Automotive

OVERWEIGHT

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4QCY24 Report Card: Auto Resilience Damped

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The sector's earnings delivery (versus our expectations) saw a disappointment in the recently concluded 4QCY24 results reporting season, largely stemming from intense competition in the non-nationals space (fragmented market share) with other business segments further weighing down the results, contrasting with an unfazed Perodua flying high on a record year. Our CY25 forecast of new vehicle sales in Malaysia, or total industry volume (TIV), at 805K units (-2% YoY) is a tad above the forecast of 780k (-4.4%) by Malaysia Automotive Association (MAA), backed by strong sustained demand in the affordable segment, attractive new launches, a downtrading trend by mid-market buyers and the forward buying interest on the deferment of new excise duty regulations to end-2025 of which we expect Perodua to benefit the most. Maintain OVERWEIGHT. MBMR (OP; TP: RM6.90) and HLIND (OP; TP: RM15.90), are our sector picks, being good proxies to the affordable vehicles market and fuel subsidy rationalization programme besides offering attractive dividend yield of about 8% and 5%, respectively. We downgraded BAUTO post results, as the adverse affects from intense non-national competition hurt beyond our initial forecast. If such pressures persist, such as with more foreign brands localization programme, this may also weigh on valuation for others such as SIME.

The sector's earnings delivery (versus our expectations) saw a disappointment in the recently concluded 4QCY24 results season with 14%, 29% and 57% respectively coming in above, within and below, as opposed to 15%, 70% and 15% coming in above, within and below, a quarter ago (refer to exhibit 1). The disappointments largely stemmed from intense competition for the non-nationals space (fragmented market share especially for the above RM100k space i.e. Chery has started to build its 100k capacity units' plant in Hulu Selangor, further disrupting the non-nationals space) with other business segments further weighing down the results, while Perodua remain unfazed flying high on record year. If the intense competition prolonged where there will be mass localisation of foreign brands (currently only Chery brand have a concrete localisation programme) and market share becomes more fragmented, this may also weigh on valuation for others such as **SIME (OP; TP: RM2.90)** as well as acting as a pre-cursor to our recent downgrade on **BAUTO (MP; TP: RM1.00).**

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. It introduced the all-new Yamaha PG-1 in August 2024, MT-09 in October 2024 and looks to build a new Guocera tiles plant in 2026.

Both **HIL** and **MBMR (OP; TP: RM6.90)** continued to ride on Perusahaan Otomobil Kedua Sdn Bhd's strong sales volume at 358,102 units (+8% YoY). However, **HIL** disappointed on fluctuating property segment contribution while **MBMR** carved another record year on favourable sales mix, and robust associate profit at its 23%-owned Perusahaan Otomobil Kedua Sdn Bhd. For FY25, both will leverage on Perodua's new launches i.e. all-new Myvi, D66B and EV. **SIME**'s 1HFY25 core net profit soared high as consolidation of UMW's earnings helped offset weaker industrial and automative segments. SIME remains committed to turning around its China business, while remain optimistic in its industrials business with healthy orderbook of RM4.7b (+12%).

Meanwhile, **BAUTO**'s core net profit halved as vehicles sales volume plummeted on lower margins, partially offset by maiden sales of Xpeng vehicles. Our view that BAUTO would be able to defend its turf in the non-nationals space has not materialized to the level forecasted due to greater-than-expected competition. Margin may also face compression risk assuming JPY strengthens amid a hawkish BOJ. Re-rating catalyst would be the local assembly of Xpeng and Deepal brands boosting volume and margins. On the other hand, **DRBHCOM**'s core net profit plunged largely due to wider sequential quarter losses at its Postal segment, lower profit recognition under Banking segment, and higher tax while it plunged to losses (the first loss under its banking segment) in the 4Q due to various provisions under Banking segment. **TCHONG (UP; TP: RM0.30)** reported wider losses than our forecast as the sales volume of its bread-and-butter Nissan vehicles continued falling, amidst a volatile overseas operating environment, and worsened by unfavourable forex movements and sales mix. The forex situation (90% in USD) varies based on importing costs during each quarter; however, the situation is quite strained as TCHONG is unable to raise prices to pass on rising production cost and worsened by intense discounting promotion.

A two-speed automotive market locally will persist into 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 RON95 subsidy rationalization and could also potentially benefit from the introduction of the progressive wage model.

Our CY25 TIV forecast of 805k units (-1% YoY) will be driven by the forward buying interest on the deferment of new excise duty regulations to end-2025 of which we expect Perodua to benefit the most at 44% TIV market share with the highest localisation rate (that could have resulted in prices of locally assembled vehicles increasing by 10%−30%) as well as attractive new launches (i.e. Perodua hybrid, Perodua EV and all-new Perodua Myvi), higher household income (i.e. government servants' salary hike in December 2024, and higher minimum wages starting February 2025) and a stable labour market (our economic research team forecast unemployment rate of 3.2% in CY25 vs. 3.3% in CY24).

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 130K units as at end-February 2025. 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, 13,301 units in CY23, and 21,789 units in CY24 (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 20% 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 4,299 (3,611 built to date) and this should more than double to 10,000 by end-CY25.

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 80k units (CY25 target sales of 345k 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 8%. We also expect MBMR to benefit from the slew of new launches planned for Perodua (new models fetch higher margins), expansion of its dealership offerings through the Jaecoo brand and the downtrading trend by buyers boosting demand for its affordable Perodua brand and the value-for-money Jaecoo brand.

We like **HLIND**: (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 700K 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 RON95 subsidy rationalization i.e. which to be priced in a two-tier system in June 2025 whereby the T15 group will be confined to only unsubsidized pricing.

Exhibit 1: Quarterly Results Performance

	4QCY24						3QCY24					
	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**
Total (%)	**14**	**29**	**57**	**15**	**15**	**70**	**15**	**70**	**15**	**29**	**42**	**29**

Source: Kenanga Research, companies quarterly results

Exhibit 2: 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 M8 PHEV MPV


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	1.01	1.00	-1.0%	1,172.6	Y	04/2025	13.4	15.3	-55.6%	13.7%	7.5	6.6	1.3	17.4%	16.8	16.6%
DRB-HICOM BHD	MP	0.650	0.850	30.8%	1,256.5	Y	12/2024	6.4	8.1	109.1%	26.2%	10.1	8.0	0.1	1.2%	2.0	3.1%
HIL INDUSTRIES BHD	OP	0.750	1.00	33.3%	248.9	Y	12/2024	13.9	14.2	9.5%	1.7%	5.4	5.3	0.5	9.3%	3.0	4.0%
HONG LEONG INDUSTRIES BHD	OP	13.38	15.90	18.8%	4,387.3	Y	06/2025	132.7	136.5	26.6%	2.8%	10.1	9.8	1.7	18.1%	70.0	5.2%
MBM RESOURCES BHD	OP	5.38	6.90	28.3%	2,103.0	Y	12/2024	86.8	88.0	1.9%	1.4%	6.2	6.1	0.8	12.9%	45.0	8.4%
SIME DARBY BHD	OP	2.05	2.90	41.5%	13,942.1	Y	06/2025	20.1	20.8	7.5%	3.4%	10.2	9.8	0.7	7.0%	13.5	6.6%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.320	0.300	-6.3%	215.0	Y	12/2024	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.1	-7.7%	1.0	3.1%
SECTOR AGGREGATE					**23,325.4**					**5.2%**	**6.1%**	**10.2**	**9.6**	**0.6**	**5.8%**		**6.7%**

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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