Automotive

A Bumper 2022 and a Resilient 2023 Ahead

OVERWEIGHT
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CY22 total industry volume (TIV) of 720,658 units (+42%) beat our expectation by 6%, driven by strong year-end promotions while automakers also ramped up production as the supply-chain disruptions eased. We project a TIV of 690k units in 2023 (-4%), which is more upbeat than the forecast of 650k (-9.8%) by Malaysian Automotive Association (MAA) premised upon strong reception to new launches (typically at higher prices, resulting in better /margins for auto players), a pause in the OPR hike and the deferment of the new excise duty regulations (that could result in prices of locally assembled vehicles increasing by 8-20%). We maintain our OVERWEIGHT stance on the automotive sector. Our sector top picks are MBMR (OP; TP: RM4.45) and BAUTO (OP; TP: RM2.65).

December 2022 TIV came in at 76,657 units (+19% MoM, +17% YoY), bringing CY22 TIV to 720,658 units (+42%) that beat our expectation of 680k by 6%. This was largely driven by year-end promotions, especially for models with ready stock, while automakers ramped up production as the supply-chain disruptions eased as China gradually reopened towards the end of the year. The industry order backlog eased to 300k (from 350k a month ago) on heavy deliveries.

A detailed analysis of the passenger vehicle segment in December 2022 (+20% MoM, +20% YoY) is as follows:

Mazda (+45% MoM, +49% YoY) delivered all of its Mazda CX-30 CBU volume before switching toward local production (CKD) which is expected to be rolled out in 1QCY23. Overall volume continued to be driven by the CX-5 and CX-8. Based on sales projection, Mazda currently has 8k backlogged orders (3−5 months). **Proton's (+30% MoM, +5% YoY)** sales were mainly driven by the all-new X70 and X50 (5,407 SUV units sold, making up 38% of sales), and supported by the face-lifted Persona, Iriz, Exora and Saga (collectively known as PIES). Based on sales projection, Proton currently has 55k backlogged orders (up to 12 months for the X50 and by 3 months for other models). **Nissan's (+27% MoM, -36% YoY)** fast moving inventory enticed buyers away from its competitors but overall it is still losing out on the all-new vehicles launching race. Currently, Nissan depends on the face-lifted Nissan Serena S-Hybrid, Navara, and Almera Turbo with 1k backlogged orders (1−2 months). **Honda (+17% MoM, -4% YoY)** was driven by the City, Civic and BR-V with exceptional response seen for the all-new HR-V which was launched on 14 July 2022. Overall, it is still affected by inventory shortages, especially for the newer models. Based on sales projection, Honda currently has 20k backlogged orders (2−4 months). **Perodua's (+9% MoM, +36% YoY)** sales were propelled by the all-new Perodua Alza which gathered massive booking backlogs of 30k units with waiting time of more than 12 months, with equally strong sales of the MyVi and Ativa, and supported by the Axia, Myvi, and Bezza. Based on sales projection, Perodua currently has more than 170k backlogged orders (by up to 12 months for the Alza, 4 months for the Ativa/Myvi, and up to 3 months for others). **Toyota's (-6% MoM, +12% YoY)** sales were mostly from its exceptional top models, namely the all-new Vios, Yaris, Corolla Cross and Hilux. Based on sales projection, Toyota currently has 25k backlogged orders (3−6 months).

Looking forward, we project a TIV of 690k units in 2023 (-4%), which is more upbeat than the forecast of 650k (-9.8%) by MAA premised upon strong reception to new launches (typically at higher prices, resulting in better margins for auto players), a pause in the OPR hike and the deferment of new excise duty regulations (that could result in prices of locally assembled vehicles increasing by 8-20%). In comparison, MAA is more cautious on the industry outlook as a whole, especially the low-end segment, (we believe) due to the impact of high inflation on the low-income group especially with the rising cost of basic necessities.

Our more upbeat view on 2023 TIV as compared to MAA is premised on:

1. a better traction for new models such as Proton X90 (7-seater SUV taunted to be the biggest release of the year), Honda BRV 2023 (replacement model for the ageing models), continued delivery of Perodua Alza and Proton X50 (waiting period more than 1 year);

2. a pause in the OPR hike, capping the rise in financing cost for auto purchases;

3. certain "informed" car buyers bringing forward their purchases ahead of the new excise duty regulations that could result in prices of locally assembled vehicles increasing by 8-20% due to a change in methodology of how the open market value (OMV) of a vehicle is calculated (the government recently approved MAA's request to defer the implementation of the new regulations by two years); and

4. further easing of supply-chain disruptions following China's reopening.

The vehicle sales in 2023 will be driven by the continued delivery of order backlogs to the tune of 300k units which are still at fairly strong level compared to booking of 350k units three months ago, indicating that deliveries had partly been replenished with strong new bookings especially for attractive new models (see next page) even in the absence the SST exemption. Additionally, the vehicle sales will be supported by launches of new battery electric vehicles (BEVs) which will enjoy SST exemption and other EV facilities incentives up to 2023 for CBU and 2025 for CKD.

We believe vehicle sales will remain robust in 2023 supported by: (i) the reopening of the economy, (ii) financial assistance to the low-income group and subsidies on fuels, electricity and selected food items to keep the cost of living in check, (iii) a relatively stable job market, and (iv) healthy household balance sheets of the M40 group.

Our sector top picks are **MBMR** and **BAUTO.**

We like MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of 200k units, (ii) it being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia as well as its 22.58% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its enviable Tier-1 OEM auto parts manufacturing certification.

We like BAUTO for: (i) its premium mid-market Mazda brand that offers the best of both worlds, i.e. products that appeal to the middle-income group and yet command superior margins than its peers in the mid-market segment, (ii) beneficiary of strengthening of the MYR against JPY; and (iii) its attractive dividend yield of about 6%.

Monthly Sales for Passenger and Commercial Vehicles by Marque

| Marque (units)	Dec-22	Dec-21	Nov-22	% m-o-m	% y-o-y	YTD 2022	YTD 2021	% y-o-y
Passenger								
Perodua	31,224	23,041	28,592	9%	36%	282,019	190,291	48%
Proton	14,372	13,701	11,029	30%	5%	136,026	111,695	22%
Honda	7,699	7,982	6,558	17%	-4%	80,288	53,330	51%
Toyota	7,173	6,429	7,638	-6%	12%	69,697	51,579	35%
Nissan	730	1,141	573	27%	-36%	8,460	8,784	-4%
Mazda	1,707	1,144	1,175	45%	49%	14,369	10,646	35%
Others	5,984	4,165	1,980	202%	44%	50,914	26,161	95%
Total	**68,889**	**57,603**	**57,545**	**20%**	**20%**	**641,773**	**452,486**	**42%**
Commercial								
Toyota	3,189	2,764	2,734	17%	15%	30,344	20,006	52%
Isuzu	1,415	1,380	1,333	6%	3%	15,755	9,431	67%
Nissan	261	544	235	11%	-52%	5,325	3,555	50%
Mitsubishi	804	1,076	736	9%	-25%	9,697	9,268	5%
Hino	595	627	488	22%	-5%	5,904	3,765	57%
Mazda	26	13	33	-21%	100%	275	14	1864%
Others	1,478	1,240	1,300	14%	19%	11,585	10,358	12%
Total	**7,768**	**7,644**	**6,859**	**13%**	**2%**	**78,885**	**56,397**	**40%**
TIV	**76,657**	**65,247**	**64,404**	**19%**	**17%**	**720,658**	**508,883**	**42%**

Source: MAA, Kenanga Research
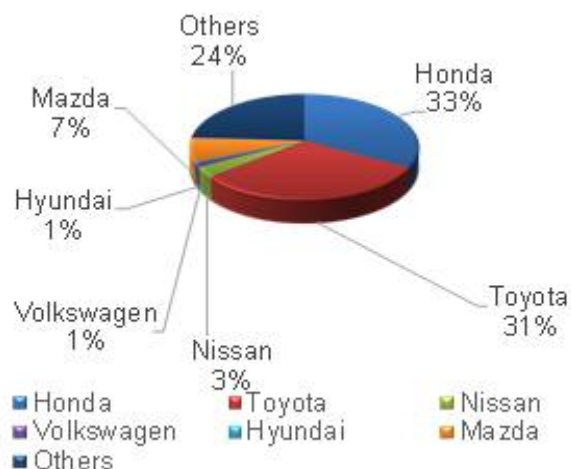
Monthly TIV
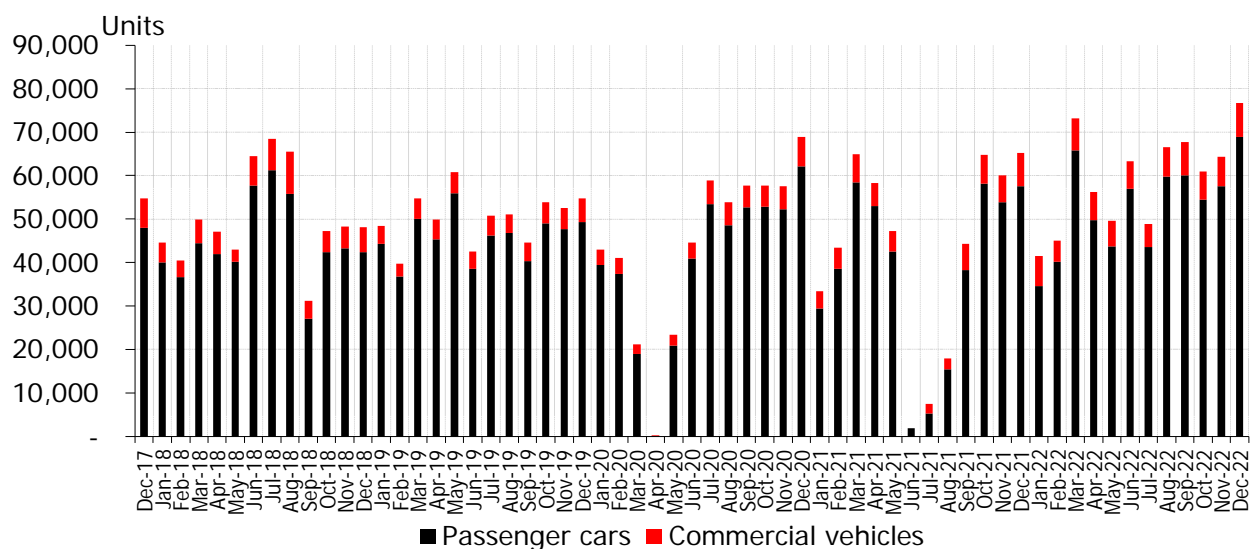
Source: MAA, Kenanga Research

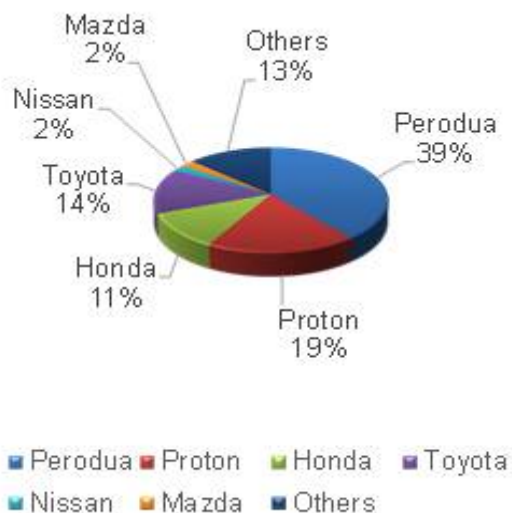### Market Share (Overall Passenger) in Dec 2022
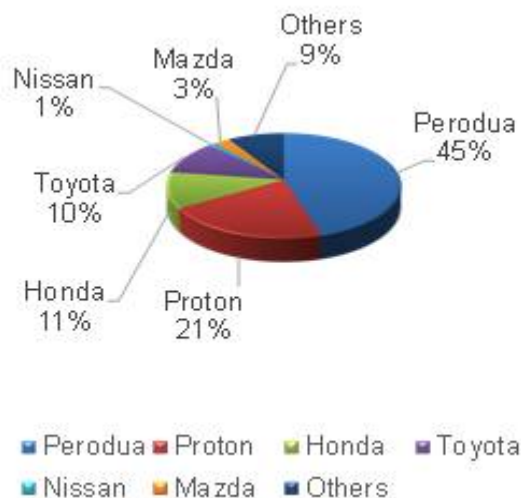
Source: MAA, Kenanga Research

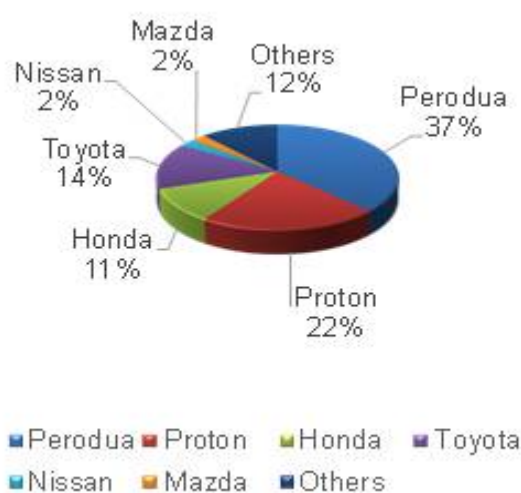### Market Share (Non-National Passenger) in Dec 2022

Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) in 2022

Source: MAA, Kenanga Research

Market Share (Passenger and Commercial) in 2021

Source: MAA, Kenanga Research

Exciting New Launches

Perodua Ativa (plans for hybrid model)

All-new Perodua Alza

All-new Toyota Veloz

All-new Toyota Vios in 2023

Toyota Corola Cross Hybrid

All-New Kia Carnival 8-seater

Proton SUV 7-seater in early 2023

Proton SMART#1 EV in 4Q23

Mazda CX-30 CKD by 1Q23

2022 Honda City Hatchback

All-new 2022 Honda HR-V

All-new Honda BR-V -2023

Source: Paultan.org

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.17	2.65	22.12%	2,519.4	Y	04/2023	16.7	18.3	24.7%	9.4%	13.0	11.9	3.2	26.2%	11.7	5.4%
DRB-HICOM BHD	OP	1.66	1.70	2.41%	3,208.8	Y	12/2022	15.7	20.6	44.4%	30.9%	10.6	8.1	0.3	3.3%	2.0	1.2%
MBM RESOURCES BHD	OP	3.45	4.45	28.99%	1,348.6	Y	12/2022	58.7	63.8	36.7%	8.6%	5.9	5.4	0.6	10.2%	22.0	6.4%
SIME DARBY BHD	OP	2.38	2.60	9.24%	16,186.4	Y	06/2023	17.3	19.0	-1.8%	10.1%	13.8	12.5	1.0	7.3%	12.0	5.0%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.18	0.850	-27.97%	793.0	N	12/2022	(3.6)	(1.0)	-233.0%	-128.1%	N.A.	N.A.	0.3	-0.9%	3.0	2.5%
UMW HOLDINGS BHD	OP	3.75	4.80	28.00%	4,381.1	Y	12/2022	36.4	37.1	90.6%	1.9%	10.3	10.1	0.6	5.8%	6.0	1.6%
SECTOR AGGREGATE					**28,437.2**					**52.2%**	**12.0%**	**12.4**	**11.0**	**0.7**	**5.8%**		**3.7%**

Source: Kenanga Research

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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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