AUTOMOTIVE

***Maintain* POSITIVE**

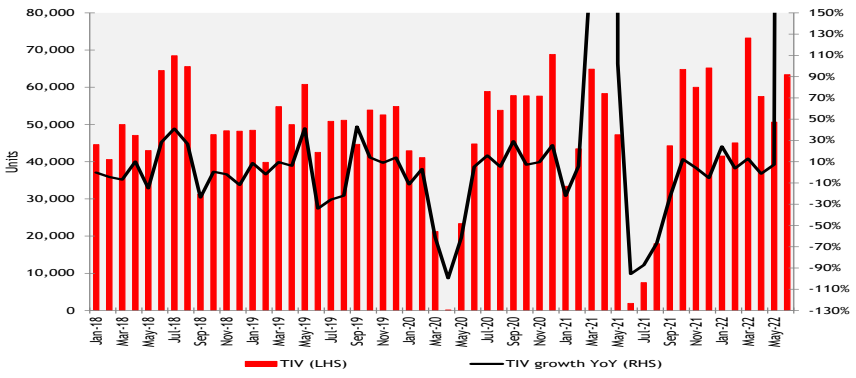
Outperforming amid conservative expectations

KEY INVESTMENT HIGHLIGHTS

- **June TIV up +25%mom at 63K units from improved supply and delivery rush ahead of earlier expected 30th June SST-exemption deadline**
- **YTD TIV stronger than expected at 331K units accounting for 58% of our previous TIV forecast while order backlog is strengthening at estimated 10-12 months TIV equivalent.**
- **Our 2022F TIV is raised by +5.4% to 607K; among companies under coverage, largest revision seen for Toyota (+8%), Nissan (+5%) and Perodua (+1.4%).**
- **Earnings and TPs for UMW and MBMR revised upwards by 6%-17% but TP for Tan Chong Motor remains largely unchanged given impact from stronger USD assumption.**
- **Maintain POSITIVE; our top sector picks are BAuto (BUY, TP: RM2.36) and UMW (BUY, TP: RM4.78)**

Strong volumes in June. June TIV came in strong at 63,366 units, up +25%mom and is significantly higher compared to a low base in June 2021 which was impacted by the lockdowns running from June-August 2021. The passenger vehicle (PV) segment recorded a strong +31%mom growth to 57,063 units. Strength was seen across all PV sub-segment with SUVs leading the growth at +37%mom. The commercial vehicle segment registered a +7%mom growth driven by the truck (+33%mom) and panel van (+30%mom) sub-segments in-line with the broad economic recovery. The strong PV TIV in June may have been driven by the rush to maximise deliveries prior to the MoF's decision to extend the registration deadline for SST-exemption qualified bookings made prior to 30Th June.

Chart 1: Monthly TIV trend



Source: MAA, MIDFR

Proton led the sequential growth. Proton (+53%mom) led the month-on-month growth in June given improvement in production and supply after seeing depressed TIV for the most part of 1HCY22. This was followed by Honda (+40%mom), Toyota (+19%mom) and Perodua (+12%mom). Mazda saw a steep contraction (-60%mom) due to temporary component supply delays from China which impacted its CKD production. However, we understand this has recovered swiftly – Mazda should see TIV recover to >1K units from July onwards, while CKD production has recovered to >900 units in June 2022 (from 248 units in May 2022).

COMPANY IN FOCUS

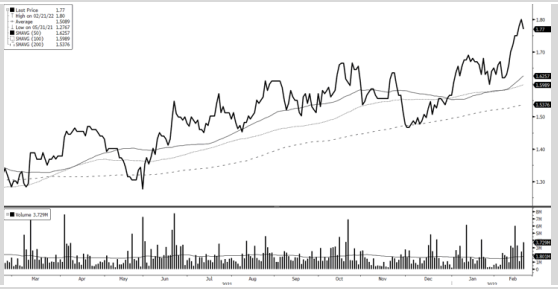
Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM2.36

Price @ 21st July 2022: RM1.79

- +21% earnings CAGR over our forecast horizon
- Above-industry volume growth of +38%yoy (FY23F) from integration of Kia & Peugeot, aggressive new model rollouts
- The most aggressive player with EV launches to capitalize on EV incentives
- Attractive 5%-6% dividend yield

Share price chart



UMW Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM4.78

Price @ 21st July 2022: RM2.98

- +69%yoy FY22F EPS growth driven by +28%/+16%yoy Perodua/Toyota TIV growth
- Launch of Corolla Cross CKD (B/C segment SUV) fills an important gap in Toyota's model mix
- RM270m investment in new HEV production underpins new hybrid line-up, rollout from FY22 onwards

Share price chart



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SECTOR VALUATION MATRIX

Companies	Rating	Shr. Price (RM)	PER (x) FY22F	PER (x) FY23F	P/BV (x)	ROE (%)	Div Yield (%)	Target Price (RM)	Total Upside (%)
Bermaz Auto*	BUY	1.79	11.4	9.1	2.4	20.9	4.4	2.36	36.2
Tan Chong	NEUTRAL	1.12	NA	19.3	0.3	0.0	1.3	1.20	8.5
UMW Holdings	BUY	2.98	10.5	9.7	0.8	7.8	1.9	4.78	62.3
MBM Resources	BUY	3.18	5.9	5.7	0.6	10.2	6.7	4.28	41.3

Source: Company, MIDFR **FY23F & FY24F (FYE Apr)*

Chart 2: June 2022 TIV by segment

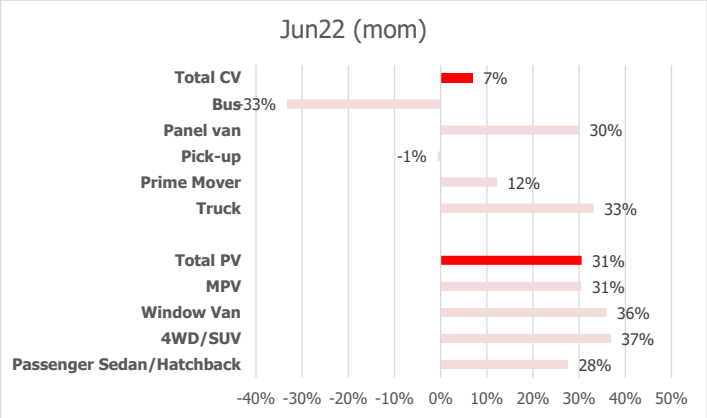
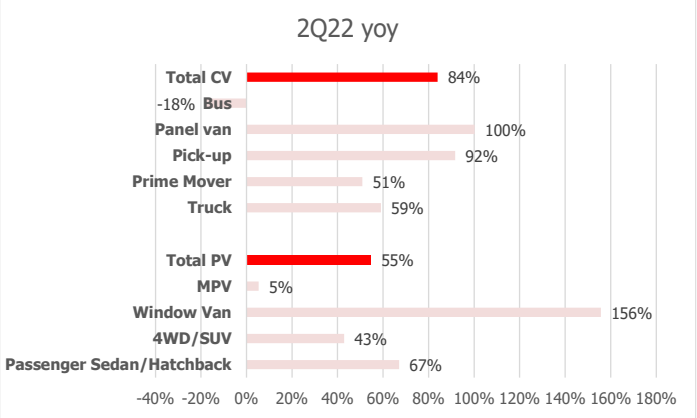


Chart 3: 2Q22 TIV performance by segment

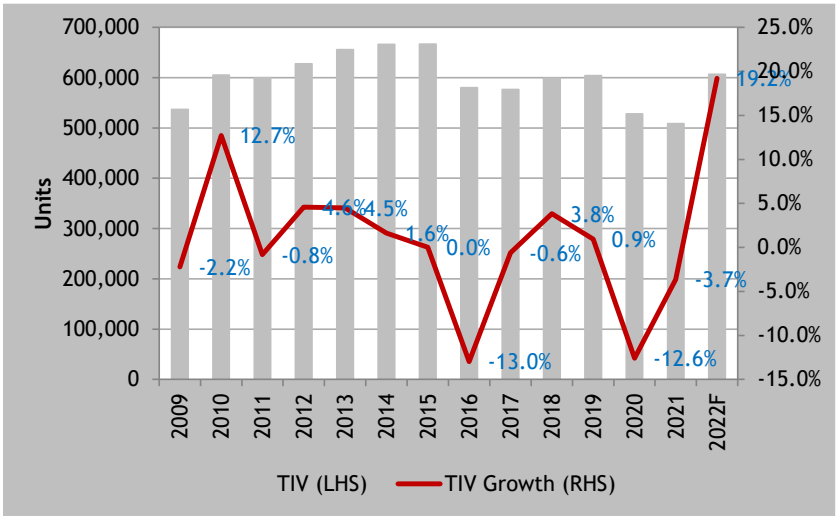


Source: MAA, MIDFR

TIV stronger than expected so far. On a year-to-date basis, overall TIV reached 331,386 units (+33%yoy) driven by strong pent-up demand, the SST-exemption for PV and a low base effect in June. The 1HCY22 TIV is ahead of our expectation accounting for 58% of our previous 2022 TIV forecast of 575K units with outperformance coming from across most key brands. We expect the momentum to sustain in 2HCY22 given strong order backlog which has now ballooned to almost 10-12 months TIV equivalent. Of the key players in our radar, Perodua now entails outstanding bookings of 243K (12-month equivalent), Proton 90K (10 months) and Mazda 11K (10 months).

TIV revision. Given the stronger than expected performance so far, we raise our 2022F TIV to 607K units (+19%yoy) from 575K units previously, representing a +5.4% increase in our forecast. Of the brands carried by companies under our coverage, Toyota sees the highest revision (+8%) followed by Nissan (+4.8%) and Perodua (+1.4%). Our projections for Mazda were revised up in a prior report and therefore is left unchanged. Our projections remain slightly more conservative that MAA's revised 2022F TIV of 630K (revised up from 600K previously) as we remain cautious of intermittent supply weakness and potential push of registrations to the new year (2023), which could weaken Nov-Dec numbers.

Chart 4: Annual TIV trend



Source: MAA, MIDFR

Earnings revision. In terms of earnings assumption, we have now factored in a stronger USD at USD:RM4.30 for FY22F/23F while our JPY assumption is conservatively left unchanged at JPY(x100): RM3.70-3.80. The stronger USD impacts mainly UMW and Tan Chong while BAuto is a net beneficiary of the weaker JPY trend. Every 1% change in our USD assumption impacts UMW's earnings by 3% and Tan Chong by 62% (large percentage impact given that Tan Chong is close to break-even levels). Meanwhile every 1% change in the JPY impacts BAuto's earnings by 1.1%. Perodua entails highly localized models (>90% localization rate) hence is not as badly impacted by forex fluctuations. Having considered the revised TIV and changes to our forex assumptions, FY22F earnings for UMW is raised by 17% and MBMR by 6%. Tan Chong's earnings is revised down to a slight net loss of RM0.1m from a profit of RM6m previously mainly given the impact of the stronger USD offsetting the higher TIV projection. Our projections for BAuto remains unchanged as upward revisions have been made prior to this report. In summary, our TP is raised to RM4.78 for UMW (from RM4.35 previously) while MBMR is raised to RM4.28 (from RM4.05 previously). Our PBV-based TP for Tan Chong's is revised down marginally to RM1.20 (from RM1.21).

Table 1: Changes to earnings projections and TP

	Old (Net profit) (RMm)		New (Net profit) (RMm)		*change (%)*				
Companies	**FY22**	**FY23**	**FY22**	**FY23**	***FY22***	***FY23***	**Old (TP) (RM/share)**	**New (TP) (RM/share)**	***change (%)***
Bermaz Auto *	183.1	229.4	183.1	229.4	*0.0%*	*0.0%*	2.36	2.36	*0.0%*
Tan Chong	5.8	49.2	-0.1	38.9	*-102.1%*	*-20.9%*	1.21	1.20	*-0.6%*
UMW Holdings	284.9	306.4	332.0	357.5	*16.5%*	*16.7%*	4.35	4.78	*9.9%*
MBM Resources	197.5	203.6	208.6	218.2	*5.6%*	*7.2%*	4.05	4.28	*5.6%*

Source: MAA, MIDFR **FY23F/24F (FYE April)*

Table 2: Changes to 2022 TIV projection

	2022 TIV (units)		
Brands	**Old**	**New**	***change (%)***
Proton	122,865	117,280	*-4.5%*
Perodua	240,061	243,483	*1.4%*
Toyota	76,424	82,715	*8.2%*
Honda	57,804	68,940	*19.3%*
Nissan	13,290	13,922	*4.8%*
Mazda *	13,280	13,280	*0.0%*
Others	51,601	67,003	*29.8%*
TIV	**575,324**	**606,622**	***5.4%***

Source: MAA, MIDFR

Table 3: Key launches year-to-date

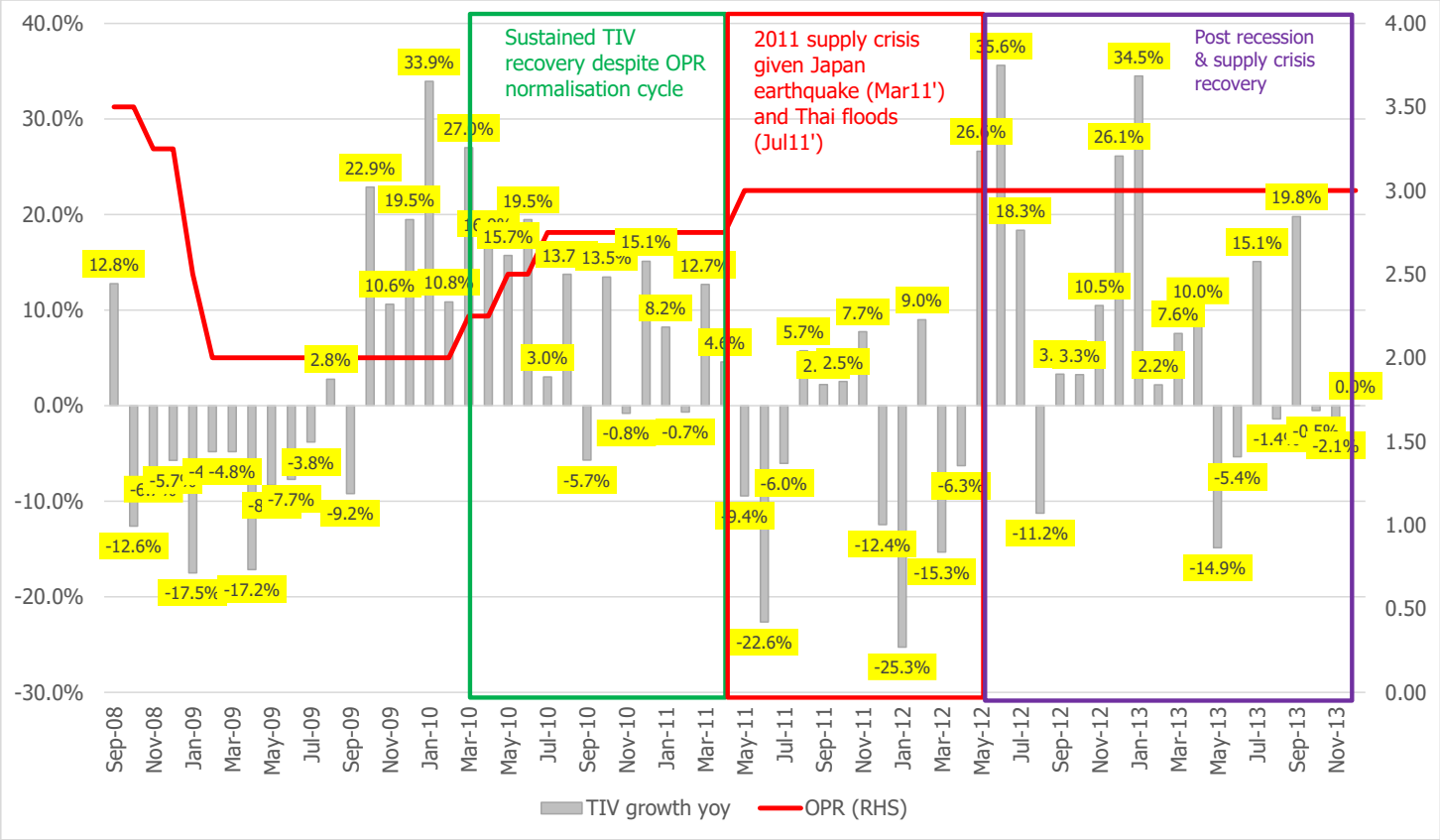
Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
All-new Corolla Cross Hybrid (CKD)	Camry FL (CBU)	Mazda 3 FL (CBU)	Mazda MX5 RF FL (CBU)	Proton Saga MC2 FL (CKD)	Proton X70 MC (CKD)	Audi Q5 S Line
New Civic (CKD)	Honda Odyssey FL (CBU)	Mazda CX3 FL (CBU)			All-new Mazda MX30	Audi Q5 Sportback S Line
New Peugeot 2008 (CKD)	Volvo XC90 B5	VW Tiguan FL			Mazda CX8 FL (CKD)	Nissan Serena S-Hybrid FL
New Kia Carnival (CBU)		Volvo XC40 EV P8 (CKD)			All-new Kia EV6 (CBU)	New Honda HRV
New Volvo V60 Recharge T8		Mercedes EQA250			Isuzu D-Max FL	BMW 330i M Sport
		Hyundai Ioniq 5 EV (CBU)			Jaguar F-Pace FL	New Perodua Alza
					Mercedes AMG A35 Sedan (CKD)	
					Mercedes AMG GLA35 (CKD)	

Source: Various, MIDFR

A quick look at the post-2009 crisis OPR normalisation cycle and its impact on TIV. Despite the policy easing phase during the 2008-09 crisis when OPR was cut from 3.5% to 2.0%, TIV remained in contractionary mode reflecting the weak underlying macro conditions back then. It was only from mid-2009 that the cyclical recovery in TIV took shape as the economy bottomed out. Importantly, this recovery trend sustained despite sharp OPR normalization throughout 2010 which saw rates being raised from 2.00% to 2.75% over a similar, 3 rounds of increases (as can be seen by trends captured by the green box in Chart 1). The key takeaway here is that the OPR normalisation process does little to derail a cyclical TIV recovery provided it is balanced with stronger traction in broader GDP and labor market recovery.

So why did TIV contract in 2011? The TIV recovery was temporarily disrupted in 2011, which happened to coincide with a 25bps hike in the OPR to 3% at the tail-end of the previous normalisation cycle (as can be seen by trends captured by the red box in Chart 5). However, this was driven by the sector's supply crisis given two significant events: (1) The Japan earthquake in March 2011 which impacted key electronics suppliers e.g. Renesas which was a big supplier of automotive ECU microcontrollers, (2) Thailand's 'great floods' in July 2011 which impacted most of the automakers there. Since both Japan and Thailand are key CBU/CKD kit/component supply hubs for Malaysian autos, the sector was hit severely by supply shortage. Post-supply crisis, TIV continued to rebound growing by +4.6% to ~628K units in 2012 followed by another +4.5% growth to ~656K units in 2013 – this came on the back of +5.5%/+4.5% GDP growth in FY12/13, despite the OPR being maintained at 3% i.e. close to pre-crisis levels throughout the period.

Chart 5: OPR normalisation vs. TIV trends during 2010-12 recovery cycle



Source: MAA, BNM, MIDFR

How did share prices react back then? Reflecting positive trends in underlying auto sales, share prices of auto stocks continued to bounce off their lows despite the sharp OPR normalisation cycle throughout 2010 (as can be seen by trends captured by the green box in Chart 4). Share price performance saw a hiccup in 2011 given the sector's supply crisis but thereafter, continued a sharp uptrend in 2012 and 2013 – yet again, this is reflective of positive underlying TIV trends (See Chart 6) despite OPR being maintained at close to pre-crisis levels of 3% throughout the period.

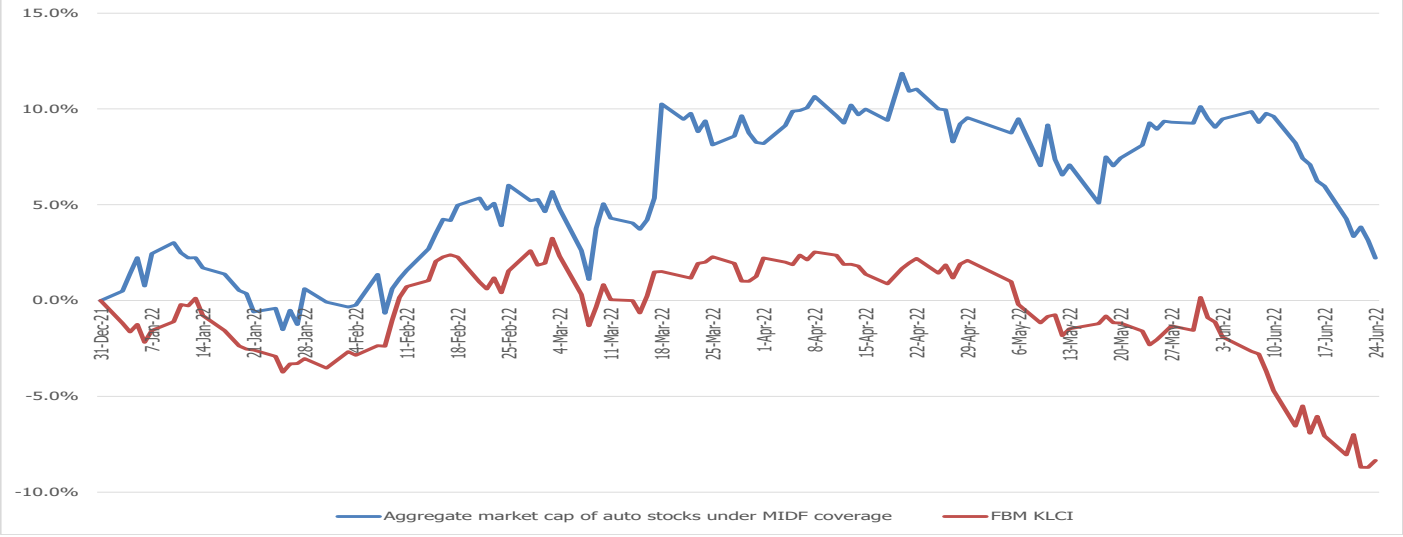
Chart 6: Share price trend of auto stocks post 2008/09 crisis vs. OPR movement



Source: Bloomberg, MIDFR

How has auto stocks under our coverage performed year-to-date? At the peak, the aggregate market cap of auto stocks under MIDF's coverage (comprising Bermaz Auto/UMW Holdings/MBM Resources/Tan Chong Motor) was up +11.9%, which we believe was driven by the economic reopening since 4Q21, transition to endemic phase, sustained TIV recovery and not least, earnings outperformance in the past two result season. However, much of the gain was given up towards late-2Q22, albeit the auto sector still well outperformed the FBM KLCI.

Chart 7: Year-to-date performance of auto stocks under MIDF coverage vs. FBM KLCI



Source: Bloomberg, MIDFR

Time to nibble? We believe the recent sharp retracement in share price of auto stocks under our coverage is to a big part, attributed to negative sentiment from inflation concerns and OPR normalisation. However, as argued in this report, OPR and inflation (i.e. cost) should be looked at in tandem with improvements in income and employment conditions that accompanies a recovery cycle. Valuation of the sector is now 25%-40% below historical mean while earnings expectations are already low.

We remain POSITIVE on the auto sector as a play into a recovery in domestic consumption. Notwithstanding normalization in OPR and higher inflation (which in the Malaysian context is much better contained) prospects are underpinned by strong order banks and an improving labor market & household income condition, while valuations are 25%-40% below historical mean. **BAuto (BUY, TP: RM2.36), MBM Resources (BUY, TP: RM4.28)** and **UMW (BUY, TP: RM4.78)** remain our top sector picks. Beyond the reopening theme, BAuto is a play into brand expansion from the acquisition of Kia and Peugeot franchise, leading to structural expansion in market share and above-industry growth. MBM Resources and UMW are both key proxies to the sector recovery given exposure to Perodua (and Toyota for UMW) - effectively controlling the largest share of the industry. Key risks to our call are a prolonged spike in inflation, deterioration in broad economic recovery and a weaker than expected Ringgit.

Chart 8: Annual TIV growth vs. OPR

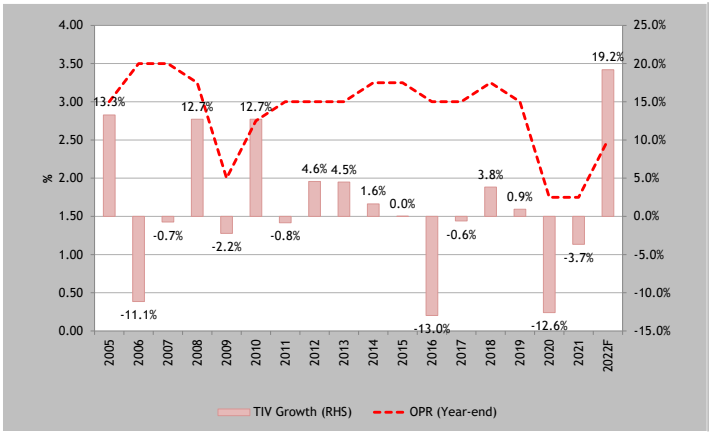
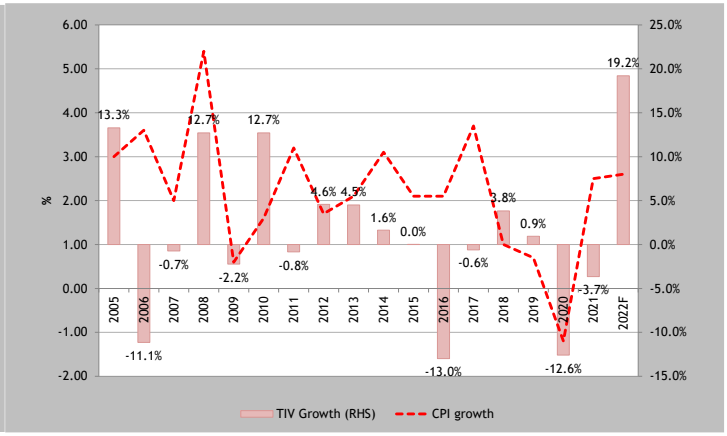
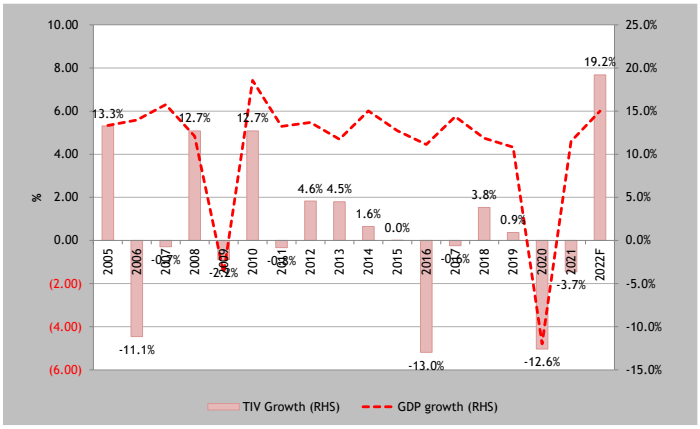


Chart 9: Annual TIV growth vs. CPI growth



Source: MAA, CEIC, MIDFR

Chart 10: Annual TIV growth vs. GDP growth



Source: MAA, CEIC, MIDFR

Table 4: June 2022 TIV Summary

									Market share	
Marques	**Jun-21**	**May-22**	**Jun-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Jun-21**	**Jun-22**
Proton	488	9,279	14,151	2799.8%	52.5%	56,352	57,402	1.9%	22.6%	17.3%
Perodua	1,009	18,901	21,164	1997.5%	12.0%	97,290	127,343	30.9%	39.0%	38.4%
Toyota	84	7,442	8,870	10459.5%	19.2%	33,705	45,449	34.8%	13.5%	13.7%
Honda	22	5,503	7,692	34863.6%	39.8%	24,996	39,673	58.7%	10.0%	12.0%
Nissan	23	1,402	1,051	4469.6%	-25.0%	5,755	7,775	35.1%	2.3%	2.3%
Mazda	60	1,306	511	751.7%	-60.9%	5,397	7,189	33.2%	2.2%	2.2%
Others	246	6,801	9,927	3935.4%	46.0%	25,726	46,555	81.0%	10.3%	14.0%
Total	**1,932**	**50,634**	**63,366**	**3179.8%**	**25.1%**	**249,221**	**331,386**	**33.0%**	**100.0%**	**100.0%**

									Market share	
Segment	**Jun-21**	**May-22**	**Jun-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Jun-21**	**Jun-22**
Passenger cars	1,841	44,741	57,063	2999.6%	27.5%	223,831	293,540	31.1%	89.8%	88.6%
Commercial vehicles	91	5,893	6,303	6826.4%	7.0%	25,390	37,846	49.1%	10.2%	11.4%
Total	**1,932**	**50,634**	**63,366**	**3179.8%**	**25.1%**	**249,221**	**331,386**	**33.0%**		

									Market share	
Segment	**Jun-21**	**May-22**	**Jun-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Jun-21**	**Jun-22**
National cars	1,497	28,180	35,315	2259.1%	25.3%	153,642	184,745	20.2%	61.7%	55.7%
Non-nationals	435	22,454	28,051	6348.5%	24.9%	95,579	146,641	53.4%	38.3%	44.3%
Total	**1,932**	**50,634**	**63,366**	**3179.8%**	**25.1%**	**249,221**	**331,386**	**33.0%**		

Source: MAA, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology