

# AUTOMOTIVE

**Maintain NEUTRAL**

## Notes from Proton Tanjung Malim visit

### KEY INVESTMENT HIGHLIGHTS

- **Automotive High-Tech Valley aspires to reignite interest into Malaysian automotive sector**
- **Proton targeting to double sales by 2030**
- **Lays out initial plans for electrification**
- **Maintain NEUTRAL on autos at this juncture given peaking momentum; our tactical picks are BAUTO (BUY, TP: RM3.36) and MBMR (BUY, TP:RM4.70) as sector laggards, exposure to weak JPY and solid dividend yields**

We participated in a visit to Proton Tanjung Malim yesterday, which shed some light on the upcoming Automotive High-Tech Valley (AHTV) project, Proton's product strategy as well as Proton's new stamping and engine plant. Below are key takeaways from the visit:

**The Automotive High-Tech Valley (AHTV) project** is essentially a new township concept centered on an automotive hub to attract population into the development, drawing inspiration from the likes of Toyota City in Japan and Wolfsburg (VW City) in Germany. AHTV spans a total area of 4000 acres comprising landbank owned mainly by Proton (1280 acres) and DRB-Hicom (1897 acres). It comprises several components including an industrial park, new vehicle manufacturing, research university, automotive museum, residential and commercial developments. The industrial park aims to attract investments from new energy vehicle (NEV) automotive OEMs, vendors, automotive chips, cybersecurity, artificial intelligence, autonomous vehicle as well as R&D & testing players. Eight new factories within AHTV are expected to be completed by mid-2024 while a total 40-50 vendors are targeted to move in within the next 5 years. The move of Proton's Shah Alam operations to its Tanjung Malim base by 2027 is also one of the catalysts for AHTV. AHTV is estimated to involve investments of up to RM32b from potential investors including Geely. The broad ambition is to position AHTV as a catalyst to reignite interest into Malaysia as an automotive investment destination.

**Ambitious targets for Proton.** Separately, Proton shared that it is looking to more than double sales to 310K units/annum by 2030 from 141,332 units in 2022. The 2030 target comprises 90% domestic sales (279K units), 10% export and 25% NEV penetration (comprising BEV and Range-Extender EV). By 2035, the group is targeting 500K units/annum sales volume entailing 50% exports and 50% NEV penetration. Management emphasized the need to increase exports to achieve economies of scale, hence the aggressive export target laid out for 2035. To support these targets, Proton is looking to invest RM6b (covering product, plant and support systems capex) into six new models between 2024-2030.

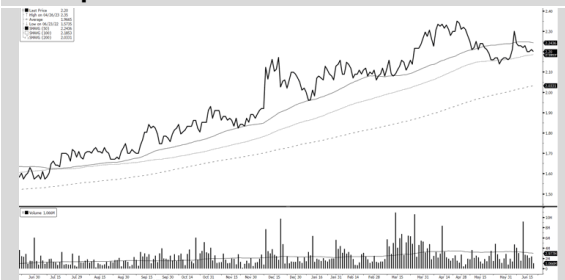
### COMPANY IN FOCUS

#### Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM3.36  
Price @ 12<sup>th</sup> October 2023: RM2.48

- 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% dividend yield

#### Share price chart

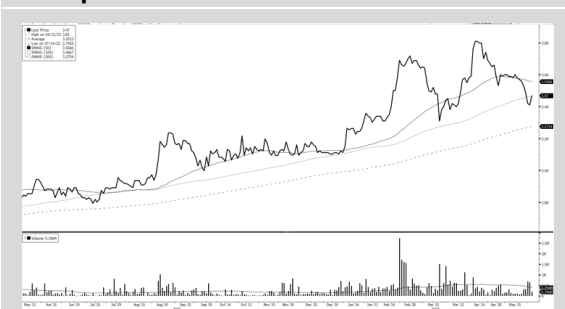


#### MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.70  
Price @ 12<sup>th</sup> October 2023: RM3.85

- Cheap proxy to Perodua at just 6.1x FY24F PER
- Strong new booking momentum and strongest 6-7 months order backlog among key sector players
- Attractive dividend yield of 8%

#### Share price chart



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**Product development.** Product development is segregated into three namely the legacy PIES series (Persona, Iriz, Exora, Saga), X-series (currently comprises X50, X70, X90 models) and NEVs. Broadly, these involve a mid-term plan (2023-2027) and EV strategic execution from 2028 onwards:

*PIES:* Mid-term plan involves a new Saga fitted with a new B+ engine series (which includes hybrid technologies). A new platform for PIES is expected to be introduced under the EV strategic execution phase also incorporating the new B+ powertrain.

*X-Series:* Mid-term plan involves introduction of the X90 (Launched in May 2023) as well as the new SS11 model soon utilizing AACV (automated, autonomous, connected vehicles) technologies and mild hybrid systems. In the EV strategic execution phase, the X70 and X50 models will begin to be fitted with the B+ engine series.

*NEV:* In the mid-term, new EV and PHEV models are expected to be rolled out, initially as CBUs with eventual transition into CKD assembly. To note, Proton was appointed official distributor of Smart vehicles for Malaysia and Thailand last year where it will be launching its first EV model, namely the Smart #1 model in 4Q23. More recently, Proton signed an MoA with Smart Automobile to study the feasibility of local assembly of Smart vehicles at Proton's Tanjung Malim plant. From 2028 onwards, Proton aims to execute its EV industrialization strategy involving localization of key EV components. Management also indicated that it is currently working on developing its own, 'affordable' EV models utilizing Geely's technology as part of its electrification strategy. Proton sees Range-Extender EVs (primarily driven by electric motor but entails a small combustion engine that functions as a battery generator) as a bridging technology prior to migrating to full BEVs.

**Short visit to engine and stamping plant.** We were also given the opportunity to see Proton's new engine and stamping plant during yesterday's visit. The new engine plant produces the GEP3 engine series comprising the 1.5T and 1.5TD engines currently used for the X-model series. The plant entails high automation rate (almost 100%) with production rate of 40 engines per hour currently. The GEP3 engines entail 30% local content while overall localization rate for the X-series models generally stands at around 90% now. Meanwhile, Proton's stamping plant is the largest in ASEAN with a total capacity of 6900 tonnes. The plant supplies around half of Proton's required metal stamped components with the remaining, mostly smaller stamped parts, sourced from vendors. The overall Tanjung Malim vehicle production plant now entails capacity of 250K units per annum while Proton's Shah Alam plant entails 80K units/annum capacity.

Overall, we are impressed with the development and ambitious targets set forth by Proton's management, though we note that effective execution is key in realizing these mid-to-long term aspirations. In terms of electrification strategy, we note that Proton has the backing of a strong technology partner in Geely. Having said that, we are also cognizant of the challenge and time required to develop the domestic EV ecosystem beyond Proton's role as an OEM, as this involves uplifting vendor capabilities in the wider supply chain. In the near-term, we remain **NEUTRAL** on the broader auto sector as we believe the strong TIV numbers this year has largely played out, while order backlog growth seems to have peaked with initial signs of receding. Our sector picks are **BAuto (TP: RM3.36)** 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 CKD model expansion, while dividend yield of 9% is attractive. We also like MBMR (6.1x FY24F PER) 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 8%. 

## 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	2.48	8.9	8.6	3.1	30.7	9.0	3.36	44.4
Tan Chong	NEUTRAL	1.02	NA	NA	0.2	1.4	2.9	0.94	-4.9
UMW Holdings	NEUTRAL	4.75	12.2	12.4	1.2	9.9	3.3	4.84	5.2
MBM Resources	BUY	3.85	6.2	6.1	0.7	11.1	8.1	4.70	30.2

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

Chart 1: Monthly TIV Trend

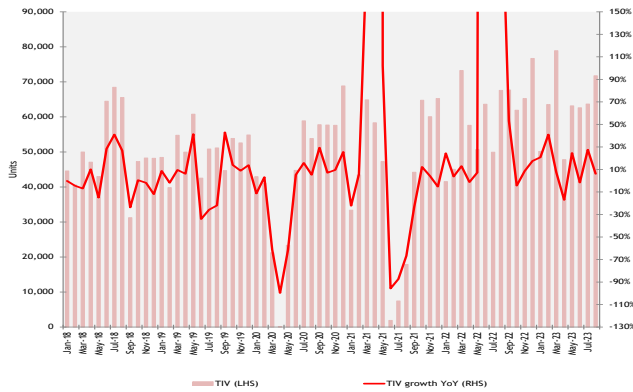
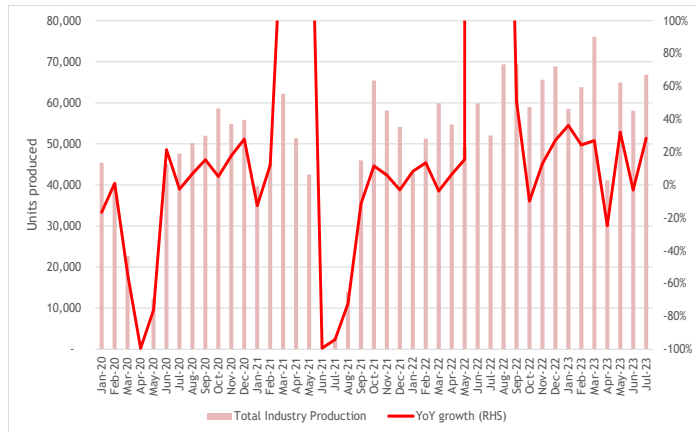


Chart 2: Monthly Production Trend



Source: MAA, MIDFR

Table 1: TIV Summary as at August 2023

Marques	Aug-22	Jul-23	Aug-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Aug-22	Aug-23
Proton	14,942	13,095	13,693	-8.4%	4.6%	83,441	102,800	23.2%	18.6%	20.5%
Perodua	26,041	28,433	31,113	19.5%	9.4%	171,735	204,241	18.9%	38.2%	40.7%
Toyota	8,961	8,200	10,033	12.0%	22.4%	61,034	66,378	8.8%	13.6%	13.2%
Honda	8,019	5,989	7,787	-2.9%	30.0%	52,990	47,503	-10.4%	11.8%	9.5%
Nissan	1,072	802	800	-25.4%	-0.2%	9,982	6,636	-33.5%	2.2%	1.3%
Mazda	1,371	1,576	1,880	37.1%	19.3%	9,680	12,984	34.1%	2.2%	2.6%
Others	7,193	5,581	6,439	-10.5%	15.4%	60,416	61,010	1.0%	13.4%	12.2%
<b>Total</b>	<b>67,599</b>	<b>63,676</b>	<b>71,745</b>	<b>6.1%</b>	<b>12.7%</b>	<b>449,278</b>	<b>501,552</b>	<b>11.6%</b>	<b>100.0%</b>	<b>100.0%</b>

Segment	Aug-22	Jul-23	Aug-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Aug-22	Aug-23
Passenger cars	60,715	57,939	64,633	6.5%	11.6%	399,041	449,233	12.6%	88.8%	89.6%
Commercial vehicles	6,884	5,737	7,112	3.3%	24.0%	50,237	52,319	4.1%	11.2%	10.4%
<b>Total</b>	<b>67,599</b>	<b>63,676</b>	<b>71,745</b>	<b>6.1%</b>	<b>12.7%</b>	<b>449,278</b>	<b>501,552</b>	<b>11.6%</b>		

Segment	Aug-22	Jul-23	Aug-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Aug-22	Aug-23
National cars	40,983	41,528	44,806	9.3%	7.9%	255,176	307,041	20.3%	56.8%	61.2%
Non-nationals	26,616	22,148	26,939	1.2%	21.6%	194,102	194,511	0.2%	43.2%	38.8%
<b>Total</b>	<b>67,599</b>	<b>63,676</b>	<b>71,745</b>	<b>6.1%</b>	<b>12.7%</b>	<b>449,278</b>	<b>501,552</b>	<b>11.6%</b>		

Source: MAA, MIDFR

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#### 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