22 January 2025

Consumer Cyclical | Auto & Autoparts

Auto & Autoparts

Speed Bumps Ahead

Neutral (Maintained)

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

- **Top Picks: Sime Darby (SIME) and Bermaz Auto (BAUTO).** We think 2025 will see a more subdued automotive market, given the ongoing price competition in the non-national segment and softening order backlogs, while uncertainties over the luxury tax and petrol subsidy rationalisation persist. Hence, we remain NEUTRAL on the sector.
- **National marques still have the lion's share.** Perodua sold 358,102 units in 2024, ie a 8.4% rise from 330k units in 2023, while Proton saw a slight 2.2% decline in sales volumes, with 147.6k units delivered in 2024. Combined, the national carmakers still hold the largest share of Malaysia's TIV, at c.62%. Among the non-national brands, some Chinese carmakers gained ground in 2024. Chery, which made its local debut in Jul 2023, was in third place within the non-national marques while BYD managed to be in the Top 10 list with its EV-only line-up.
- **However, declining backlogs across major marques point to a softer 2025.** Despite a strong 2024, we note that the backlogs of major marques like Perodua and Toyota continue to taper down. Perodua's order backlog is currently at 90k units, from 128k units back in Dec 2023, while Toyota's has dropped to 16k units from 28k units over the same period, signalling softer numbers in 2025.
- **Anticipated surge in EV demand is likely immaterial to total TIV.** As CBU EVs will possibly be significantly more expensive after 2025, we think a surge in EV sales volumes is likely to be seen this year. Choices of CKD EVs remain limited at present, as most EVs on the road are imported from China. As such, we anticipate a spike in demand for CBU EVs before the tax holiday ends. That said, the local EV market remains small – making up just 2.5% of car sales in 2024. Hence, it is unlikely that a surge in EV demand would materially move the TIV needle.
- **We forecast a TIV of 730k units for 2025 (-11% YoY).** We expect TIV to soften as the high base effect kicks in, and do not see any compelling factors for 2025 auto sales to stay at the current elevated levels. We think the decline will mainly be due to the non-national marques, which continue to face intensifying competition as a result of new entrants, ie mainly the China carmakers. The influx of new models flooding the market with heavy price discounting may prompt buyers to delay purchases in anticipation of further price cuts from both existing and new non-national marques, thereby destabilising the non-national segment. While EVs are not spared from competition with the rise of new models, their popularity remains limited, mainly due to pricing – with the CBUs subject to a MYR100k price floor.
- **We maintain our NEUTRAL weighting for the sector**, as we remain cautious in our outlook for 2025 due to ongoing price competition in the non-national segment and softening order backlogs. Uncertainties over the implementation of a luxury tax and petrol subsidy rationalisation also continue to persist. Our Top Picks are SIME and BAUTO. BAUTO offers attractive valuations and handsome dividend yields, while SIME is well-positioned for the RON95 rationalisation with its broad EV line-up, while its stake in Perodua provides earnings protection amidst intensifying competition among the non-national marques.
- **Key downside risks** include softer-than-expected orders and deliveries, and resurgent supply chain issues. The opposite represents the upside risks.

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Bermaz Auto	Buy	2.30	69.5	6.2	1.8	30.1	14.1
MBM Resources	Neutral	6.45	6.1	7.9	1.0	13.5	8.7
Sime Darby	Buy	3.15	42.7	9.5	0.7	7.7	7.0
Tan Chong Motor	Sell	0.32	(21.4)	na	0.1	(5.2)	2.4

Source: Company data, RHB

Top Picks	Target Price
Sime Darby (SIME MK) – BUY	MYR3.15
Bermaz Auto (BAUTO MK) – BUY	MYR2.30

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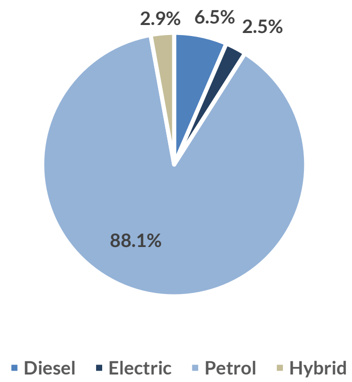
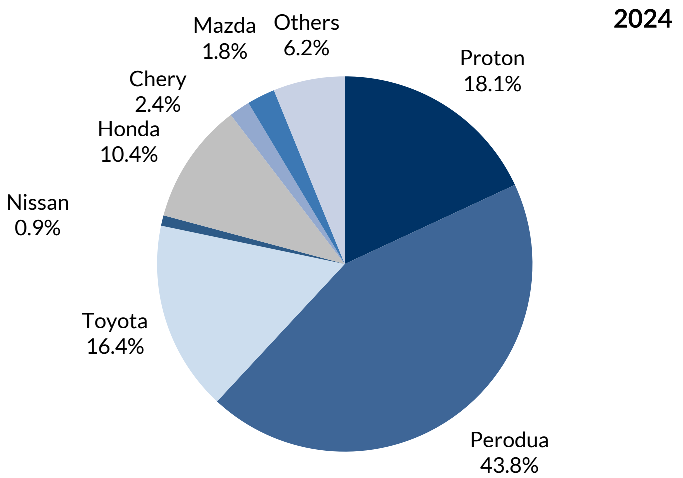
Cars registered in 2024, by fuel type



Source: Road Transport Department Malaysia (JPJ), RHB

National marques still hold the lion's share. Perodua recently announced that it achieved sales delivery of 358,102 units in 2024, marking another year of record-high sales for three consecutive years. This translates to an 8.4% rise from 2023's 330k units. Proton, on the other hand, saw a slight 2.2% decline in sales volume, with 147,587 units delivered in 2024. That said, with Proton and Perodua combined, national carmakers still hold the largest share of Malaysia's TIV, at 62%.

Figure 1: National carmakers hold a 62% share of the domestic market in 2024



Source: Road Transport Department Malaysia (JPJ), Malaysia Automotive Association (MAA), RHB

Within the non-national segment, we note that some Chinese carmakers have managed to gain a foothold in 2024 with Chery and BYD being the top 10 non-national brands, by number of registrations. While the Japanese incumbents (Toyota and Honda) still managed to defend their positions, Chery which made its local debut in Jul 2023 and already secured the third place within the non-national marque segment, outperforming its Japanese and Western counterparts. We believe its success was heavily contributed by its competitive pricing strategies on top of aggressive marketing campaigns. BYD also was in the Top 10 list, despite having only EVs in its offerings.

Figure 2: Top 10 non-national marques in 2024, by number of registrations

(Units)	2023	2024	YoY	2023 ranking
Toyota	136,212	133,633	-1.9%	1
Honda	83,087	85,273	2.6%	2
Chery	4,503	19,687	337.2%	10
Mitsubishi	21,775	16,188	-25.7%	3
Mazda	19,598	14,790	-24.5%	4
Mercedes Benz	14,547	11,876	-18.4%	5
BMW	12,425	10,259	-17.4%	6
BYD	4,470	8,570	91.7%	11
Nissan	9,563	7,316	-23.5%	7
Isuzu	9,557	6,847	-28.4%	8

Source: JPJ, RHB

However, declining backlogs across major marques point to a softer 2025. Despite a strong 2024, the backlogs of major marques – eg Perodua and Toyota – continue to taper down. Perodua's order backlog is currently at 90k units, from 128k units back in Dec 2023, while Toyota's has dropped to 16k units from 28k units over the same period. While 2024 was another record-breaking year for Perodua, the declining backlog may signal softer numbers in 2025. Hence, we forecast Perodua to deliver 330k cars in 2025, implying a 8% YoY decline.

A good year for EVs too. Within the local EV sphere, EV adoption has been gaining traction as more brands have joined the scene. According to JPJ data, EV car registrations jumped 63% YoY to 21.8k units in 2024. This made up 2.5% of total cars registered during the year, from 1.6% in 2023. BYD leads the adoption with 8,570 units registered while Tesla came second, with 5,137 units registered.

Figure 3: Cars registered in 2024, by fuel type

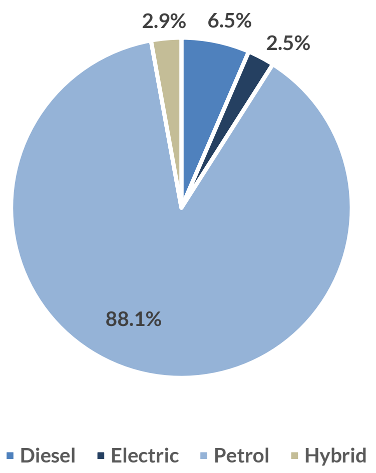
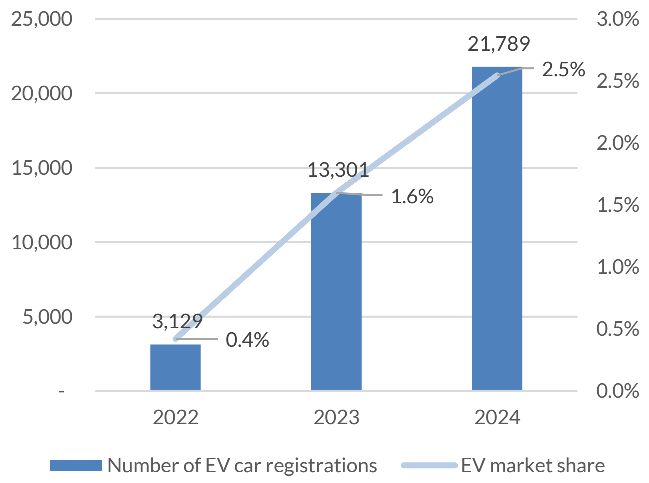


Figure 4: Cars registered in 2024, by fuel type



Source: JPJ, RHB

No more tax holiday for CBU EVs? The exemption of import and excise duties for CBU EVs is unlikely to be extended beyond end-2025. We think the Government's focus will now be on attracting original equipment manufacturers or OEMs to manufacture and assemble their EVs locally, as CKD EVs will continue to enjoy a tax holiday until end-2027. While imported EVs may benefit from the expiry of the MYR100k price floor post 2025, this would be more than offset by the imposition of the abovementioned taxes. If CBU EVs are subjected to the same excise duty rates of 75-105% as internal combustion engine or ICE passenger cars along with a 10% sales tax, their after-tax prices could rise significantly. This also aligns with the feedback that we received from our channel checks with the EV dealers in the market.

Anticipated surge in EV demand is likely immaterial to total TIV. CBU EVs will possibly be significantly more expensive post-2025, so we think a surge in EV sales volumes is likely to be seen this year. Choices of CKD EVs remain limited for now, as most EVs on the road are imported from China. As such, we anticipate a spike in demand for CBU EVs before the tax holiday ends. That said, the local EV market remains small – accounting for just 2.5% of car sales in 2024. Hence, it is unlikely that a surge in EV demand would materially move the TIV needle for 2025. Not only that, the lack of charging infrastructure remains a concern to consumers. There are 3,354 public EV charging bays installed nationwide as of end-October, which is well below the national target of 10k public charging facilities by 2025. Although the Ministry of Investment, Trade and Industry (MITI) is still keeping its 10k charging station target, we think this would be a challenging figure to meet.

Wild cards to watch out for? Despite its absence from Budget 2025, the high-value goods tax (HVGT) could still be implemented, although details on rates, taxable items, and thresholds remain unclear. This could negatively impact the industry – in particular the middle- to high-income buyers of entry-level premium cars – while ultra-high-income earners may be less affected. There is also uncertainty around whether EVs will fall under the HVGT, which would contradict policies promoting EV adoption. Another key factor of uncertainty for the sector is the removal of the blanket subsidy for RON95 petrol, which is set for mid-2025 following the diesel subsidy rationalisation in May 2024. While details remain unclear, this policy is likely to raise car ownership costs. It could drive EV adoption or prompt some buyers to downtrade – given the limited availability of affordable EVs. Public transport may also emerge as an alternative, but consumer behaviour will depend on the policy's implementation.

Introducing our 2025 TIV estimate. We forecast a TIV of 730k units for 2025, implying an 11% YoY decline from 2023's TIV of 816,747 units. We are anticipating softer TIV, as the high base effect kicks in while we do not see any compelling factors for 2025 auto sales to be maintained at the current elevated levels. The decline will mainly be contributed by the non-national marques, which continue to face intensifying competition as a result of new entrants, ie mainly the China carmakers. With an influx of new models flooding the market with heavy price discounting, we are aware that some buyers may postpone their purchases, anticipating further price cuts from both existing and new non-national marques, thereby destabilising the non-national segment. While EVs are not spared from the competition with the rise of new models, their popularity remains limited, mainly due to pricing – with the CBUs being subjected to a MYR100k price floor.

Figure 5: Recent and upcoming automotive model launches in Malaysia

Marques	ICE	PHEV/ EV
BMW	520i M Sport (Sep 2024)	i4 (Jan 2025)
Chery	Tiggo 4 Pro (1H25)	
Deepal		S07 (2H2025), S05 (2H2025)
GWM	Tank 300 (Jul 2024)	H6 Hybrid (Oct 2024)
Honda		e:N1 (2025)
Hyundai	Santa Fe facelift (Sep 2024)	
Jaecoo	J7 (Jul 2024)	Omoda C9 (Dec 2024)
KIA	All-New Sportage (Dec 2024)	
Mazda	New CX-60 (1Q25)	
Nissan		Kicks e-Power (Dec 2024)
Perodua		first EV (Dec 2025)
Proton		e.MAS 7 (Dec 2024)
Tesla		Model Y Juniper (Apr 2025)
Toyota	Corolla Cross Facelift (Dec 2024), Camry (Dec 2024)	bZ4X (TBA)
Volvo	XC90 (2025)	EX30 (Sep 2024)
XPeng		G6 (Aug 2024)

Source: Company data, RHB, Paultan.org, Zigwheels.my

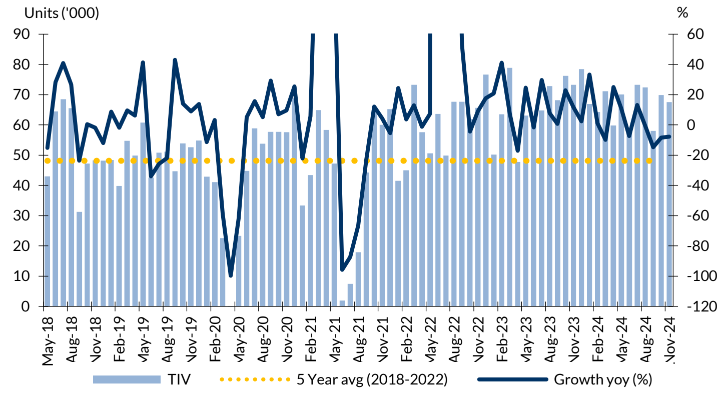
We maintain our NEUTRAL weighting for the sector, as we remain cautious in our outlook for 2025, given the ongoing price competition within the non-national segment while softening order backlogs also indicate toned-down expectations for 2025. Meanwhile, uncertainties surrounding the implementation of a luxury tax and petrol subsidy rationalisation continue to persist. Our Top Picks are:

i. SIME, which is well-positioned for the RON95 rationalisation with its broad EV line-up, while its stake in Perodua provides earnings protection amidst intensifying competition among the non-national marques.

ii. BAUTO, due to its attractive valuation and higher-than-sector average dividend yield.

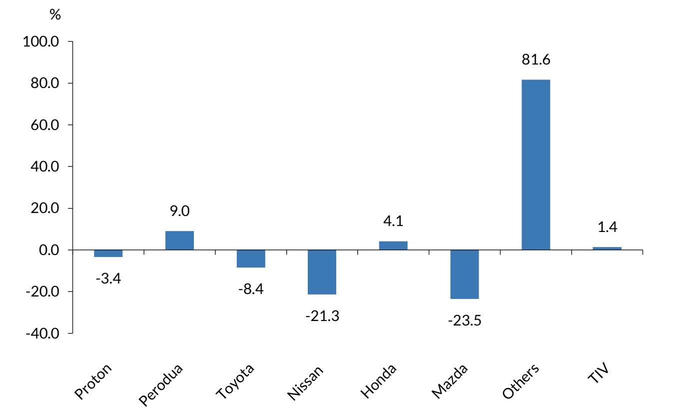
Key downside risks include softer-than-expected orders and deliveries, and resurgent supply chain issues. The opposite represents the upside risks.

Figure 6: November TIV contracted by 3% MoM and 8% YoY



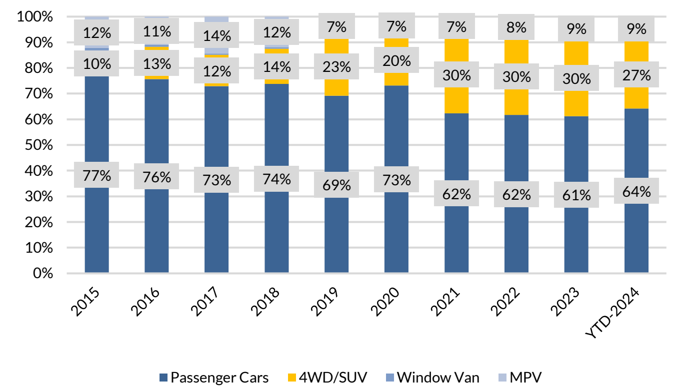
Source: MAA, RHB

Figure 7: The strong YoY TIV growth was mainly driven by Perodua



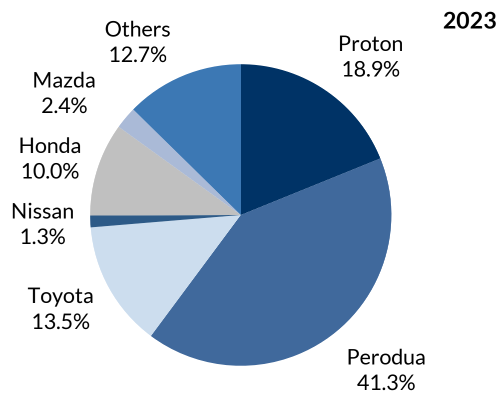
Source: MAA, RHB

Figure 8: The SUV segment accounted for 27% of total passenger vehicle sales



Source: MAA, RHB

Figure 9: National carmakers owned a 60% share of the domestic market in 2023



Source: MAA, RHB

Figure 10: Monthly and YTD comparisons of auto sales

(Units)	Nov-23	Oct-24	Nov-24	MoM (%)	YoY (%)	YTD-2023	YTD-2024	YoY (%)
Proton	11,882	12,247	11,637	-5.0	-2.1	138,876	134,099	-3.4
Perodua	32,052	33,731	31,808	-5.7	-0.8	299,115	325,900	9.0
Toyota/Lexus	10,263	8,989	8,388	-6.7	-18.3	97,705	89,492	-8.4
Nissan/Renault	882	447	521	16.6	-40.9	9,248	7,275	-21.3
Honda	8,043	6,040	6,808	12.7	-15.4	69,379	72,245	4.1
Mazda	1,534	1,001	781	-22.0	-49.1	17,664	13,510	-23.5
Hyundai/Inokom	110	64	54	-15.6	-50.9	1,300	765	-41.2
BMW	1,206	0	0	n.m.	n.m.	10,400	7,478	n.m.
Mercedes-Benz	16	2	2	n.m.	n.m.	7,277	5,211	n.m.
Ford	787	457	337	-26.3	-57.2	8,196	5,797	-29.3
Mitsubishi	1,538	1,496	1,078	-27.9	-29.9	19,796	14,536	-26.6
Volkswagen	203	119	129	8.4	-36.5	2,320	1,491	-35.7
Volvo	224	160	130	-18.8	-42.0	2,749	1,912	-30.4
Isuzu	1,311	1,191	981	-17.6	-25.2	15,420	11,912	-22.7
BYD	462	526	746	41.8	61.5	3,274	7,278	122.3
Others	3,211	3,914	4,839	23.6	50.7	21,983	39,872	81.4
TIV	**73,262**	**69,858**	**67,493**	**-3.4**	**-7.9**	**721,428**	**731,495**	**1.4**
Passenger	66,585	64,321	62,425	-2.9	-6.2	648,292	670,650	3.4
Commercial	6,677	5,537	5,107	-7.8	-23.5	73,136	60,884	-16.8

Note: BMW, MINI and Mercedes Benz disclose data on a quarterly basis
Source: MAA, RHB

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