-expected impact from e-invoicing, and a downtrading trend by mid-market buyers. In general, the industry's earnings visibility is still good, backed by a booking backlog of 160k units. Our sector top pick is MBMR (OP; TP: RM6.50), being a good proxy to the affordable and fuel-efficient Perodua brand beside offering an attractive dividend yield of about 7%.

TIV eased 18% MoM to 58,032 units in September 2024 mainly due to the closure of Perodua plants for 10 days during the Malaysia Day week for routine maintenance as expected while other brands including Proton only stopped production during the public holidays as well as consumer waiting out for Budget 2025 for automotive-related incentives. With 9MCY24 TIV making up 74% of our full-year projection of 800k units (flat YoY), we consider the number meeting our expectation. Our CY24 TIV projection looks set to surpass forecast of 765k (-4%) by Malaysia Automotive Association (MAA) backed by strong sustained demand in the affordable segment, attractive new launches, softer-than-expected impact from e-invoicing, and a downtrading trend by mid-market buyers.

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

A detailed analysis of the passenger vehicle segment in September 2024 at 52,922 units (-19% MoM, -14% YoY) are as follows:-

Overall, passenger vehicles segment plunged MoM and YoY mainly due to the closure of Perodua plants for 10 days during the Malaysia Day week for routine maintenance. Meanwhile other brands are losing out to the influx of Chinese automakers.

Toyota's (-7% MoM, -13% 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). Meanwhile, **Nissan (-9% MoM, -40% 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). **Proton's (-12% MoM, -10% YoY)** sales were mainly driven by the all-new X70, X50 and X90 (3,224 SUV units sold, making up 26% 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 20k backlogged orders (up to 12 months for the X50 and by five months for other models). **Mazda (-13% MoM, -35% 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 newcomer, **Chery (YTD 2024 sales at 12,073 units has surpassed Mazda's at 11,656 units)**. **Honda's (-20% MoM, -10% YoY)** sales were driven by the City, Civic and all-new HR-V. Based on sales projection, Honda currently has 10k 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. **Perodua's (-32% MoM, -18% 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 6 months for the Axia, Alza and Bezza, and up to 2 months for the Ativa/Myvi models).

A two-speed automotive market locally is being played out as expected in CY24 and could stay the same until next year. 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 could also potentially benefit from the introduction of the progressive wage model. The pay rise for most civil servants (top management will receive a 7% rise, while those in professional and executive roles see a rise of 15%) 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.

The implementation of e-invoicing is having lesser impact to car sales than we initially believed. Automakers are racing to provide discounts and rebates to ensure sustained demand and lessen the impact of e-invoicing on consumer sentiment. E-invoicing essentially will 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%). Meanwhile, the recent strengthening of MYR against USD is expected to take effect in reducing the costs for automotive parts in the 2HCY25 (as well as improving margins) as automakers usually procure inventory 6 months ahead of production to ensure supply sustainability.

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In general, the industry's earnings visibility is still good, backed by a booking backlog of 160k units as at end-August 2024, unchanged from 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 12,850 units for 1HCY24 (based on Ministry of Transport press release). We expect more favourable incentive from the government which 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 proposed charging stations currently at 4,025 (3,171 built as of to-date) should almost triple to 10,000 by end-CY25. If CBU and CKD exemption extended in the upcoming budget, it will be a further boon to the industry.

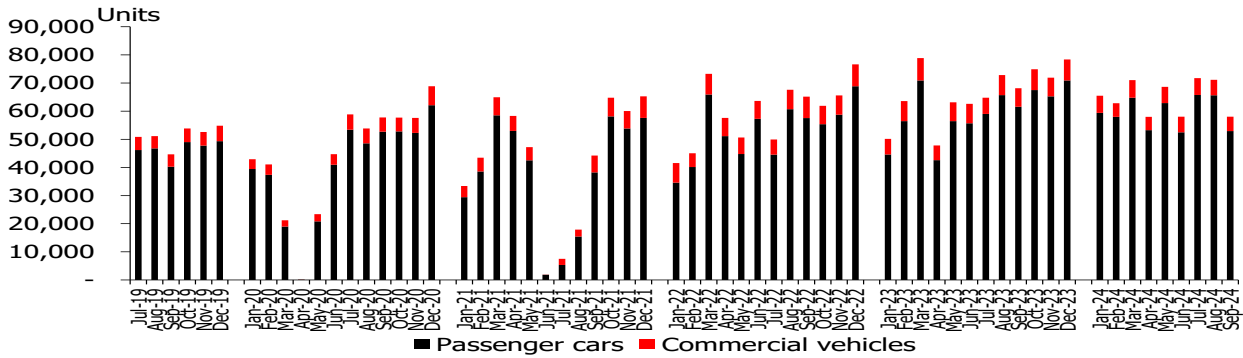
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of more than 100k units (almost a third of its CY24 target sales of 350k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua 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%. We also expect MBMR to benefit from the slew of new launches planned for Perodua (usually new models fetch higher margins), expansion of its dealership offerings through Jaecoo brands and downtrading trend by mid-market buyers could drive a better demand for its affordable Perodua brand and value-for-money Jaecoo brand.

Monthly Sales for Passenger and Commercial Vehicles by Marque

Marque (units)	Sep-24	Sep-23	Aug-24	% M-o-M	% Y-o-Y	YTD 2024	YTD 2023	% Y-o-Y
Passenger								
Perodua	23,695	28,995	34,722	-32%	-18%	260,361	233,227	12%
Proton	10,836	12,006	12,355	-12%	-10%	110,215	114,806	-4%
Honda	5,876	6,514	7,388	-20%	-10%	59,396	54,017	10%
Toyota	5,607	6,459	6,051	-7%	-13%	51,376	53,483	-4%
Nissan	311	521	342	-9%	-40%	4,289	5,193	-17%
Mazda	901	1,378	1,040	-13%	-35%	11,656	14,213	-18%
Others	5,696	5,675	3,739	52%	0%	46,610	38,012	23%
Total	52,922	61,548	65,637	-19%	-14%	543,903	512,951	6%
Commercial								
Toyota	2,030	2,561	2,306	-12%	-21%	19,446	21,909	-11%
Isuzu	984	1,213	1,094	-10%	-19%	9,740	11,298	-14%
Nissan	160	295	172	-7%	-46%	2,010	2,259	-11%
Mitsubishi	514	769	508	1%	-33%	5,505	7,569	-27%
Hino	634	468	555	14%	35%	4,329	4,323	0%
Mazda	1	15	10	-90%	-93%	72	164	-56%
Others	787	1,305	880	-11%	-40%	9,032	11,484	-21%
Total	5,110	6,626	5,525	-8%	-23%	50,134	59,006	-15%
TIV	58,032	68,174	71,162	-18%	-15%	594,037	571,957	4%

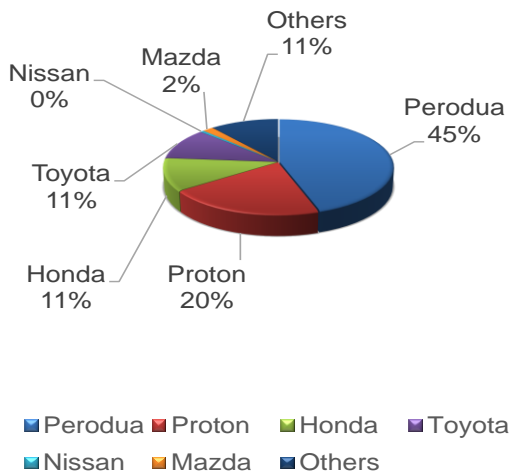
Source: MAA, Kenanga Research

Monthly TIV



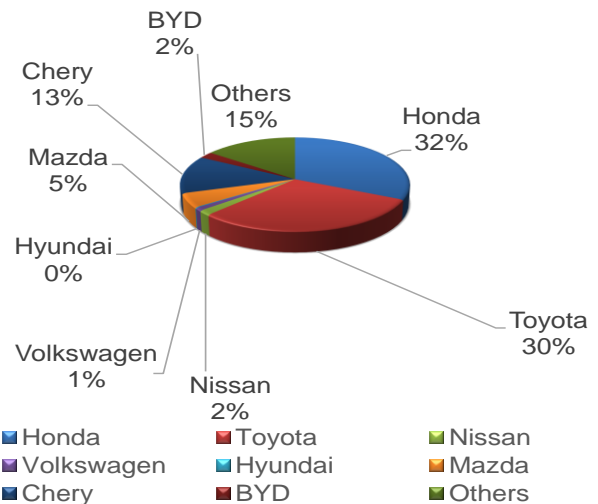
Source: MAA, Kenanga Research

Market Share (Overall Passenger) Sept 2024



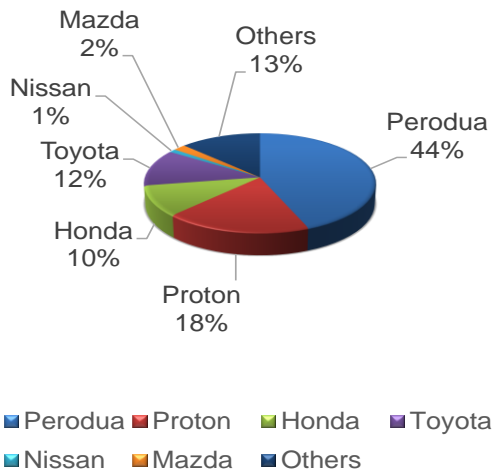
Source: MAA, Kenanga Research

Market Share (Non-National Passenger) Sept 2024



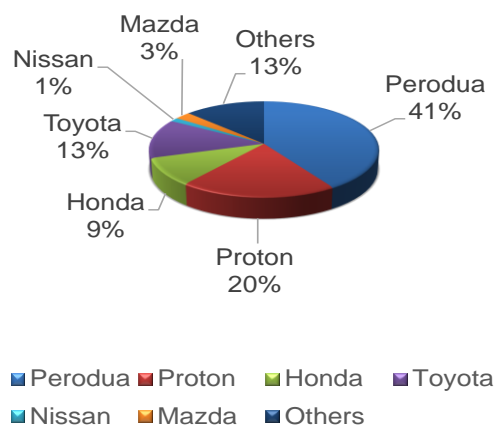
Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) YTD 2024



Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) YTD 2023



Source: MAA, Kenanga Research

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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



BYD M6 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

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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.				
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.36	2.45	3.8%	2,688.3	Y	04/2025	24.0	24.9	-20.6%	3.7%	9.8	9.5	3.1	32.8%	20.2	8.6%
DRB-HICOM BHD	OP	1.12	1.30	16.1%	2,087.9	Y	12/2024	12.5	16.8	-10.2%	34.9%	9.0	6.7	0.2	2.4%	2.0	1.8%
HIL INDUSTRIES BHD	OP	0.910	1.10	20.9%	297.1	Y	12/2024	13.7	15.6	12.4%	14.1%	6.7	5.8	0.6	9.8%	3.0	3.3%
HONG LEONG INDUSTRIES BHD	OP	13.60	14.50	6.6%	4,293.7	Y	06/2025	120.7	121.5	15.1%	0.7%	11.3	11.2	1.9	17.2%	60.0	4.4%
MBM RESOURCES BHD	OP	5.95	6.50	9.2%	2,255.4	Y	12/2024	78.1	81.0	0.0%	3.7%	7.6	7.3	0.9	12.2%	40.0	6.7%
SIME DARBY BHD	OP	2.38	2.90	21.8%	16,016.7	Y	06/2025	20.1	20.8	7.5%	3.4%	11.8	11.4	0.8	7.0%	13.5	5.7%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.610	0.600	-1.6%	430.1	Y	12/2024	(15.3)	(11.5)	-179.4%	-175.1%	N.A.	N.A.	0.2	-3.8%	1.0	1.6%
SECTOR AGGREGATE					28,069.2					3.2%	7.4%	11.1	10.3	0.7	6.4%		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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