

# AUTOMOTIVE

**Maintain NEUTRAL**

## Rolls downhill in September

### KEY INVESTMENT HIGHLIGHTS

- **September 2023 TIV contracted -6.4%mom against a high base in August 2023**
- **Strong revenue visibility in the near-term but underlying TIV momentum looks close to peaking**
- **Potential re-introduction of incentives for hybrids might cushion the impact of eventual petrol subsidy re-targeting, albeit as a temporary solution**
- **Maintain NEUTRAL on autos; 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**

**Downhill in September.** September 2023 TIV contracted -6.4%mom to 68,156 units against a relatively high base in August which was driven by National Day promotional campaigns. The MAA also attributes the weakness in September to the wait-and-see attitude by consumers ahead of Budget 2024. The contraction was seen across the major players with Proton/Perodua/Toyota/Honda/Mazda TIV contracting by -12%/-7%/-10%/-16%/-26%mom. Additionally, the weakness was seen across both the passenger (-6.3%mom) and commercial vehicle (-7.3%mom) segments. MAA expects October TIV to sustain at September levels.

**Peakish momentum.** Cumulatively, TIV as of September 2023 stood at 571,767 units (+10.6%yoy), making up 80%/79% of our/MAA's full year forecast of 713K/725K units. We believe there is scope for the 2023 TIV to outperform our projections while near-term revenue visibility is solid given the existing order backlog. However, the most recent management updates suggest that backlog order growth has started to flatten out with initial signs of receding compared to March-June levels. This follows a pickup in production to address the long waiting list previously. While we believe TIV momentum is close to peaking (after record breaking TIV in 2022 and potentially another new record this year), we do not expect a drastic fall at this juncture as demand could remain supported by improvement in unemployment rate and income conditions. However, the ripple effect of fuel subsidy rollback and higher service tax as stipulated under Budget 2024 could pose a potential risk.

**USD remains strong.** The sustained strong USD is a risk to sector margins particularly for UMW and Tan Chong, which are exposed to USD-denominated CBU and CKD kit imports. However, we note that the non-national players have been raising selling prices (between +1.8% to +12% depending on marque and models) since early this year which could partly cushion the impact – given large order backlogs, we reckon the impact of these price increases will be mostly reflected from 3QCY23.

**New incentives in the offing?** The MAA for the first time released statistics of EV sales. On YTD basis, BEV sales registered at 5630 units – though up +113%yoy, this represents just a 0.98% TIV penetration. Hybrid sales stood at 19,030 units YTD (-4.8%yoy) representing 3.3% TIV penetration. Sales of EVs have been driven by generous CBU/CKD duty exemptions and expansion in model offerings. Hybrids are subject to the

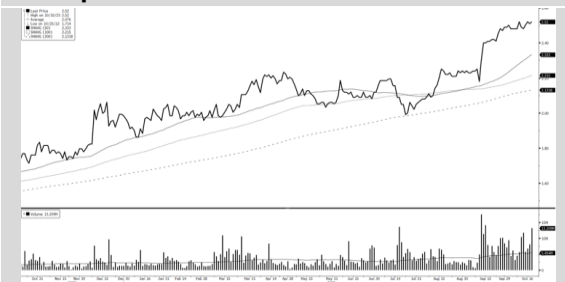
### COMPANY IN FOCUS

#### Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM3.36  
Price @ 18<sup>th</sup> October 2023: RM2.52

- 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

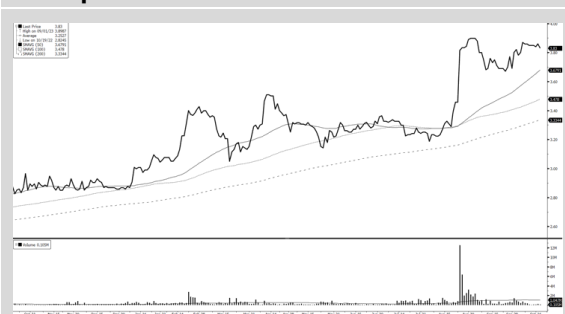


#### MBM Resources Bhd

Maintain **BUY** | Unchanged Target price: RM4.70  
Price @ 18<sup>th</sup> October 2023: RM3.83

- 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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usual localization-based duty incentive under the Industrial Linkage Program, but our channel checks suggest that a new form of enhanced incentives for hybrids (and applicable only to new models) is being explored. Subject to a firm rollout, this could potentially benefit players that are looking to launch new hybrid models into the market especially Perodua, which is looking at hybrid technologies prior to full electrification. We note however, that the potential enhanced incentives for hybrids are considerably lower compared to incentives for BEVs signaling that the latter is still the ultimate pursuit.

**Potentially a temporary solution amid fuel subsidy rollbacks?** Broadly, we believe the Japanese brands, which possess well developed hybrid technologies, stand to benefit from potential re-introduction of incentives for hybrids, including Toyota and Mazda among others. While BEVs are currently still some ways away from hitting mass market price points (of <RM80K on our estimates), we believe hybrids could come in as a bridging technology prior to full electrification. We believe hybrids might turn out to be a crucial alternative for consumers to cushion the impact of the Government's fuel subsidy re-targeting, which we reckon will eventually be expanded to petrol subsidies, albeit in phases. As BEV/FCEV technologies mature and achieve sufficient scale to reach mass market price parity, such hybrid incentives should then be gradually rolled back, in our opinion. To note, Malaysia's 15%/38% TIV penetration targets by 2030/2040 are for xEVs, which comprise both BEV and hybrids (including PHEV).

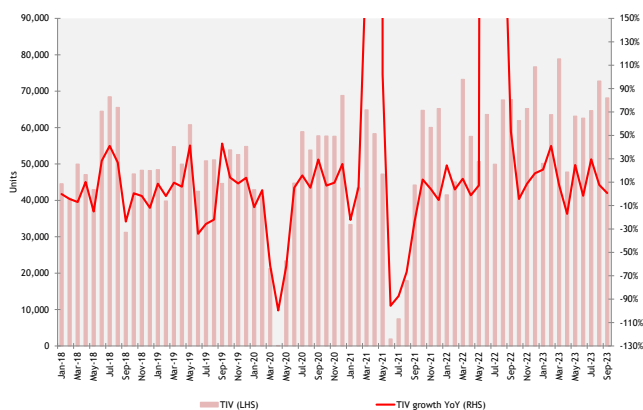
**Recommendation.** We believe the current strong backlog orders have largely played out among selective stocks under our coverage and amid peaking TIV, we keep our **NEUTRAL** call on the auto sector. Our sector picks are **BAuto (TP: RM3.36)** and **MBMR (TP: RM4.70)** as these stocks remain sector laggards trading at ~25% 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 months. Dividend yield is attractive at 8%. 

## SECTOR VALUATION MATRIX

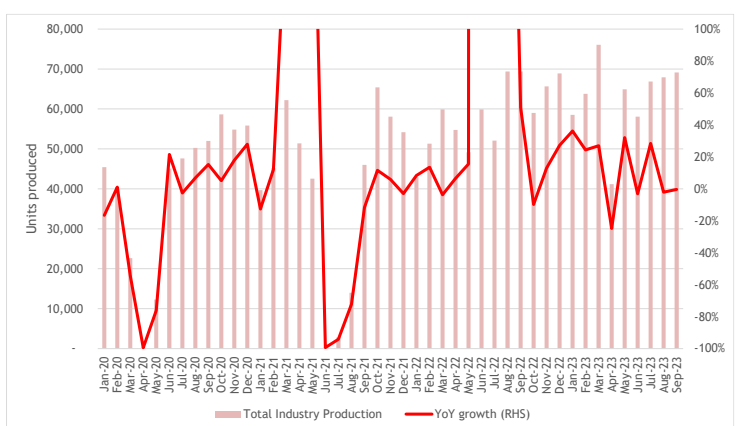
		Shr. Price	PER (x)		P/BV	ROE	Div Yield	Target	Total
Companies	Rating	(RM)	FY23F	FY24F	(x)	(%)	(%)	Price (RM)	Upside (%)
Bermaz Auto*	BUY	2.52	9.1	8.8	3.2	30.7	8.8	3.36	42.1
Tan Chong	NEUTRAL	1.04	NA	NA	0.3	1.4	2.9	0.94	-6.7
UMW Holdings	NEUTRAL	4.81	12.4	12.6	1.2	9.9	3.2	4.84	3.8
MBM Resources	BUY	3.83	6.1	6.1	0.7	11.1	8.2	4.70	30.9

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

### Chart 1: Monthly TIV Trend



### Chart 2: Monthly Production Trend

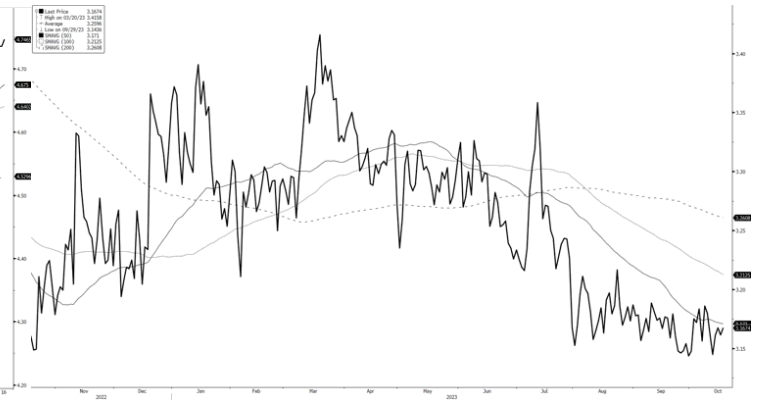


Source: MAA, MIDFR

Chart 3: USD:MYR Trend



Chart 4: JPY:MYR Trend



Source: Bloomberg, MIDFR

Table 1: September 2023 TIV Summary

Marques	Sep-22	Aug-23	Sep-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Sep-22	Sep-23
Proton	14,587	13,693	12,006	-17.7%	-12.3%	98,028	114,806	17.1%	19.0%	20.1%
Perodua	24,629	31,113	28,995	17.7%	-6.8%	196,364	233,236	18.8%	38.0%	40.8%
Toyota	9,098	10,033	9,020	-0.9%	-10.1%	70,132	75,398	7.5%	13.6%	13.2%
Honda	7,193	7,787	6,514	-9.4%	-16.3%	60,183	54,017	-10.2%	11.6%	9.4%
Nissan	1,001	800	816	-18.5%	2.0%	10,983	7,452	-32.1%	2.1%	1.3%
Mazda	1,005	1,880	1,393	38.6%	-25.9%	10,685	14,377	34.6%	2.1%	2.5%
Others	10,195	7,503	9,412	-7.7%	25.4%	70,611	72,481	2.6%	13.7%	12.7%
<b>Total</b>	<b>67,708</b>	<b>72,809</b>	<b>68,156</b>	<b>0.7%</b>	<b>-6.4%</b>	<b>516,986</b>	<b>571,767</b>	<b>10.6%</b>	<b>100.0%</b>	<b>100.0%</b>

Segment	Sep-22	Aug-23	Sep-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Sep-22	Sep-23
Passenger cars	60,069	65,697	61,560	2.5%	-6.3%	459,110	512,852	11.7%	88.8%	89.7%
Commercial vehicles	7,639	7,112	6,596	-13.7%	-7.3%	57,876	58,915	1.8%	11.2%	10.3%
<b>Total</b>	<b>67,708</b>	<b>72,809</b>	<b>68,156</b>	<b>0.7%</b>	<b>-6.4%</b>	<b>516,986</b>	<b>571,767</b>	<b>10.6%</b>		

Segment	Sep-22	Aug-23	Sep-23	YoY	MoM	YTD22	YTD23	YTD %	Market share	
									Sep-22	Sep-23
National cars	39,216	44,806	41,001	4.6%	-8.5%	294,392	348,042	18.2%	56.9%	60.9%
Non-nationals	28,492	28,003	27,155	-4.7%	-3.0%	222,594	223,725	0.5%	43.1%	39.1%
<b>Total</b>	<b>67,708</b>	<b>72,809</b>	<b>68,156</b>	<b>0.7%</b>	<b>-6.4%</b>	<b>516,986</b>	<b>571,767</b>	<b>10.6%</b>		

Source: MAA, MIDFR

Table 2: September 2023 Total Industry Production

Marques	Sep-22	Aug-23	Sep-23	YoY	MoM	YTD22	YTD23	YTD
Proton	16,230	13,482	13,156	-18.9%	-2.4%	102,207	120,413	17.8%
Perodua	28,277	29,986	30,667	8.5%	2.3%	202,857	238,261	17.5%
Toyota	8,974	8,884	8,322	-7.3%	-6.3%	67,457	69,347	2.8%
Honda	6,993	7,283	6,021	-13.9%	-17.3%	60,137	57,498	-4.4%
Nissan	575	556	579	0.7%	4.1%	5,951	5,851	-1.7%
Mazda	829	1,697	1,489	79.6%	-12.3%	8,861	14,306	61.4%
Others	7,511	6,024	8,899	18.5%	47.7%	61,291	60,766	-0.9%
<b>Total</b>	<b>69,389</b>	<b>67,912</b>	<b>69,133</b>	<b>-0.4%</b>	<b>1.8%</b>	<b>508,761</b>	<b>566,442</b>	<b>11.3%</b>

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