

## SECTOR UPDATE

### Automobile – Malaysia

2022 The Best Year So Far

MAA's Dec 22 TIV recorded 76,657 units (+17.6% mom and +17.5 yoy) as auto players continued to clear backlog orders. Cumulatively, this brought 2022 TIV to 720,658 units (+41.6% yoy). This exceeds our and MAA's 2022 TIV forecasts of 690,000 and 630,000 units respectively, boosted by the government's decision to allow registration of new cars until 31 Mar 23. We project 2023 TIV at 550,000 units (-23.7% yoy) due to the end of SST exemption. Maintain MARKET WEIGHT.

#### WHAT'S NEW

- **A fantastic year for the automobile industry.** The Malaysian Automotive Association's (MAA) total industry volume (TIV) grew 17.6% mom to 76,657 units in Dec 22 – a second consecutive month of improvement. This brings 2022 TIV to 720,658 units (+41.6% yoy). All key brands reported sequentially stronger-than-expected sales volume thanks to windfall from sales and service tax (SST) exemption as most of the consumers have frontloaded their purchases to be able to enjoy the tax holiday.
- **2023 sales will begin on a high note before normalising in 2Q23.** We anticipate the strong sales momentum in 2022 will continue till 1Q23 due to accelerated deliveries to clear the high order backlogs prior to the end of SST exemption on 31 Mar 23. Despite that, TIV is expected to slow by 2Q23 due to declining new orders as consumers have already frontloaded their purchases during the sales tax holiday. However, we expect car sales to recover gradually towards 4Q23 supported by year-end sales promotions.
- **No change in our 2023 TIV forecast of 550,000 units, down 23.7% yoy (2022: 720,658).** We remain conservative by maintaining our forecast as we foresee a significant slowdown in consumption due to: a) the end of the SST exemption, b) rising inflation and rate hikes, and c) the high base in 2022 as consumers have frontloaded their purchases during the SST exemption period. In addition, if the excise duty reform is implemented in 2023, the expected price hikes (8-20% according to MAA estimates) could further weigh on car sales.
- **Sales by brand.** Perodua continues to lead the auto market, recording sales of 282,019 units with market share of 39.1% followed by Proton, achieving sales of 136,026 units with market share 18.9%. With total sales of 101,034 units, Toyota retained its leadership in the non-national marques with a market share of 14.0%, while Honda came in second with market share of 11.1% despite recording a big jump in sales of +51% to 80,290 units. Notably, the best-selling models in 2022 were a) Myvi, Bezza and Axia (73% of Perodua total sales), b) Saga, X50 and X70 (84.6% of Proton total sales), c) Vios, Hilux and Corolla Cross (70% of Toyota total sales) and d) City and HR-V (70% of Honda total sales).

#### ACTION

- **Maintain MARKET WEIGHT.** The sector is trading at 10.6x 2023F PE, which is still at a slight discount to its historical five-year PE mean. Our sector call factors in a -23.7% TIV growth in 2023 with demand expected to plunge after the SST exemption registration period ends on 31 Mar 23. This will cause sector revenue and earnings to decline 9% and 11% respectively in 2023. Nevertheless, the optimism of an economic recovery in 4Q23 could re-rate the sector. We expect consumer sentiment to recover gradually towards 4Q23 and discretionary spending should pick up. BAUTO remains our top pick as it is one of the sector's defensive high-yielding stocks.

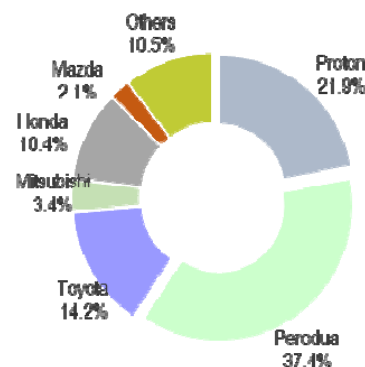
#### PEER COMPARISON

Company	Rating	FYE	Share Price	Target	Market	PE		P/B		EV/EBITDA		Dividend Yield	
			19 Jan 23 (RM)	Price (RM)	Cap (RMm)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)
Bermaz Auto	HOLD	4/23	2.10	2.13	2,445.4	12.3	11.8	3.5	3.2	7.7	7.5	5.7	5.9
UMW Holdings	HOLD	12/23	3.73	3.30	4,357.7	13.7	11.0	0.8	0.7	7.6	7.2	1.5	1.8
DRB-Hicom	NOT RATED	12/23	1.67	n.a.	3,228.5	11.5	9.4	0.4	0.4	5.5	4.4	1.0	1.1
Sime Darby	NOT RATED	6/23	2.39	n.a.	16,289.3	14.4	13.5	1.0	1.0	7.2	7.1	4.9	5.3
MBM Resources	NOT RATED	12/23	3.43	n.a.	1,340.7	6.0	6.0	0.7	0.6	20.8	20.3	7.6	7.0
Tan Chong Motor	NOT RATED	12/23	1.18	n.a.	769.5	n.a.	36.9	0.3	0.3	6.4	5.9	2.0	1.9

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

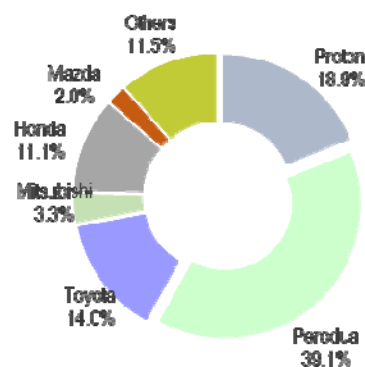
## MARKET WEIGHT (Maintained)

#### MARKET SHARE (2021)



Source: MAA

#### MARKET SHARE (2022)



Source: MAA

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- **Bermaz Auto (BAUTO MK/HOLD/Target: RM2.13).** This is based on a rolled over 12x 2024F target PE (which is the sector's five-year mean). Key re-rating catalysts for the stock are: a) the Kia and Peugeot franchises gaining traction at a faster-than-expected rate, b) upcoming new model launches from Mazda, KIA and Peugeot will spur volume sales, and c) higher dividend payout and potential special dividend.
- **UMW Holdings (UMWH MK/HOLD/Target: RM3.30).** The target price is based on 12x 2023F target PE (which is the sector's five-year mean). We believe earnings will moderate downwards in 2023 as we foresee declining consumption growth for car sales next year despite the launches of new models, due to normalisation of order deliveries following the SST exemption expiry. Meanwhile, further strengthening of the US dollar vs the ringgit could erode its margins. Based on our earnings sensitivity analysis, a 1% strengthening/weakening of the ringgit against the US dollar could increase/decrease UMW's 2022-24 earnings by 3%.

### ESSENTIALS

- **Expecting strong earnings in upcoming quarter.** In the recently reported quarter (Bermaz Auto: 2QFY23, UMW: 3Q22), earnings of automobile firms within our coverage were above expectations. The positive deviation was due to: a) stronger-than-expected sales following the continued fulfilment of substantial orders received prior to the expiry of SST exemption on 30 Jun 22, and b) improvement in EBIT margin due to higher numbers of completely knocked-down (CKD) vehicles sold. Nevertheless, we expect the sector earnings to be maintained in the upcoming quarter as car manufacturers is ramping up their production to meet the high order backlogs prior to ending of SST exemption by 31 Mar 23.
- **More EV incentives to be announced in 2023 budget?** According to Natural Resources, Environment and Climate Change Minister Nik Nazmi Nik Ahmad, the government is looking forward to announcing more EV-related incentives in the revised Budget 2023. Through incentives provided by the government for EVs in 2022, the number of registered EVs has increased to over 2,000 so far. However, the prices of most EVs that are currently sold in the local market are beyond the means of most Malaysians and the government will look into ways to bring affordable electric vehicles (EV) priced below RM100,000 into the local market.

Note that in Budget 2023 tabled by then Finance Minister, Tengku Zafrul, the government proposed: a) to extend import and excise duty exemptions for completely built up (CBU) EVs by a year to 31 Dec 24, b) approved permit (AP) fee exemption for EV imports till 31 Dec 23, c) manufacturers of EV charging equipment will enjoy a 100% income tax exemption for 10 years (assessment years 2023-32), and d) 100% Investment Tax Allowance.

### RISKS

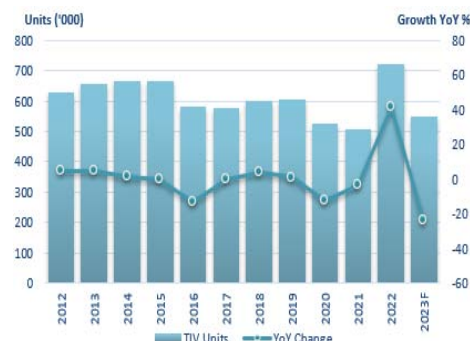
- **Downside risks to the sector include:** a) ongoing impact of the chip and component shortage, b) the ringgit's depreciation against the US dollar and Japanese yen, c) interest rate hike, and d) possible resurgence of COVID-19.

### TOP KEY MARQUES YTD

Make	Sales (Units)		Market Share (%)		Ranking	
	Jan-Dec 22	Jan-Dec 21	Jan-Dec 22	Jan-Dec 21	Jan-Dec 22	Jan-Dec 21
Perodua	282,019	190,291	39.1	37.4	1	1
Proton	136,026	111,695	19.0	21.9	2	2
Toyota	101,034	72,394	14.0	14.2	3	3
Honda	80,290	53,031	11.1	10.4	4	4
Mitsubishi	24,017	17,489	3.3	3.4	5	5
Mazda	14,644	10,660	2.0	2.1	6	6
Others	82,628	53,320	11.5	10.5	n/a	n/a
TIV	720,658	508,883	100.0	100.0	n/a	n/a
Passenger	641,773	452,486	89.0	88.9	n/a	n/a
Commercial	78,885	56,397	11.0	11.1	n/a	n/a

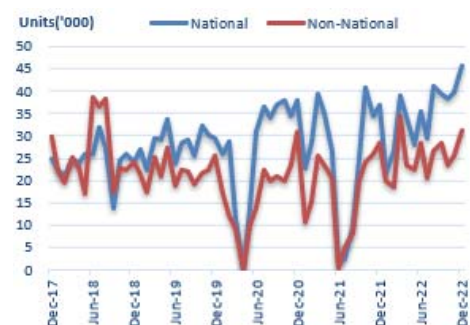
Source: MAA

### DECADE-LONG AUTOMOBILE SALES CYCLE



Source: MAA

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



Source: MAA

### MONTHLY TOTAL NEW VEHICLES SALES

TIV	2022	2021	Yoy chg (%)
January	41,533	33,392	24.4
February	45,064	43,448	3.7
March	73,244	64,876	12.9
April	57,585	58,329	-1.3
May	50,650	47,204	7.3
June	63,597	1,926	3202.1
July	49,930	7,499	565.8
August	67,599	17,923	277.2
September	67,698	44,227	53.1
October	61,900	64,762	-4.4
November	65,201	60,047	8.6
December	76,657	65,247	17.5
Total	720,658	508,883	41.6

Source: MAA, UOB Kay Hian

### KEY ASSUMPTIONS

Financial Year	TIV Forecasts (units)
2019	604,287
2020	529,514
2021	508,911
2022	720,658
2023F	550,000

Source: MAA, UOB Kay Hian

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