

AUTOMOBILE

Off to a decent start despite Proton's production setback

OVERWEIGHT

(Maintained)

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Rationale for report: Sector update

Investment Highlights

- 1QCY22 results were a mixed bag.** Out of 6 companies under our coverage, 3 were below expectations, 2 within and a single outperformer. UMW Holdings' (UMWH) earnings outperformed, mainly attributed to the robust automotive division's sales with both Toyota and Perodua's sales volume exceeding expectations. DRB-Hicom (DRB) results came in below expectations as Proton's production was affected by the flash flood in January and chip shortage while Tan Chong Motor (TCHONG) dipped into losses due to margin pressure from the MYR weakening against the US dollar. Bermaz Auto's (BAUTO) 3QFY21 (FYE June) results slightly missed expectations due to delays in the Peugeot 2008, 3008 and 5008 deliveries. MBM Resources (MBMR) and Sime Darby's earnings were within our and street's expectations.
- Proton's underperformance dragged the sector's earnings.** The sector's May quarter earnings were flattish (-1% YoY) compared to the same period last year as DRB's weaker-than-expected results net off the stronger earnings reported by UMWH, MBMR and BAUTO. The sequentially weaker earnings (-55% QoQ) were mainly due to the high base effect of 4QCY21's seasonally stronger earnings. Post-1QCY22 results, the aggregate 2022 (calendarised) earnings forecasts for stocks under our universe were adjusted slightly upwards by 1% as the increase in our Toyota, Perodua, and Honda sales volume forecasts offset the impact of Proton's lower assumptions (Exhibit 3).
- We are projecting sector revenue to grow by 5% and earnings by 10% in 2022,** reverting to the pre-pandemic level following a wider economic recovery. 2QCY22 sector earnings are expected to be QoQ and YoY stronger as automakers accelerate deliveries heading towards the end of the sales and services tax (SST) exemption period.
- No sign of demand slowing down.** Some of the automakers/distributors have introduced SST-inclusive pricing for more recent bookings to manage customers' expectations. Given the long booking queue, ranging between 2 and 3 months on average, prospective buyers that place their bookings in the past 1–2 months most likely will only get their cars after the tax-free period has ended. Nevertheless, even after the release of the updated prices, auto firms are still seeing a healthy daily order rate which signifies that robust demand for new passenger vehicles is likely to be sustainable beyond the tax-free window. A spike in booking cancellations is expected in July but we believe industry sales volume will quickly rebound as demand outweighs supply.
- We revise our 2022 total industry volume (TIV) forecast upwards to 590,000 units** (from 555,000 units) (vs. the Malaysian Automotive Association's 600,000 units), with the view that strong demand for new passenger vehicles is sustainable beyond the tax-free period. The revised sales volume forecast implies a 16% YoY growth. We expect Perodua to be the biggest winner, gaining a 4.1%-point market share in 2022 at the expense of Proton (-2.5% points) (Exhibit 4), given the resiliency of its supply chain navigating through disruptions.
- We maintain our OVERWEIGHT call on the sector.** Industry sales are expected to rebound in 2022 as supply chain normalises and consumer confidence gradually recovers, underpinned by a pick-up in broad-based economic activities. A further extension of the SST exemption would be the key upside risk to our TIV and earnings forecasts.
- Our top picks** are BAUTO (fair value RM2.25) and UMWH (FV RM4.60). We also have a BUY call on MBMR (FV RM5.00).

EXHIBIT 1. VALUATION MATRIX

Stock	FYE	Recommendation	Share price	Fair Value	Upside	EPS (sen)		Forward PER (x)		NDPS	Div. Yld.
			(RM)	(RM)	(%)	FY22/23	FY23/24	FY22/23	FY23/24	(sen)	(%)
Bermaz Auto	Apr	BUY	1.76	2.25	28%	17.3	21.4	10.2	8.2	10.0	5.7%
MBM Resources	Dec	BUY	3.32	5.00	51%	56.1	58.8	5.9	5.6	15.0	4.5%
Sime Darby	Jun	BUY	2.25	2.90	29%	18.1	18.9	12.4	11.9	9.0	4.0%
UMW Holdings	Dec	BUY	3.36	4.60	37%	31.5	33.9	10.7	9.9	7.0	2.1%
DRB-Hicom	Dec	HOLD	1.22	1.35	11%	7.5	9.9	16.3	12.3	0.0	0.0%
Tan Chong Motor	Dec	UNDERWEIGHT	1.12	0.65	-42%	1.7	4.5	65.9	24.9	1.5	1.3%

As of 7 June 2022

- **Key risks:** Rising raw material prices and other costs of running a business outpacing the price revision by automakers may pose downside risk to our earnings forecasts and fair values. The unfavourable forex trend of a weakening MYR against the USD and JPY also poses risk of margin compression for auto companies, particularly UMWH (USD), TCHONG (USD) and BAUTO (JPY).

EXHIBIT 1. 1QCY22 AUTO SECTOR REPORT CARD

	Results		Revenue growth			Core net profit growth		
	AmBank	Consensus	QoQ	YoY	Cumulative	QoQ	YoY	Cumulative
Bermaz Auto	Below	Below	29%	4%	-13%	56%	23%	18%
DRB-HICOM	Below	Below	-26%	-13%	-13%	n/m	n/m	n/m
MBM Resources	Within	Within	-15%	14%	14%	-51%	69%	69%
Sime Darby	Within	Within	0%	-4%	-4%	-32%	-2%	-7%
Tan Chong Motor	Below	Below	-11%	30%	30%	n/m	n/m	n/m
UMW Holdings	Above	Above	0%	24%	24%	-53%	21%	21%

Source: AmInvestment Bank, Bloomberg

EXHIBIT 2. 1QCY22 CHANGES IN RECOMMENDATION/FV/EARNINGS

	Recommendation	Fair value	Earnings
Bermaz Auto	Maintained	n/m	n/m
DRB-Hicom	Maintained	-18%	Cut by 3-10%
MBM Resources	Maintained	+10%	Raised by 8-10%
Sime Darby	Maintained	Maintained	Cut by 1-3%
Tan Chong Motor	Maintained	Maintained	Cut by 50%
UMW Holdings	Maintained	+15%	Raised by 11-15%

Source: AmInvestment Bank

EXHIBIT 3. SALES VOLUME ASSUMPTIONS

Units	FY20	FY21	FY22F	FY23F	FY24F
Proton (current)	108,524	111,695	115,000	130,000	140,000
Proton (previous)			135,000	140,000	150,000
Perodua (current)	220,163	190,291	245,000	250,000	255,000
Perodua (previous)			240,000	250,000	255,000
Toyota (current)	59,320	71,585	75,000	76,000	78,000
Toyota (previous)			72,000	73,000	78,000
Nissan	15,071	12,695	14,130	14,483	14,918
Honda (current)	60,468	53,031	75,000	78,000	80,000
Honda (previous)			63,000	63,000	63,000
Mazda*	9,594	13,439	11,880	13,020	14,320

*FYE April

Source: AmInvestment Bank estimates

EXHIBIT 4. 2022 MARKET SHARE FORECAST

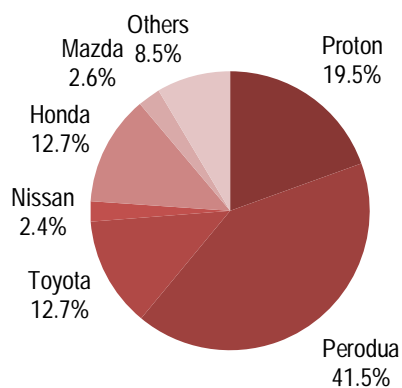
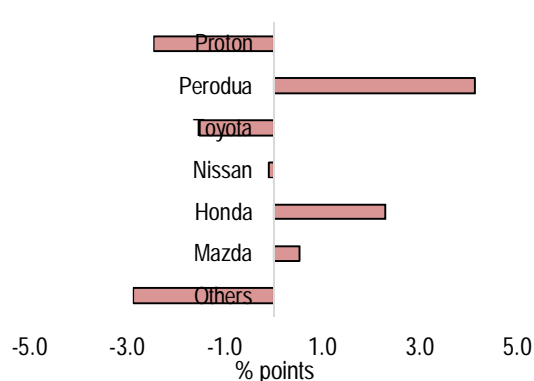


EXHIBIT 5. IMPLIED CHANGES IN 2022 MARKET SHARE



Source: AmInvestment Bank

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