

26 January 2024

Consumer Cyclical | Auto & Autoparts

## Auto & Autoparts

# Neutral (Maintained)

### Revvng Down

Stocks Covered 4  
 Rating (Buy/Neutral/Sell): 2 / 1 / 1  
 Last 12m Earnings Revision Trend: Positive

- **Top Pick: Bermaz Auto (BAUTO).** After two years of record high TIVs, we believe 2024 will witness a more subdued auto market as backlogs have been on a declining trend while robust car sales in the last two years were mainly delayed vehicle purchases from the pandemic years, boosted by sales tax holiday. The lack of catalysts to continue the record high TIV streak for the third successive year points to a cyclical downturn for the sector in 2024. Hence, we remain NEUTRAL on the sector.
- **TIV reached historic high in 2023.** Dec 2023 recorded a TIV of 78,398 units, bringing 2023 TIV to 799,731 units, up 11% YoY. This marks a record high for TIV. Sales of electrified vehicles (both hybrid and EV) or xEV rose c.70% to 38k units in 2023 – c.5% of total TIV while EV made up a smaller 2% of total TIV.
- **In 2024, we expect more EVs on the road,** given recently launched models ie Tesla Model 3 and Y, Neta V, and the Smart #1. Regardless, we think the EV market share will continue to hover around current levels and will only meaningfully increase post-2025 when the MYR100k pricing floor on CBU EVs is expected to expire and local carmakers have their own EV offerings.
- **The known unknown – the High-Value Goods Tax (HVGT).** While it is likely that big-ticket items – including luxury cars – will be subject to this newly proposed tax, the market has yet to have visibility on how this tax regime will be implemented, particularly the tax rate and value threshold set for cars subject to this tax. Though ultra-high income earners may not be sensitive to such increments, middle- to high-income earners looking for entry luxury cars may feel the impact. Another uncertainty is whether EVs are also subject to HVGT, which we believe is counter-productive as it misaligns with the Government’s push for EV adoption.
- **Business-as-usual for Perodua.** As more irregularities were found in relation to Daihatsu’s rigging of safety tests last December, more Perodua and Toyota models were found to be affected. Though Daihatsu has suspended its domestic operations in Japan up until end-January, we understand that it remains “business-as-usual” for Perodua’s operations in Malaysia while production of CKD kits in Japan for Malaysia and Indonesia has resumed.
- **We forecast a TIV of 625k units for 2024,** implying a 22% YoY decline from 2023 TIV’s 800k. Our softer TIV assumption, which is in line with the 10-year TIV average, is based on a lack of compelling factors for 2024’s auto sales to book another high. Furthermore, we believe the robust car sales in the last two years also reflected delayed purchases of big-ticket items from the pandemic years, ie 2020 and 2021.
- **Remain NEUTRAL.** We maintain our sector call, as we remain cautious on the outlook for 2024 – premised on a lack of catalysts to drive sales and earnings to a new high. The softening of order backlogs also suggests a more subdued expectation for this year. We continue to favour BAUTO, which is our Top Pick, given its c.9% yield and relatively resilient car sales.
- **Key risks** include stronger-than-expected orders and deliveries, lower-than-expected costs, and a stronger-than-expected MYR. The converse represents the downside risks.

#### Top Picks

Bermaz Auto (BAUTO MK) – BUY

#### Target Price

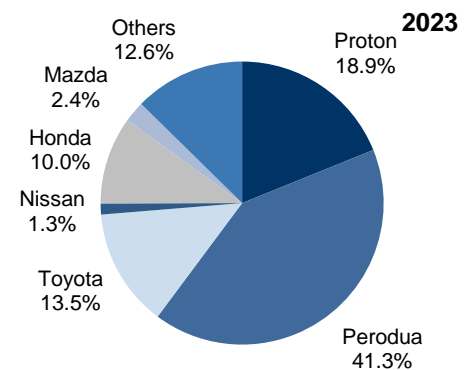
MYR3.60

#### Analyst

Syahril Hanafiah  
 +603 9280 8879  
[syahril.hanafiah@rhbgroup.com](mailto:syahril.hanafiah@rhbgroup.com)



#### National carmakers account for 60% of the local market share in 2023



Source: Company data, RHB

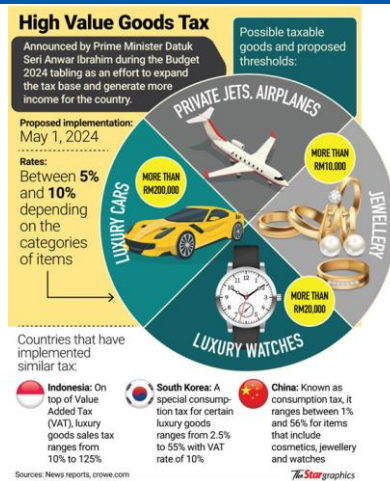
Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Bermaz Auto	Buy	3.60	45.8	8.2	4.7	55.2	9.3
MBM Resources	Neutral	4.05	(7.2)	6.7	0.8	11.8	11.0
Sime Darby	Buy	2.85	14.0	12.2	1.0	8.0	5.4
Tan Chong Motor	Sell	0.76	(23.4)	na	0.2	(2.2)	1.5

Source: Company data, RHB

**Expect more EVs on the road.** EVs made up 1% of total TIV in 2023 vis-à-vis a meagre 0.4% in 2022. Within the EV sphere, we believe BYD is leading the local EV adoption. It accounted for 36.9% of the total local EV market in 9M23 – just five months since its foray into Malaysia – thanks to attractive pricing relative to its performance. In 2024, we expect more EVs on the road, joined by recently launched sub-MYR250k models ie Tesla Model 3 and Y, Neta V, and the Smart #1, which is distributed by Proton subsidiary Pro-Net. We also think BYD will continue to leverage on its current EV offerings – ie the Atto 3 and Dolphin – while its sedan model (the Seal) is set to be launched this month. Regardless, we think the EV market share will continue to hover around current levels and only meaningfully increase post-2025 after the MYR100k pricing floor on CBU EVs expire and when local carmakers have their own EV offerings.

**New year, new tax?** First mentioned in Budget 2023, the HVGT (previously dubbed Luxury Tax) remains a looming mystery to the sector. While it is likely that big-ticket items – including luxury cars – will be subjected to this newly-proposed tax, the market has yet to have visibility on how this tax regime will be implemented, particularly the tax rate and value threshold set for cars subject to this tax. However, according to [The Star](#), only cars above MYR200k will be taxed, with rates ranging from 5-10%. Note: The MYR200k threshold was provided by the Ministry of Finance for the industry to provide feedback and is not the finalised threshold. However, assuming the tax is imposed on cars above MYR200k, we believe this would be negative for the industry, especially for companies that offer luxury cars. While ultra-high income earners may not be sensitive to such increments, middle- to high-income earners looking for entry luxury cars may feel the impact. Another uncertainty is whether EVs are also subject to HVGT, which we believe is counter-productive, considering that the Government is pushing for EV adoption here.

Figure 1: High Value Goods Tax



Source: TheStar

**While others cut costs, Daihatsu cut corners.** In Dec 2023, more irregularities were found in relation to Daihatsu’s rigging of safety tests following an investigation conducted by an independent panel. The investigation was done in response to the test rig that was first discovered in late Apr 2023, and more Perodua and Toyota models were affected. Though Daihatsu suspended its domestic operations in Japan up until end-January, we understand that it remains “business-as-usual” for Perodua’s operations in Malaysia while production of CKD kits in Japan for the Malaysia and Indonesia markets has also resumed.

Figure 2: Models in Malaysia affected by Daihatsu’s test rig

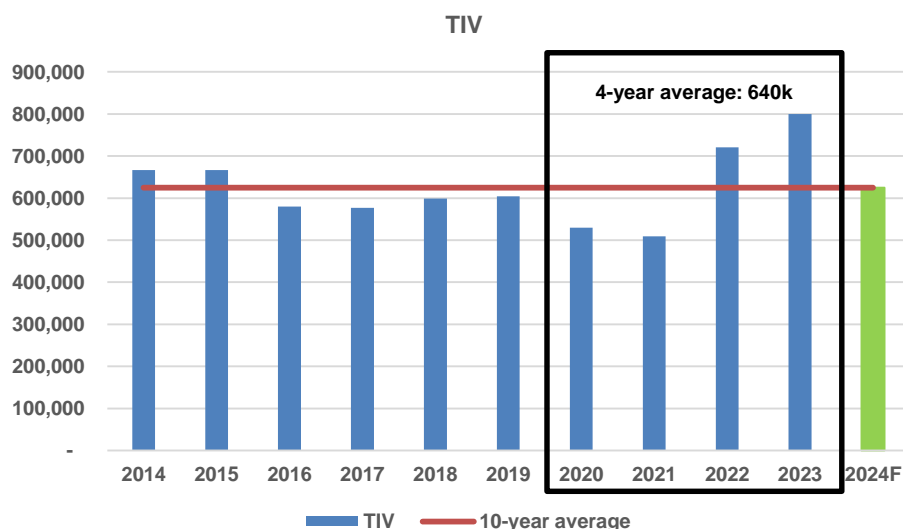
Marque	Model	Launch year and month
Perodua	Axia	2023/2
	Axia	2014/9
	Aruz	2019/1
	Alza	2022/7
	Ativa	2021/3
	Myvi	2017/11
	Bezza	2016/7
Toyota	Rush	2018/1
	Veloz	2021/11
	Vios	2022/8

Source: Daihatsu, RHB

**Bye-bye UMW.** As of 12 Jan, Sime Darby’s shareholding of UMW is 94.15%. As it is now at the tail-end of the mandatory general offer, we are confident that SIME will be able to acquire 100% of UMW by end-Jan, resulting in delisting of the counter. Hence, we have decided to cease coverage on UMW. Our last TP of UMW is MYR5, which matches SIME’s offer price. At this juncture, we have yet to factor in the acquisition of UMW to SIME’s forecast earnings and TP, pending completion of this deal as well as revised figures from management. However, we are cognisant of the upside risk to SIME’s share price post-acquisition, which makes it the largest automotive player in Malaysia.

**We forecast a TIV of 625k units for 2024**, implying a 22% YoY decline from 2023 TIV of 800k. Our softer TIV assumption, which is in line with the 10-year TIV average, is based on lack of compelling factors for 2024 auto sales to book another high. Backlogs have been on a declining trend with Perodua and Toyota backlogs at 140k and 34k units as of Nov 2023 (from 190k and 52k in May 2023). We believe the robust car sales in the last two years reflect delayed purchases of big-ticket items from the pandemic years, ie 2020 and 2021, further boosted by the sales tax holiday. On top of that, the launch of lower-priced models in the last two years, ie the facelifted Perodua Myvi, the all-new Axia, and the 2022 Proton Saga, also contributed to increased demand for national cars. We estimate sub-MYR100k models of national carmakers made up more than 55% of total TIV in 2023 (vs c.51% in 2022), which implies that sector revenue growth may be lower than TIV growth of 11%.

**Figure 3: 2022 and 2023 strong TIV reflect delayed purchases of cars from the COVID-19 pandemic years**



Source: RHB

**Figure 4: Expected launches in Malaysia**

Marques	2024
<b>BMW</b>	i5 Full Electric (TBA)
<b>BYD</b>	Seal (TBA)
<b>Honda</b>	
<b>Hyundai</b>	Santa Fe facelift (TBA)
<b>KIA</b>	All-New Sportage (TBA)
<b>Mazda</b>	New CX-60 (TBA), CX-3 IPM5, CX-5 IPM6
<b>Peugeot</b>	New 408 (TBA)
<b>Proton</b>	
<b>Perodua</b>	B-SUV (TBA)
<b>Smart</b>	
<b>Toyota</b>	bZ4X (TBA)
<b>Volvo</b>	EX30

Source: Companies data, RHB

## Monthly Data At a Glance

Figure 5: Dec 2023 TIV rose 7% MoM and 2% YoY

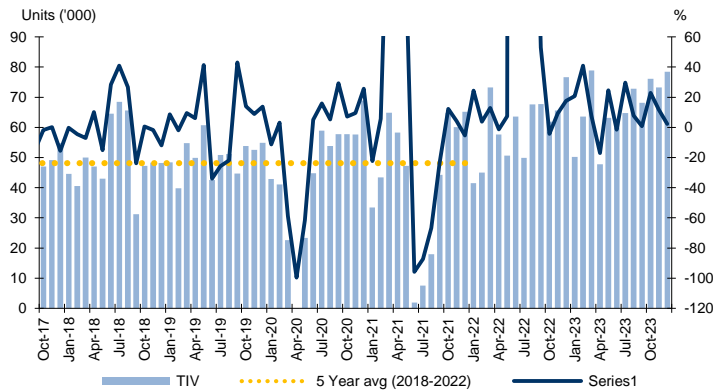
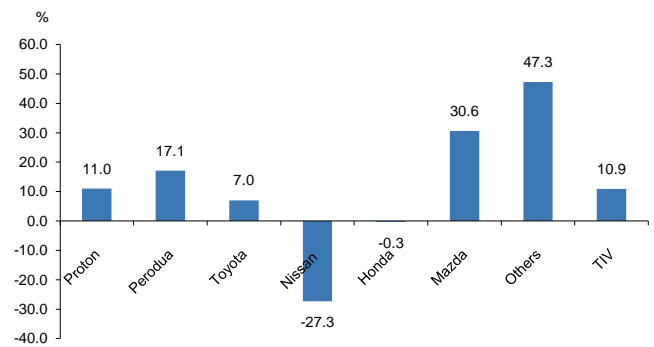


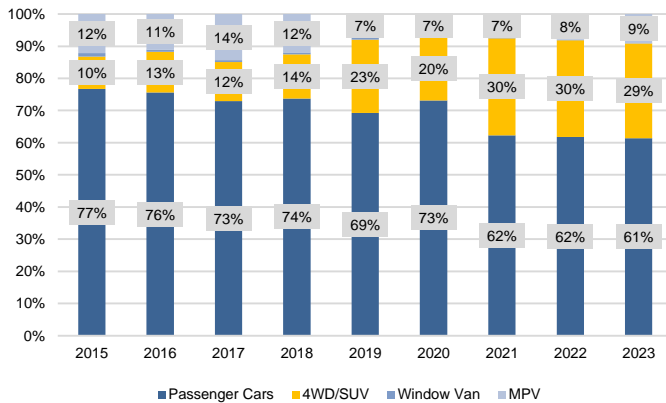
Figure 6: The strong YoY TIV growth (in absolute units) was mainly driven by Proton and Perodua



Source: Malaysian Automotive Association (MAA), RHB

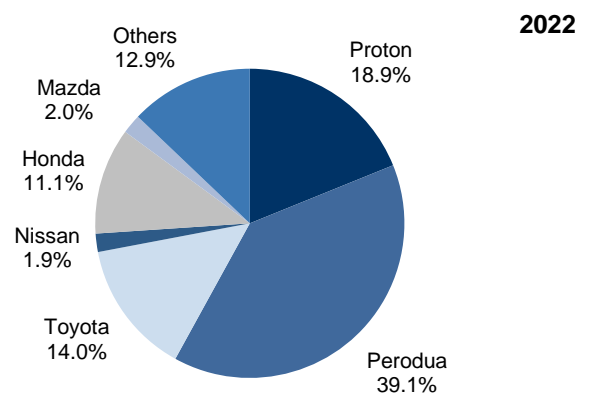
Source: MAA, RHB

Figure 7: The SUV segment accounted for 29% of total passenger vehicle sales



Source: MAA, RHB

Figure 8: National carmakers accounted for 58% of the local market share in 2022



Source: MAA, RHB

Figure 9: Monthly and YTD comparison of auto sales

(Units)	Dec-2022	Nov-2023	Dec-2023	MoM (%)	YoY (%)	2022	2023	YoY (%)
Proton	14,372	11,882	12,099	1.8	-15.8	136,026	150,975	11.0
Perodua	31,224	32,052	31,210	-2.6	0.0	282,019	330,325	17.1
Toyota/Lexus	10,440	10,263	10,402	1.4	-0.4	101,034	108,107	7.0
Nissan/Renault	996	882	809	-8.3	-18.8	13,832	10,057	-27.3
Honda	7,699	8,043	10,653	32.5	38.4	80,290	80,027	-0.3
Mazda	1,733	1,534	1,460	-4.8	-15.8	14,644	19,124	30.6
Hyundai/Inokom	124	110	207	88.2	66.9	1,310	1,507	15.0
BMW	1,118	1,206	1,573	30.4	40.7	11,976	11,973	0.0
Mercedes-Benz*	2,755	16	2,038	12,637.5	-26.0	10,011	9,315	-7.0
Ford	837	787	662	-15.9	-20.9	5,837	8,858	51.8
Mitsubishi	1,702	1,538	1,923	25.0	13.0	24,017	21,719	-9.6
Volkswagen	254	203	292	43.8	15.0	3,812	2,612	-31.5
Volvo	461	224	298	33.0	-35.4	3,514	3,045	-13.3
Isuzu	1,415	1,311	1,488	13.5	5.2	15,756	16,908	7.3
BYD	0	462	454	-1.7	n.m.	0	3,728	n.m.
Others	1,513	3,191	3,284	2.9	117.1	17,099	25,179	47.3
<b>TIV</b>	<b>76,643</b>	<b>73,242</b>	<b>78,398</b>	<b>7.0</b>	<b>2.3</b>	<b>721,177</b>	<b>799,731</b>	<b>10.9</b>
Passenger	68,879	66,580	70,908	6.5	2.9	642,157	719,160	12.0
Commercial	7,764	6,662	7,490	12.4	-3.5	79,020	80,571	2.0

Note: BMW, MINI and Mercedes Benz disclose data on a quarterly basis.

Note 2: \*Shows Mercedes Benz' 4Q22 and 4Q23 sales. Mercedes Benz does not share a monthly breakdown of sales volume.

Source: MAA, RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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#### **KUALA LUMPUR**

##### **RHB Investment Bank Bhd**

Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### **JAKARTA**

##### **PT RHB Sekuritas Indonesia**

Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### **BANGKOK**

##### **RHB Securities (Thailand) PCL**

10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax: +66 2088 9799

#### **SINGAPORE**

##### **RHB Bank Berhad (Singapore branch)**

90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470