

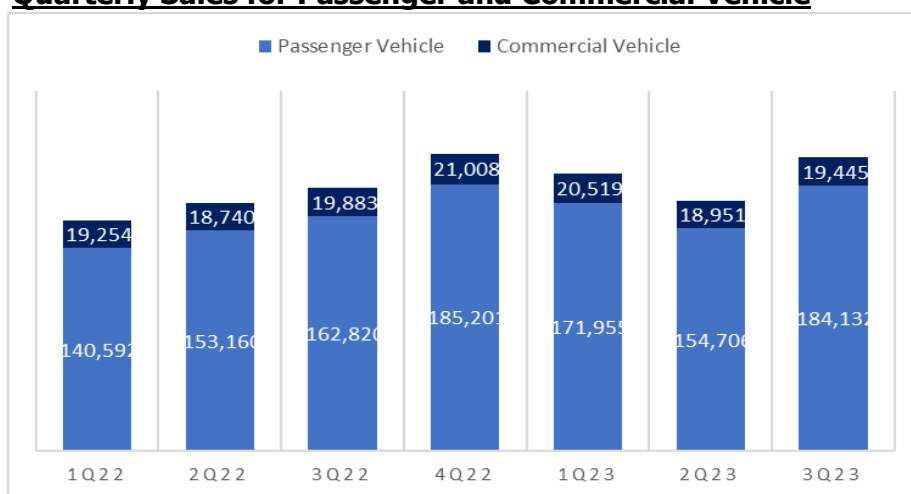
Automotive sector

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Keeping busy with backlog orders fulfilment

- Review.** We gather that Total Industry Volume (TIV) in 3Q23 rose +17.2% qoq primarily fuelled by robust sales in the passenger vehicles segment, which witnessed a growth of +19.0% for the quarter. This surge in passenger vehicle sales can be attributed to a strong demand observed in August 2023 (+12.7% mom), driven by improvements in supply chain and national day promotion offered by popular brands. Nonetheless, we noticed signs of slowdown in November 2023 (-4.0% mom), as consumers delayed purchases in anticipation of year-end promotions.

Quarterly Sales for Passenger and Commercial Vehicle



Source: MAA, Apex Securities

- Outlook.** Looking forward, we maintain our view that the Total Industry Volume (TIV) will remain robust for 2023, driven by the continuous fulfilment of backlog orders and aggressive year-end promotions. As at 11M23, TIV has achieved 716,512 units and will likely to exceed MAA full-year 2023 TIV projection of 725,000 units. Nevertheless, we anticipate a modest deceleration in TIV growth for 2024, following a robust performance in 2023. This expectation considers factors such as the withdrawal of sales tax exemptions and a slower replenishment rate.
- Nevertheless, our long-term outlook for the automotive sector remains optimistic, primarily due to government's emphasis and dedication in transitioning to clean energy, as highlighted under Budget 2024. This commitment is evident through several initiatives, such as individual income tax relief for EV charging facilities and incorporating EVs as official vehicles for the federal administration. Although no groundbreaking incentives were introduced for the EV sector from the Budget announcement, we do hold the view that the government is moving in the right direction by progressively enhancing the ecosystem. This approach is essential, considering Malaysia's EV charging infrastructures at present are not be prepared to accommodate a sudden surge in EVs on the roads.
- While EV market share in Malaysia stood at a modest 0.4% of total passenger vehicle sales in 2022, we, however anticipated growth prospects is largely on the horizon. According to Malaysia Automotive, Robotics and IoT Institute (MARii) CEO Azrul, the adoption rate of electric vehicles in Malaysia is set to accelerate by 2025 and likely to 15% of market share before 2030.
- Valuation & Recommendation.** We reckon EV distributor like **Sime Darby Bhd (NR)** will likely gain advantages from government incentives, given the Ministry of International Trade and Industry's (MITI) restriction, which permits the importation of CBU units valued at RM100,000 and above into Malaysia. We foresee Sime Darby upcoming launches

of BYD Seal to remain attractive to buyers due its relatively competitive price point. Meanwhile, we are also positive on national OEM like **DRB-Hicom Bhd (NR)** supported by demand from both established and recently introduced models, such as the S70, which provides C-segment specifications at a B-segment price.

- **Key Risk.** Changes in government regulations and policies, supply chain disruptions, lower TIV due to economic uncertainty, slower-than-expected adoption of EV.
- **Summary.** We reiterate our **Neutral** view on the sector after taking into account the TIV downtrend in 2024, stem from slower orderbook replenishment. We maintain our 2024F TIV forecast on 650k-700k units (estimated -12% to -14% yoy).

Top Picks

Company	Price (RM) as at 31Dec23	2022	P/E (x) 2023F	2024F	Dividend Yield (%)	Target Price (RM)	Potential Upside
Sime Darby Bhd#*	2.35	8.74	13.13	11.69	5.61	2.68	14.0%
DRB-Hicom Bhd*	1.39	16.23	8.53	7.32	1.44	1.81	30.2%
MBM Resources Bhd*	4.24	5.63	6.00	6.82	10.87	4.49	5.9%
UMW Holdings Bhd	4.98	8.11	11.37	12.97	2.91	5.00	0.4%
Bermaz Auto Bhd#*	2.36	7.28	8.25	9.29	8.94	2.97	25.8%

Sime Darby Bhd data based on FYE Jun

Bermaz Auto Bhd data based on FYE Apr

* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg