

UOBKH HIGHLIGHTS

Automobile – Malaysia (MARKET WEIGHT)

Sales Declined For Second Consecutive Month

WHAT'S NEW

- The Malaysian Automotive Association (MAA) reported a decline in May total industry volume (TIV) for the second consecutive month to 49,603 units (-11.8% mom, +5% yoy), bringing TIV as of May 22 to 265,656 units (+7% ytd). This is broadly in line with our expectation, accounting for 43.9% of our 2022 TIV forecast of 605,000 units (+19% yoy). Note that the decline was due to: a) car makers continuing to be affected by the shortages of chips and components as well as logistics disruptions, and b) a shorter working month due to the festive holidays (Hari Raya). We maintain our full-year TIV forecast of 605,000 units (+19% yoy) as we expect sales to pick up during the remaining months of the year, on delivery of orderbook backlog. Maintain MARKET WEIGHT.

COMMENT

- **Expect sales volume to rebound mom in June.** The decline in sales reported in May comes as no surprise as the ongoing shortages of chips and components as well logistic disruptions affected car makers. However, we expect sales to rebound again, driven by: a) the sales tax exemption incentive from the government for consumers to buy passenger vehicles, which will expire by at end-June, b) aggressive sales push by car companies, as well as c) car makers to ramp up their production to expedite delivery of vehicles to customers.
- **No change to our 2022 TIV forecast of 605,000 units,** which implies a strong 19% improvement vs 2021. Main contributors to an improvement in TIV are: a) extension of registration period for vehicles bought during the SST exemption until 31 Mar 23, b) automobile companies ramping up production to fulfill backlog, and c) the introduction of all-new and facelift models.
- **No further SST extension after 30 Jun 22.** The Sales and Services Tax (SST) exemption for new vehicles has not been extended as the Ministry of Finance maintains the cut-off date at Jun 22. This is despite the appeal by automobile players to the government to extend the exemption. That said, the government has extended the registration period for vehicles bought during the SST exemption until 31 Mar 23. This is to enable car owners who make reservations for vehicles until the aforementioned date (30 June) to enjoy the tax incentives. The extension of the vehicle registration period, in our view, would benefit automakers, as they will no longer be required to absorb the SST cost on behalf of their customers, nor have to deal with massive cancellation orders.

ACTION

- **Maintain MARKET WEIGHT.** At 12x 2022F PE, the sector is trading at a slight discount of its average historical PE of 13x. We estimate sector earnings growth of 30% in 2022, from a low base in 2021, based on our coverage universe. This is on the back of strong demand from the delivery of orderbook backlog.
- **UMW Holdings (UMWH MK/BUY/Target: RM3.90).** UMW remains our preferred pick for the sector. Our valuation implies 12x 2022F PE, which means UMW is trading at a slight discount of the industry's average historical PE of 13x. We are forecasting earnings growth of 34% in 2022, and we believe that earnings will be supported by the deliveries of its first locally-assembled hybrid EV (Toyota Corolla Cross) and Toyota Camry new facelift. The company's bottom line will be boosted by the potential introduction of Toyota Veloz, which will replace the now-discontinued Toyota Avanza, and all-new Perodua Alza.

MONTHLY TIV BREAKDOWN

Sales Volume (units)	May-21	Apr-22	May-22	mom (%)	yoy (%)
Proton	8,771	8,383	9,279	10.7	5.8
Perodua	17,973	25,654	18,901	(26.3)	5.2
Toyota/Lexus	7,595	6,945	7,579	9.1	(0.2)
Nissan	1,466	1,560	1,405	(9.9)	(4.2)
Honda	5,113	6,034	5,503	(8.8)	7.6
Mazda	1,362	1,830	1,306	(28.6)	(4.1)
Others	4,940	5,807	5,635	(2.9)	14.1
TIV	47,220	56,213	49,608	(11.8)	5.0
Passenger	42,529	49,815	43,710	(12.3)	2.8
Commercial	4,691	6,398	5,893	(7.9)	25.6

Source: MAA

ANALYST

Malaysia Research Team
+603 2147 1988
research@uobkayhian.com