Sector Update | Monday, 16 January 2023

AUTOMOTIVE

***Maintain* POSITIVE**

Tailwind from stronger Ringgit

KEY INVESTMENT HIGHLIGHTS

- **Ringgit has been strengthening against the USD since late-CY22**
- **Autos is a big beneficiary given USD-denominated imports**
- **UMW Holdings and Tan Chong Motor are the two largest beneficiaries**
- **BAuto's exposure to JPY set to reduce going forward**
- **Maintain POSITIVE; our top sector picks are UMW (BUY, TP: RM5.00), BAuto (BUY, TP: RM2.67) and MBMR (BUY, TP: RM4.60)**

What's new? The USD:RM rate has been on the uptrend since late 4QCY22 - USD:RM is now trading at USD:RM4.34 levels (See Chart 3), a significant improvement after hitting trough levels of USD:RM4.75 in November last year. The weaker USD came following weaker US economic data which has lifted hopes that the US Federal Reserve would ease the pace of monetary policy sooner rather than later.

Key beneficiaries of a stronger Ringgit. Of the auto stocks under our coverage, UMW Holdings (UMW) and Tan Chong Motor (TCM) are the two largest beneficiaries of the stronger Ringgit against the USD. Both are exposed to USD-denominated import of CKD kits and CBUs - a weaker USD therefore effectively lowers import cost. Every 1% change in USD:RM is estimated to impact UMW's FY23F earnings by 3.7% and TCM's FY23F by 17%. TCM's bottomline is more sensitive to USD:RM movements as our FY23F net profit is close to break-even levels.

BAuto set to reduce forex exposure. In contrast to USD:RM trends, the JPY has rebounded gradually to JPY:RM3.38 after very weak performance last year (See Chart 4). Bermaz Auto (BAuto) is mainly exposed to the JPY. This is mainly via its Mazda CBU purchases (~30% of sales), whereas finished CKDs are purchased from 30%-owned Mazda Malaysia Sdn Bhd (MMSB) in Ringgit, hence carries little forex risk. Imminent launch of the CKD CX30 and CKD Kia models (Carnival, Sorento, Sportage) is expected to reduce the group's forex exposure going forward. For now, every 1% change in the JPY impacts BAuto's FY23F earnings by 0.9%.

We remain POSITIVE on autos. The stronger Ringgit trend (vs. the USD) underpins our sector thesis for 2023, which underlines a more favorable currency environment as one of the sector's catalyst this year. On top of this: (1) Players are entering 2023 with a strong 6 to 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 labour 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)**.

COMPANY IN FOCUS

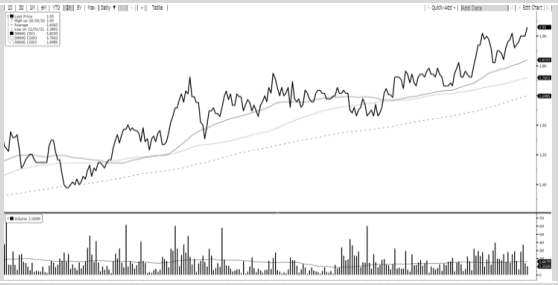
Bermaz Auto Bhd

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

Price @ 13th January 2023: RM2.02

- +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 @ 13th January 2023: RM3.76

- Key proxy to sector recovery via 52% market share
- +38% earnings CAGR over our forecast horizon
- Imminent launch of the new generation Vios
- RM270m investment in new HEV production underpins new hybrid line-up

Share price chart



ANALYST:
Hafriz Hezry
hafriz.hezry@midf.com.my
03 -2173 8392

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	2.02	11.3	9.9	2.7	20.9	7.1	2.67	39.3
Tan Chong	NEUTRAL	1.23	*NA*	21.6	0.3	0.0	2.4	1.19	-0.8
UMW Holdings	BUY	3.76	11.2	11.1	1.0	7.8	3.6	5.00	36.6
MBM Resources	BUY	3.45	6.0	6.0	0.7	10.2	6.7	4.60	40.0

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

Chart 1: Monthly TIV trend

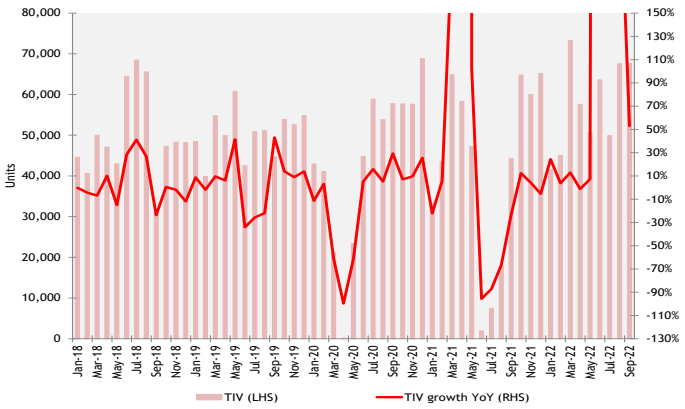
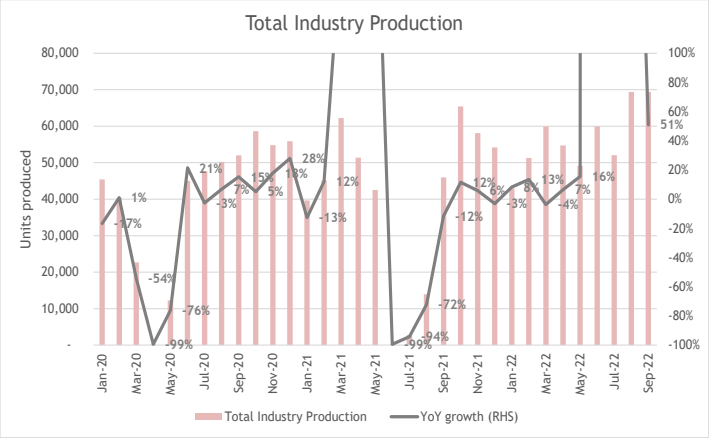


Chart 2: Monthly TIP trend



Source: MAA, MIDFR

Chart 3: USD:RM



Chart 4: JPY:RM



Source: Bloomberg, 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