

Automotive

3QCY24 Report Card: A Short Blip to Strong-End

OVERWEIGHT



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The sector's earnings delivery (versus our expectations) saw a slight improvement in the recently concluded 3QCY24 reporting season as we already anticipated a short blip before reaching a stronger 4Q on higher automotive sales volume driven by year-end promotion. Our CY24 forecast of new vehicle sales in Malaysia, or total industry volume (TIV), that was maintained at 800k units (flat YoY) is proving to be not aggressive, as the Malaysia Automotive Association (MAA) had also in November revised upward its target to this level. TIV growth is backed by strong and 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 150k units. Our sector top pick is MBMR (OP; TP: RM6.80), being a good proxy to the affordable and fuel-efficient Perodua brand beside offering an attractive dividend yield of about 7%.

The sector's earnings delivery (versus our expectations) saw a slight improvement in the recently concluded 3QCY24 results season with 14%, 71% and 14% respectively coming in above, within and below, as opposed to 14%, 57% and 29% coming in above, within and below, a quarter ago. We anticipated a stronger quarter ahead for **DRBHCOM's** (OP; TP: **RM1.30**), thus we consider its results as within our expectation despite the weaker 3Q results.

HLIND (OP; TP: **RM15.50**) beat our forecast with its strong results driven by higher production volume for all-new motorcycle models, price hikes, and shift toward more premium products with strong margins.

Meanwhile, **BAUTO** (MP; TP: **RM2.45**) met our forecast despite weaker results as the sales volumes of Mazda and Kia vehicles fell on intense competition from Chinese-made vehicles, and on rising costs of its imported units on MYR's weakening against the JPY which we already factored into our forecasts. Both **HIL** (OP; TP: **RM1.10**) and **MBMR** continued to ride on Perusahaan Otomobil Kedua Sdn Bhd's strong sales volume at 260,361 units (+12% YoY). **HIL** also benefitted from the stronger property earnings on the back of strong take-up for its projects. However, **HIL's** weaker 3QFY24 results partially negated their first-half growth due to longer closure of auto parts manufacturing plant on extended festive holidays, while **MBMR** was able to offset the weaker extended closure with stronger margins.

SIME (OP; TP: **RM2.90**)'s 1QFY25 was stronger as consolidation of UMW's earnings helped offset the weaker industrial and automotive segments contribution. On the brighter note, its automotive market in China has started to see a green shoot of recovery as it returned to profit in 1QFY25 after three quarter of losses. On the other hand, **DRBHCOM** met our forecast despite reporting weaker results as we anticipate a stronger quarter ahead on higher automotive sales volume driven by year-end promotion and expected reversal of mark-to-market loss on derivatives under banking segment. The results were weaker largely due to wider sequential quarter losses at its postal segment, lower profit recognition under banking segment, and higher tax.

TCHONG (UP; TP: **RM0.44**) reported wider losses than our forecast as the sales volume of its bread-and-butter Nissan vehicles continued to fall as competitors flooded the market with new models, worsened by unfavourable forex movements.

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 put the stop to 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 six months ahead of production to ensure supply sustainability.

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 almost 16,000 units for 9M CY24 (based on Ministry of Transport press release), or 3% of TIV. 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 4,225 (3,354 built as of to-date) should almost triple to 10,000 by end-CY25.

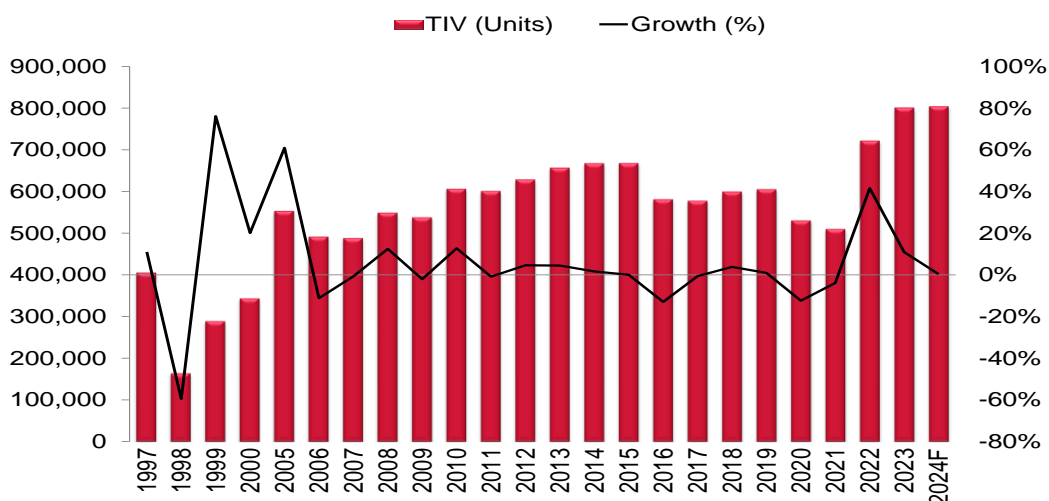
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of more than 90k units (almost a third of its CY24 target sales of 350k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua 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. We may switch our top pick to **HLIND** as **MBMR** share price has almost reached our target price and could have limited upside. **HLIND** has ample production capacity to absorb the rising demand for motorcycles especially with the upcoming targeted fuel subsidies rationalisation.

Quarterly Results Performance

| | 3QCY24 | | | | | | 2QCY24 | | | | | |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 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 | 1 | 5 | 1 | 2 | 3 | 2 | 1 | 4 | 2 | 2 | 2 | 3 |
| Total (%) | 14 | 71 | 14 | 29 | 42 | 29 | 14 | 57 | 29 | 29 | 29 | 42 |

Source: Kenanga Research, companies quarterly results

TIV volume 1997-2024F



Source: MAA, Kenanga Research

Exhibit 4: Various New EV Models



Perodua emo-2 EV concept



HONDA e:N 1



Jetour Dashing



Tesla Cybertruck (SUV)



All-new SMART #3 (2024)



BYD BAO 5



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. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. |
| Stocks Under Coverage | | | | | | | | | | | | | | | | | |
| BERMAZ AUTO BHD | OP | 2.05 | 2.45 | 19.5% | 2,380.1 | Y | 04/2025 | 24.0 | 24.9 | -20.6% | 3.7% | 8.5 | 8.2 | 2.7 | 32.8% | 20.2 | 9.9% |
| DRB-HICOM BHD | OP | 0.995 | 1.30 | 30.7% | 1,923.3 | Y | 12/2024 | 12.5 | 16.8 | -10.2% | 34.9% | 8.0 | 5.9 | 0.2 | 2.4% | 2.0 | 2.0% |
| HIL INDUSTRIES BHD | OP | 0.900 | 1.10 | 22.2% | 298.7 | Y | 12/2024 | 13.7 | 15.6 | 12.4% | 14.1% | 6.6 | 5.8 | 0.6 | 9.8% | 3.0 | 3.3% |
| HONG LEONG INDUSTRIES BHD | OP | 15.08 | 15.50 | 2.8% | 4,944.7 | Y | 06/2025 | 128.8 | 133.1 | 22.8% | 3.3% | 11.7 | 11.3 | 2.2 | 18.4% | 70.0 | 4.6% |
| MBM RESOURCES BHD | OP | 6.80 | 6.80 | 0.0% | 2,658.1 | Y | 12/2024 | 82.1 | 85.2 | 5.2% | 3.7% | 8.3 | 8.0 | 1.0 | 12.8% | 45.0 | 6.6% |
| SIME DARBY BHD | OP | 2.40 | 2.90 | 20.8% | 16,322.4 | Y | 06/2025 | 20.1 | 20.8 | 7.5% | 3.4% | 11.9 | 11.5 | 0.8 | 7.0% | 13.5 | 5.6% |
| TAN CHONG MOTOR HOLDINGS BHD | UP | 0.480 | 0.440 | -8.3% | 322.6 | Y | 12/2024 | (28.6) | (21.4) | -248.6% | -174.8% | N.A. | N.A. | 0.1 | -7.3% | 1.0 | 2.1% |
| SECTOR AGGREGATE | | | | | 28,849.9 | | | | | 1.3% | 8.9% | 11.6 | 10.7 | 0.7 | 6.3% | | 4.9% |

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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