

AUTOMOTIVE

Downgrade to NEUTRAL

(Previously POSITIVE)


Sustained Momentum

KEY INVESTMENT HIGHLIGHTS

- **Strong sales momentum sustained in July 2023**
- **Large order backlog gives good revenue visibility**
- **Despite this, the positives have played out among selective stocks under coverage**
- **As such, we downgrade autos to NEUTRAL from POSITIVE; our tactical picks are BAuto (BUY, TP: RM3.30) and MBMR (BUY, TP:RM4.70) as sector laggards, exposure to weak JPY and solid dividend yields**

Sustained momentum. July 2023 TIV saw further strength, up +28%yoy to 63,676 units on the back of backlog order delivery and new launches in the period. On sequential basis, July 2023 TIV was up +1.7%mom against a marginally weaker June 2023 given Raya Haji festivities. Production rebounded by +28%yoy and +15%mom given recovery in component supplies and improved supply chains. Cumulatively, 7MCY23 TIV stood at 429,807 units (+12.6%yoy) – if annualised at 736,812 units, this would be largely within our estimates making up 103% of our CY23F TIV of 713K. The annualised 7MCY23 TIV is also within MAA’s revised CY23F TIV of 725K (650K previously) but is at the upper range of consensus estimates.

Strong revenue visibility. We believe July 2023 TIV levels are sustainable, given still strong backlog orders even almost a year after the Penjana tax holiday expiry back in June 2022. As it stands, Perodua entails close to 200K outstanding bookings (estimated 6-7 months waiting list), Toyota entails 49K backlog bookings (estimated 6 months waiting list), while Mazda entails 6K outstanding bookings (estimated 4-5 months waiting list). Given sustained booking replenishment, we see possibilities of the large backlog orders eventually spilling over into CY24. While we acknowledge a higher OPR (which had risen 125bps since May 2022), we believe demand remains supported by sustained improvement in unemployment rate and income conditions, while a moderating inflation trend also lends support.

Recommendation. Despite the strong backlog orders, we believe this has largely played out among selective stocks under coverage and as such, we now **downgrade** the sector **to NEUTRAL** (from POSITIVE). In this report, we **downgrade UMW** to **NEUTRAL** (from BUY) at unchanged **TP of RM4.60** given strong share price rally recently. However, we keep our **BUY** calls on **BAuto (TP: RM3.30)** and **MBMR (TP: RM4.70)** as these stocks remain sector laggards trading at ~30% discount to mean PER. BAuto is our tactical favorite riding on the weak JPY and its CKD model expansion, while dividend yield of 9.7% is attractive. We also like **MBMR (BUY, TP: RM4.70)** as a cheap proxy to Perodua which has: (1) High model localization rate with minimal forex risk, (2) Strongest backlog bookings among the major players stretching up to 6-7 months. Dividend yield is attractive at 7.1%. 

COMPANY IN FOCUS

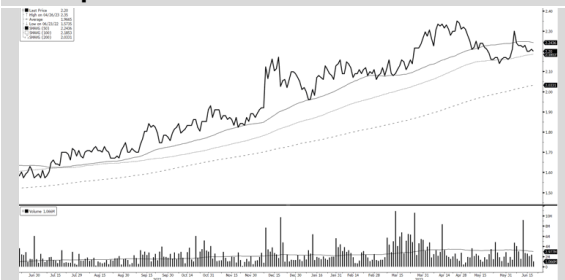
Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM3.30

Price @ 21st August 2023: RM2.22

- Brand expansion to drive above industry volume and earnings growth
- Riding on CKD model line-up expansion at Mazda/Kia/Peugeot
- One of the most aggressive players with EV launches to capitalize on EV incentives
- Attractive 9%-10% dividend yield

Share price chart



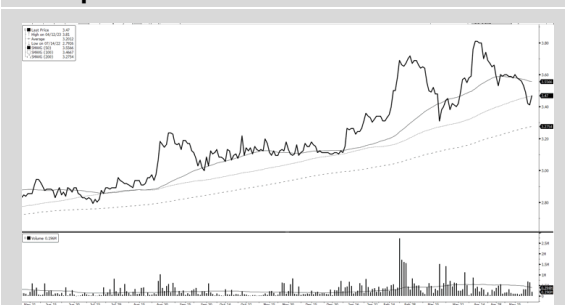
MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.70

Price @ 21st August 2023: RM3.62

- Cheap proxy to Perodua at just 5.8x FY24F PER
- Strong new booking momentum and strongest 6-7 months order backlog among key sector players
- Attractive dividend yield of 7.1%

Share price chart



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SECTOR VALUATION MATRIX

Companies	Rating	Shr. Price	PER (x)		P/BV	ROE	Div Yield	Target	Total
		(RM)	FY23F	FY24F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto*	BUY	2.22	8.3	8.0	2.8	30.7	9.6	3.30	58.3
Tan Chong	NEUTRAL	1.07	NA	NA	0.3	1.4	2.8	0.94	-9.3
UMW Holdings	NEUTRAL	4.53	12.3	12.1	1.1	9.9	3.4	4.60	4.9
MBM Resources	BUY	3.62	5.8	5.8	0.6	11.1	6.9	4.70	36.7

Source: Company, MIDFR *FY24F/25F (FYE April)

Chart 1: Monthly TIV Trend

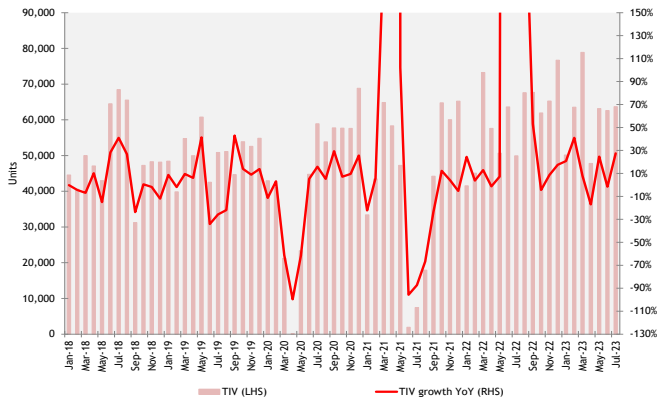
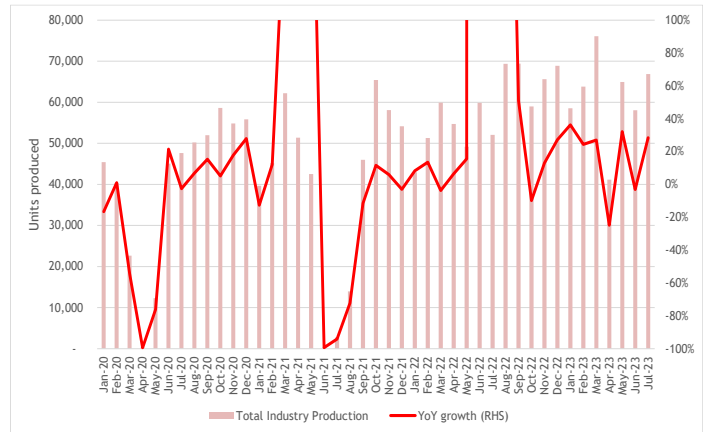
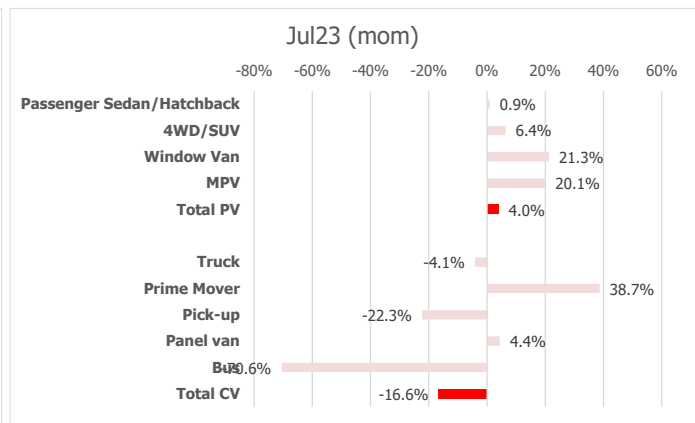
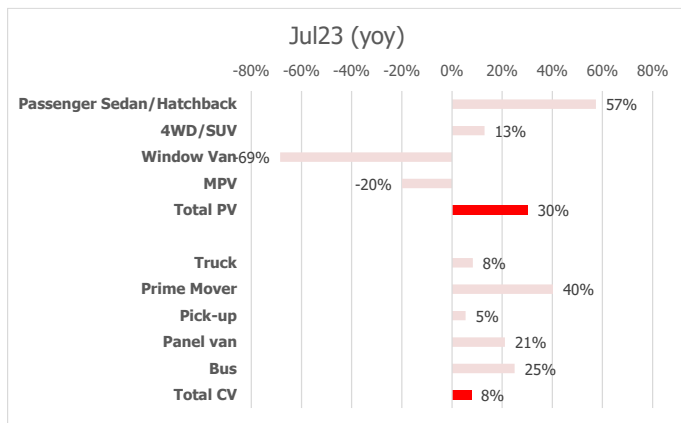


Chart 2: Monthly Production Trend



Source: MAA, MIDFR

Chart 3: July 2023 TIV growth by segment



Source: MAA, MIDFR

Table 1: July 2023 TIV Summary

Marques	Jul-22	Jun-23	Jul-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Jul-22	Jul-23
Proton	11,097	13,862	13,095	18.0%	-5.5%	68,499	89,107	30.1%	17.9%	20.7%
Perodua	18,350	22,556	28,433	54.9%	26.1%	145,694	173,128	18.8%	38.2%	40.3%
Toyota	6,624	8,559	8,200	23.8%	-4.2%	52,073	56,345	8.2%	13.6%	13.1%
Honda	5,298	5,023	5,989	13.0%	19.2%	44,971	39,716	-11.7%	11.8%	9.2%
Nissan	1,135	820	802	-29.3%	-2.2%	8,910	5,836	-34.5%	2.3%	1.4%
Mazda	1,120	1,680	1,576	40.7%	-6.2%	8,309	11,104	33.6%	2.2%	2.6%
Others	6,310	10,093	5,581	-11.6%	-44.7%	53,223	54,571	2.5%	13.9%	12.7%
Total	49,934	62,593	63,676	27.5%	1.7%	381,679	429,807	12.6%	100.0%	100.0%

Segment	Jul-22	Jun-23	Jul-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Jul-22	Jul-23
Passenger cars	44,574	55,692	57,939	30.0%	4.0%	338,326	384,600	13.7%	88.6%	89.5%
Commercial vehicles	5,360	6,901	5,737	7.0%	-16.9%	43,353	45,207	4.3%	11.4%	10.5%
Total	49,934	62,593	63,676	27.5%	1.7%	381,679	429,807	12.6%		

Segment	Jul-22	Jun-23	Jul-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Jul-22	Jul-23
National cars	29,447	36,418	41,528	41.0%	14.0%	214,193	262,235	22.4%	56.1%	61.0%
Non-nationals	20,487	26,175	22,148	8.1%	-15.4%	167,486	167,572	0.1%	43.9%	39.0%
Total	49,934	62,593	63,676	27.5%	1.7%	381,679	429,807	12.6%		

Source: MAA, MIDFR

Table 2: July 2023 Production Summary

Marques	Jul-22	Jun-23	Jul-23	YoY	MoM	YTD22	YTD23	YTD
Proton	12,849	13,998	14,026	9.2%	0.2%	70,317	93,775	33.4%
Perodua	16,959	22,263	28,715	69.3%	29.0%	147,311	177,608	20.6%
Toyota	7,334	7,255	8,560	16.7%	18.0%	49,097	52,141	6.2%
Honda	6,135	4,537	7,645	24.6%	68.5%	45,862	44,194	-3.6%
Nissan	738	621	625	-15.3%	0.6%	4,638	4,716	1.7%
Mazda	990	1,556	1,781	79.9%	14.5%	6,678	11,120	66.5%
Others	7,056	7,821	5,510	-21.9%	-29.5%	46,091	45,843	-0.5%
Total	52,061	58,051	66,862	28.4%	15.2%	369,994	429,397	16.1%

Source: MAA, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology