AUTOMOTIVE

***Maintain* POSITIVE**

Delivery Rush

KEY INVESTMENT HIGHLIGHTS

- **February TIV rises ahead of Penjana-tax holiday delivery deadline**
- **2023F TIV revised up 5% to 713K, now close to last year's record**
- **Industry order backlog remains elevated 8 months post-tax holiday**
- **Margins to gradually improve with easing cost pressure**
- **Maintain POSITIVE; our top sector picks are UMW (BUY, TP: RM5.28), BAuto (BUY, TP: RM3.20) and MBMR (BUY, TP: RM4.70)**

February TIV rises ahead of delivery deadline. Total industry volume (TIV) rebounded strongly in February, rising +27%mom to 62,649 units. It was also up +39%yoy reflecting accelerating deliveries ahead of the 31st March 2023 deadline to deliver Penjana-tax holiday bookings. The strength was seen across the board - of the key players, Mazda/Proton/Perodua/Toyota TIV were up by +200%yoy/+54%yoy/+43%yoy/+45%yoy respectively except for Nissan which registered a -12%yoy contraction.

2023F TIV could test last year's record. On a year-to-date basis, TIV is up +30%yoy at 112,128 units, making up 17% of our previous 2023F TIV of 678K. Given the strength in industry order backlog and in-line with our company-specific upward revisions in the recently concluded 4QCY22 result season, we raise our 2023F TIV by +5% to 713K, which is now close to last year's record high of 721K units.

Industry order backlog remains elevated 8 months post-Penjana tax holiday expiry in June 2022, addressing earlier skepticism of the industry's sales momentum – of the key players under our coverage: (1) Perodua entails 220K units order backlog (equivalent to 9-months of our new 2023F Perodua TIV), (2) Toyota entails >50K order backlog (equivalent to 6-months of our new 2023F Toyota TIV), (3) Mazda entails a 6.8K backlog (equivalent to 5-months of our new 2023F Mazda TIV). Post-Penjana bookings make up the bulk of these order backlog, we gather. Re-acceleration of new launches underpins this momentum: (1) Perodua launched the new Axia in February (27k bookings within a month of launch, 3.5x of the Axia monthly production target), (2) BAuto launched the CKD CX30 earlier this month; 1.6K bookings collected, 3x the monthly production target, (3) The new Vios was launched by UMW recently with bookings of 5K units.

Impact on earnings and TP. In-line with the upward TIV revision, our sector earnings (FY23F) were raised by an average 14%; BAuto/UMW/MBMR's FY23F earnings were raised +27%/13%/9% respectively, while we kept projections for Tan Chong unchanged *(See Table 1)*. In tandem, our TPs were raised +20%/6%/+2% for BAuto/UMW/MBMR respectively.

COMPANY IN FOCUS

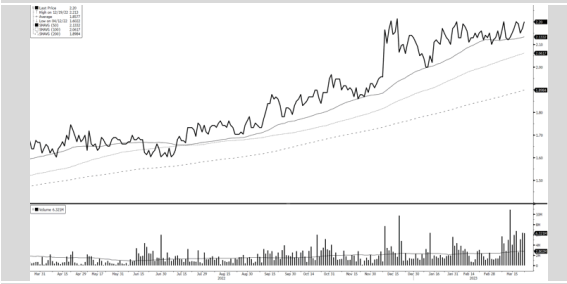
Bermaz Auto Bhd

Maintain **BUY** | Unchanged Target price: RM3.20

Price @ 23rd March 2023: RM2.20

- +36% earnings CAGR over our forecast horizon
- Play into brand expansion; above-industry volume growth of +46%yoy (FY23F) from integration of Kia & Peugeot
- One of the most aggressive players with EV launches to capitalize on EV incentives
- Attractive 7%-8% dividend yield

Share price chart



UMW Holdings Bhd

Maintain **BUY** | Unchanged Target price: RM5.28

Price @ 23rd March 2023: RM3.56

- Beneficiary of a stronger Ringgit vs. USD
- 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)**	**FY23F**	**FY24F**	**(x)**	**(%)**	**(%)**	**Price (RM)**	**Upside (%)**
Bermaz Auto*	BUY	2.20	9.7	8.8	3.0	30.7	7.2	3.20	52.6
Tan Chong	NEUTRAL	1.11	19.5	46.2	0.3	1.4	2.7	1.19	9.9
UMW Holdings	BUY	3.56	9.3	9.4	0.9	9.9	4.3	5.28	52.6
MBM Resources	BUY	3.44	5.5	5.5	0.6	11.1	7.3	4.70	43.9

Source: Company, MIDFR

Table 1: Earnings revisions in recent 4QCY22 result season

	Old (Net profit) (RMm)		New (Net profit) (RMm)		*change (%)*	
Companies	***FY23F***	***FY24F****	**FY23F**	**FY24F***	***FY23F***	***FY24F****
Bermaz Auto **	*207.1*	*238.1*	262.9	290.1	*26.9%*	*21.8%*
Tan Chong	*38.3*	*16.1*	38.3	16.1	*0.0%*	*0.0%*
UMW Holdings	*397.4*	*443.8*	447.5	443.8	*12.6%*	*0.0%*
MBM Resources	*224.9*	*244.8*	244.0	244.8	*8.5%*	*0.0%*
Industry	***867.7***	***942.8***	**992.7**	**994.8**	***14.4%***	***5.5%***

Source: Company, MIDFR **FY24F projections introduced in recent result season* ***FYE April*

Margins should gradually improve with easing cost pressure. A key feature in the recent 4QCY22 result were margin pressure which was a result of higher raw material cost and stronger USD (given forward hedging, 4QCY22 earnings largely reflected peak 3QCY22 USD:RM rates). The latter is expected to ease next quarter, notwithstanding a temporary spike in February 2023, which should be positive for margins of USD-exposed players such as UMW and Tan Chong Motor. The former impacted mainly Perodua; non-nationals typically source CKD kits from principles (instead of outright raw materials) where the principal typically absorbs some of the cost volatility. We expect the cost pressure to ease at Perodua from 2Q-3QCY23 in line with easing steel and aluminum prices, easing component supply chain tightness and higher volumes this year which reduces unit production cost.

Chart 1: USD:RM Trend

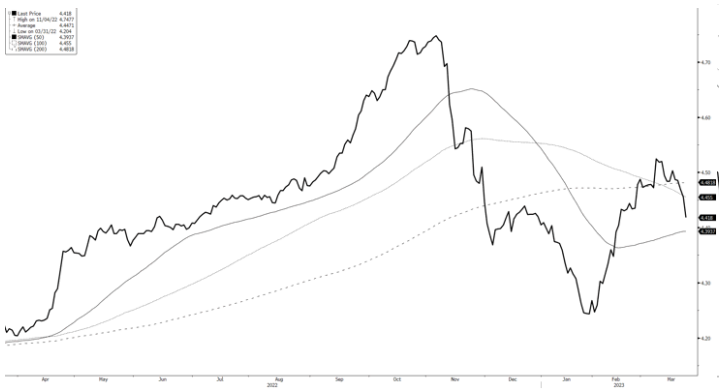
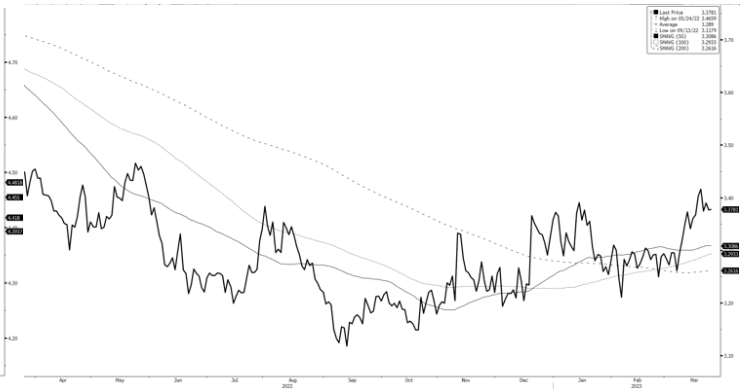


Chart 2: JPY:RM Trend



Source: Bloomberg, MIDFR

We keep our POSITIVE stance on autos. Our bullish stance on the auto sector is premised on: (1) A more favourable forex outlook - our economics team is projecting a stronger average USD:RM at RM4.20 this year vs. RM4.40 in CY22, (2) Strong 5-9 months order backlog of key players under coverage, (3) Re-acceleration of new launches following delays in the past year, (4) Broadly, a more favourable macro environment – easing inflation and improved labor market to drive domestic consumption, (5) Players are sitting on large net cash piles, underpinning attractive dividends and M&A potential. Our top picks are **UMW (BUY, TP: RM5.28)**, **BAuto (BUY, TP: RM3.20)** and **MBMR (BUY, TP: RM4.70)**.

Table 2: February 2023 TIV Summary

									Market share	
Marques	**Feb-22**	**Jan-23**	**Feb-23**	**YoY**	**MoM**	**YTD22**	**YTD23**	**YTD %**	**Feb-22**	**Feb-23**
Proton	9,039	11,506	13,907	53.9%	20.9%	13,355	25,413	90.3%	15.4%	22.7%
Perodua	17,421	21,449	24,937	43.1%	16.3%	34,865	46,386	33.0%	40.3%	41.4%
Toyota	6,366	6,771	9,233	45.0%	36.4%	13,884	16,004	15.3%	16.0%	14.3%
Honda	6,027	3,475	6,154	2.1%	77.1%	9,889	9,629	-2.6%	11.4%	8.6%
Nissan	884	657	778	-12.0%	18.4%	1,984	1,435	-27.7%	2.3%	1.3%
Mazda	475	1,216	1,426	200.2%	17.3%	1,322	2,642	99.8%	1.5%	2.4%
Others	4,850	4,405	6,214	28.1%	41.1%	11,296	10,619	-6.0%	13.0%	9.5%
Total	**45,062**	**49,479**	**62,649**	**39.0%**	**26.6%**	**86,595**	**112,128**	**29.5%**	**100.0%**	**100.0%**

									Market share	
Segment	**Feb-22**	**Jan-23**	**Feb-23**	**YoY**	**MoM**	**YTD22**	**YTD23**	**YTD %**	**Feb-22**	**Feb-23**
Passenger cars	40,119	43,945	55,555	38.5%	26.4%	74,689	99,500	33.2%	86.3%	88.7%
Commercial vehicles	4,943	5,534	7,094	43.5%	28.2%	11,906	12,628	6.1%	13.7%	11.3%
Total	**45,062**	**49,479**	**62,649**	**39.0%**	**26.6%**	**86,595**	**112,128**	**29.5%**		

									Market share	
Segment	**Feb-22**	**Jan-23**	**Feb-23**	**YoY**	**MoM**	**YTD22**	**YTD23**	**YTD %**	**Feb-22**	**Feb-23**
National cars	26,460	32,955	38,844	46.8%	17.9%	48,220	71,799	48.9%	55.7%	64.0%
Non-nationals	18,602	16,524	23,805	28.0%	44.1%	38,375	40,329	5.1%	44.3%	36.0%
Total	**45,062**	**49,479**	**62,649**	**39.0%**	**26.6%**	**86,595**	**112,128**	**29.5%**		

Source: MAA, MIDFR

Chart 3: Monthly TIV Trend

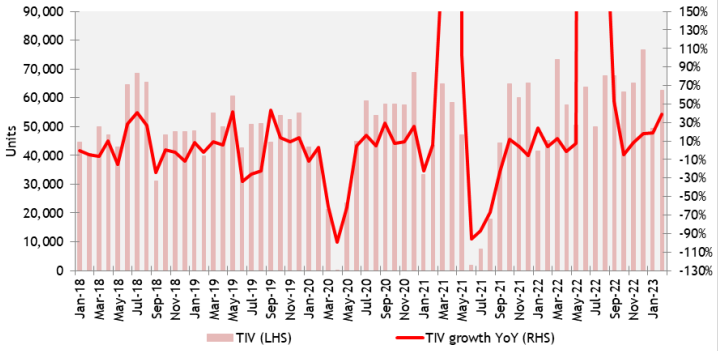
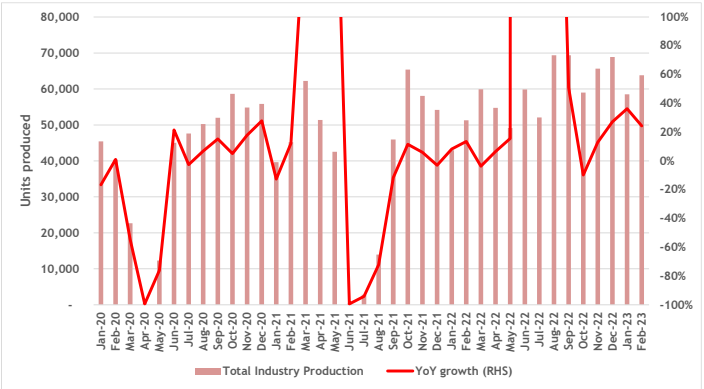


Chart 4: Monthly TIP Trend



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