Sector Update | Monday, 20 November 2023

AUTOMOTIVE

Maintain NEUTRAL

Strong Recovery in October

KEY INVESTMENT HIGHLIGHTS

- **Recovery after a weak September**
- **Cautious amid peaking momentum**
- **Margin risk from strong USD**
- **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**

Recovery after a weak September. October 2023 TIV recovered against a weak September to 74,896 units, up +9.8%mom and +21%yoy. This was driven by continued delivery of backlog orders, improved supply chain and National Day promotions by selective marques. A sequential improvement was seen across the board among the key marques albeit with a more moderate recovery at Proton and Nissan. Notably, Chery is making strides with its re-entry, capturing a 1.5% market share in October. Cumulatively, TIV as of October 2023 stood at 646,753 units (+11.7%yoy), making up 90.7%/89.2% of our/MAA's full year forecast.

Cautious amid peaking momentum. 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, we believe TIV momentum is close to peaking and is expected to normalize in 2024 after 2 record breaking years driven by the sales tax holiday and generous fiscal incentives throughout the pandemic. Backlog order growth has started to flatten out with initial signs of receding compared to 1QCY23 levels, while MIER's latest 2QCY23 consumer sentiment survey pointed towards further deterioration with the CSI falling 8.4points qoq to 90.8. Additionally, the ripple effect of fuel subsidy rollback and higher service tax could pose a potential risk next year. At this juncture, however, we do not expect a drastic fall in TIV as demand could still remain supported by sustained improvement in underlying employment and income conditions.

Margin risk from strong USD. The strong USD is still a risk to sector margins particularly for UMW and Tan Chong, which are exposed to USD-denominated CBU and CKD kit imports. However, 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.

Recommendation. We believe the current strong backlog orders have largely played out among selective stocks under 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

COMPANY IN FOCUS

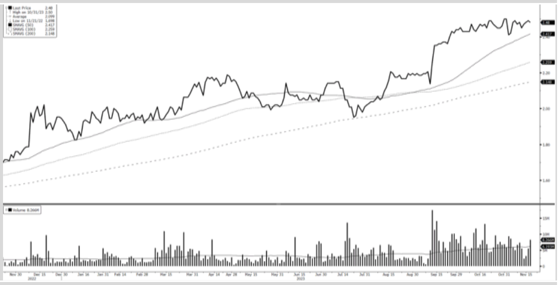
Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM3.36

Price @ 17th November 2023: RM2.48

- Brand expansion to drive above industry volume and earnings growth
- Riding on CKD model 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



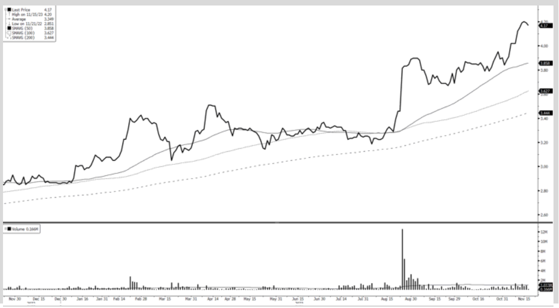
MBM Resources Bhd

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

Price @ 17th November 2023: RM4.17

- Cheap proxy to Perodua at just 6.6x FY24F PER
- Strong new booking momentum and strongest order backlog among key sector players
- Attractive dividend yield of 7.5%

Share price chart



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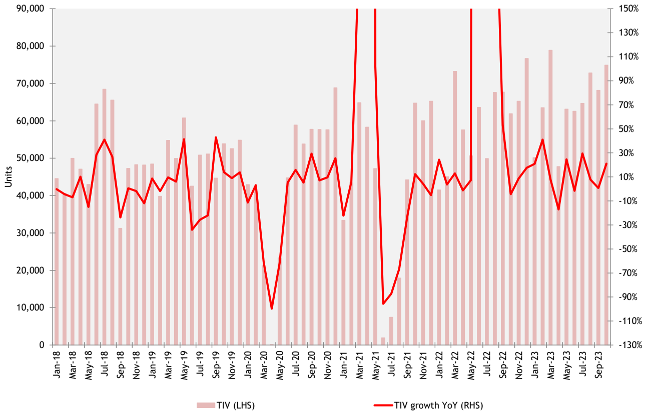
MBMR (6.6x FY24F PER) as a cheap proxy to Perodua which has: (1) High model localization rate with minimal forex risk (2) Strongest backlog bookings among the major players. Dividend yield is attractive at 7.5%.

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	2.48	8.9	8.6	3.1	30.7	9.0	3.36	44.4
Tan Chong	NEUTRAL	1.03	NA	NA	0.3	1.4	2.9	0.94	-5.8
UMW Holdings	NEUTRAL	4.91	12.7	12.9	1.2	9.9	3.2	4.84	1.7
MBM Resources	BUY	4.17	6.7	6.6	0.7	11.1	7.5	4.70	20.2

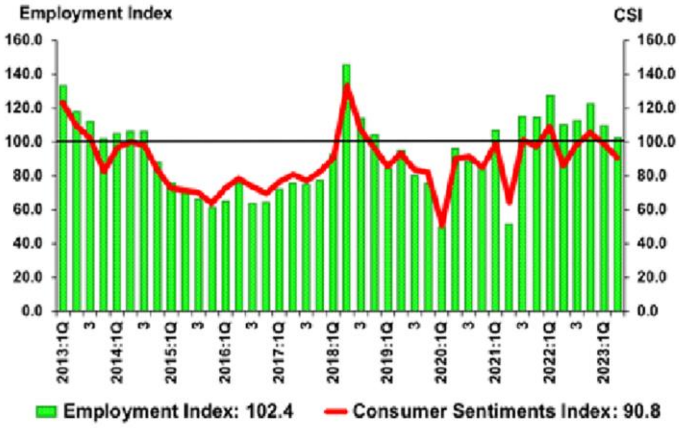
*Source: Company, MIDFR   *FY24F/25F (FYE April)*

Chart 1: Monthly TIV Trend



Source: MAA, MIDFR

Chart 2: MIER Consumer Sentiment Index (CSI)



Source: MIER, MIDFR

Chart 3: USD:MYR Trend

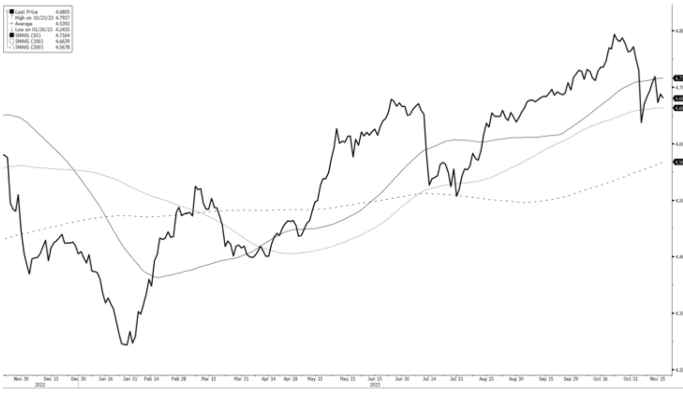
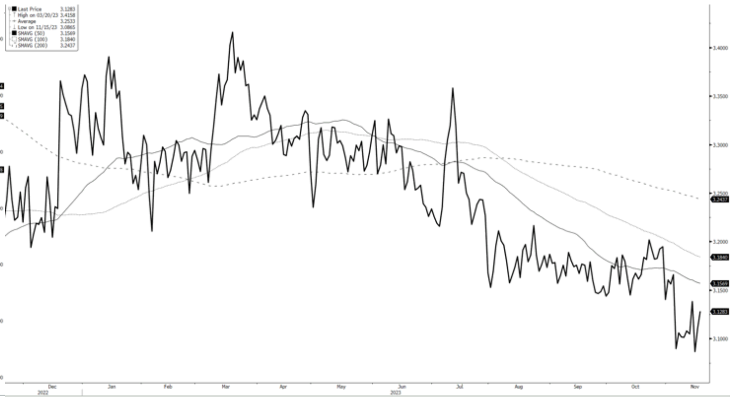


Chart 4: JPY:MYR Trend



Source: Bloomberg, MIDFR

Table 1: October 2023 TIV Summary

									Market share	
Marques	**Oct-22**	**Sep-23**	**Oct-23**	**YoY**	**MoM**	**YTD22**	**YTD23**	**YTD %**	**Oct-22**	**Oct-23**
Proton	12,597	12,006	12,188	-3.2%	1.5%	110,625	126,994	14.8%	19.1%	19.6%
Perodua	25,850	28,995	33,836	30.9%	16.7%	222,214	267,072	20.2%	38.4%	41.3%
Toyota	9,175	9,020	10,709	16.7%	18.7%	79,307	86,107	8.6%	13.7%	13.3%
Honda	5,850	6,514	7,314	25.0%	12.3%	66,033	61,331	-7.1%	11.4%	9.5%
Nissan	1,003	816	857	-14.6%	5.0%	11,986	8,309	-30.7%	2.1%	1.3%
Mazda	1,018	1,393	1,753	72.2%	25.8%	11,703	16,130	37.8%	2.0%	2.5%
Others	6,427	9,443	8,239	28.2%	-12.8%	77,038	80,810	4.9%	13.3%	12.5%
Total	**61,920**	**68,187**	**74,896**	**21.0%**	**9.8%**	**578,906**	**646,753**	**11.7%**	**100.0%**	**100.0%**

									Market share	
Segment	**Oct-22**	**Sep-23**	**Oct-23**	**YoY**	**MoM**	**YTD22**	**YTD23**	**YTD %**	**Oct-22**	**Oct-23**
Passenger cars	55,395	61,560	67,478	21.8%	9.6%	514,505	580,330	12.8%	88.9%	89.7%
Commercial vehicles	6,525	6,627	7,418	13.7%	11.9%	64,401	66,423	3.1%	11.1%	10.3%
Total	**61,920**	**68,187**	**74,896**	**21.0%**	**9.8%**	**578,906**	**646,753**	**11.7%**		

									Market share	
Segment	**Oct-22**	**Sep-23**	**Oct-23**	**YoY**	**MoM**	**YTD22**	**YTD23**	**YTD %**	**Oct-22**	**Oct-23**
National cars	38,447	41,001	46,024	19.7%	12.3%	332,839	394,066	18.4%	57.5%	60.9%
Non-nationals	23,473	27,186	28,872	23.0%	6.2%	246,067	252,687	2.7%	42.5%	39.1%
Total	**61,920**	**68,187**	**74,896**	**21.0%**	**9.8%**	**578,906**	**646,753**	**11.7%**		

Source: MAA, MIDFR

Table 2: October 2023 Total Industry Production

Marques	**Oct-22**	**Sep-23**	**Oct-23**	**YoY**	**MoM**	**YTD22**	**YTD23**	**YTD**
Proton	13,917	13,156	12,865	-7.6%	-2.2%	116,124	133,278	14.8%
Perodua	22,344	30,667	34,461	54.2%	12.4%	225,201	272,722	21.1%
Toyota	8,204	8,322	8,796	7.2%	5.7%	75,661	78,143	3.3%
Honda	5,915	6,021	8,527	44.2%	41.6%	66,052	66,025	0.0%
Nissan	595	579	486	-18.3%	-16.1%	6,546	6,337	-3.2%
Mazda	1,370	1,489	1,908	39.3%	28.1%	10,231	16,214	58.5%
Others	6,646	8,899	7,148	7.6%	-19.7%	67,937	67,914	0.0%
Total	**58,991**	**69,133**	**74,191**	**25.8%**	**7.3%**	**567,752**	**640,633**	**12.8%**

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 *rise* 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 *fall* 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