

13 October 2023

Consumer Cyclical | Auto & Autoparts

Auto & Autoparts

Neutral (Maintained)

2024: Driving Towards a Fog

Stocks Covered 3
 Rating (Buy/Neutral/Sell): 1 / 1 / 1
 Last 12m Earnings Revision Trend: Positive

- **Top Pick: Bermaz Auto (BAUTO).** While we may see another record-high TIV in 2023, we think the market has already priced this in. The outlook for 2024 remains uncertain, but we anticipate a more subdued auto market due to the lack of catalysts to maintain sales momentum, coming off two consecutive record years for car sales. As such, we remain NEUTRAL on the sector.

Top Pick

Bermaz Auto (BAUTO MK) – BUY

Target Price

MYR3.45

- **A record 2023, but already priced in.** August's TIV of c.72k resulted in a YTD-Aug 2023 TIV of 502k (+11.6% YoY). We think it will more likely meet our 725k TIV 2023 estimate as we conservatively assume 56k units per month from September to December. This is lower than the trailing 12-month average monthly TIV of 64k units. While we do acknowledge that the upside risk to our assumption is present – especially if the remaining four months post stronger-than-expected vehicle sales – we believe the market has already priced in the potential of another record-breaking year in 2023.

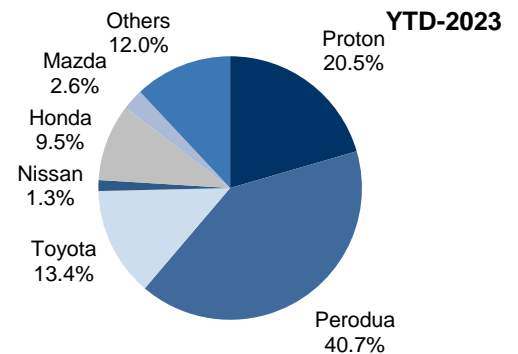
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- **Slowing order backlogs point to a softer 2024.** Despite a robust YTD-2023, we note that the order backlog for the major marques (Toyota and Perodua) has started easing. Perodua's order backlog as of February, May and August stood at 220k, 190k, and 155k, while Toyota's was at 50k, 52k, and 40k. The softening backlog supports our thesis that TIV in 2024F will likely soften YoY, especially after two strong years in 2022 and 2023. While there are upcoming launches of new EVs within the end-2023 and 2024 pipelines (eg BYD Seal, BMW i5 Full Electric, and Toyota bZ4X), we do not think this will significantly move the 2024 TIV needle.

YTD, national carmakers account for 61% of the local market share



Source: Company data, RHB

- **Budget 2024 – what to expect?** As Malaysia is targeting to be a net-zero greenhouse gas (GHG) emission country by 2050, we believe the focus for the auto sector will be on propelling EV uptake in Malaysia, where creating a wider EV ecosystem and incentives for EV adoption will take centre stage. This could include incentives on installing EV charging infrastructure, locally assembled EV incentives, EV road tax reform as well as subsidies and financial assistance to purchase EVs.

- **Outlook.** We see a few compelling factors for 2024 auto sales in breach of another high. We think the strong TIV performance in 2022 and YTD-2023 reflects pent-up consumer discretionary demand left over from 2020 and 2021. Our 725k TIV forecast for 2023 implies a 4-year (2020-2023F) average annual TIV of 621k units, which is largely in line with the 10-year pre-pandemic average of 618k units. On top of that, gross loans for the purpose of purchasing transport vehicles rose 7.6% and 6.3% YoY in 2022 and YTD-Aug 2023, while TIV rose higher by 41.6% and 11.6% in 2022 and YTD-Aug 2023. This suggests that vehicle purchases in these two years were mainly lower-priced models like Perodua Myvi and Axia, and Proton Saga. While lower-priced vehicles may continue to drive TIV amidst the high interest rate environment, we expect TIV to ease to a more normalised level in 2024 – likely in the 600-650k unit range.

- **Still NEUTRAL.** We remain cautious on the softening car sales in 2024, given the uncertainty and lack of catalysts. We still favour BAUTO for its c.9% FY24F (Apr) yield as we think its car sales will remain resilient relative to other marques.

- **Key downside risks** include softer-than-expected orders and deliveries, as well as resurgent supply chain issues. The converse represents upside risks.

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Bermaz Auto	Buy	3.45	39.1	8.3	4.7	55.1	8.8
MBM Resources	Neutral	3.60	(6.5)	6.6	0.7	10.5	10.6
Tan Chong Motor	Sell	0.78	(23.8)	na	0.2	(1.7)	1.5

Source: Company data, RHB

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Tesla cars finally hit our roads. Tesla made its debut in Malaysia on 20 Jul, as the Model Y was officially launched here at a starting price of MYR199k. The Tesla Model 3 followed suit and is now open for orders, with prices from MYR189k onwards – deliveries are expected to begin in late 2023. On top of that, Tesla is planning to set up a network of supercharger fast-charging stations across strategic locations in Malaysia. Tesla's foray into the local market could result in fiercer competition, considering the attractive prices offered. This could result in existing EVs in the market becoming less attractive and may force other brands to cut their prices, potentially expediting the EV adoption rate.

Geely to invest in Tanjung Malim. China carmaker Geely is planning to invest USD10bn to transform Tanjung Malim into the region's largest auto city. On top of that, Geely is working together with DRB-HICOM to attract investors to the Automotive High Tech Valley (AHTV), with a target of bringing in MYR32bn worth of investments over the next 10 years. AHTV is planned to be the South-East Asian hub for EV manufacturing and component supplies, covering the extensive automotive and mobility solutions value chain. Areas of collaboration and cooperation include, amongst others, new energy vehicles, auto-components industrial park, and development of a new automotive industrial city. We believe this will be beneficial to the industry in the long term, as it will strengthen the automotive ecosystem and further attract more automotive principals to manufacture and assemble their vehicles locally.

Weathering the elevated interest rate environment. Based on our in-house overnight policy rate assumption of 3% for the rest of 2023 – with no further hikes in 2024 – we do not think this variable alone will significantly impact 2024 TIV, considering that the YTD TIV has still posted stronger YoY growth despite a 25bps hike this year. In terms of FX exposure given the in-house expectation of a weaker MYR/USD in 4Q23, we think Tan Chong Motor (TCM MK, SELL, TP: MYR0.78) faces an increased risk of margins compression, given its USD exposure in CBU and CKD kit purchases while revenue is denominated in MYR terms. However, the FX risks are partly managed with the use of forward currency contracts, greater localisation, and ongoing price adjustments.

Budget 2024 – what to expect?

Time to floor the EV pedal. As Malaysia is targeting to be a net-zero GHG emission country by 2050, we believe the focus for the auto sector will be on propelling EV uptake in Malaysia, where creating a wider EV ecosystem as well as incentives for EV adoption will take centre stage. This could include incentives on installing EV charging infrastructure, locally assembled EV incentives and EV road tax reform.

Incentives to spur installation of EV charging infrastructure. Malaysia intends to have 10,000 charging stations in the country by 2025. However, as of late-July, the charging station count is only close to 1,100. On top of that, adoption of EV is outpacing the country's deployment of charging infrastructure, according to Gentari deputy CEO Shah Yang Razalli. Given the huge disparity of the current charging station count from its target, we anticipate the Government will be more aggressive in ensuring the 10,000 milestone is achieved. Currently, incentives offered include 100% income tax exemption for EV charging equipment manufacturers for a period of 10 years starting from 2023 as well as 100% investment tax allowance for a period of five years. The Government could offer a more targeted stimulus such as providing grants to install shared EV charging stations at non-landed private residences, which is being implemented in Singapore.

Bolstering locally assembled and Malaysia-made EVs. Currently, there are a few incentives to spur original equipment manufacturers' (OEM) local assembly of EVs in Malaysia, notably excise duty, sales tax and import tax exemptions for components used in CKD EVs, up to end-2027. Not only that, one of the conditions for importing CBU EVs is it must not be priced below MYR100k until end-2025, as a move to protect local automotive industry as well as to incentivise OEMs to produce their EVs locally. However, we have yet to see any locally-assembled EVs that are priced below MYR100k. Therefore, we believe Proton and Perodua will be carrying the responsibility of churning out affordable locally assembled EVs to the local market in the next few years. Proton is targeting to have its first EV on the road by 2025, while Perodua has not disclosed any target to roll out its own EV. As such, we believe the incentives to further support manufacturing and assembly of CKD EVs are on the table, in line with the Government's vision for the Automotive Hi-Tech Valley to be the ASEAN hub for EV manufacturing and component supplies. If this gets delayed, we do not rule out the possibility of the MYR100k price tag floor on CBU EVs being extended beyond 2025.

Lower EV road tax is on the cards. At present, EVs are exempted from road tax up until 2025. Ministry of Transport is currently reviewing the EV road tax structure post EV road tax exemption period to ensure that the road tax for EVs is cheaper than internal combustion engine (ICE) vehicles and to encourage people to purchase EVs even after the road tax

holiday. While there is already a kilowatt-based road tax structure in place, the current system results in EV owners and prospective buyers having to pay more than if they were to own or purchase ICE vehicles. We expect the revised EV road tax structure to be finalised and announced in Budget 2024.

Making EVs affordable. The Ministry of Investment, Trade and Industry (MITI) hopes for incentives that make EVs affordable to B40 and M40, through targeted subsidies and financial assistance. Since the subsidies are meant to assist people in the lower income bracket, we anticipate lower-priced EVs will be preferred by this segment over the luxury marques, such as Neta V, BYD Atto 3, BYD Dolphin and Ora Good Cat which are priced between the MYR100k-150k level.

Assuming the Government offers subsidies amounting to 20% of the on-the-road (OTR) price, an EV car with a subsidised price tag of MYR80k (as the MYR100k floor applies) would still be deemed relatively expensive as there are cheaper petrol-powered options with much lower prices such as Perodua Myvi, Proton Persona or even a six-seater such as Proton Exora. Not only that, we think such move would require the Government to fork out a huge sum of subsidy for every EV unit to ensure the consumption behaviour of the B40 and M40 groups shifts towards favouring EV. Therefore, until production costs (including battery costs) reach a reasonably competitive level, we think EV penetration in the local market as a result of these incentives would be minimal considering the imposition of the MYR100k floor to CBU EV prices still applies and the absence of affordable locally assembled CKD EVs.

Monthly Data At a Glance

Figure 1: August TIV rose 12.7% MoM and 6.1% YoY

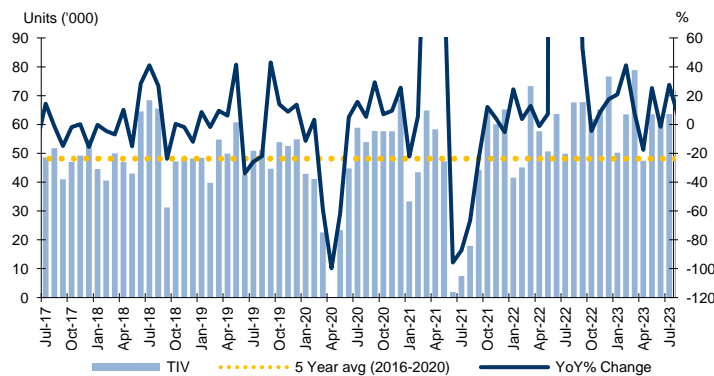
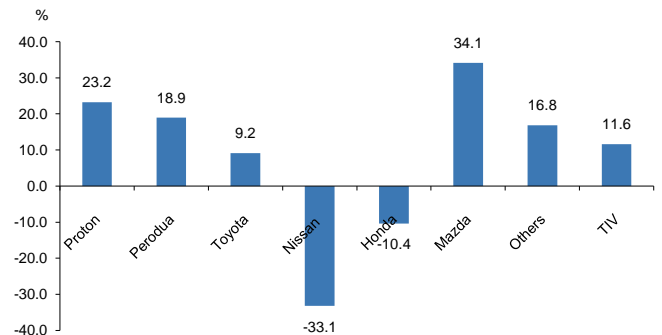


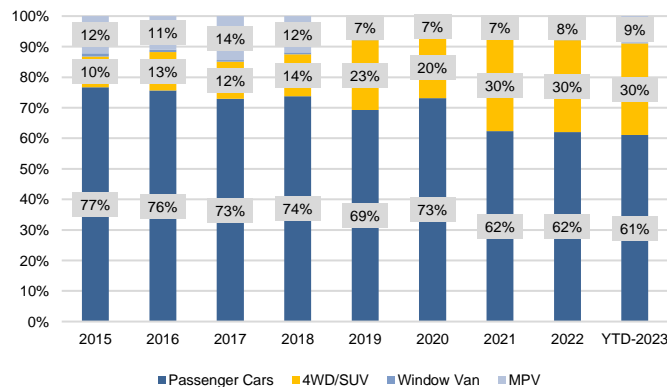
Figure 2: The strong YoY TIV (in absolute units) growth was mainly driven by Proton and Perodua



Source: Malaysian Automotive Association (MAA), RHB

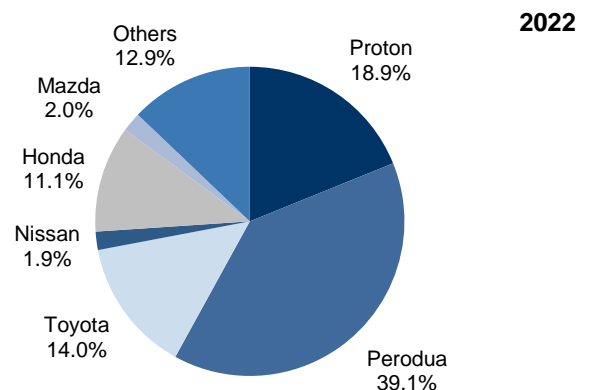
Source: MAA, RHB

Figure 3: The SUV segment accounted for 30% of total passenger vehicle sales in YTD-2023



Source: MAA, RHB

Figure 4: National carmakers accounted for 58% of the local market share in 2022



Source: MAA, RHB

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