

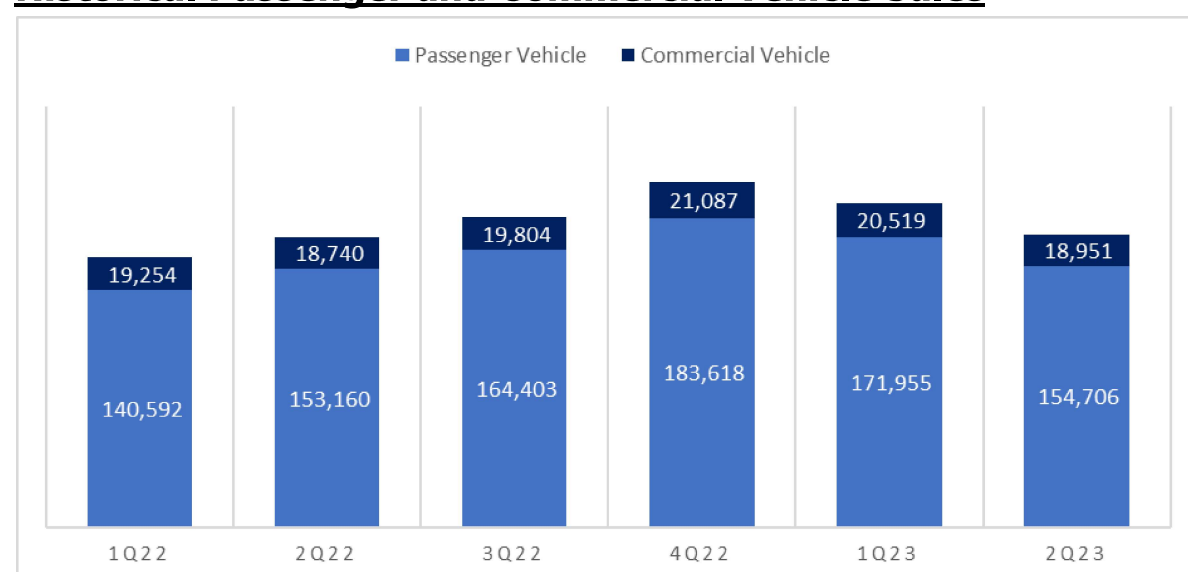
## Automotive sector

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### Keeping busy with backlog orders fulfilment

- **Review.** Back in 2Q23, we gather that Total Industry Volume (TIV) contracted -9.8% QoQ, primarily due to decline in both passenger (-10.0% QoQ) and commercial vehicle sales (-7.6% QoQ). The lower passenger vehicle sales were attributed to a steep contraction in sales during April 2023 (-41.7% MoM) following the high base effect in March 2023, which was the final month for sales tax exemption. However, it's worth noting that passenger car sales rebounded swiftly in May 2023 (+33.2% MoM) and June (+5.5% MoM), thanks to the introduction of new vehicle models and quick delivery of backlog orders.

### Historical Passenger and Commercial Vehicle Sales



Source: MAA, Apex Securities

- **Outlook.** Looking forward, we anticipate that the Total Industry Volume (TIV) will remain robust for 2023, driven by the continuous fulfilment of backlog orders and new models release. Recently, the Malaysian Automotive Association (MAA) has also expressed optimism regarding the automotive sector by revising its full-year 2023 TIV projection from 650,000 units to 725,000 units, reflecting an increase of +11.5%. Nevertheless, we foresee TIV growth for 2024 to slowdown from the high base as orderbook replenishment normalised.
- Shifting to the EV space, we are generally positive on the long-term prospect, anchored by the notable commitment from the government to promote widespread adoption. During the 42nd National Physical Planning Council (MPFN) meeting, the government reinstated their commitment to construct 10,000 EV charging stations by 2025 in order to boost the availability of charging infrastructure. The government also provided various incentives such as tax exemption for CKD and CBU EVs for EV manufacturers, which we reckon will be the trend in upcoming tabling of Malaysia Budgets.
- **Valuation & Recommendation.** We anticipate auto companies involved in the premium EV space such as **Sime Darby Bhd (NR)** and **DRB-Hicom Bhd (NR)** to benefit from the government incentives due to MITI restriction where only CBU above RM100,000 are allowed to be imported into Malaysia. We also identify automotive component manufacturers such as **Greatch Technology Bhd (NR)**, **Genetec Technology Bhd (NR)** and **D&O Green Technologies Bhd (NR)** to ride on the EV wave.
- **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 maintain our **Neutral** view on the sector after taking into account the potential slower TIV in 2024, stem from weaker orderbook replenishment. Although the government is providing robust backing to the EV sector, infrastructure supports are still at infant stage and the price barrier is constraining widespread consumer adoption.

### Top Picks

Company	Price (RM)		P/E (x)			Dividend Yield (%)	Target Price (RM)	Potential Upside / Downside
	as at 29Sep23	2022	2023F	2024F				
Sime Darby Bhd#	2.21	10.33	12.63	11.57	5.61	2.37	7.24%	
DRB-Hicom Bhd*	1.43	15.05	8.77	7.73	1.40	1.81	26.57%	
Greatech Technology Bhd*	4.37	38.00	31.44	26.17	-	5.49	25.63%	
Genetec Technology Bhd#	2.39	28.86	19.12	15.93	-	4.07	70.29%	
D&O Green Technologies Bhd*	3.41	75.38	71.04	33.43	0.26	3.60	5.57%	

# Sime Darby Bhd data based on FYE Jun

# Genetec Technology Bhd data based on FYE Mar

\* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg