

22 July 2022

Automotive Sustained Sales in June 2022

OVERWEIGHT



By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

According to the Malaysian Automotive Association (MAA), 1H22 TIV of 331,386 units (+33%) came in within our expectation at 55% of our full-year forecast. Maintain OVERWEIGHT with 2022 TIV target of 600k units (+18%). TIV for June 2022 registered at 63,366 units (+28% MoM, >100% YoY) with MoM sales fueled by the SST exemption incentive which ended on 30 June 2022, with massive back-logged booking estimated at more than 400k units with a sliver of production recovery echoed by the gradual re-opening of China supply lines. Meanwhile, YoY sales surged more than 100% from low base due to the lockdown last year. Sales for July 2022 are expected to be maintained around June 2022 level on continued delivery of back-logged booking.

We prefer players with industry leading market position, and sustainable high-margin profit models. We like MBMR (OP; TP: RM4.10) given their market leading position in the national marques space. We believe the player that benefits most from high-margin new launches is BAUTO (OP; TP: RM2.30) given that it has just added two new marques under its stable (Kia and Peugeot) with 18 new models including Mazda starting 4QCY21 until 2023.



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A detailed look at the passenger vehicles segment (+31% MoM, >100% YoY).

Proton (+53% MoM, >100% YoY)'s sales were mainly driven by the all-new X70 and X50 (6,692 SUV units sold making up 47% of sales), and supported by the face-lifted Persona,

Iriz, Exora and Saga (collectively known as PIES) and with a record in delivery MoM as it benefitted the most from the hike in parts procurement activity in China. Based on sales projection, Proton currently has 90k backlog orders (up to 6 months for x50, while other models are up to 4 months).

Honda (+40% MoM, >100% YoY) driven by City, Civic and BR-V with exceptional response for the all-new City and all-new City Hatchback. Stronger MoM numbers came mainly from the clearing of its out-going Honda HR-V inventory for the launch of the all-new HR-V at 14th July 2022. Based on sales projection, Honda currently has 25k backlog orders (2-3 months backlog).

Toyota (+28% MoM, >100% YoY)'s sales were mostly from its exceptional top models namely all-new Toyota Vios, Yaris, Corolla Cross and Toyota Hilux with a boost in delivery MoM from better inventory level due to easing of lockdown in China. Based on sales projection, Toyota currently has 40k backlog orders (3-5 months backlog).

Perodua (+12% MoM, >100% YoY) was earlier affected by shortage in parts and the Hari Raya holidays. The shortage alleviated in June 2022 with a longer working month. Perodua sales was driven by MyVi and Ativa and supported by the all-new Axia, Myvi, Bezza, and ARUZ (4,271 SUV units sold at 20% of sales). Based on sales projection, Perodua currently have more than 200k backlog orders (up to 5 months for Ativa/Myvi, while other models up to 3 months).

Nissan (-37% MoM, >100% YoY) sales suffered driven by only one model, the all-new Almera and its inventory has also dried up from earlier buying spree by auto buyers on expectation SST-exemption ending. Based on sales projection, Nissan currently have 3k backlog orders (1-2 months backlog).

Mazda (-62% MoM, >100% YoY) drove lower MoM due to chip shortage and recovery is expected to come in July and August. Mazda sales was driven by the face-lifted CX-5 and all-new CX-8. Based on sales projection, Mazda currently have 11k backlog orders (3-5 months backlog).

Maintain OVERWEIGHT with 2022 TIV target of 600k units (+18%). The sector is currently trading at trailing 12x PER which is at a 25% discount to pre-pandemic mean of 16x PER. We expect earnings in subsequent quarters to gradually normalise to pre-pandemic levels on the back of sector earnings growth of 22% in FY23 which should justify sector PER to gradually reverting closer to the mean. Positively, we expect sustainable car sales post-SST exemption period as we believe order cancellations would be minimal with demand outweighing the supply given the massive back-logged orders (up to 9 months) coupled with the government's commitment to absorb the SST for orders before 30th June 2022, with JPJ registration before 31st March 2023. Additionally, Battery Electric Vehicles (BEVs) new launches are expected to be boosted by the sales tax exemption and other EV facilities incentives up to 31 December 2025 (for CKD and CBU up to 2023) to support development of the local EV industry. Our 2022 TIV target is at 600k units (+18%) compared to MAA's 630k units (+24%). We have reservation on MAA's target which we believe to be premature amid persistent shortage of chips and components, but a positive sentiment is a welcome relief. There is no adjustment to our stocks under coverage TP based on ESG which are given 3-star ESG rating as appraised by us

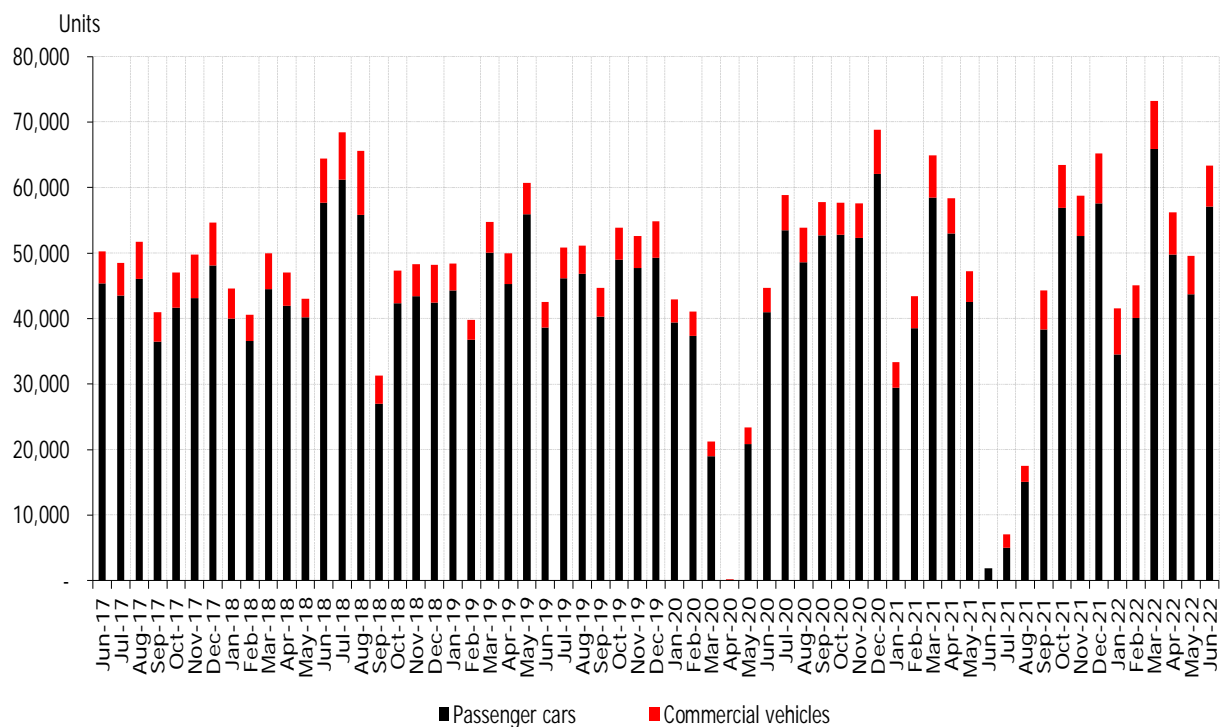
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June 2022 sales for passenger and commercial vehicles according to top marques

Marques (units)	Jun-22	Jun-21	May-22	% m-o-m	% y-o-y	YTD 2022	YTD 2021	% y-o-y
Passenger								
Perodua	21,164	1,009	18,901	12%	>100%	127,343	97,290	31%
Proton	14,151	488	9,279	53%	>100%	57,402	56,352	2%
Honda	7,692	22	5,503	40%	>100%	39,672	25,295	57%
Toyota	6,950	82	5,427	28%	>100%	31,189	23,232	34%
Nissan	511	13	812	-37%	>100%	4,386	4,522	-3%
Mazda	488	60	1,284	-62%	>100%	7,089	5,397	31%
Others	6,107	167	2,504	144%	>100%	26,459	11,717	126%
Total	57,063	1,841	43,710	31%	>100%	293,540	223,805	31%
Commercial								
Toyota	1,920	2	2,015	-5%	>100%	14,260	10,473	36%
Isuzu	1,580	12	1,131	40%	>100%	7,244	4,165	74%
Nissan	540	10	590	-8%	>100%	3,389	1,233	175%
Mitsubishi	755	45	979	-23%	>100%	4,820	3,343	44%
Hino	539	-	425	27%	>100%	2,806	1,936	45%
Mazda	23	-	22	5%	>100%	100	-	-
Others	946	16	731	29%	>100%	5,227	4,223	24%
Total	6,303	85	5,893	7%	>100%	37,846	25,373	49%
TIV	63,366	1,926	49,603	28%	>100%	331,386	249,178	33%

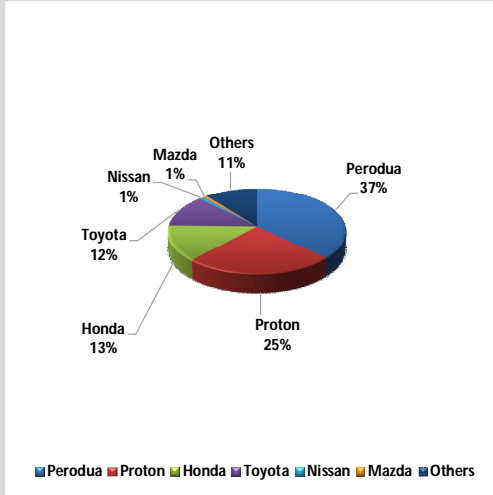
Source: MAA, Kenanga Research

Total Industry Volume from June 2017 to June 2022

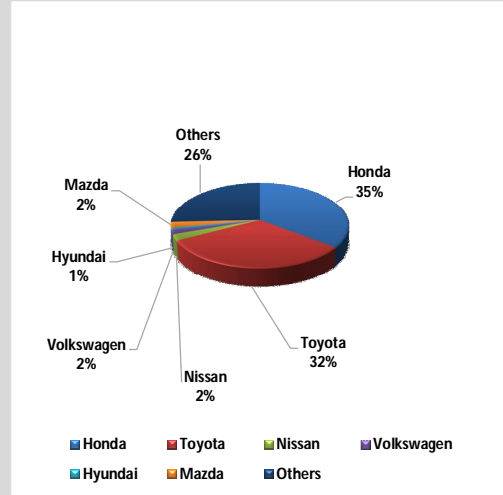


Source: MAA, Kenanga Research

Market share of top marques (Passenger) in June 2022

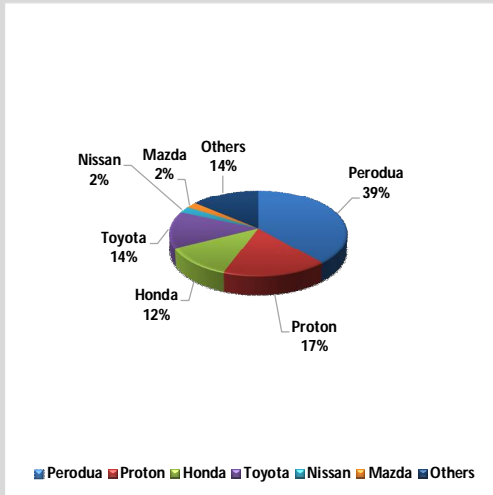


Market share of top non-national marques (Passenger)

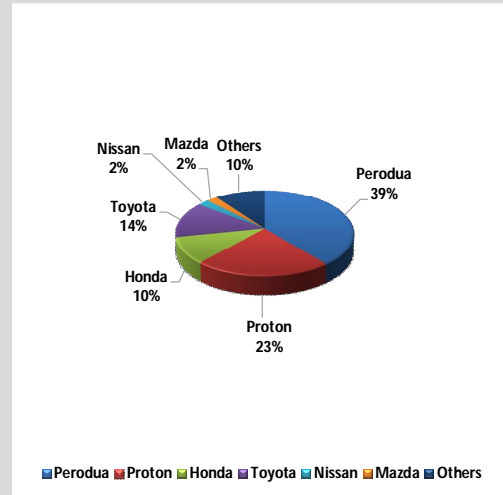


Source: MAA, Kenanga Research

Market share of 6M2022 (Passenger and Commercial)

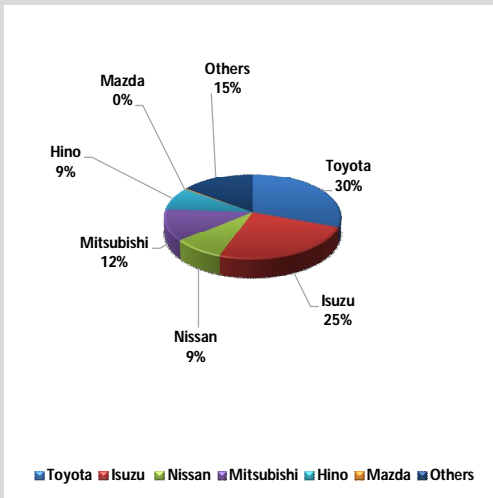


Market share of 6M2021 (Passenger and Commercial)



Source: MAA, Kenanga Research

Market share of top marques (Commercial), June 2022



Source: MAA, Kenanga Research

Exciting New Launches

All-New Proton X50 (CKD)



2022 Toyota Vios



All-New Toyota Corolla Cross Hybrid



Face-lifted 2022 Perodua Myvi



Mazda CX-30 CKD launching in Malaysia by 4Q22



All-new Mazda MX-30 Electric



All-New 2022 Honda HR-V



2022 Honda City Hatchback - 1.5L i-VTEC, e:HEV RS



Proton All-new SUV 7-seater- early 2023



All-New Perodua Alza



Source: Various Sources

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	1.79	2,080.3	Y	04/2023	1.1%	10.1%	5.1%	14.4%	13.3	12.7	11.1	3.3	3.0	24.4%	4.7%	2.30	OP	
DRB-HICOM BHD	1.22	2,358.5	Y	12/2022	29.5%	11.7%	-7.5%	35.4%	N.A.	12.1	8.9	0.3	0.3	2.1%	1.6%	1.80	OP	
MBM RESOURCES BERHAD	3.16	1,235.2	Y	12/2022	33.7%	11.4%	16.5%	16.6%	7.4	6.3	5.4	0.6	0.5	8.7%	6.3%	4.10	OP	
SIME DARBY BERHAD	2.27	15,458.5	Y	06/2022	5.0%	5.0%	3.9%	3.9%	13.6	13.0	12.5	0.9	0.9	7.2%	4.8%	2.60	OP	
TAN CHONG MOTOR HOLDINGS BHD	1.12	730.4	Y	12/2022	32.9%	10.2%	-31.3%	54.4%	N.A.	60.2	39.0	0.3	0.3	0.5%	-	1.00	UP	
UMW HOLDINGS BHD	2.97	3,469.8	Y	12/2022	7.1%	7.9%	60.5%	9.9%	15.5	9.7	8.8	0.5	0.4	4.9%	2.0%	4.40	OP	
Simple Average					18.2%	9.4%	7.9%	22.4%	12.5	19.0	14.3	1.0	0.9	8.0%	3.7%			

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	
	Corporate Social Responsibility	★	★	☆	
	Management/Workforce Diversity	★	★	☆	
	Accessibility & Transparency	★	★	☆	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	
SPECIFIC	Green Vehicles Initiatives	★	★	★	
	Customer Satisfaction	★	★	☆	
	Plant Energy Efficiency	★	★	☆	
	Occupational Health and Safety	★	★	★	★
	Digital Transformation	★	★	★	
	Waste Management	★	★	☆	
OVERALL		★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my