AUTOMOTIVE

***Maintain* POSITIVE**

New player in town

KEY INVESTMENT HIGHLIGHTS

- **New player in town, inducted under the Global BEV Leaders initiative**
- **Some way to go before Tesla picks its regional manufacturing hub of choice**
- **Positioned within niche luxury segment**
- **Some spillover benefits in the immediate-term**
- **BEV for the masses is of focus to pave way for lower fuel subsidies**
- **Maintain POSITIVE; our top sector picks are UMW (BUY, TP: RM5.28), BAuto (BUY, TP: RM2.67) and MBMR (BUY, TP: RM4.70)**

New player in town. It was announced this week that Tesla has been given approval to import battery electric vehicles (BEV) into Malaysia. Tesla will be setting up a head office in Malaysia, as well as a network of Tesla superchargers, Tesla Experience Centers and Service Centers. At this juncture, it looks like Tesla will only be importing CBUs (completely built-up units) into Malaysia. Tesla's only Asian manufacturing facility is located in Shanghai, China, producing the Model 3 and Model Y.

Global BEV Leaders initiative. The approval is based on the induction of Tesla into MITI's Global BEV Leaders initiative, which allows Tesla to import CBU BEVs via the award of franchise APs. There are notable qualifying conditions such as the potential to grow volumes significantly in 5 years (no specified volume is mentioned though) and ownership of an existing plant with a minimum 1GWh capacity. In addition, the approval also involves various conditions such as establishing sales and service centers, installation of ultra fast charging networks, knowledge transfer, cooperation with higher learnings institutions and involvement of local companies in development of an EV charging ecosystem. The conditions fall short of setting up a local vehicle assembly capacity, except that this, along with various downstream activities are to be discussed with MIDA by the end of Year 2 of the approval. There is also no local shareholding requirement.

Picking the lucky bride. It looks like the first two years will be focused mainly on market testing and EV charging network development before Tesla comes to a decision on its regional manufacturing hub of choice, which Indonesia and Thailand has also been vying for. Tesla recently established Tesla Thailand (for distribution) as part of its expansion in ASEAN with the first supercharger station launched 2 days ago. Thailand started an EV subsidy program late last year, which is coupled with EV tax incentives including excise, import and road tax reduction. Meanwhile, Indonesia has been aggressive in attempts to attract Tesla's investment into local production, including offering a concession to mine nickel (a key ingredient in lithium-ion battery cells) – Indonesia holds the world's largest nickel reserve with up to 25% global share. Other incentives offered by Indonesia include tax breaks and a subsidy scheme for EV purchases to build a market for Tesla in the country.

COMPANY IN FOCUS

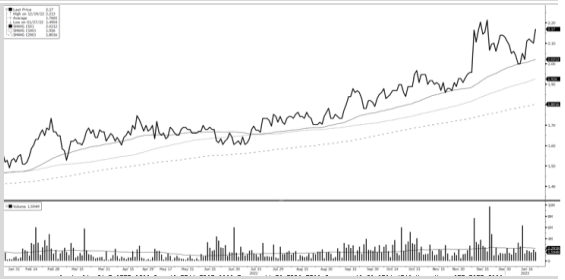
Bermaz Auto Bhd

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

Price @ 2nd March 2023: RM2.12

- +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 7%-8% dividend yield

Share price chart



UMW Holdings Bhd

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

Price @ 2nd March 2023: RM3.79

- 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)**	**FY23F**	**FY24F**	**(x)**	**(%)**	**(%)**	**Price (RM)**	**Upside (%)**
Bermaz Auto*	BUY	2.12	11.9	10.4	2.8	25.4	6.7	2.67	32.7
Tan Chong	NEUTRAL	1.14	20.0	47.5	0.3	1.4	2.6	1.19	7.0
UMW Holdings	BUY	3.79	9.9	10.0	1.0	9.9	4.0	5.28	43.4
MBM Resources	BUY	3.90	6.2	6.2	0.7	11.1	6.4	4.70	26.9

Source: Company, MIDFR

Table 1: Summary of guideline for MITI's Global BEV Leaders Initiative

Qualifying Conditions:	
	For the applicant:
1	A BEV producer that has the potential to grow significantly in 5 years, especially in terms of global BEV sales performance
2	Ownership of a plant with minimum capacity of 1GWh and the capability to supply EV batteries in line with international requirements especially UN38.3: Lithium Ion Testing, UNR100: Battery Electric Vehicle and GTR20: Battery Vehicle Safety
3	Owns charging technology that is able to deliver ultra fast charging with capacity of >180kWh, Level 3 Direct Current Fast Charger (DCFC) in line with international requirements under ISO/IEC 61851: Electric Vehicle Conductive Charging System or ISO/EIC 62196: Plugs, Socket-outlets, vehicle connectors and inlets
4	The company has to be incorporated in Malaysia with a *Sdn Bhd* status to be the importer
5	The importing company is only allowed to import BEVs directly from any plants owned by OEMs under its brand name
	For the vehicle:
1	Consists of a battery electric vehicle
2	The BEV that is imported has to be a new passenger vehicle
3	Only BEV models that have yet to be locally assembled are allowed to be imported
4	BEV that is imported is produced by the OEM and comply with United Nation Regulation No.100 (UNR100) for rules & standards related to EV
5	A minimum Certified Level 2 Autonomous vehicle SAEJ3016 or MS2730
AP Allocation:	
1	Issuance on annual basis based on the company's annual import plans
2	For approved models only. Application for additional models has to be submitted with technical support documents for consideration
3	Approved APs are only valid for importation until 31st December of the year that it is issued
Approval Conditions:	
	Within 3 years, the company is required to establish the following activities:
1	Establish a Head Office, Experience/Sales Centre and Service Centre in Malaysia
2	Install a minimum 50 units of ultra fast chargers with capacity of >180kWh
3	Ensure at least 30% of ultra fast chargers installed in Malaysia is open for public use i.e., for use by BEVs from other brands besides the brand owned by the OEM
4	Employ and develop at least 100 local skilled workers in Malaysia
5	At least 80% of the company's full time workforce are Malaysian citizens
6	Train at least 5 students from higher education/technical institutions per year through industrial internship programs
7	Cooperate with at least 10 higher education or TVET centres for knowledge transfer on BEVs/BMS (Battery Management System)/EV chargers
8	Cooperate with at least 10 local companies to develop the EV charging service ecosystem including the use of local contractors for EV charger installation & component supply such as transformers, cables and others
9	Discuss with MIDA on the company's plans for vehicle assembly activities/EV charger production/critical component production/Battery Reuse, Repair, Recycle or Remanufacturing services/power generation and storage in Malaysia at the end of Year-2 of approval

Source: MITI, MIDFR

Positioned in luxury segment price points. Based on indicative selling price in neighboring markets, it looks like Tesla models are likely to be priced at >RM200K price points with the cheapest Model 3 priced at RM229K in Thailand and RM267K in Singapore (excluding ARF/COE). In the grey market in Malaysia, new Tesla models are priced starting from circa RM288K (for a Model 3) rising to RM817K for a Model X (Basic X).

Table 2: Tesla price points

Tesla Model Line-Up^	Price (RM equivalent)		
	Singapore*	Thailand	US
Model 3	267,532	228,670	189,156
Model Y (LR)	307,492	254,670	241,956
Model S	NA	NA	417,956
Model X	NA	NA	483,956

*Source: Various, MIDFR *Excludes ARF/COE ^Base variants*

Who are likely to be impacted from Tesla's entry? In the immediate term we think players that are highly dependent on volumes from the >RM200K price points (dominated by the luxury brands), are likely to be impacted, should there be any significant market share shift from Tesla's entry. The luxury brands in Malaysia make up just 3.9% of total industry volume (TIV) and is pretty much a niche market. The segment is dominated by two players i.e., Mercedes (assembled by DRB-Hicom) and BMW (assembled and retailed by Sime Darby), followed distantly by Volvo, Mini, Lexus and Porsche. While key non-nationals such as UMW Toyota and Honda have exposure in the >RM200K price points, these models contribute little to their respective total sales volumes. We also think the current grey importers, who in the past had been importing new and used Tesla models will be impacted by Tesla's official entry.

Chart 1: Luxury brands a niche market in M'sia

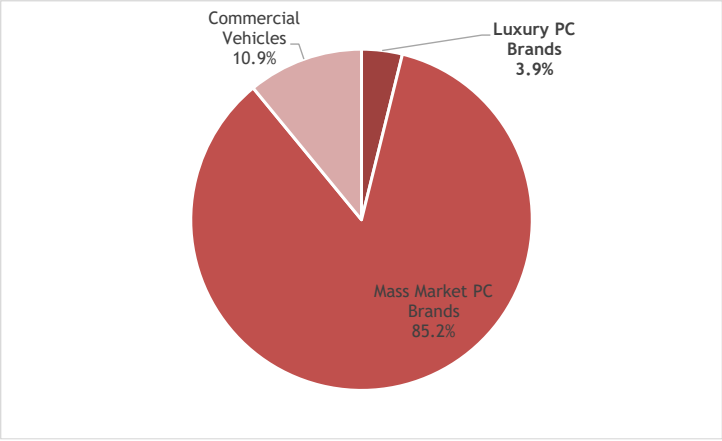
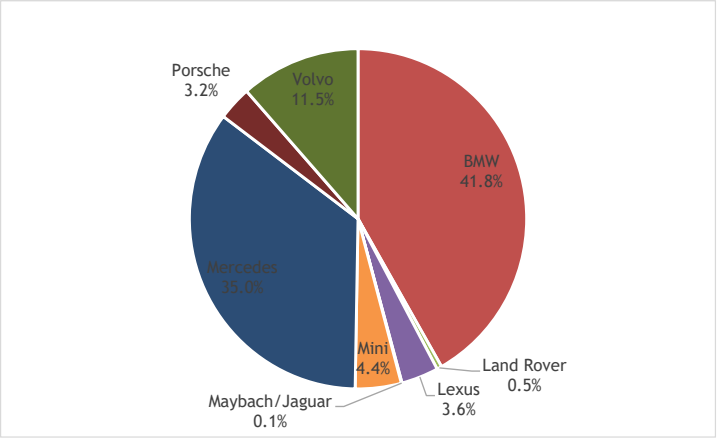


Chart 2: Luxury segment market share



Source: MAA, MIDFR

Putting up a fight. With little volumes generated from these price points and from BEVs in general, it is difficult to imagine Tesla setting up multiple plants within a single region, at least in the immediate-term. The biggest competition obviously, is coming from Indonesia which has the advantage of large nickel reserves and aggressive approach to attracting investments into battery cell manufacturing, as well as a significantly larger population and TIV. Malaysia on the other hand, boasts a robust E&E supply chain coupled with much higher per capita income which could drive relatively faster BEV adoption – high BEV cost currently is a stumbling block to BEV ownership in most ASEAN countries. Despite Malaysia's relatively smaller population, it is currently the 3rd largest auto market in the region.

Chart 3: GDP per capita vs. TIV

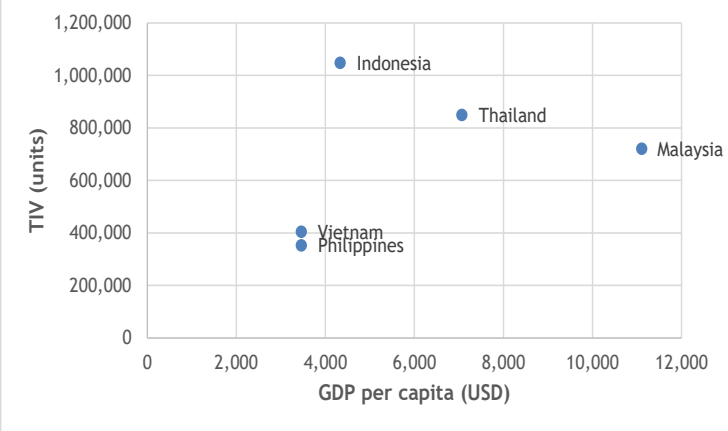
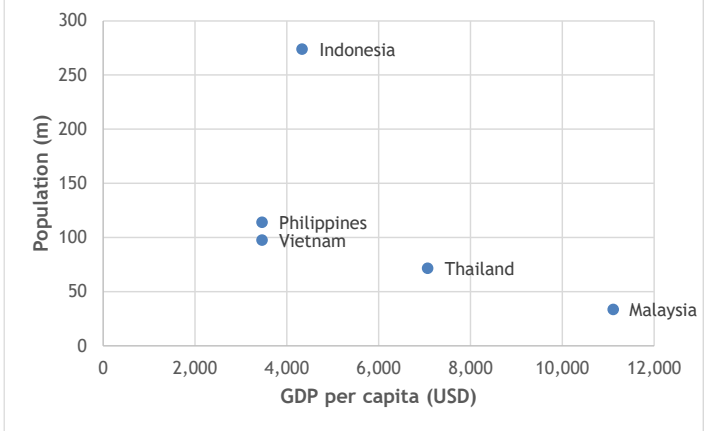


Chart 4: GDP per capita vs. population



Source: World Bank, MIDFR

Possible spillover benefits. While too early to derive conclusive thoughts, we see several potential benefits from Tesla's entry: (1) The setup of a Tesla supercharger network could contribute to the Government's target of establishing a total 10K charging points in Malaysia by 2025 under the Low Carbon Mobility Blueprint (LCMB) from the current 900 units, (2) Establishment of Tesla after-sales service network and the various knowledge transfer, local contractor involvements and local workforce requirements could drive upskilling of the local labor force and corporates in preparation for the transition to BEVs, (3) At this point, it is unclear if Tesla's entry will eventually evolve into local assembly or local EV component sourcing, but this could provide a critical boost to the domestic auto supply chain should it materialize.

Not yet within reach of the masses. As per our previous sector thematic on EVs *(see report titled: Building Momentum in Electrification)*, the lack of BEVs that are within reach of the Malaysian masses hinders a more aggressive adoption rate. In 2022, a total of 2,631 units of EVs were reported to be sold in Malaysia according to MAA. While this is a massive 860%yoy growth it represents just 0.4% TIV penetration. Nevertheless, this is a good start, underpinned by generous Government incentives, particularly the current excise and import duty exemptions for BEVs, which has been extended till 2025 for CBUs and 2027 for CKDs. To graduate to large scale local assembly however, we think it is critical to achieve the required volumes to justify investments into new production lines or plants. Our recent and past meetings with UMW Holdings, Bermaz Auto and Inokom all echo the same sentiment - current BEV volumes simply do not justify investments into local assembly yet, mainly due to high battery cost inflating the price of BEVs.

More BEVs, lower fuel subsidies? Importantly, we believe growth in BEV adoption could eventually allow opportunities for rollback of sizeable fuel subsidies, provided the BEVs themselves are within financial reach of the masses. Currently however, BEVs largely cater for the T20 market and therefore rolling back blanket fuel subsidies could hurt the B40 and lower M40 group without much option for them to make the transition to BEVs, in our opinion.

We keep our POSIITVE stance on autos. The latest development is a positive initial step in growing the local EV ecosystem, albeit positioned within a niche market. Our bullish stance on the broader auto sector is premised on: (1) A more favourable forex outlook, (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: RM2.67)** and **MBMR (BUY, TP: RM4.70)**.

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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