

# Malaysia Automotive

# POSITIVE

[Unchanged]

## No SST extension beyond 30 June but ...

### A mixed outcome

Contrary to earlier expectation, the 4<sup>th</sup> SST holiday did not materialize; a ST sentiment negative to consumers. That said, it was a fair outcome nevertheless. Bookings made before 30 Jun 2022 will still enjoy the benefits; a midpoint solution. However, we foresee unnecessary issues over the next 9 months - a rise in speculative bookings (till end-Jun 2022) and cancellations (till end-Mar 2023), a disservice to salesmen/ dealers, to name a few. Our BUY calls are BAuto, MBM, Sime, TCM and UMW.

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### SST holidays ends this month-end

The sales and service tax (SST) exemption for passenger cars will end by end-Jun 2022. That said, earlier bookings made prior to 1 Jul 2022 will continue to enjoy the SST holidays, provided it is registered by 31 Mar 2023. According to the Ministry of Finance (MOF)'s official statement, there are about 264,000 units of backlog orders to-date.

### Nothing lasts forever

On one hand, the decision to: (i) end the SST holidays as per scheduled on 30 Jun 2022 (3<sup>rd</sup> extension) and (ii) offer exemptions to earlier committed bookings (e.264,000 units & more), (iii) with an ample 9-month delivery lead time, is fair. On the other hand, it will likely create much unnecessary operational issues. Firstly, speculative bookings will rise over the next 10 days. It is envisaged that many prospective and speculative buyers will take advantage of this outcome and place token deposit bookings (till 30 Jun 2022), just to lock in orders. That would skew bookings, for prospective buyers can cancel and/ or transfer their orders and secure deposit refunds anytime, which poses an unnecessary dis-service to salesmen/ dealers. Based on that alone, vehicle bookings will be at a super-normal rate in Jun but is expected to fall drastically come Jul/ 2H 2022, as a result.

### Needs further fine-tuning

Another potential unnecessary dis-service outcome may be that some not-so-time-sensitive buyers may place orders by end-Jun 2022 but could request for a 2023 delivery (from a depreciation value angle). That could see weaker 2H22 and strong 1Q23 TIV. Our 580k-600k units TIV forecast for 2022 are unchanged pending further clarity on this. All in, the SST holidays have proven to be a wise and popular policy to: (i) drive vehicles sales (868,422 units sold during this period) and (ii) counter the Covid-19/ lockdown effect. While the revenue loss from the SST loss totaled MYR4.7b (according to MOF), we reckon the revenues gained from the excise and import duties collected during from the period far outweigh the SST loss. Without the SST holidays, collections from excise & import duties will likely come in lower, on lower vehicle sales. Excise duties alone accounted for 67% of auto's tax in 2019 (pre-SST exemption).

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							22E	23E	22E	23E	22E	23E
Sime Darby	SIME MK	3,342	Buy	2.16	2.70	25	14.4	12.1	0.9	0.9	5.7	6.5
UMW	UMWH MK	820	Buy	3.09	5.00	62	10.1	9.8	0.8	0.8	2.5	2.6
Bermaz Auto	BAUTO MK	455	Buy	1.72	2.90	69	13.2	8.6	3.2	2.6	4.9	7.6
MBM Resources	MBM MK	282	Buy	3.17	4.60	45	5.8	5.5	0.6	0.6	7.6	8.0
Tan Chong Motor	TCM MK	174	Buy	1.14	1.35	18	16.1	13.3	0.3	0.3	1.3	1.3

## Tax revenue from auto sales

MYR'm	2019	2020	2021	Budget 2022
<b>Import Duties</b>	<b>407.2</b>	<b>425.8</b>	<b>399.3</b>	<b>428.3</b>
CKD	88.1	21.6	24.9	26.8
CBU	319.2	404.2	374.3	401.6
<b>Excise Duties</b>	<b>4,909.7</b>	<b>4,395.8</b>	<b>3,965.3</b>	<b>4,143.9</b>
Passenger vehicles - Local	2,443.4	2,372.5	1,884.9	1,969.8
CBU - Imports	2,466.4	2,023.2	2,080.4	2,174.2
<b>Sales Tax</b>	<b>1,989.5</b>	<b>729.4</b>	<b>223.2</b>	<b>228.2</b>
Passenger Vehicles - Local	1,320.3	465.8	9.0	9.2
CBU - Imports	669.2	263.6	214.1	218.9
<b>TOTAL</b>	<b>7,306.5</b>	<b>5,550.9</b>	<b>4,587.7</b>	<b>4,800.4</b>
TIV (unit)	604,287	529,692	508,911	580,000-600,000

Source: MOF (Treasury Memorandum on the Federal Government Revenue)

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