AUTOMOTIVE

***Maintain* POSITIVE**

Crosses the finishing line at full speed

KEY INVESTMENT HIGHLIGHTS

- **CY22 TIV reaches an all-time high**
- **Tall order to match but CY23F TIV likely to remain elevated**
- **Scope for sector valuations to catch up**
- **Ringgit strength a boon for autos**
- **Maintain POSITIVE; our top sector picks are UMW (BUY, TP: RM5.00), BAuto (BUY, TP: RM2.67) and MBMR (BUY, TP: RM4.60)**

CY22 TIV strongly outperformed. December 2022 TIV came in much stronger than expected, registering at a record high of 76,657 units (+18%yoy), which brought CY22 TIV to a new record of 720,658 units (+42%yoy). Notably, the record TIV was driven largely by Perodua, which registered its highest ever TIV of 282,029 units (+48%yoy). For other key brands, the CY22 performance was still relatively strong albeit not exactly ahead of their all-time highs (See Chart 5).

Tall order to match, but CY23F TIV to remain elevated. Notwithstanding the exceptionally strong CY22 TIV, we expect CY23F TIV to remain elevated. We conservatively keep our CY23F TIV of 678K units at this juncture though we do not rule out the possibility of TIV re-testing the CY22 record given large backlog orders and still strong new booking momentum. Our current CY23F TIV is still higher than the prior record high of 666,631 units achieved in 2015, as a comparison. We expect: (1) Sector CY23F ROE to remain at double-digit levels of 12%, (2) Sector CY23F dividends to remain attractive at an average 5% yield. Underpinning this further are: (1) An improving underlying macro backdrop, (2) A more gradual pace of interest rate normalization (3) A strengthening Ringgit.

Sector valuations too cheap to ignore. In view of this, we see scope for valuations to catch up with still robust sector fundamentals. At current levels, sector FY23F valuations look undemanding – our key stock picks; UMW/BAuto/MBMR are trading at -27%/-19%/-17% discount to historical mean.

Ringgit strength a boon. The Ringgit has strengthened further in the past week, providing a tailwind to the sector as it effectively lowers kit and CBU import cost. At the current USD:RM4.28, the Ringgit has strengthened some +9.9% against the trough levels of USD:RM4.75 in November 2022. UMW and Tan Chong Motor are key beneficiaries as their imports are predominantly USD-denominated. Meanwhile, the JPY is sharply weaker again after the Bank of Japan reiterated its dovish policy to support its economy. BAuto is exposed to JPY-denominated imports for Mazda CBUs (20%-30% of sales), hence is a beneficiary. Going forward however, BAuto is looking to reduce exposure to forex volatility by increasing CKD contribution (which is purchased in RM) via the upcoming launch of the CKD CX30.

COMPANY IN FOCUS

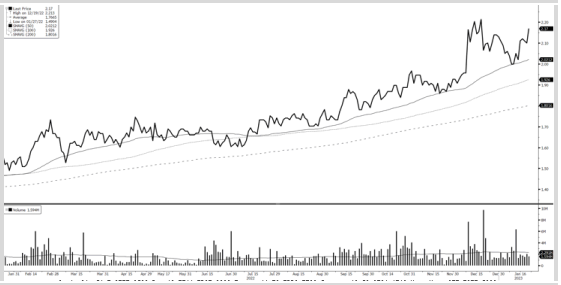
Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM2.67

Price @ 20th January 2023: RM2.17

- +21% earnings CAGR over our forecast horizon
- Play into brand expansion; above-industry volume growth of +38%yoy (FY23F) from integration of Kia & Peugeot
- One of the most aggressive players with EV launches to capitalize on EV incentives
- Attractive 6%-8% dividend yield

Share price chart



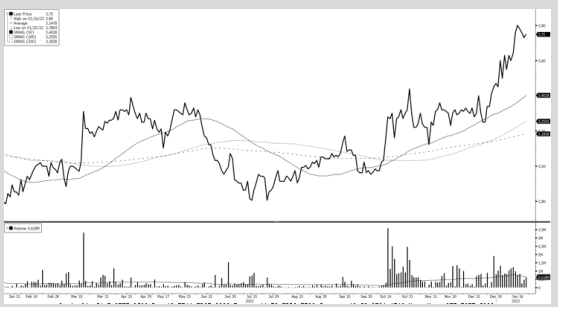
UMW Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM5.00

Price @ 20th January 2023: RM3.75

- Beneficiary of a stronger Ringgit vs. USD
- +38% earnings CAGR over our forecast horizon
- Imminent launch of new generation Toyota Vios/Perodua Axia, potential debut of maiden BEV
- RM270m investment in new HEV production underpins new hybrid line-up

Share price chart



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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	2.17	12.2	10.6	2.9	25.4	6.6	2.67	29.6
Tan Chong	NEUTRAL	1.18	*N/A*	20.7	0.3	1.6	2.5	1.19	3.4
UMW Holdings	BUY	3.75	11.1	11.0	1.0	8.9	3.6	5.00	37.0
MBM Resources	BUY	3.45	6.0	6.0	0.7	10.3	6.7	4.60	40.0

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

Recommendation. We keep our **POSITIVE** call on autos. Other than a favorable forex environment; (1) Players are entering CY23 with a strong 6-9 month order backlog, (2) New launches are set to reaccelerate following delays in the past year, (3) Improved macro environment – easing inflation and improved labor market to drive domestic consumption, (4) Players are sitting on large net cash piles, underpinning attractive dividends and M&A potential. Our top picks are **UMW (BUY, TP: RM5.00), BAuto (BUY, TP: RM2.67)** and **MBMR (BUY, TP: RM4.60)**.

Chart 1: Monthly TIV trend

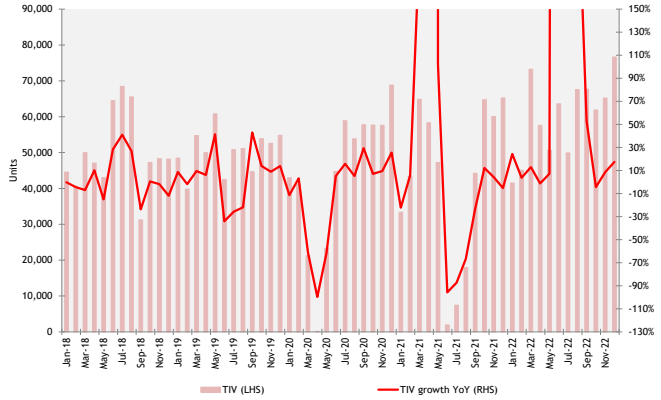
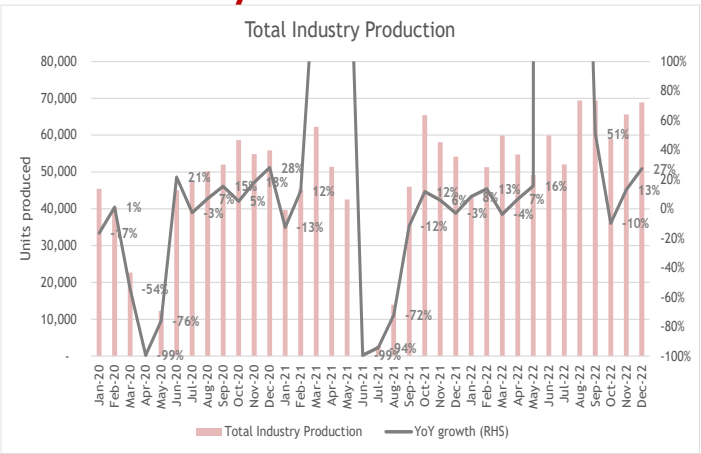


Chart 2: Monthly TIP trend



Source: MAA, MIDFR

Chart 3: USD:RM

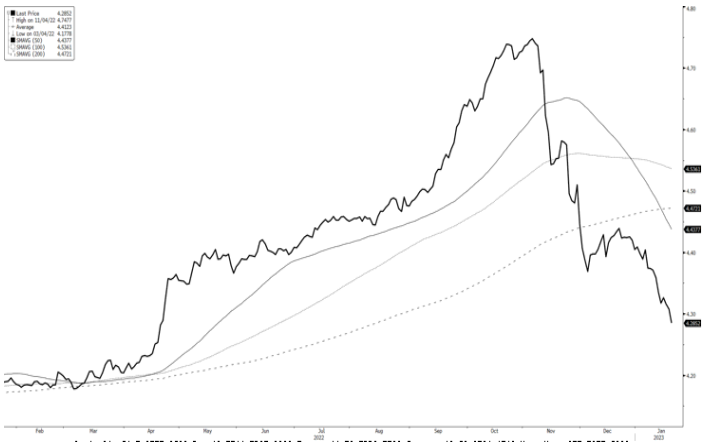


Chart 4: JPY:RM



Source: Bloomberg, MIDFR

Chart 5: Historical annual TIV by key brands

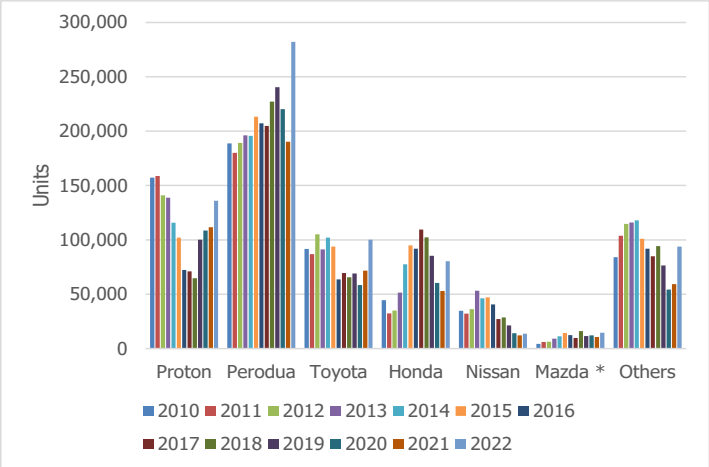
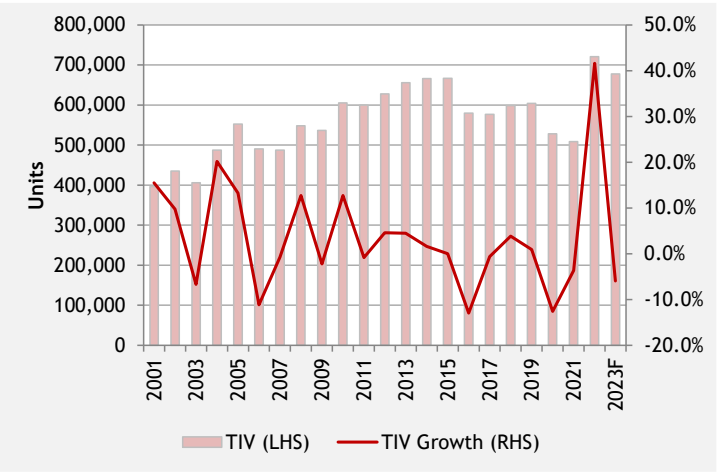


Chart 6: CY23F TIV to remain elevated



Source: MAA, MIDFR

Chart 7: Passenger vehicle share by type

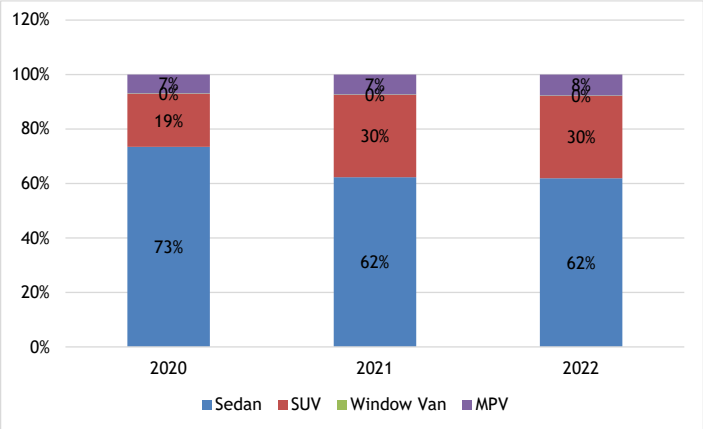
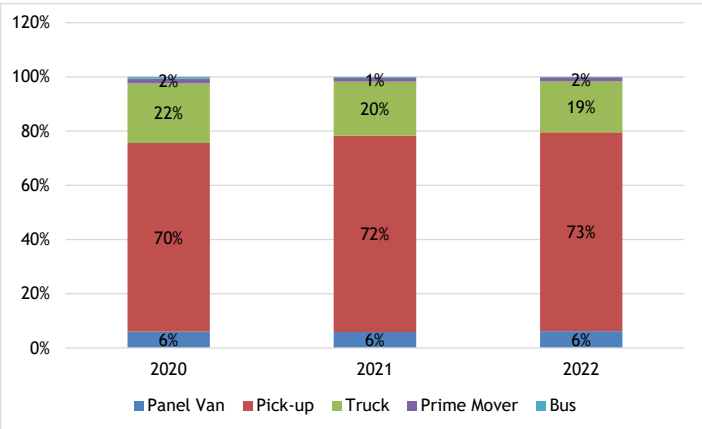


Chart 8: Commercial vehicle share by type



Source: MAA, MIDFR

Chart 9: Passenger sedan market share (2022)

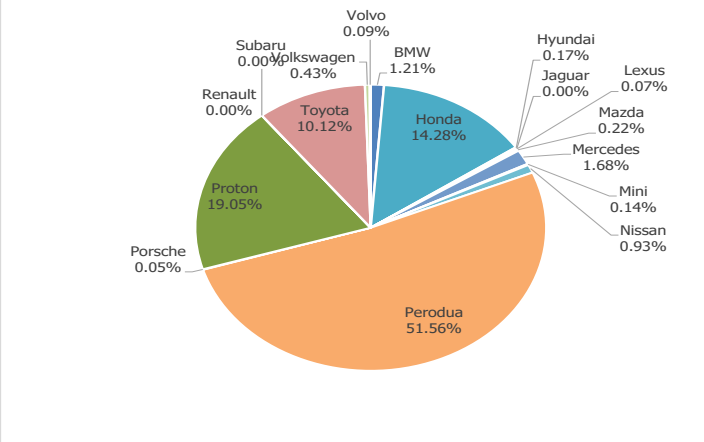
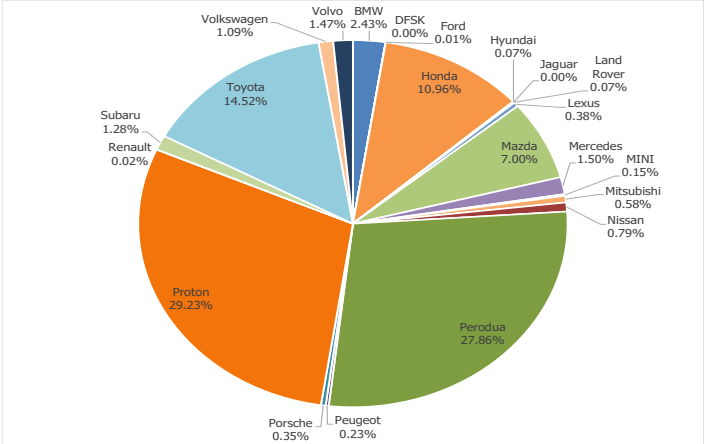


Chart 10: 4WD/SUV market share (2022)



Source: MAA, MIDFR

Chart 11: CY22 TIV growth by segment

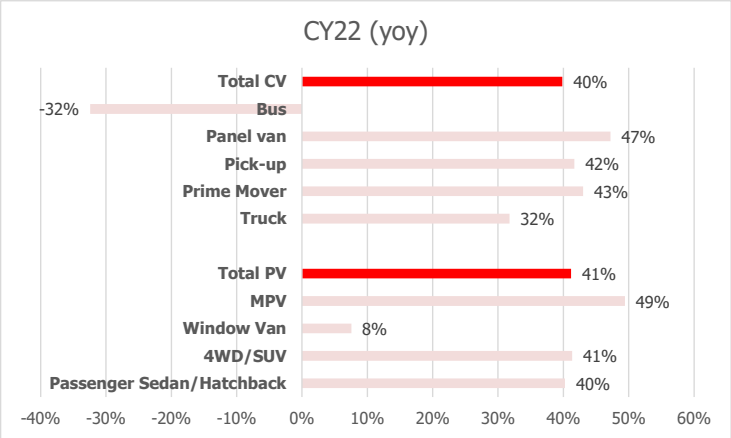
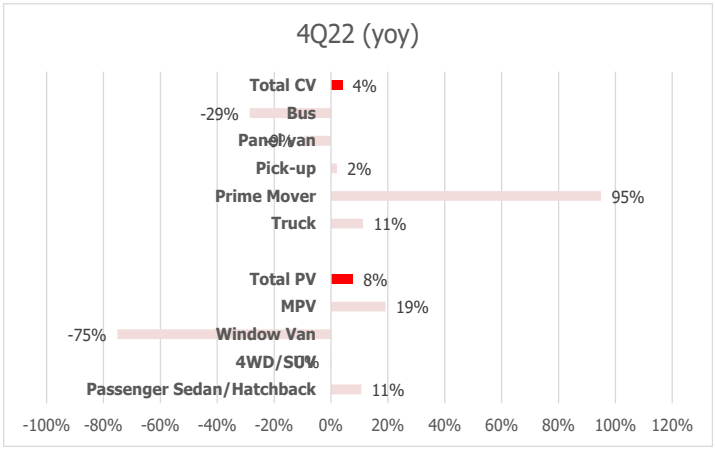


Chart 12: 4Q22 TIV growth by segment



Source: MAA, MIDFR

Table 1: December 2022 TIV Summary

									Market share	
Marques	**Dec-21**	**Nov-22**	**Dec-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Dec-21**	**Dec-22**
Proton	13,701	11,029	14,372	4.9%	30.3%	111,695	136,026	21.8%	22.0%	18.9%
Perodua	23,041	28,592	31,224	35.5%	9.2%	190,291	282,029	48.2%	37.4%	39.1%
Toyota	9,193	10,372	10,362	12.7%	-0.1%	71,585	100,041	39.8%	14.1%	13.9%
Honda	7,982	6,558	7,699	-3.5%	17.4%	53,031	80,290	51.4%	10.4%	11.1%
Nissan	1,685	808	991	-41.2%	22.6%	12,287	13,785	12.2%	2.4%	1.9%
Mazda	1,157	1,208	1,733	49.8%	43.5%	10,660	14,644	37.4%	2.1%	2.0%
Others	8,488	6,634	10,276	21.1%	54.9%	59,334	93,843	58.2%	11.7%	13.0%
Total	**65,247**	**65,201**	**76,657**	**17.5%**	**17.6%**	**508,883**	**720,658**	**41.6%**	**100.0%**	**100.0%**

									Market share	
Segment	**Dec-21**	**Nov-22**	**Dec-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Dec-21**	**Dec-22**
Passenger vehicles	57,603	58,398	68,889	19.6%	18.0%	452,486	641,773	41.8%	88.9%	89.1%
Commercial vehicles	7,644	6,803	7,768	1.6%	14.2%	56,397	78,885	39.9%	11.1%	10.9%
Total	**65,247**	**65,201**	**76,657**	**17.5%**	**17.6%**	**508,883**	**720,658**	**41.6%**		

									Market share	
Segment	**Dec-21**	**Nov-22**	**Dec-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD %**	**Dec-21**	**Dec-22**
National cars	36,742	39,621	45,596	24.1%	15.1%	301,986	418,055	38.4%	59.3%	58.0%
Non-nationals	28,505	25,580	31,061	9.0%	21.4%	206,897	302,603	46.3%	40.7%	42.0%
Total	**65,247**	**65,201**	**76,657**	**17.5%**	**17.6%**	**508,883**	**720,658**	**41.6%**		

Source: MAA, MIDFR

Table 2: December 2022 Total Industry Production (TIP) Summary

Marques	**Dec-21**	**Nov-22**	**Dec-22**	**YoY**	**MoM**	**YTD21**	**YTD22**	**YTD**
Proton	11,900	12,313	15,822	33.0%	28.5%	107,544	144,259	34.1%
Perodua	21,563	28,549	29,614	37.3%	3.7%	193,389	283,364	46.5%
Toyota	6,406	8,673	9,023	40.9%	4.0%	56,704	93,357	64.6%
Honda	5,365	6,815	5,432	1.2%	-20.3%	53,913	78,299	45.2%
Nissan	703	677	779	10.8%	15.1%	5,931	8,002	34.9%
Mazda	1,156	1,629	1,548	33.9%	-5.0%	9,932	13,408	35.0%
Others	7,073	6,986	6,663	-5.8%	-4.6%	54,238	81,586	50.4%
Total	**54,166**	**65,642**	**68,881**	**27.2%**	**4.9%**	**481,651**	**702,275**	**45.8%**

Source: MAA, MIDFR

Table 3: Key new launches throughout 2022

Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-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	Mercedes C-Class CKD	Land Rover Defender 90	Mazda CX3 (1.5L Core/2.0L Core) (CBU)	Honda Civic e:HEV RS hybrid	BYD Atto 3 EV
New Civic (CKD)	Honda Odyssey FL (CBU)	Mazda CX3 FL (CBU)			All-new Mazda MX30	Audi Q5 Sportback S Line	2023 Exora	2022 Ford Everest	2023 Hyundai Starla	Ora Good Cat EV	
New Peugeot 2008 (CKD)	Volvo XC90 B5	VW Tiguan FL			Mazda CX8 FL (CKD)	Nissan Serena S-Hybrid FL			New Audi A3 Sedan		
New Kia Carnival (CBU)		Volvo XC40 EV P8 (CKD)			All-new Kia EV6 (CBU)	New Honda HRV			Toyota Harrier FL (CBU)		
New Volvo V60 Recharge T8		Mercedes EQA250			Isuzu D-Max FL	BMW 330i M Sport			Toyota Veloz (CKD)		
		Hyundai Ioniq 5 EV (CBU)			Jaguar F-Pace FL	New Perodua Alza			BMW X7 xDrive40i M-Sport		
					Mercedes AMG A35 Sedan (CKD)	Kia Carnival (CKD)			Bentley Flying Spur Hybrid		
					Mercedes AMG GLA35 (CKD)	VW Golf R					
						2022 Ford Ranger					
						Mercedes EQS 450					
						2022 Honda HRV					
						Mazda CX8 FL					

Source: Various, 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