Automotive

1QCY24 Report Card: Podium Finish

NEUTRAL

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The sector's earnings delivery (versus our expectations) improved sequentially in the recently concluded 1QCY24 results season with companies under our coverage either meeting or beating our forecasts. We maintain our CY24 forecast of new vehicle sales in Malaysia, also known as total industry volume (TIV), at 740k units (-8%), in line with the forecast of Malaysia Automotive Association (MAA). We believe while it will be business as usual for the affordable segment, fuel subsidy rationalisation will likely hurt the demand for mid-market models, giving rise to a two-speed automotive market locally in CY24. We maintain our NEUTRAL call for the sector and our sector top pick of MBMR (OP; TP: RM6.30) which is a good proxy to the affordable and fuel-efficient Perodua brand. It also offers an attractive dividend yield of about 7%.

The sector's earnings delivery (versus our expectations) improved sequentially in the recently concluded 1QCY24 results season with with 43% and 57% beating and meeting our forecasts, as opposed to 43%, 29% and 29% coming in above, within and below in the preceding quarter.

BAUTO (MP; TP: RM2.45) beat our forecast and ended its FY24 on a high note driven by stronger margins as it significantly dialled back discounts, and a higher production volume at its manufacturing unit. **HLIND (OP; TP: RM12.60)** beat our forecast largely due to strong motorcycle sales on credit easing by financiers. **TCHONG (UP; TP: RM0.74)** reported losses that were narrower than our forecast due to favourable forex movements despite weak car sales amidst a highly competitive environment as competitors flooded the market with new models.

Meanwhile, both **HIL (MP; TP: RM1.10)** and **MBMR** continued to ride on Perusahaan Otomobil Kedua Sdn Bhd's strong sales volume at 85,896 units (+9% YoY). **HIL** also benefitted from the stronger property profits on the back of strong take-up for its projects. Meanwhile, **MBMR's** strong sales were offset by higher cost (including staff annual increment and bonuses). **SIME (OP; TP: RM2.90)** was buoyed by strong profits from its industrial and automative segments, coupled with the consolidation of earnings from the newly acquired UMW Holdings Bhd. **DRBHCOM's (MP; TP: RM1.40)** improved operating results were negated by a higher tax.

For CY24, we project a TIV of 740k units (-8%) in-line with the forecast of Malaysia Automotive Association (MAA). We believe while it will be business as usual for the affordable segment, fuel subsidy rationalisation is more likely to hurt the demand for mid-market models (alternatively they can opt for EV or even down trade to a smaller car to cut their fuel bills), giving rise to a two-speed automotive market locally in CY24.

We believe it will be business as usual for the affordable segment as its target customers, i.e. the B40 group, will be spared the impact of the impending fuel subsidy rationalisation and also could potentially benefit from the introduction of the progressive wage model. The 13% pay rise for most civil servants in Dec 2024 will also partially restore their spending power eroded by high inflation. However, the same cannot be said for the mid-market segment as its target customers, i.e. the M40 group may hold back from buying a new car (or even down trade to a smaller car or switching to electric vehicles to cut their fuel bills) upon the introduction of fuel subsidy rationalisation.

In general, the industry's earnings visibility is still good, backed by a booking backlog of 200k units as at end-May 2024. More than half of the backlog is made up of new models, alluding to how appealing new models are to car buyers. This trend is likely to persist throughout CY24 given a strong line-up of new launches.

Vehicle sales will also be supported by new BEVs that enjoy SST exemption and other EV facilities incentives up until CY25 for CBU and CY27 for CKD. BEV new registrations have leapt from 274 units in CY21 to over 3,400 units in CY22 and 10,159 units in CY23, with 2,703 units for YTD April 2024 and are on track to meet national target for EVs and hybrid vehicles of 15% of total industry volume (TIV) by CY30, and 38% of TIV by CY40. Meanwhile, the government's pledge to enable charge point operators (CPOs) to secure faster approvals for installation provides comfort as currently only 3,951 EV charging stations have been built to-date.

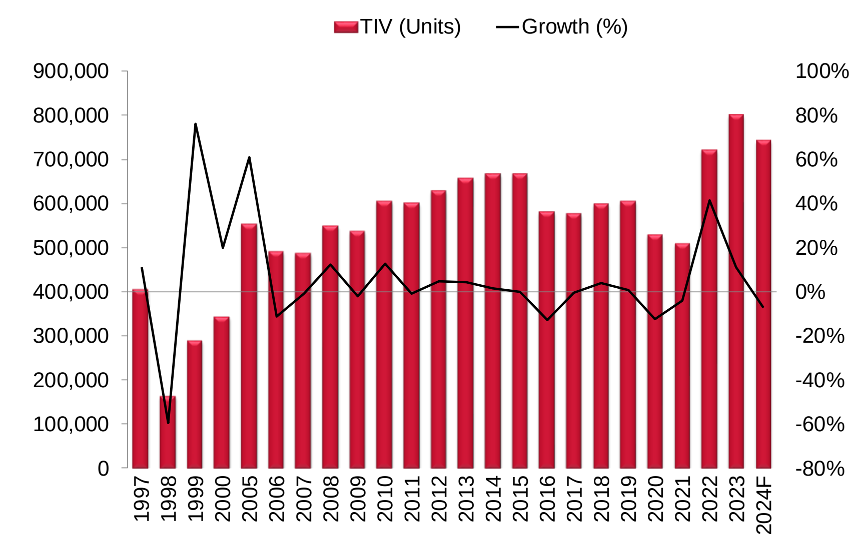
Our sector top pick is **MBMR** for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of more than 100k units (almost half of its CY24 target sales of 340k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 7%.

Quarterly Results Performance

	1QCY24						4QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
BAUTO	1			1				1				1
DRBHCOM		1			1				1			1
HIL		1			1		1			1		
HLIND	1			1			1			1		
MBMR		1		1			1			1		
SIME		1				1		1			1	
TCHONG	1			1					1			1
Total	**3**	**4**	**0**	**4**	**2**	**1**	**3**	**2**	**2**	**3**	**1**	**3**
Total (%)	**43**	**57**	**0**	**57**	**29**	**14**	**43**	**29**	**29**	**43**	**14**	**43**

Source: Kenanga Research, companies quarterly results

TIV volume 1997-2024F



Source: MAA, Kenanga Research

Exciting EV Launches

Perodua emo-1 EV concept

BYD BAO 5

Jetour Dashing

Tesla Cybertruck (SUV)

All-new SMART #3 (2024)

Nissan’s e-Power hybrid system

MINI Countryman U25 SE EV

Jaecoo J6 EV

Neta X EV SUV

GAC Aion Y Plus

GAC Aion Hyper HT

Chery Tiggo 8 Pro e+ PHEV

Source: Paultan.org, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.52	2.45	-2.8%	2,925.7	Y	04/2025	24.0	24.9	-20.6%	3.7%	10.5	10.1	3.4	32.8%	20.2	8.0%
DRB-HICOM BHD	MP	1.40	1.40	0.0%	2,706.2	Y	12/2024	15.9	18.6	14.2%	17.0%	8.8	7.5	0.2	3.1%	2.0	1.4%
HIL INDUSTRIES BHD	MP	1.20	1.10	-8.3%	398.3	Y	12/2024	13.7	15.6	12.4%	14.1%	8.8	7.7	0.8	9.8%	3.0	2.5%
HONG LEONG INDUSTRIES BHD	OP	11.34	12.60	11.1%	3,718.4	Y	06/2024	98.3	105.3	10.9%	7.2%	11.5	10.8	1.9	16.0%	107.0	9.4%
MBM RESOURCES BHD	OP	5.23	6.30	20.5%	2,044.4	Y	12/2024	75.9	78.7	-2.8%	3.7%	6.9	6.6	0.9	13.5%	40.0	7.6%
SIME DARBY BHD	OP	2.56	2.90	13.3%	17,410.6	Y	06/2024	18.4	20.2	8.1%	10.0%	14.0	12.7	1.1	7.7%	12.0	4.7%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.875	0.740	-15.4%	588.0	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.1%
SECTOR AGGREGATE					**29,791.6**					**6.1%**	**10.0%**	**12.3**	**11.2**	**0.8**	**6.8%**		**5.0%**

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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