

Automotive Bigger Pie Slices

OVERWEIGHT



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We maintain OVERWEIGHT on the sector. We project industry-wide sales volume, i.e. total industry volume (TIV) to expand marginally to 805K units in CY25, backed by bigger pie slices encompassing volume-driven affordable segment, attractive new launches replacing older generation vehicles, a downtrading trend by mid-market buyers amidst fuel subsidies rationalization and a rising market share of Chinese automakers vehicles through localization schemes. We also expect another deferment of new excise duty regulations (that could have resulted in prices of locally assembled vehicles increasing by 8%–20%) as well as higher household income from government servants' salary hike, higher minimum wages and stable labour market that could sustain the vehicles demand for another record year. HLIND (OP; TP: RM15.50) is added to our sector picks, which together with MBMR (OP; TP: RM6.80) are good proxies to the affordable vehicles market and beneficiaries of fuel subsidy rationalization besides offering an attractive dividend yield of about 5% and 7%, respectively.

Bigger pie slices. We project a TIV of 805K units in CY25 (a marginal increase from an estimated 800K units in CY24, see Exhibit 1). This is backed by bigger pie slices (see Exhibit 2) encompassing: (i) a volume-driven affordable segment i.e. healthy order backlog of Perodua vehicles which was sustained at more than 90K units despite steady monthly deliveries, (ii) attractive new launches replacing older generation vehicles, (iii) a downtrading trend by mid-market buyers amidst fuel subsidy rationalization towards fuel-efficient vehicles, which include hybrid (i.e. Toyota Corolla Cross), battery-electric-vehicles (BEVs, i.e. BYD Seal) and energy-efficient-vehicles (EEVs, i.e. Perodua Axia), and (iv) a rising market share of Chinese automakers vehicles through vehicles production localisation programme i.e. Jaecoo & Chery brands from the Chery Shah Alam assembly plant, and GWM & BAIC brands' from the EP Manufacturing Bhd (EPMB) Melaka assembly plant. We also anticipate a mid-term review of the National Automotive Policy (NAP) to include hybrid vehicles as a key transition to the national target for EVs and hybrid vehicles of 15% of TIV by CY30 and 38% by CY40.

On the other hand, we expect **HLIND** to benefit from the robust demand for the motorcycles market (to achieve a record year of 680K units (+11%) in 2025, with Yamaha holding the lion's share of 50%) as its target customers, i.e. the B40 & M40 groups, will be spared the impact of the impending fuel subsidy rationalization i.e. RON95 is expected to be priced in a two-tier system in June 2025 whereby the T15 group will be confined to only unsubsidized pricing.

A two-speed automotive market locally will persist in CY25. It will be business as usual for the affordable segment as its target customers, i.e. the B40 and lower tier M40 groups, will be spared the impact of the impending fuel subsidy rationalization and could also potentially benefit from the introduction of the progressive wage model. We also expect another deferment of new excise duty regulations (that could have resulted in prices of locally assembled vehicles increasing by 8%–20%) official announcement by end-2024 to avoid a sudden hike in inflation as RON95 fuel subsidy rationalization is already set to take place in June 2025 as well as higher household income from government servants' salary hike starting December 2024, higher minimum wages starting January 2025 and a stable labour market (our economic research team forecast 3.2% in CY25 vs. 3.3% in CY24) that could sustain the vehicles demand for another record year. However, the same cannot be said for the premium segment as its target customers, i.e. the upper tier M40 and T15 groups may hold back from buying new cars, down trade to smaller cars or switch to hybrids and EVs to cut their fuel bills upon the introduction of fuel subsidy rationalization.

In general, the industry's earnings visibility is still good, backed by a booking backlog of 150K units as at end-December 2024. 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 CY25 given a strong line-up of new launches.

More battery electric vehicles (BEVs) in the market. Vehicle sales will also be supported by new BEVs that enjoy SST exemption and other EV facilities incentives up until CY25 for CBUs and CY27 for CKDs. 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 9MCY24 (based on the Ministry of Transport's press release), or 3% of TIV. We expect more favourable incentives 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 is currently at 4,235 (3,354 built to date) and this should more than double to 10,000 by end-CY25.

National cars still in the lead. Apart from affordability, Perodua and Proton models have outsold non-national brands as they have also caught up in terms of specifications and features such as digital speedometer, fuel-efficient engine, highly-responsive gearbox, advanced driver assistance system, the number of airbags (4 to 6) and anti-theft auto-locking system.

Perodua is introducing two new models priced <RM100K, namely: (i) the Perodua D66b built on the latest Daihatsu new global architecture platform (tentatively in early 2025); and (ii) the first Perodua EV model (tentatively end-2025).

These should give the B-segment offerings of its competitors a run for their money, including the Proton e.MAS EV (CBU, RM109K–123K) and Toyota Yaris Cross (due for launching early 2025).

On the other hand, Proton is riding on parent Zhejiang Geely Group’s technology and eco-system for the transition to EV. Proton will transition to EV in three phases, i.e. (i) Phase 1 in 2023–2027 (EV Pioneering), (ii) Phase 2 in 2025–2030 (EV growth), and (iii) Phase 3 in 2027–2030 (EV right-hand development hub).

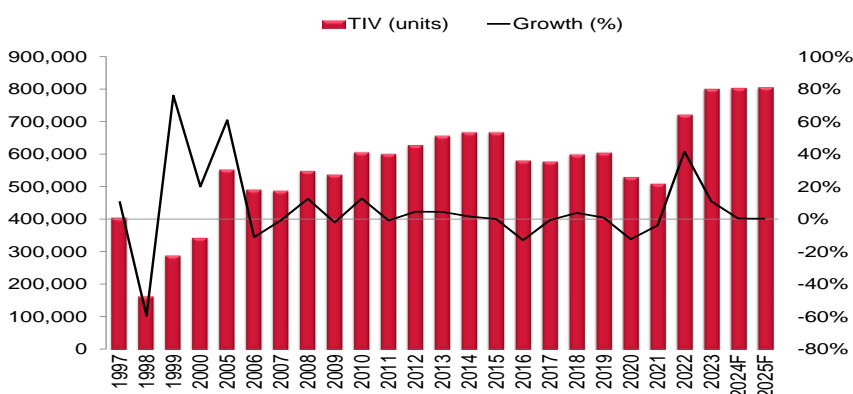
In the space of non-national brands, we saw the entry of Chinese and US automakers i.e. BYD, Tesla, Chery, Jaecoo, GAC, GWM and ORA, focusing mostly on the premium segment with a strong line-up of new EV models (see Exhibit 3), which could be in direct competition with **BAUTO (OP; TP: RM2.20)**. **BAUTO’s** entry with the Deepal brand is expected to be its next volume driver to counter the rising competition as it plans to launch the BEV in CY2025 and the PHEV, HEV and REEV in CY2026.

Our sector top picks are **MBMR** and **HLIND**.

We like **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of more than 90K units (almost a quarter 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 the Jaecoo brand and the downtrading trend by mid-market buyers that could drive better demand for its affordable Perodua brand and the value-for-money Jaecoo brand.

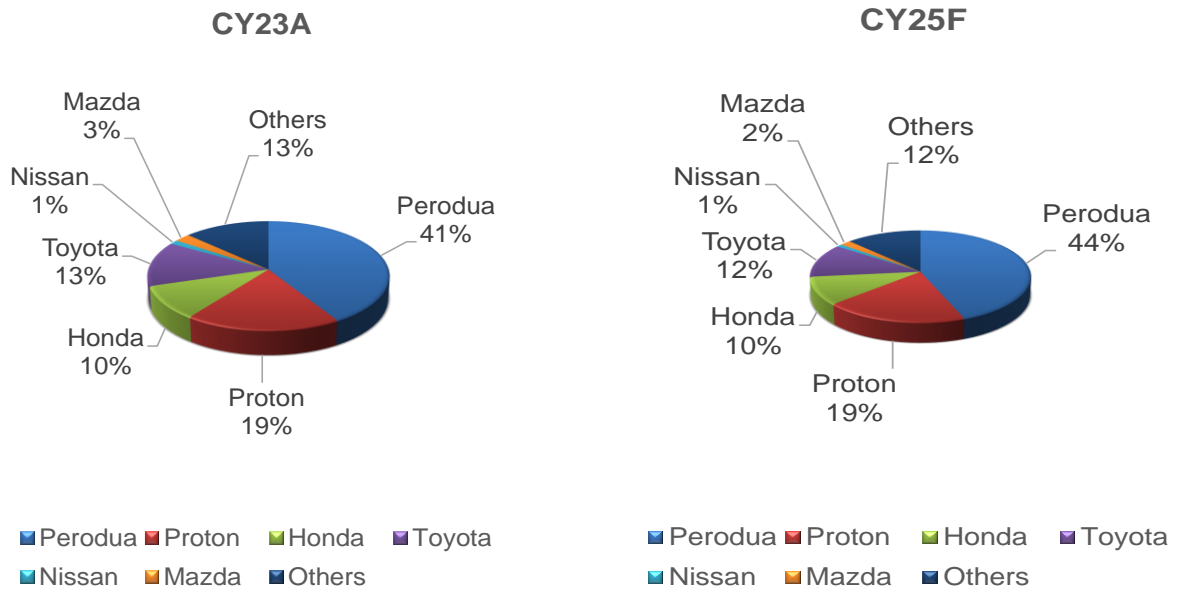
We like **HLIND** for: (i) as it is a strong proxy to the booming gig economy given the critical role of motorised two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand’s market leader position in the local motorcycle segment, and (iii) for its solid war chest with a net cash of RM1.9b that could be deployed for earnings-accretive acquisitions. Its dividend yield is also attractive at 5%. We anticipate robust demand for the motorcycles market (to achieve a record year of 680K units (+11%) in 2025, with Yamaha holding the lion’s share of 50%) as its target customers, i.e. the B40 & M40 groups, will be spared the impact of the impending fuel subsidy rationalization i.e. RON95 is expected to be priced in a two-tier system in June 2025 whereby the T15 group will be confined to only unsubsidized pricing.

Exhibit 1: TIV Volume 1997–2025F



Source: MAA, Kenanga Research

Exhibit 2: Market Share by Brands CY23A vs. CY25F



Source: MAA, Kenanga Research

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Exhibit 3: Various New EV Models



Perodua emo-2 EV concept



HONDA e:N 1



Xpeng X9



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

30 December 2024

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	1.61	2.20	36.6%	1,869.2	Y	04/2025	19.4	22.8	-35.9%	17.5%	8.3	7.1	2.0	24.2%	17.5	10.9%
DRB-HICOM BHD	OP	1.12	1.30	16.1%	2,165.0	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	0.895	1.10	22.9%	297.1	Y	12/2024	13.7	15.6	12.4%	14.1%	6.5	5.7	0.6	9.8%	3.0	3.4%
HONG LEONG INDUSTRIES BHD	OP	14.16	15.50	9.5%	4,643.1	Y	06/2025	128.8	133.1	22.8%	3.3%	11.0	10.6	2.0	18.4%	70.0	4.9%
MBM RESOURCES BHD	OP	6.00	6.80	13.3%	2,345.4	Y	12/2024	82.1	85.2	5.2%	3.7%	7.3	7.0	0.9	12.8%	45.0	7.5%
SIME DARBY BHD	OP	2.32	2.90	25.0%	15,778.3	Y	06/2025	20.1	20.8	7.5%	3.4%	11.5	11.1	0.8	7.0%	13.5	5.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.405	0.440	8.6%	272.2	Y	12/2024	(28.6)	(21.4)	-248.6%	-174.8%	N.A.	N.A.	0.1	-7.3%	1.0	2.5%
SECTOR AGGREGATE					27,370.2					-0.9%	10.3%	11.2	10.2	0.7	6.2%		5.2%

Source: Kenanga Research

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30 December 2024

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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