

### SECTOR UPDATE

## Automobile – Malaysia

Sales Continue To Grow, On Track To Beat 600,000 Level

MAA's August TIV came in at 66,614 units (+36% mom, +270% yoy), bringing ytd TIV to 447,209 units (+6% ytd). This is 74% of our 2022 TIV forecast of 605,000 units (+19% yoy). We make no changes to our 2022 TIV as we believe the sales could taper off towards 4Q22. Beyond here, we believe 2023 could see a cyclical car demand downturn from a high base. Maintain UNDERWEIGHT.

### WHAT'S NEW

- Strong ytd performance.** The Malaysian Automotive Association's (MAA) total industry volume (TIV) grew 36% mom to 66,614 units in Aug 22. Most of the key brands reported sequentially stronger sales volume, bringing the ytd TIV to 447,209 units (+62% ytd) and 74% of our 2022 TIV forecast of 605,000 units. The better sales recorded in August were due higher production ramp-up by car makers to ensure cars booked prior to the expiry of sales and service tax (SST) exemption would be able to register before 31 Mar 23 to qualify for the SST exemption.
- No changes to our 2022 TIV forecast of 605,000 units vs MAA's new TIV forecast of 630,000 units.** We remain conservative by maintaining our 2022 TIV forecast which implies a 19% improvement vs 2021 as we expect: a) the ongoing automobile chip and component shortages may dampen car production, b) the higher interest rate environment may dampen sentiment in the domestic auto sector, and c) all the pre-booking before sales tax exemption period will taper off by year end.
- EV models launching in the pipeline.** BAUTO has recently launched the KIA EV6 and Mazda MX-30 at end-Jun 22 as well as completely knocked down (CKD) KIA Carnival in Jul 22. In addition to this, BAUTO is expected to launch the second CKD model SUV Sorento in 1Q23, followed by the third CKD model Sportage in 4Q23. As for Peugeot, BAUTO will introduce a pick-up model New Landtrek in 3Q22 and potentially a New e-2008 EV in 4Q22. Additionally, the arrival of the all-new Perodua Alza and soon to be launched Toyota Veloz, which take the place of the now-discontinued Toyota Avanza, are two other noteworthy models.

### ACTION

- Maintain UNDERWEIGHT.** The sector is trading at 10.4x 2023F PE, which is still at a slight discount to its historical five-year PE mean. We believe 2023 could see cyclical car demand downturn from a high base. Additionally, the ongoing weakening of the ringgit against the US dollar and the prolonged chip shortage could pose downside risks to the sector's earnings. Based on the companies under our coverage, we are forecasting a 6.3% and 6.8% fall in sector revenue and earnings in 2023 respectively.
- Bermaz Auto (BAUTO MK/HOLD/Target: RM1.92).** This is based on ascribed PE of 12x to its FY23 EPS (which is the sector's five-year mean). Key re-rating catalysts for the stock: a) localisation of KIA Carnival and CX-30 (1Q23) and two other KIA models (Sorento and Sportage) which will improve margins, b) the Kia and Peugeot franchises gaining traction at a faster-than-expected rate, and c) launches of new models as BAUTO will introduce pick-up model New Landtrek (4Q22) and potentially New e-2008 EV (1Q23).

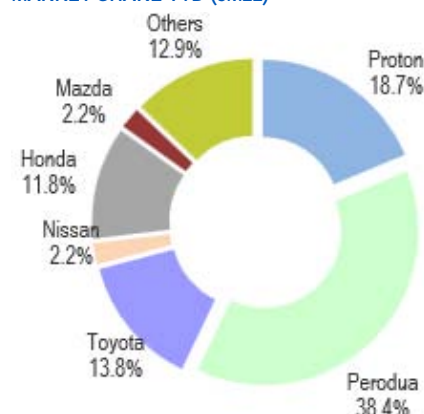
### PEER COMPARISON

Company	Rating	FYE	Share Price	Target	Market	PE		P/B		EV/EBITDA		Dividend Yield	
			21 Sep 22 (RM)	Price (RM)	Cap (RMm)	FY22F (x)	FY23F (x)	FY22F (x)	FY23F (x)	FY22F (x)	FY23F (x)	FY22F (%)	FY23F (%)
Bermaz Auto	HOLD	4/22	1.93	1.92	2,241.9	12.0	11.9	3.1	2.7	7.2	7.2	4.2	4.2
UMW Holdings	HOLD	12/22	3.15	3.10	3,689.1	10.3	11.9	0.7	0.6	6.6	7.1	1.9	1.7
DRB-Hicom	NOT RATED	12/22	1.45	n.a.	2,803.2	13.1	10.2	0.4	0.4	5.5	4.9	1.4	1.9
Sime Darby	NOT RATED	6/22	2.20	n.a.	14,981.8	12.4	11.6	0.9	0.9	6.3	6.1	5.7	5.7
MBM Resources	NOT RATED	12/22	3.34	n.a.	1,305.6	6.1	6.0	0.7	0.6	20.8	20.2	7.8	7.1
Tan Chong Motor	NOT RATED	12/22	1.13	n.a.	730.4	102.7	32.3	0.3	0.3	6.2	5.8	1.7	1.9

Note: Not Rated stocks' forecasts are based on consensus  
Source: Respective companies, Bloomberg, UOB Kay Hian

## UNDERWEIGHT (Maintained)

### MARKET SHARE YTD (8M22)



Source: MAA

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- UMW Holdings (UMWH MK/HOLD/Target: RM3.10)**, This is based on 12x 2023F target PE (which is the sector's five-year mean). We expect car sales to be supported by its first locally-assembled hybrid EV (Toyota Corolla Cross) and Toyota Camry new facelift. Meanwhile, volume in 2023 would be supported by: a) the newly-launched Toyota Veloz, which replaces the now-discontinued Toyota Avanza, and b) the introduction of the all-new Perodua Alza which is gaining traction at a faster-than-expected rate.

### ESSENTIALS

- Sales volume for remaining months looks uncertain.** While the chips and component shortages have eased, we gather that some car makers are still not fully spared from the supply chain disruption. We expect sequentially stronger TIV in Aug 22, as car makers continue to ramp up their production to clear massive backlog orders and expedite delivery of vehicles to customers before the registration period to enjoy the SST exemption which ends in Mar 23.
- Order backlog remains strong but new booking order started to slow down.** We gather that while backlog orders across most of the car makers have been strong since May and June as buyers frontloaded purchases during the tax holiday period, orders have slowed down starting from July as anticipated. We estimate that the total current backlog order across all top key marques stood at 410,000 units. Perodua recorded the highest number of bookings with over 240,000 units, followed by Proton with 60,000 units and Honda with 50,000 units, while Mazda has a total booking of 8,500 units.
- Budget 2023 wish list: EV tax breaks extension.** Currently, the government is offering 100% exemption of import and excise duties as well as zero road tax for CBU electric cars up to 31 Dec 23, and 100% duty exemption for CKD electric cars up to 31 Dec 25. According to MAA, only 274 units of new electric vehicles (EV) were registered in 2021, from TIV of 508,911 units. We believe that it is crucial for the government to extend the tax breaks for EVs in the upcoming Budget 2023 to support the growth of the EV industry in Malaysia. We also noted that MAA is hoping for incentives of up to 10 years from the government to attract more buyers to explore into the EV market.

### RISKS

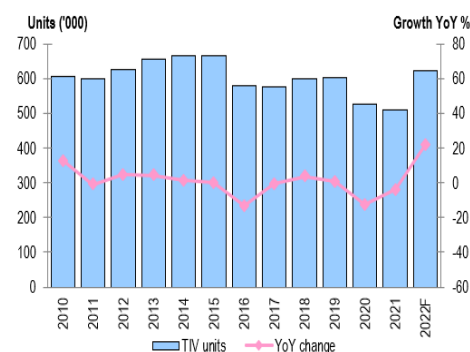
- Downside risks to sector:** a) Worse-than-expected impact of the chip shortage crisis, b) weakening of the ringgit, and c) the prolonged Russia-Ukraine conflict which could hit production growth for the rest of 2022.

### TOP 5 KEY MARQUES YTD

Make	Sales (Units)		Market Share (%)		Ranking	
	Jan-Aug 22	Jan-Aug 21	Jan-Aug 22	Jan-Aug 21	Jan-Aug 22	Jan-Aug 21
Perodua	171,728	104,933	38.4	38.2	1	1
Proton	83,441	60,997	18.7	22.2	2	2
Toyota	61,638	38,085	13.8	13.9	3	3
Honda	52,989	26,988	11.8	9.8	4	4
Mazda	9,680	6,300	2.2	2.3	5	5
Others	67,733	37,297	15.1	13.6	n/a	n/a
TIV	447,209	274,600	100.0	100.0	n/a	n/a
Passenger	397,100	243,851	88.8	88.8	n/a	n/a
Commercial	50,109	30,749	11.2	11.2	n/a	n/a

Source: MAA

### DECADE-LONG AUTOMOBILE SALES CYCLE



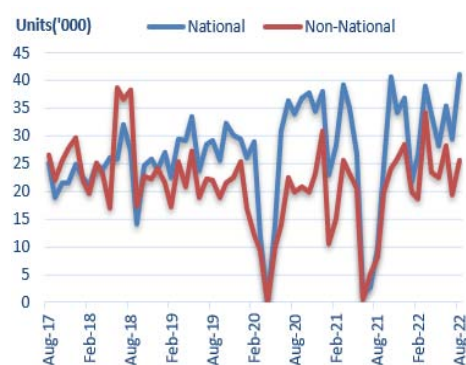
Source: MAA

### 12-MONTH TIV TREND



Source: MAA

### MONTHLY SALES VOLUME OF NATIONAL & NON-NATIONAL MARQUES ROW 518



Source: MAA

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