

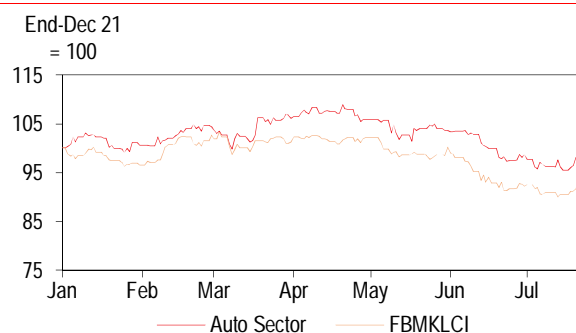
Investment Highlights

- **We maintain OVERWEIGHT recommendation.** Automobile stocks have outperformed the FBMKLCI by 5.5% points YTD (Exhibit 2). Their share prices were held up by robust industry sales volume mainly driven by the SST exemption and improving consumer sentiments following the reopening of the broader economic activities, partially offsetting inflationary fears. The extension of the SST-exemption registration period also bodes well for the sector as it helps the industry to build order banks and provide sales visibility for the upcoming months.
- **Order book to stay robust for the remainder of 2022.** Based on backlogged orders of key marques, we estimate the industry waiting list standing at an average of 7–8 months (Exhibit 3), significantly longer than the pre-pandemic average of 2–3 months. Our assumption is based on production capacity reverting to the pre-pandemic level as the chip shortage issue is expected to ease in 2H2022. Notably, among the key marques, Perodua has the strongest order book, estimated at 8–9 months' worth of sales.
- **Supply disruption situation is improving.** Global automakers – including Volvo, Hyundai Motor Co, Kia Corporation, and Volkswagen – are seeing signs of the chip shortage crisis easing and expecting an improvement in 2HCY22. Closer to home, Perodua also has managed to resolve the chip shortage issue after sourcing it from alternative suppliers while Proton is seeing a gradual improvement in its fast-moving stocks, which previously plagued its production and after-sales services. This would help to smoothen deliveries as auto firms rush to fulfill backlogged orders before the end of the SST-exemption registration period.
- **Fears of rising cost of living** due to food inflation and interest rate hike, that could lead to consumers cutting discretionary spending is not unfounded. However, instead of stopping car purchases, we believe consumers are more likely to down trade, opting for brands that offer better value-for-money models and stronger resale value. This is due to a lack of feasible alternatives; Malaysians are still heavily dependent on private vehicles as the primary mode of transportation. On top of that, the robust new model launch pipeline would entice consumers to spend. Separately, the easing in raw materials prices recently (Exhibits 10–11) helps automakers to avoid increasing the prices of their products, which could have exerted further pressure on prospective buyers.
- **No change in our 2022 total industry volume** (TIV) forecast of 610,000 units (Malaysian Automotive Association: 630,000 units), implying a 20% YoY growth.
- **Our top picks are Bermaz Auto (fair value RM2.25) and MBM Resources (FV RM5.00).** The stocks are currently trading at an attractive level of 10.3x and 5.4x FY23 EPS respectively, lower than their historical average (Exhibits 8–9).
- **Key risks.** Rising input costs and unfavourable forex trend pose a risk of margin compression for auto companies. Worse-than-expected inflation leading to consumers cutting on discretionary spending together with labour and inventory shortages affecting manufacturers' productivity rate are other downside risks to our calls and fair values.

EXHIBIT 1: VALUATION MATRIX

Stock	FYE	Recommendation	Share price	Fair Value	Upside	EPS (sen)		Forward PER (x)		NDPS	Div. Yld.
			(RM)	(RM)	(%)	FY22/FY23	FY23/FY24	FY22/FY23	FY23/FY24	(sen)	(%)
Bermaz Auto	Apr	BUY	1.78	2.25	26%	17.3	21.4	10.3	8.3	10.0	5.6%
MBM Resources	Dec	BUY	3.20	5.00	56%	56.1	58.8	5.7	5.4	15.0	4.7%
Sime Darby	Jun	BUY	2.35	2.90	23%	18.1	18.9	13.0	12.4	9.0	3.8%
UMW Holdings	Dec	BUY	2.96	4.60	55%	31.5	33.9	9.4	8.7	7.0	2.4%
DRB-Hicom	Dec	HOLD	1.22	1.35	11%	7.5	9.9	16.3	12.3	0.0	0.0%
Pecca Group	Jun	UNDERWEIGHT	1.12	0.65	-42%	1.7	4.5	65.9	24.9	1.5	1.3%
Tan Chong Motor	Dec	UNDERWEIGHT	1.78	2.25	26%	17.3	21.4	10.3	8.3	10.0	5.6%

As of 25 July 2022

EXHIBIT 2: AUTO SECTOR OUTPERFORMED FBMKLCI YTD

Source: Bloomberg, AmlInvestment Bank

EXHIBIT 3: ORDER BOOK ESTIMATES AS OF END-JUNE

	Number of bookings	Waiting list estimate
Perodua	243,000 units	8 - 9 months
Proton	95,000 units	7 - 8 months
Honda	59,000 units	7 - 8 months
Mazda	9,000 units	7 - 8 months

Source: Respective companies

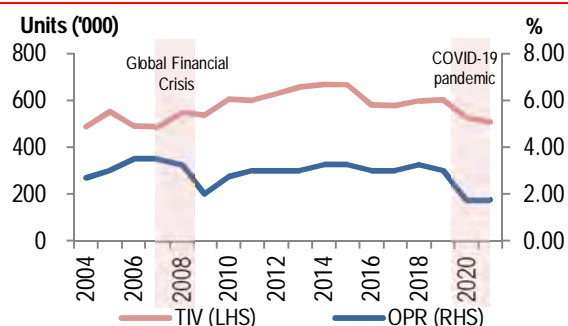
Impact of interest rate hike

We estimate that rising interest rates would increase monthly instalments for new car purchases by 1.2–1.8% for every 25bps of overnight policy rate (OPR) hike (Exhibit 4). Our in-house economists expect another 50bps hike this year, bringing the OPR to 2.75% by year-end, and this translates to 4.4%–7.2% higher monthly instalments in total. Historically, however, there is no strong evidence that an OPR hike would lead to lower industry sales (Exhibit 5).

EXHIBIT 4: RATE HIKE IMPACT TO HP INSTALMENTS

Loan tenure	Monthly repayment @ 3.00%	Monthly repayment @ 3.25%	Change in monthly repayment	
	(RM)	(RM)	(RM)	(%)
9-years	1,175.9	1,196.8	20.8	1.8
7-years	1,440.5	1,461.3	20.8	1.4
5-years	1,916.7	1,937.5	20.8	1.1

Source: AmlInvestment Bank

EXHIBIT 5: TIV TREND VS. OPR

Source: Malaysian Automotive Association, Bank Negara Malaysia

GST reimplement in the near term is unlikely

Despite the tight fiscal position, we believe the probability of the government reintroducing the goods and services tax (GST) this year, ahead of the general election, is low. A policy/bill must also be tabled in Parliament and once approved, it will take about 9 months to be implemented.

The reimposition of GST may lead to an increase in car prices and will have a negative impact on affordability, especially under the current inflationary environment. Reverting to the previous GST tax regime (6% rate) would lead to a 1–4% hike in car prices depending on the brand and model (Exhibit 6). However, we would not rule out the possibility of the government reintroducing it at a more moderate rate i.e. 3% to avoid a steep rise in the prices of goods.

EXHIBIT 6: GST ESTIMATED IMPACT TO CAR PRICES

Price difference	6% GST vs. 10% SST	3% GST* vs. 10% SST
Perodua Myvi 1.3Std	3.8%	0.9%
Perodua Bezza 1.3 AV	2.9%	0.0%
Honda City 1.5 S	2.8%	-0.1%
Honda Civic 1.5 TC-P	2.5%	-0.4%
Toyota Vios 1.5 J	1.0%	-1.8%
Toyota Innova 2.0 X	0.3%	-2.5%
Nissan Almera 1.5L E	3.4%	0.5%
Nissan X-Trail 2.5L	3.5%	0.6%
Mazda 2 1.5L	0.3%	-2.6%
Mazda CX-5 2.0 GL	2.2%	-0.7%
BMW 318i Luxury	1.5%	-1.4%
Mercedes-Benz GLC200	-0.3%	-3.2%

*Assuming straight-line basis based on 6% GST rate prices

Source: AmlInvestment Bank estimates

Robust new model launch pipeline in 2022–2023

In our view, new model launches remain the key factor driving the industry sales volume. A slew of new model launches such as the Perodua Myvi facelift, all-new Perodua Alza, and Honda HR-V are among the key drivers, bolstering new vehicle sales in 2022, and contributing to the quick rebound in the TIV after the economy reopened.

The robust new model pipeline is expected to continue until 2023, keeping consumer interest in purchasing new cars. We are expecting the all-new Honda BR-V, Honda CR-V, Toyota Vios, Proton's next Geely-based model, and potentially the rumoured Perodua B-segment sport utility vehicle, among others, to make their debut next year.

OEMs reacting to EV tax incentives

The tax exemptions on electric vehicles (announced by the government during Budget 2022) led to more and more distributors introducing electric vehicles (EV) into the Malaysian market. While we expect EV sales to jump in 2022 and 2023 due to the incentives, on a greater scheme of things, EV sales volume is likely to remain negligible compared to the total industry sales volume. Lack of access to charging infrastructure and prohibitive pricing remain the sub-segment key hurdles in the local market.

EXHIBIT 7: EV MODELS IN MALAYSIA

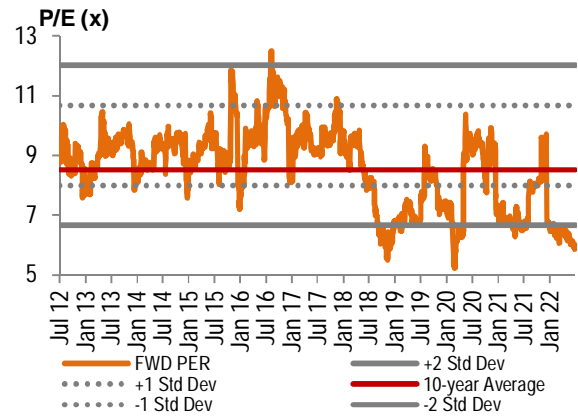
Model	Price (RM)
BMW iX	361,430 - 407,430
BMW iX3	307,160 - 328,160
BMW i4	374,210 - 415,210
Porsche Taycan	508,000 - 934,000
Porsche Taycan Cross Turismo	555,000 - 798,000
Tesla Model 3	323,928 - 453,528
Tesla Model Y	345,800 - 481,900
Tesla Model S	712,656 - 878,256
Tesla Model X	817,128 - 950,328
Mercedes-Benz EQA	286,888
Mercedes-Benz EQS	698,888
Mazda MX-30	198,780
Hyundai Ioniq 5	199,888 - 259,888
Hyundai Kona Electric	149,888 - 199,888
Kia EV 6	300,668
Kia PBV01	TBC
Volvo XC40	262,460
Mini Cooper	183,571
Nissan LEAF	168,800
Toyota bZ4x	TBC
Great Wall Motor Ora Good Cat	TBC
Peugeot e-2008	TBC

Source: Respective companies

Attractive valuations

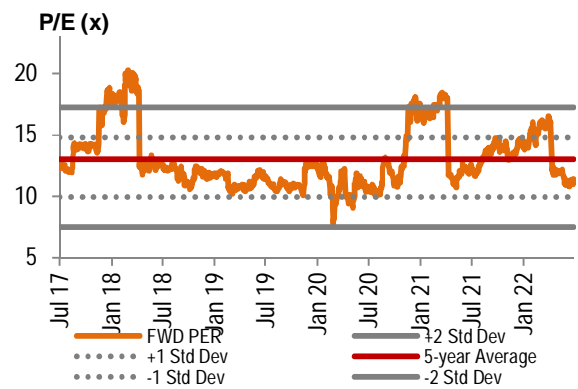
MBM Resources and Bermaz Auto are currently trading at a discount compared to its historical averages (Exhibits 8–9) despite their strong order books.

EXHIBIT 8: MBM RESOURCES PE BAND CHART



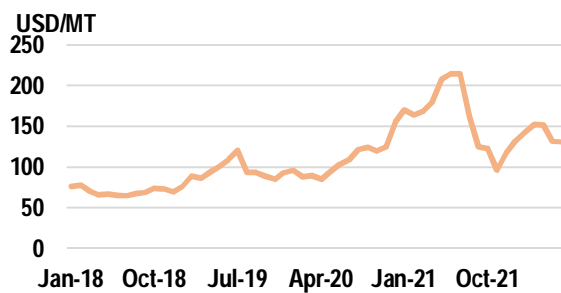
Source: Bloomberg, AmlInvestment Bank

EXHIBIT 9: BERMZ AUTO PE BAND CHART



Source: Bloomberg, AmlInvestment Bank

EXHIBIT 10: IRON ORE PRICE TREND



Source: Indexmundi

EXHIBIT 11: ALUMINIUM PRICE TREND

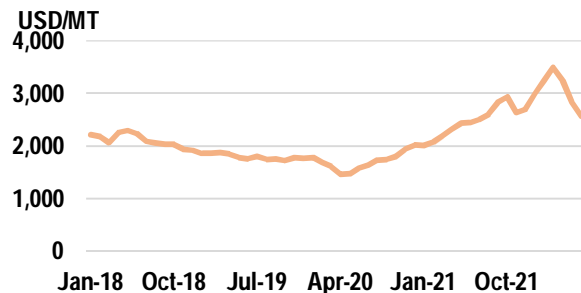
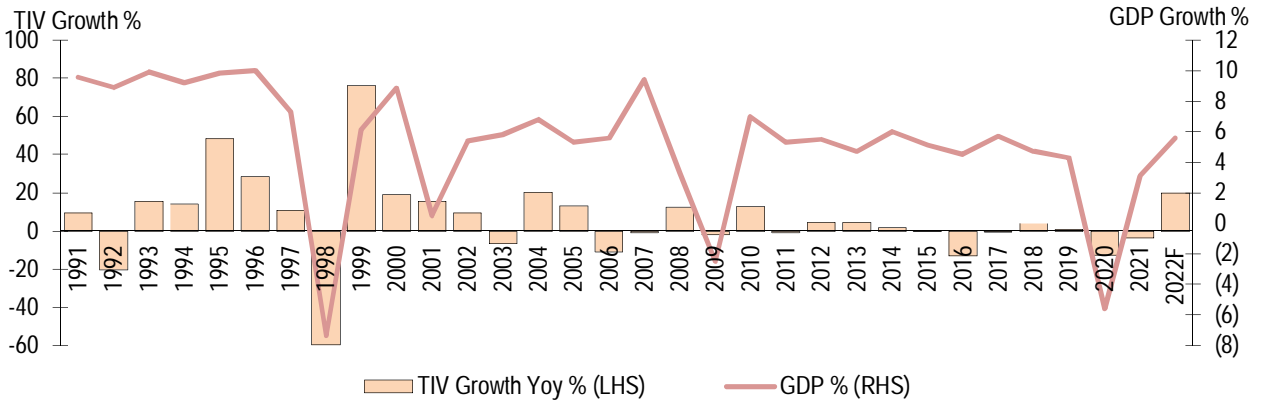


EXHIBIT 12: CORRELATION BETWEEN TIV AND GDP GROWTH



Source: AmInvestment Bank

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