Automotive

National Marques Boost Market Dominance

OVERWEIGHT

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By Wan Mustaqim Bin Wan Ab Aziz l wanmustaqim@kenanga.com.my

We maintain OVERWEIGHT on the sector. We estimate that national marques will expand their market dominance to 62% of CY25 TIV (vs. 58% in CY22), due to increasing demand for affordable vehicles, displacing the non-nationals marques' market share. Although we make no changes to our TIV forecast, we believe the heavyweights under our coverage are experiencing valuation de-rating due to intense competition in the non-nationals space. If such pressures persist, such as with more foreign brands localization programme, this may also weigh on valuation for others, such as SIME for which we have lowered its PER valuation multiple to 12x (from 14x), reducing our TP by 14% to RM2.50 (from RM2.90). However, it is maintained at OUTPERFORM as it is still a proxy to national marques via its 38% stake in Perodua. Our CY25 forecast of new vehicle sales in Malaysia, or total industry volume (TIV), at 805K units (-2% YoY) is a tad above 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. 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.

National marques expanding market share. Based on our TIV forecast of an unchanged 805k units for CY25, we estimate that national marques will expand their market dominance to 62% of CY25 TIV compared to 58% of TIV in CY22, due to increasing demand for the affordable vehicles, displacing the non-nationals marques' market share on which their target focus is mostly in the RM100k and above vehicles segment (refer to exhibit 3). This was evident in our stock coverage over the 4QCY24 results season, and we believe the heavyweights under our coverage is experiencing valuation de-rating due to intense competition in the non-nationals space i.e. **BAUTO (MP; TP: RM1.00)** (we had earlier downgraded it to MARKET PERFORM in our results note). 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** due to its exposure to various luxury brands (i.e. BMW, MINI & Porsche) as well as mid-market segments (i.e. Toyota & BYD). However, **SIME** fared better than **BAUTO** as a proxy to the national marques via its 38% stake in Perodua as well as expected recovery in its China business with the phasing out of competitors and China government's initiatives to boost their domestic market demand due to various import tariff restriction imposed on them. After reassessing the competitive dynamics above, we lowered SIME's PER valuation multiple valuation to 12x (from 14x) on weakened recovery visibility stemming from its non-nationals segment, and reduce our TP by 14% to **RM2.50** (from RM2.90). However, we maintain our **OUTPERFORM** rating as it still a proxy to national marques via its 38% stake in Perodua.

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. Concurrently, household bills will also be affected by the higher fuel bills, as well as expected 14% increase in base electricity bills for the higher-end usage which could also drive consumers to switch to solar-panels, in-turn boosting the demand for EV to funnel the excess grid electricity (essentially free energy). Additionally, EV routine maintenance fee considerably lower than ICE's being fewer moving parts and wear & tear parts.

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.

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 three new models priced <RM100K in 2025, namely: (i) the Perodua D66b built on the latest Daihatsu new global architecture platform, (ii) the first Perodua EV model, and (iii) all-new Perodua Myvi.

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 in 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).

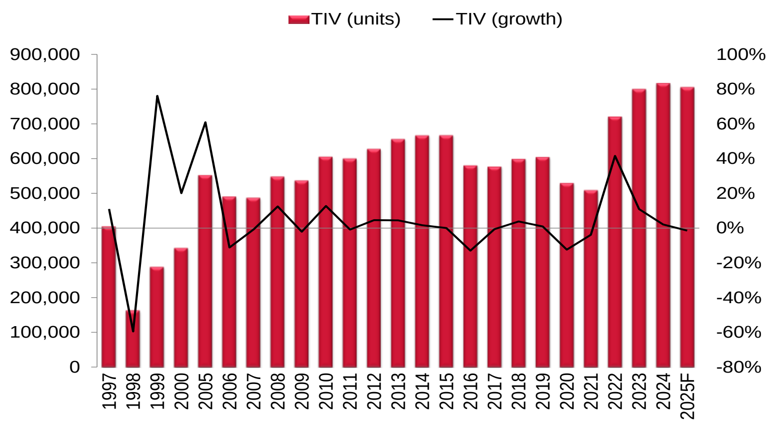
In the space of non-national brands, we saw the entry of Chinese and US automakers i.e. BYD, Tesla, Chery, Jaecoo, GAC, GWM and ORA, focusing mostly on the premium segment with a strong line-up of new EV models (see Exhibit 3), which could be in direct competition with **BAUTO (MP; TP: RM1.00)**. **BAUTO**'s entry with the Xpeng and Deepal brand is expected to be its next volume driver to counter the rising competition as it plans to launch the Deepal BEV in 2025 and the PHEV, HEV and REEV in 2026.

Our sector top picks are:**-**

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.

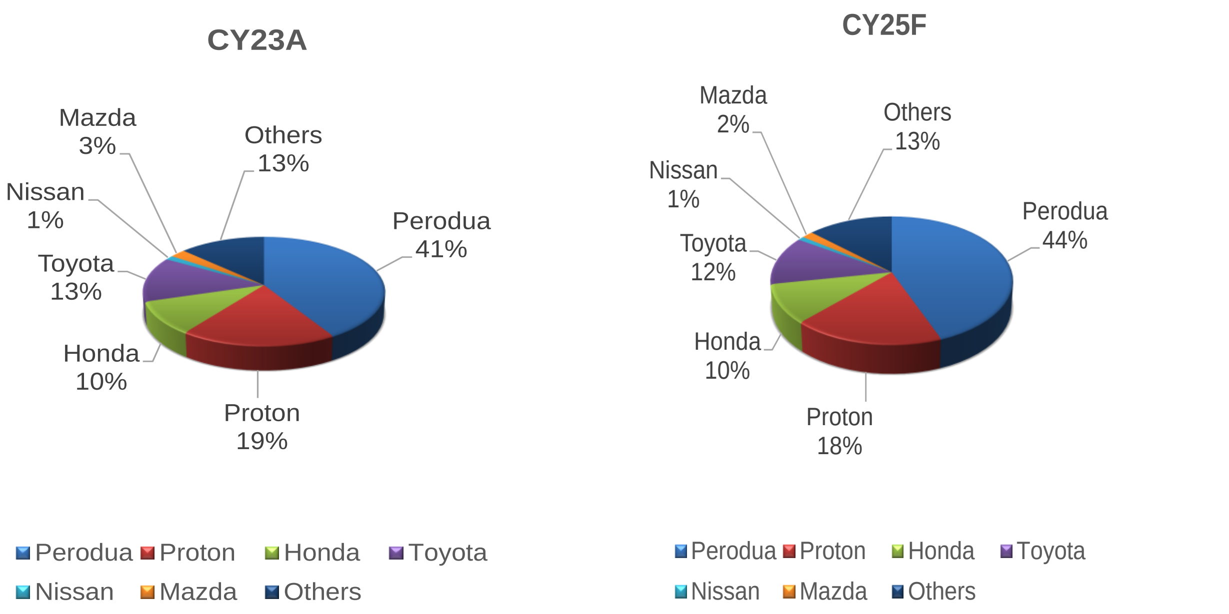
HLIND: (i) as it is a strong proxy to the booming gig economy given the critical role of motorised two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand's market leader position in the local motorcycle segment, 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: TIV Volume 1997−2025F



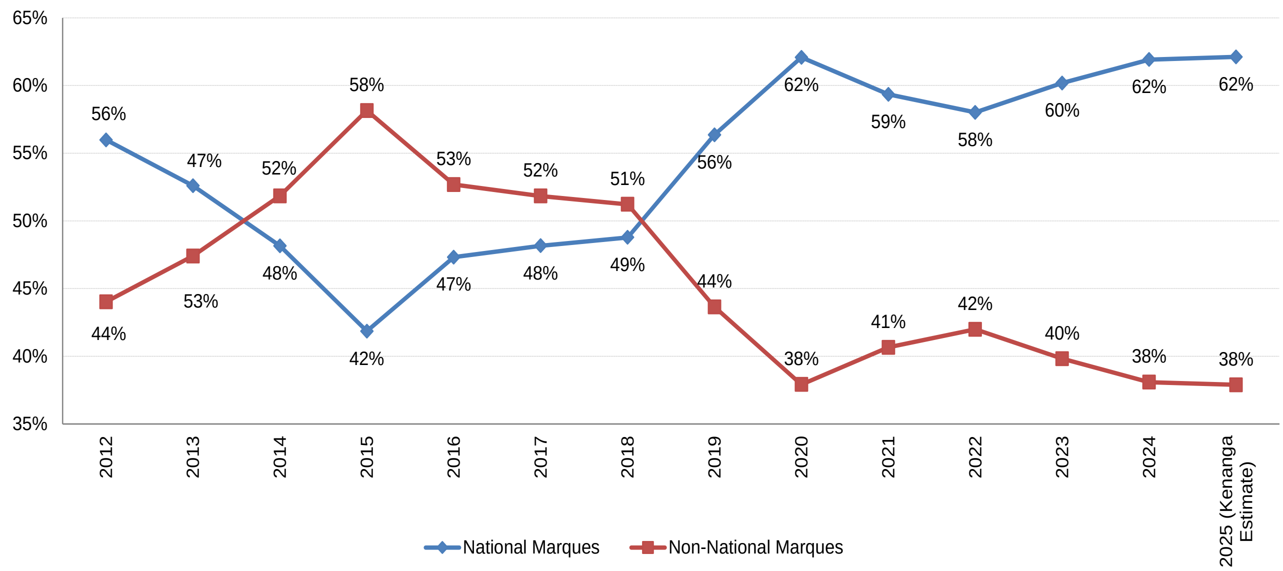
Source: MAA, Kenanga Research

Exhibit 2: Market Share by Brands CY23A vs. CY25F



Source: MAA, Kenanga Research

Exhibit 3: Nationals vs. Non-Nationals Market Share



Source: Kenanga Research, MAA

Exhibit 4: 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

Peer Table Comparison

Name	Rating	Last Price (RM) as at 21.3.25	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	1.13	1.00	-11.5%	1,311.9	Y	04/2025	13.4	15.3	-55.6%	13.7%	8.4	7.4	1.5	17.4%	16.8	14.9%
DRB-HICOM BHD	MP	0.665	0.850	27.8%	1,285.4	Y	12/2024	6.4	8.1	109.1%	26.2%	10.3	8.2	0.1	1.2%	2.0	3.0%
HIL INDUSTRIES BHD	OP	0.760	1.00	31.6%	252.2	Y	12/2024	13.9	14.2	9.5%	1.7%	5.4	5.4	0.5	9.3%	3.0	3.9%
HONG LEONG INDUSTRIES BHD	OP	13.70	15.90	16.1%	4,492.2	Y	06/2025	132.7	136.5	26.6%	2.8%	10.3	10.0	1.8	18.1%	70.0	5.1%
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	1.96	2.50	27.6%	13,330.0	Y	06/2025	20.1	20.8	7.5%	3.4%	9.7	9.4	0.7	7.0%	13.5	6.9%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.310	0.300	-3.2%	208.3	Y	12/2024	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.1	-7.7%	1.0	3.2%
SECTOR AGGREGATE					**22,983.2**					**5.2%**	**6.1%**	**10.1**	**9.5**	**0.6**	**5.8%**		**6.5%**

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my