SME BANK
GROUP

Industry Focus:

MANUFACTURING (TRANSPORT EQUIPMENT)

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Bersama Hentikan Wabak COVID-19

KEMENTERIAN PEMBANGUNAN USAHAWAN DAN KOPERASI
MINISTRY OF ENTREPRENEUR DEVELOPMENT AND COOPERATIVES

DKN 2030
Dasar Keusahawanan Nasional
"Negara Keusahawanan Unggul 2030"

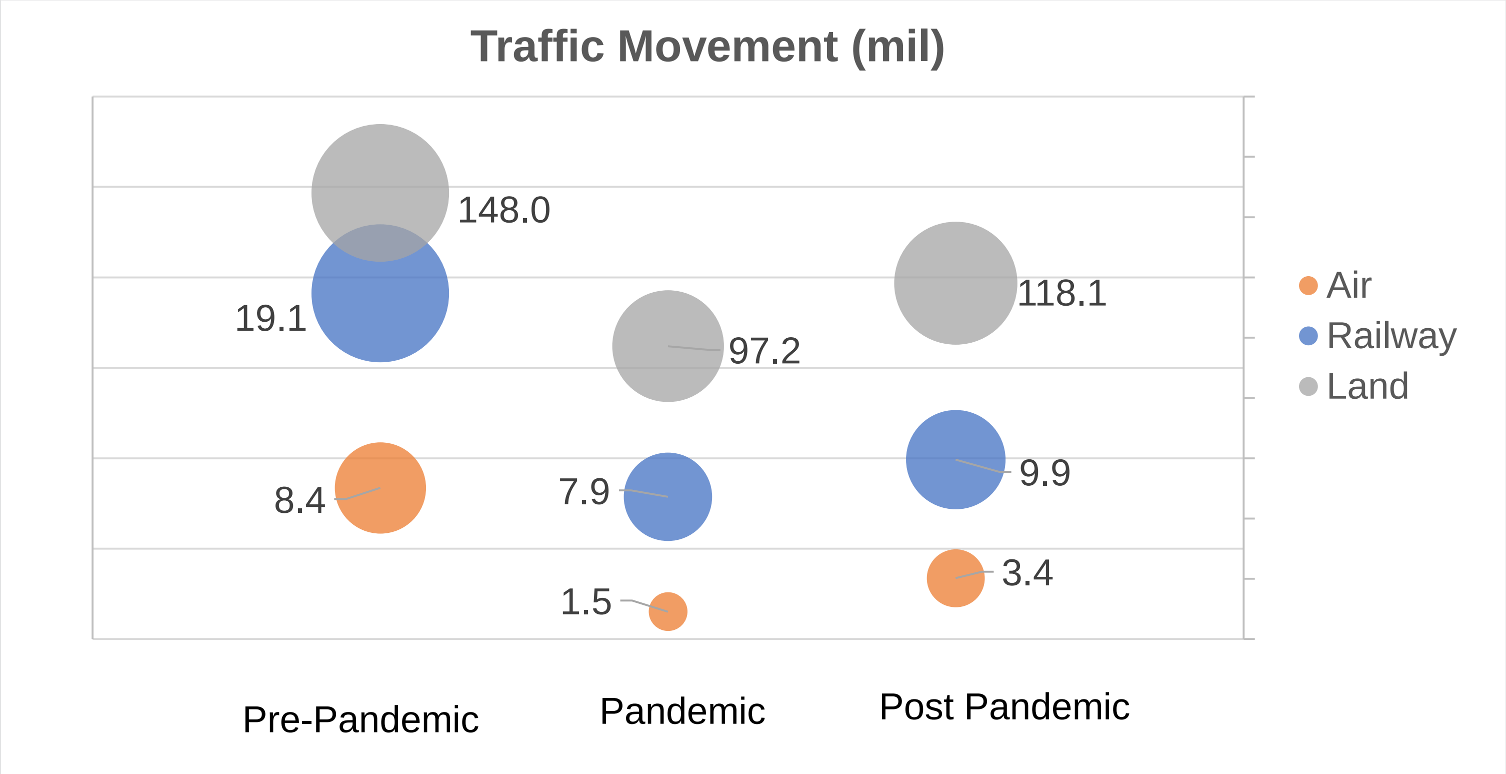
Industry Focus:
Manufacturing - Transport Equipment (1/3)

Positive Outlook → **Stable Outlook**

In response to the end of Sales & Services Tax (SST)'s exemptions in June 2022, orders for passenger vehicles have surged creating a backlog. While we anticipate sales volume and production to remain high over the next 6 – 9 months (until the backlog clears), we observe **greater downside risks** in the medium term which led to a **downgrade** in the outlook for this sector to **stable**. Challenges include the **expiry of SST exemption, prolonged chip scarcity, higher costs arising from revision to excise duty computation and weaker Ringgit.**

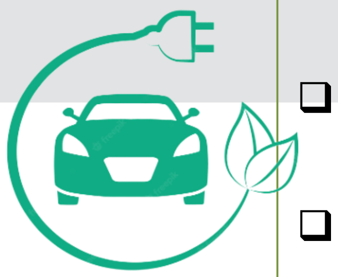
Sub-Sector (Descriptions)	Outlook
Transport Equipment	Stable

Rise in traffic movements, reflecting recovery in demand for transportation



+ Lifting of mobility restrictions raises demand for transport and its parts and components, which bodes well for this sub-sector.
+ New line up of motor vehicles incorporating advanced technologies and developments in the energy efficient vehicle (EV) segment.
+ Improvement in income prospects and the rush to log in orders before the end of SST has created backlog.

- Relatively high level of **dependence on domestic market** which could mean **high vulnerability to the Malaysian economic cycle.**
- **Competition from Thailand** as a developed hub for automotive, transport equipment parts and components in the region.
- Higher costs - expiry of SST exemption and revision to excise duty computation.



ESG DEVELOPMENTS

- Proton's **solar power facility** helps **reduce its annual CO2 emissions and save RM5.85 million in energy costs.**
- The Sarawak Timber Industry Development Corporation (STIDC) will start **producing bamboo bicycles** for sale in January 2023.
- MARii and Pekema to set up **1,000 EV charging stations** around the country by 2025. Government targets 10,000 stations by 2030.

Sources: EMIS, CEIC, Malaysia Automotive Robotics and IoT Institute (MARii), Persatuan Pengimport & Peniaga Kenderaan (Pekema) and SME Bank Economic Research

POSITIVE DEVELOPMENT

1. Locally Manufactured EV

- **Low Carbon Mobility Blueprint** 2021 - 2030 to increase the use of EV for a lower GHG emission allowing EV manufactures to established their EV brands in Malaysia.

- Currently, Volvo Car Malaysia Sdn. Bhd. is the **first to locally assemble (CKD) unit of EV** at its manufacturing facility in Selangor. Making the Volvo XC40 Recharge EV as the first CKD EV in Malaysia.

Government Support (duty & tax exemption)

- Budget 2022 announced tax incentives to support the local EV industry:
  - Individual income tax deduction up to RM2,500 for **installation, renting, purchase** and **subscription of EV's chargers**.
  - Tax exemptions for **road and sales tax, import and excise duties** on EV passenger cars.

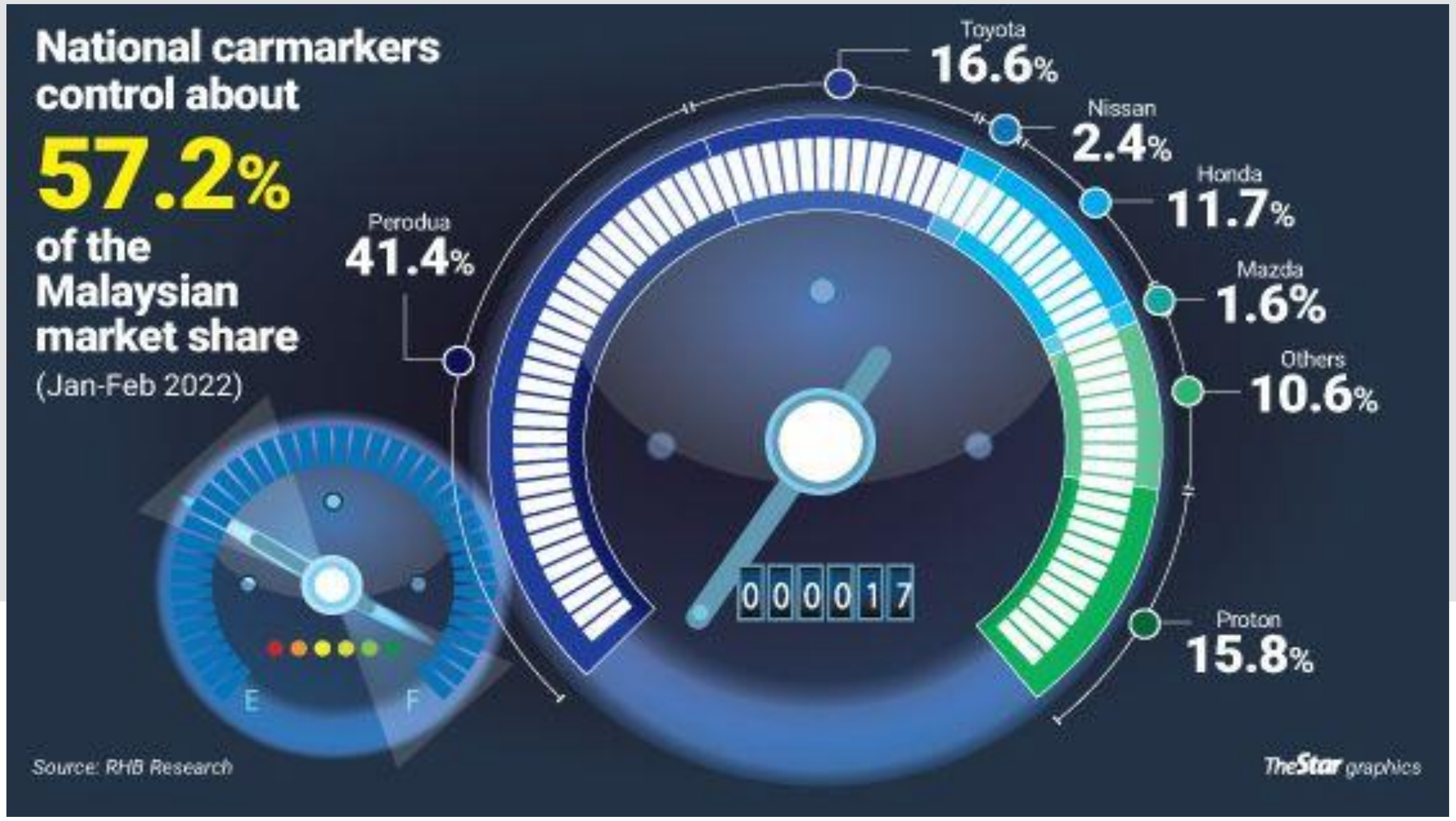
- Rising fuel cost (upon the removal of blanket fuel subsidy) and lower carbon emission could entice consumers to switch to EV in the medium term.

2. Backlog & New Lineup Orders

- In response to the end of **SST's exemptions in June 2022, orders have surged creating a backlog.** According to MoF, the **backlog currently stands at 264k units**, fulfilling it will take **up to 9 months**, **a temporary relief to vehicles production and sales.**

- New lineup will usually create some demand as consumers look to keep up with new technology and trend. PERODUA **maintained its leading position** with a market share of **41.4%,** where **over 30k units** have been ordered for the recently released new model Alza as compared to Myvi (16.6k units).

- Mercedes-Benz Malaysia's (MBM) will now be locally assembling (CKD) their NewC200 Avantgarde Line and C300 AMG Line in Pahang.

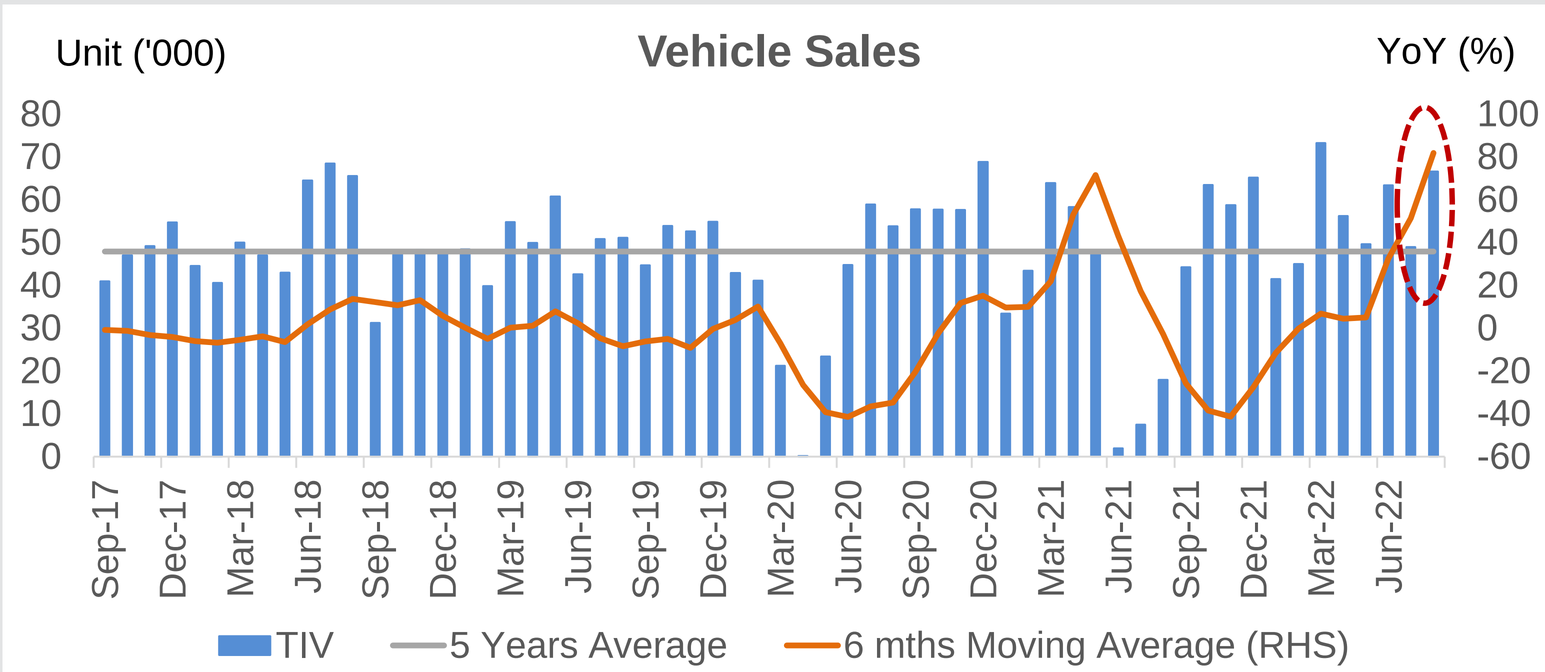


Industry Focus:
Manufacturing - Transport Equipment (3/3)

Positive Outlook → Stable Outlook

RISKS/ CHALLENGES

Sales volume remain high even after end of SST exemption period



- Due to backlog orders, Total Industry Volume **(TIV) surged to 66.5k** in Aug above its monthly 5-year average of 48k.

1. **RHB Research** - **downside risks** that may hamper the automotive sector's recovery include **persistent shortages of key components and delays in new model launches.**
2. **UOB** forecasts **TIV in 2023** to register **550k units, down 9%** from 2022 due to high base and absence of tax exemption.

1. Prolong Chip Shortage

- **Global chip shortage** triggered by the pandemic has been exacerbated by the **ongoing Russia-Ukraine war and factories shutdowns in China. Supply chain constraints** has hampered the industry's ability to produce more vehicles and its related parts and components.
- Such issue which led to longer waiting period, delay in deliveries and even price hike on top of highly anticipated removal of fuel subsidy could demotivate consumers, hence dampening future demand.

2. Higher cost

- The **weakening ringgit against the USD** could result in **higher import costs** for automobile parts denominated in foreign currencies.
- **Imports value of transport equipment parts and accessories** reached a new high of **RM7.1 bil in Jun 2022** before easing to RM6.5 bil in Jul 2022. These are significantly above the monthly average of RM4.5 bil in 2019, partially attributed to the weaker Ringgit.
- With potential **revision** to the open market value of **excise duty computation,** MAA anticipates the **cost of (CKD) automobiles** will **rise by 8% to 20% in 2023.** Additional price increase would burden consumers and affect the competitiveness of the local automotive market**.**

Sources: EMIS, CEIC, Malaysia Automotive Association (MAA) and SME Bank Economic Research

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