Sector Update | Thursday, 20 October 2022

AUTOMOTIVE

***Maintain* POSITIVE**

Sustains strong momentum

KEY INVESTMENT HIGHLIGHTS

- **September TIV up +53%yoy on supply recovery and strong order backlog**
- **Year-to-date TIV of 517K (+62%yoy) slightly ahead of our CY22 estimate**
- **7-12 months outstanding bookings provide strong revenue visibility moving into CY23**
- **New bookings holding up well post-tax holiday**
- **Players are sitting on strong net cash pile, underpins solid dividends**
- **Maintain POSITIVE; our top sector picks are BAuto (BUY, TP: RM2.36), MBM (BUY, TP: RM4.28) and UMW (BUY, TP: RM4.88)**

TIV strength sustained in September. The auto sector registered yet another strong month of sales with September TIV registering at 67,659 units (+53%yoy), sustaining the strong numbers registered in August 2022 on delivery of strong order backlog. Total industry production (TIP) also sustained the momentum in August 2022 (+51%yoy to 69,389 units), but this was mostly supported by improvements for the national cars. The key non-nationals saw some production contraction month-on-month. The MAA expects October TIV to be sustained at September levels, but notes of still lingering risks of chip and component shortages for selective makes.

YTD TIV ahead of our target. On a year-to-date basis, September TIV came up to 516,798 units (+62%yoy) still slightly ahead of our expectation making up 85% of our CY22F TIV of 607K (+19%yoy). Nevertheless, we reckon Nov-Dec 2022 TIV could weaken as buyers opt for new year 2023 registrations. There is upside should buyers stick to their original delivery schedules.

Key takeaways. On a year-on-year basis, September TIV grew by +53%, mostly driven by strength in sales of passenger cars across the board. Perodua and Honda again led the growth with +74%yoy and +78%yoy sales increase respectively. While the strength came against a weak base last year (as vehicle production only resumed from mid-to-end August onwards 2021 onwards post-MCO), both brands are also benefitting from recent launch of the new Perodua Alza (11-12 months waiting list) and Honda HRV (>12 months waiting list). Perodua's production improved further in September, up +3.7%mom to 28K units, slightly better than its target to improve production to 26K/month in 2H22 (vs. an average 21.7K/month in 1H22).

Solid revenue visibility. Overall, players are sitting on implied 7-12 months waiting list. The strong order bank provides good revenue visibility for the sector moving into CY23. Furthermore, new bookings post-tax holiday has been holding up pretty well i.e., around 20%-30% reduction vs. average monthly bookings during the tax holiday – new bookings from Jul22' onwards will likely feed into TIV from Apr23' onwards, further cementing this revenue visibility from strong forward bookings.

COMPANY IN FOCUS

Bermaz Auto Bhd

Maintain **BUY |** Unchanged Target price: RM2.36
Price @ 19th October 2022: RM1.93

- +21% earnings CAGR over our forecast horizon
- Above-industry volume growth of +38%yoy (FY23F) from integration of Kia & Peugeot, aggressive new model rollouts
- One of the most aggressive player with EV launches to capitalize on EV incentives
- Attractive 6%-8% dividend yield

Share price chart



UMW Holdings Bhd

Maintain **BUY |** Unchanged Target price: RM4.88
Price @ 19th October 2022: RM3.33

- +38% earnings CAGR over our forecast horizon driven by +13.5%/+9.1% Perodua/Toyota volume growth over the same period
- 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



ANALYST:
Hafriz Hezry
hafriz.hezry@midf.com.my

SECTOR VALUATION MATRIX

		Shr. Price	PER (x)		P/BV	ROE	Div Yield	Target	Total
Companies	**Rating**	**(RM)**	**FY22F**	**FY23F**	**(x)**	**(%)**	**(%)**	**Price (RM)**	**Upside (%)**
Bermaz Auto*	BUY	1.93	12.3	9.8	2.6	20.9	4.1	2.36	26.4
Tan Chong	NEUTRAL	1.13	*N/A*	19.5	0.3	0.0	1.3	1.20	7.5
UMW Holdings	BUY	3.33	11.7	10.9	0.9	7.8	3.6	4.88	50.2
MBM Resources	BUY	3.24	6.1	5.8	0.6	10.2	6.6	4.28	38.7

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

Looking like a strong 3Q22 earnings season. The 3Q22 result seasons is looking like another strong quarter with a further +7.7%qoq growth in TIV to 185,125 units (+166%yoy). However, a potential dampener could be the stronger USD which could impact select players i.e., UMW and Tan Chong Motor. Of the two, the former's exposure to the USD is far more diluted given earnings contribution from 38%-owned Perodua (which is highly localized hence is not much impacted by forex volatility), the equipment, aerospace as well as the M&E divisions. We estimate UMW Toyota makes up circa 30%-40% of overall group earnings. Tan Chong's earnings however, is far more concentrated on its Nissan distribution business which relies on USD-denominated CKD kit/CBU imports.

Table 1: 3QCY22 TIV Performance

Marques	1Q22	2Q22	3Q22	YoY	QoQ
Proton	25,589	31,813	40,626	172.8%	27.7%
Perodua	61,624	65,719	69,020	216.6%	5.0%
Toyota	22,270	23,179	24,683	108.2%	6.5%
Honda	20,444	19,229	20,510	240.1%	6.7%
Nissan	3,766	4,009	3,208	67.3%	-20.0%
Mazda	3,542	3,647	3,496	103.6%	-4.1%
Others	22,606	24,236	23,582	106.2%	-2.7%
Total TIV	**159,841**	**171,832**	**185,125**	**165.8%**	**7.7%**

Source: MAA, MIDFR

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: RM4.88)** 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. Additionally, auto players under our coverage (ex-Tan Chong) are sitting on strong net cash pile, which makes up 20%-30% of their respective market caps – this underpins attractive dividend payouts for the year, we believe. Key risks to our call are a prolonged and significant spike in inflation, deterioration in broad economic recovery and a weaker than expected Ringgit.

Chart 1: Monthly TIV trend

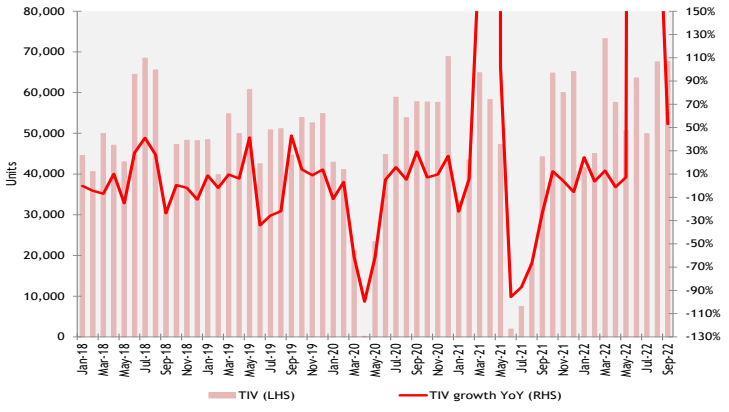
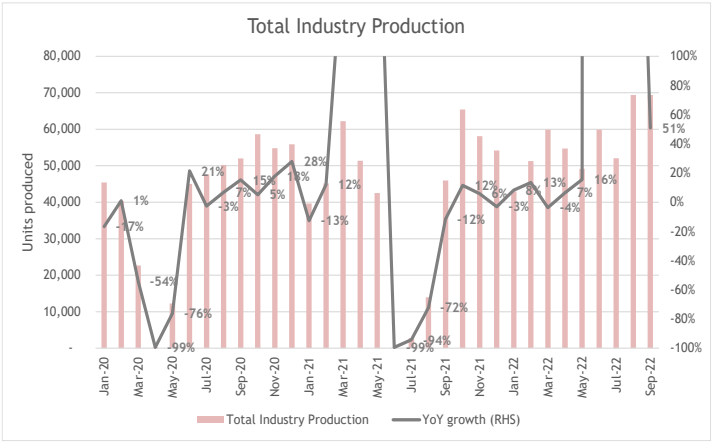


Chart 2: Monthly TIP trend



Source: MAA, MIDFR

Table 2: September 2022 TIV Summary

									Market share	
Marques	**Sep-21**	**Aug-22**	**Sep-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Sep-21**	**Sep-22**
Proton	10,247	14,942	14,587	42.4%	-2.4%	71,244	98,028	37.6%	22.3%	19.0%
Perodua	14,160	26,041	24,629	73.9%	-5.4%	119,093	196,363	64.9%	37.3%	38.0%
Toyota	7,931	8,961	9,098	14.7%	1.5%	45,561	70,132	53.9%	14.3%	13.6%
Honda	4,038	8,019	7,193	78.1%	-10.3%	31,026	60,183	94.0%	9.7%	11.6%
Nissan	1,286	1,072	1,001	-22.2%	-6.6%	7,672	10,983	43.2%	2.4%	2.1%
Mazda	814	1,371	1,005	23.5%	-26.7%	7,114	10,685	50.2%	2.2%	2.1%
Others	5,751	7,154	10,146	76.4%	41.8%	37,160	70,424	89.5%	11.6%	13.6%
Total	**44,227**	**67,560**	**67,659**	**53.0%**	**0.1%**	**318,870**	**516,798**	**62.1%**	**100.0%**	**100.0%**

									Market share	
Segment	**Sep-21**	**Aug-22**	**Sep-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Sep-21**	**Sep-22**
Passenger cars	38,258	60,715	60,060	57.0%	-1.1%	282,907	459,090	62.3%	88.7%	88.8%
Commercial vehicles	5,969	6,845	7,599	27.3%	11.0%	35,963	57,708	60.5%	11.3%	11.2%
Total	**44,227**	**67,560**	**67,659**	**53.0%**	**0.1%**	**318,870**	**516,798**	**62.1%**		

									Market share	
Segment	**Sep-21**	**Aug-22**	**Sep-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Sep-21**	**Sep-22**
National cars	24,407	40,983	39,216	60.7%	-4.3%	190,337	294,391	54.7%	59.7%	57.0%
Non-nationals	19,820	26,577	28,443	43.5%	7.0%	128,533	222,407	73.0%	40.3%	43.0%
Total	**44,227**	**67,560**	**67,659**	**53.0%**	**0.1%**	**318,870**	**516,798**	**62.1%**		

Source: MAA, MIDFR

Table 3: September 2022 TIP Summary

Marques	**Sep-21**	**Aug-22**	**Sep-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD**
Proton	11,097	15,660	16,230	46.3%	3.6%	69,089	102,207	47.9%
Perodua	13,244	27,269	28,277	113.5%	3.7%	121,261	202,857	67.3%
Toyota	6,401	9,386	8,974	40.2%	-4.4%	36,352	67,457	85.6%
Honda	5,768	7,282	6,993	21.2%	-4.0%	34,095	60,137	76.4%
Nissan	569	738	575	1.1%	-22.1%	3,975	5,951	49.7%
Mazda	869	1,354	829	-4.6%	-38.8%	5,991	8,861	47.9%
Others	8,024	7,689	7,511	-6.4%	-2.3%	33,233	61,291	84.4%
Total	**45,972**	**69,378**	**69,389**	**50.9%**	**0.0%**	**303,996**	**508,761**	**67.4%**

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