

SECTOR UPDATE

Automobile – Malaysia

Aug 23 TIV: Sales Continue To Grow Despite The Absence Of SST Exemption

MAA's August TIV came in at 67,912 units (+13% mom, +6% yoy), bringing ytd TIV to 501,552 units (+12% ytd). We maintain our conservative outlook, anticipating a decline in new bookings and demand in 4Q23, despite the healthy backlog of orders at the moment. However, stronger-than-expected demand and sales volume in 4Q23 could rerate the sector. Maintain MARKET WEIGHT.

WHAT'S NEW

- **Aug 23 TIV still riding on double-digit growth.** The Malaysia Automotive Association's (MAA) Aug 23 total industry volume (TIV) increased by 13% mom and 6% yoy to 67,912 units. 8M23 TIV was at 501,552 units (+12% yoy). The better sales recorded in August was helped by the improvement in the supply chain and higher sales from national day promotional campaigns by some brands. Among the brands, national carmakers still made up 60% of market share, followed by Toyota: 13%, Honda: 9%, and Mazda: 3%.
- **National brands: Sustaining the strong sales.** In Aug 23, Perodua maintained its lead in the auto market, selling 31,111 units (+9% mom, +19% yoy) with a 48% market share while at the second place, Proton sold 13,693 units (+5% mom, -8% yoy). The A and B car segments continued to demonstrate impressive performance, driven by models such as Bezza, Myvi and Axia for Perodua and Iriz, Saga and Persona for Proton. Due to its low prices and the recent launch of new models, these models are able to penetrate the market and attract new buyers for the entry-level market.
- **Non-national brands: SUV models captured higher sales volume.** For non-national brands, Toyota retained its market leadership with sales of 7,147 units (-12.8% mom, +12.5% yoy), followed by Honda with 7,787 units sold (+30% mom, -3% yoy). Meanwhile, Mazda recorded sales of 12,835 units (+22% mom, +38% yoy) in Aug 23. Among the models available in the market, SUV models have captured a significant portion of sales, accounting for 42% of Toyota's total vehicle sales and 95% of Mazda's total vehicle sales.

ACTION

- **The sector is trading at 8x 2024F PE, which is still at discount to its five-year PE mean of 12x.** While we think there could be upside to the sector should auto demand to strengthen in 4Q23, we prefer to remain conservative at this juncture. We conservatively maintain our 2023 TIV forecast of 670,000 units (-7% from 2022) as we anticipate a deceleration in new car bookings in 2H23 despite the healthy order backlog particularly on national car brands. Thus, we anticipate revenue and earnings for sector to decline by 11% and 16% in 2H23 respectively.
- **Bermaz Auto (BAUTO MK/BUY/Target: RM2.86).** The target price is still based on ascribed PE of 12x to its FY24F EPS (which is the sector's five-year mean). As currently BAUTO is trading at 9x FY24F PE, we see potential upside of 25% including dividend yield of 7%. Key rating catalysts include: a) Mazda's continued traction with a supported CKD line-up and stable orderbook, b) Kia's and Peugeot's sales improvement from low base numbers, c) improvement in localisation models, and d) lush 6.6% dividend yield backed by a net cash.
- **UMW Holdings (BAUTO MK/BUY/Target: RM5.00).** The target price is based on the offer price of RM5.00, which implies 14x 2024F PE (UMW's five year mean). We reckon the offer price is reasonable and fair, a premium as opposed to the sector's five-year mean of 12x, in line with UMW's five-year mean. Prospects remain positive despite potential sales moderation in 2H23 for the main auto segment but recovery is expected in the equipment, M&E as well as aerospace segments.

PEER COMPARISON

Company	Ticker	Rec	Price @ 21 Sep 23 (RM)	Target Price (RM)	Upside/ (Downside) to TP (%)	Market Cap (RM m)	PE		P/B		EV/EBITDA		ROE (%)
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	
Bermaz Auto	BAUTO MK	BUY	2.42	2.86	18.1	2,819.1	10.1	11.2	3.3	3.0	6.7	7.3	34.4
UMW Holdings	UMWH MK	BUY	4.76	5.00	5.0	5,561.1	12.5	13.3	1.0	0.9	7.2	7.9	7.9

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Bermaz Auto	BAUTO MK	BUY	2.42	2.86

Source: UOB Kay Hian

ANALYST(S)

Anas Fitri Ahmad
+603 2147 1915
anasfitri@uobkayhian.com

ESSENTIALS

- Backlog orders remain healthy but new booking orders started to slow down.** Based on channel checks, we gather backlog orders for both, national and non-national brands remain healthy despite the absence of SST exemption, but new booking for some brands started to slow down. Perodua and Proton maintained healthy backlog orders of 155,000 units (190,000 units in end of Jul 23) and 45,000 units respectively. While for non-national brands, Toyota's and Mazda's current order backlog was recorded at 40,000 units (50,000 units in end of Jul 23) and 4,000 units (5,000 units in end of Jul 23) respectively. We expect another 105,000 units (MAA Forecast: 223,500 units) to translate into TIV numbers in 4Q23.
- EV selection is improving.** Brands available in the Malaysian market, including BYD, Tesla, Smart, Hyundai, Kia, Neta, GWM, Mercedes-Benz, and BMW, continue to launch new models, offering a wide variety of options to buyers. We expect the number of EVs sold to improve in 2023, reaching at least 0.7% market share, up from 0.3% in 2022 supported by positive momentum as well as the government's aspiration to provide various incentives and plans. Additionally, there might be a modest impact on conventional ICE vehicles due to competitive pricing (ranged at RM100,000-200,000) and incentives designed to stimulate EV demand. We understand that although demand for EVs is on the rise, challenges such as lack of awareness for end-customers, higher pricing, charging infrastructure, and unclear tax structures could hinder their mass-market penetration.
- Budget 2024 wishlist:** More EV incentives to be in the pipeline. Currently, the government is offering 100% exemption of import and excise duty for CBU EV cars until 31 Dec 25, and excise duty and sales tax exemption for CKD EVs up to 31 Dec 27. We anticipate that the government will introduce additional EV incentives that encompass the entire ecosystem, providing benefits to both consumers and manufacturers. This is further supported by the NIMP 2030 and the Global Leaders BEV programme, which aim to bolster the overall ecosystem and enhance the supply chain within the sector.

TOP KEY MARQUES YTD

Make	Sales (Units)		Market Share (%)		Ranking	
	Jan-Aug 23	Jan-Aug 22	Jan-Aug 23	Jan-Aug 22	Jan-Aug 23	Jan-Aug 22
Perodua	204,232	171,728	40.7	38.2	1	1
Proton	102,800	83,441	20.5	18.6	2	2
Toyota	66,378	61,034	13.2	13.6	3	3
Honda	47,503	52,990	9.5	11.8	4	4
Mazda	12,835	9,551	2.9	2.1	5	5
Others	67,786	70,545	13.5	15.7	n/a	n/a
TIV	501,534	449,289	100	100	n/a	n/a
Passenger	449,233	399,051	90	89	n/a	n/a
Commercial	52,301	50,238	10	11	n/a	n/a

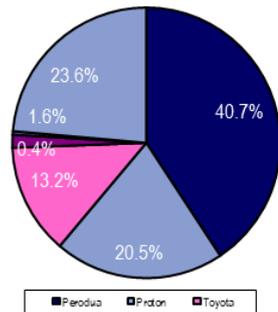
Source: MAA

KEY ASSUMPTIONS

Financial Year	TIV Forecasts (units)
2019	604,281
2020	529,514
2021	508,911
2022	720,658
2023F	670,000

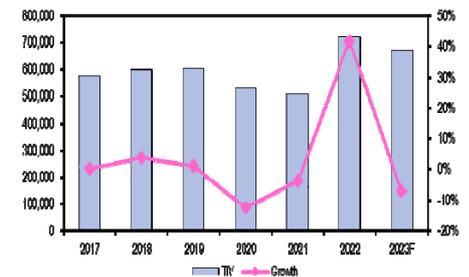
Source: MAA, UOB Kay Hian

MARKET SHARE AS OF 8M23



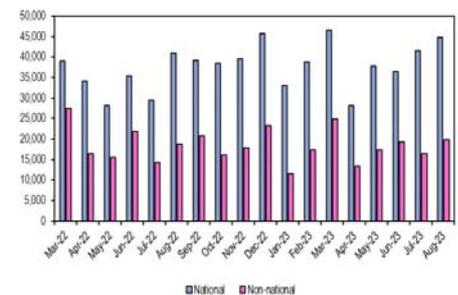
Source: MAA

YEARLY TIV NUMBERS



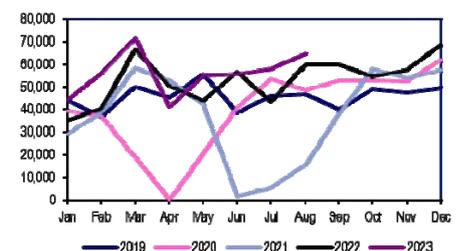
Source: MAA

NATIONAL AND NON-NATIONAL VEHICLES



Source: MAA

PASSENGER VEHICLES TREND



Source: MAA

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