AUTOMOTIVE

***Maintain* POSITIVE**

Bullish momentum

KEY INVESTMENT HIGHLIGHTS

- **Perodua targeting another record year**
- **Bullish target well backed by strong outstanding bookings**
- **Scope for sector valuations to catch up**
- **Maintain POSITIVE; our top sector picks are UMW (BUY, TP: RM5.00), BAuto (BUY, TP: RM2.67) and MBMR (BUY, TP: RM4.60)**

Targeting another record year. Perodua revealed its 2023 sales target recently. In a positive surprise, Perodua is targeting another record year in 2023 with a sales target of 314K units, which is 11% higher than the latest record high of 282,019 units that it achieved last year. In line with its bullish sales outlook, Perodua expects the industry's 2023 TIV to hold up above 700K units, which is higher than the MAA's forecast of 650K and our forecast of 678K units.

Bullish target well backed. Perodua outstanding orders currently stand at 220K units, which already makes up 70% of the 2023 sales target. As such, we believe the targeted record sales in 2023 is realistic. This is coupled with low cancellation rate of just 2% and will be boosted further by launch of the new Axia this month. Over 90% of the outstanding bookings comprise of post-tax holiday bookings, signaling still strong underlying demand momentum despite expiry of the tax holiday on 30th June 2022.

New Axia open for bookings. The new Axia has been opened for bookings on Tuesday ahead of its official launch mid-February. The Axia is Perodua's 3rd largest volume driver, making up an estimated 20% of Perodua's TIV. Based on newsflows, the new Axia could be priced higher than the outgoing model, albeit with additional and more sophisticated technological features, particularly in terms of safety systems.

Upside risk to forecasts. As mentioned in our last sector update, we expect 2023 TIV to remain elevated with possibilities of TIV re-testing the 2022 record given large backlog orders and still strong new booking momentum. Considering that Perodua is the industry bellwether accounting for ~40% share, its TIV will have a bearing on the overall industry. We see upside risk to our 2023F TIV of 678K as a result of this latest development. Underpinning this further are: (1) An improving underlying macro backdrop, (2) A more gradual pace of interest rate normalization.

Sector valuations are still below mean. In view of this, we reiterate our view that there is 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.

COMPANY IN FOCUS

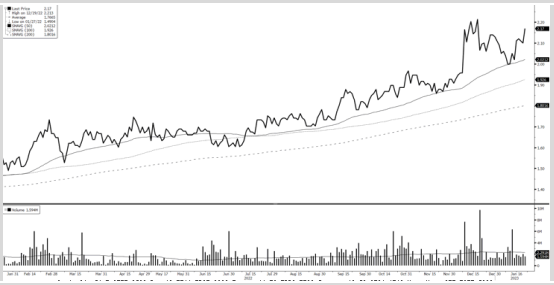
Bermaz Auto Bhd

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: RM3.70

- 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	1.22	(21.4)	21.4	0.3	1.6	2.5	1.19	0.0
UMW Holdings	BUY	3.70	11.0	10.9	1.0	8.9	3.7	5.00	38.8
MBM Resources	BUY	3.49	6.0	6.1	0.7	10.3	6.6	4.60	38.4

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

Recommendation. We keep our **POSITIVE** call on autos. Premised on: (1) A favorable forex environment; (2) Players are entering CY23 with a strong 6-9 month order backlog (3) New launches are set to reaccelerate following delays in the past year (4) 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

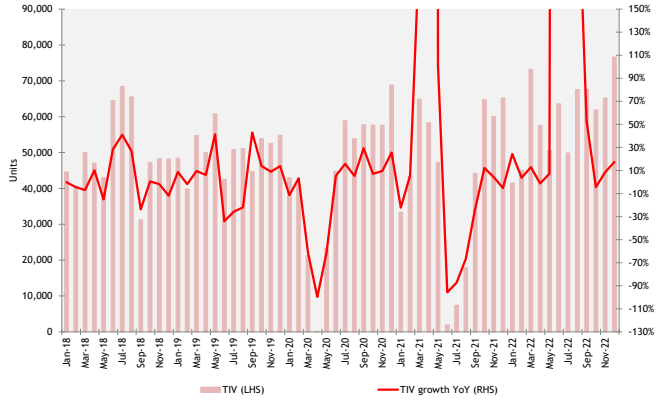
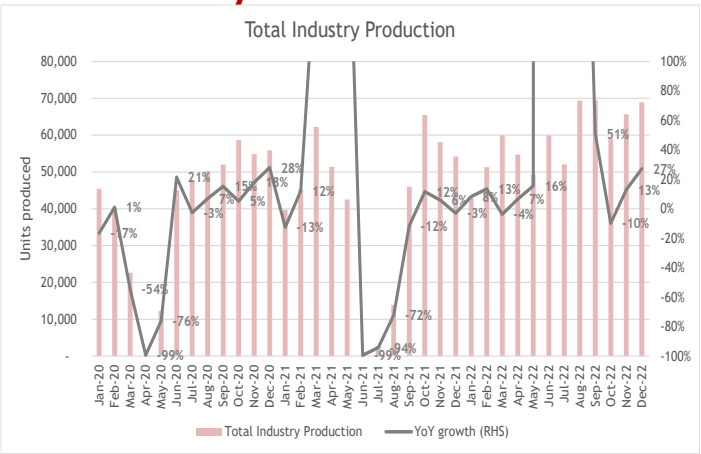


Chart 2: Monthly TIP trend



Source: MAA, MIDFR

Chart 3: USD:RM

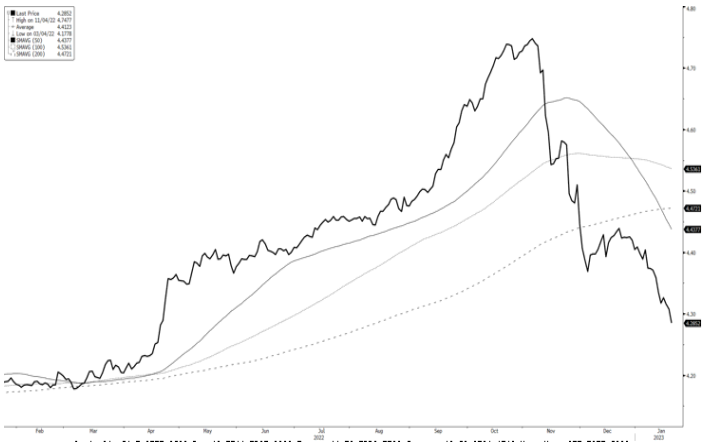


Chart 4: JPY:RM



Source: Bloomberg, MIDFR

Chart 5: Historical annual TIV by key brands

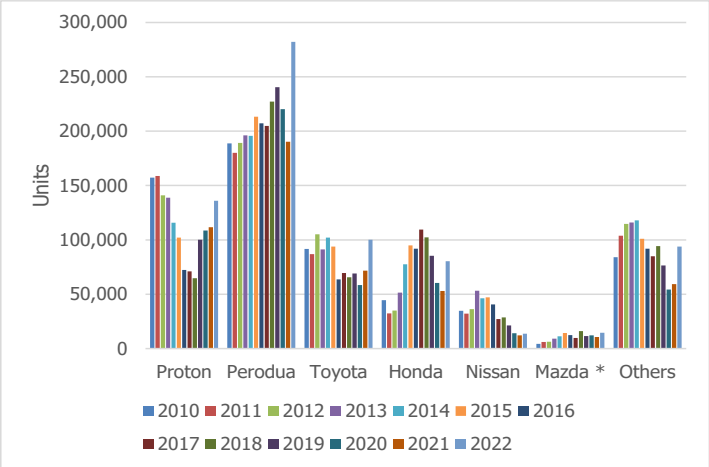
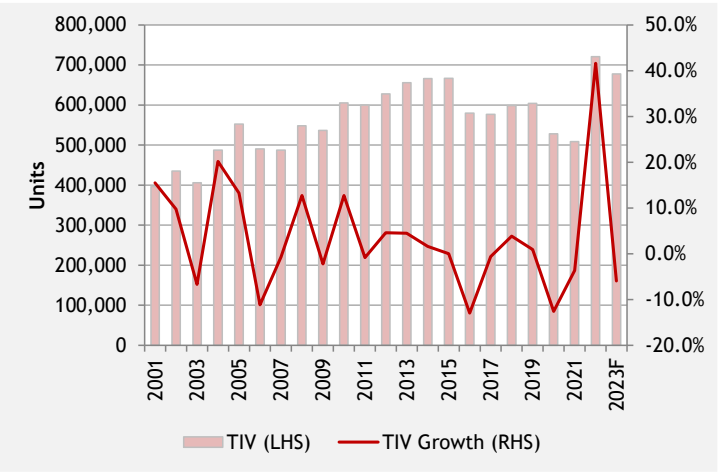


Chart 6: CY23F TIV to remain elevated



Source: MAA, MIDFR

Table 1: 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