

Sector Note

Automobile

Policies to re-ignite demand for cars



- Automobile sales volume in the whole domestic market in 5M23 decreased by 36% yoy, reaching 113,527 units.
- We expect that preferential policies from the Government are the key drivers for the recovery of the automobile industry in 2H23F.
- Our stock picks are HAX and VEA, while HUT is in our the watchlist.

Headwinds surrounded the automobile industry in 5M23

According to the Vietnam Automobile Manufacturers Association (VAMA), automobile sales volume in the domestic market in 5M23 decreased by 36% yoy, reaching 113,527 units. In which, completely knocked down (CKD) car and passenger car sales plunged by 43%/40% yoy in 5M23 mainly driven by 1) end of registration tax reduction incentives; 2) weak demand due to high interest rates on car loans. We see difficulties will last at least until end-2Q23 due to high inventory.

Preferential policies are key drivers for the recovery in automobile sales 2H23

The Government has just issued Decree No.36 extending the deadline for paying excise tax for domestically manufactured or assembled cars. In addition, the Government has approved a proposal to reduce the registration fee for domestically CKD automobiles by 50%, coming into effect from 01 Jul 2023 to the end of 2023. Shown in the past, after being applied to reduce the registration fee in 2H20 and 1H22, the total car sales volume of the whole market recorded a strong recovery. Specially, cars sale in 2H20 reached 189,451 units, soaring 76% vs. 1H20 and 33% yoy, while this figure in 1H22 achieved 252,932 units (+36% yoy). As a result, we expect that preferential policy from the Government is the key driver for the recovery of the automobile industry in 2H23F.

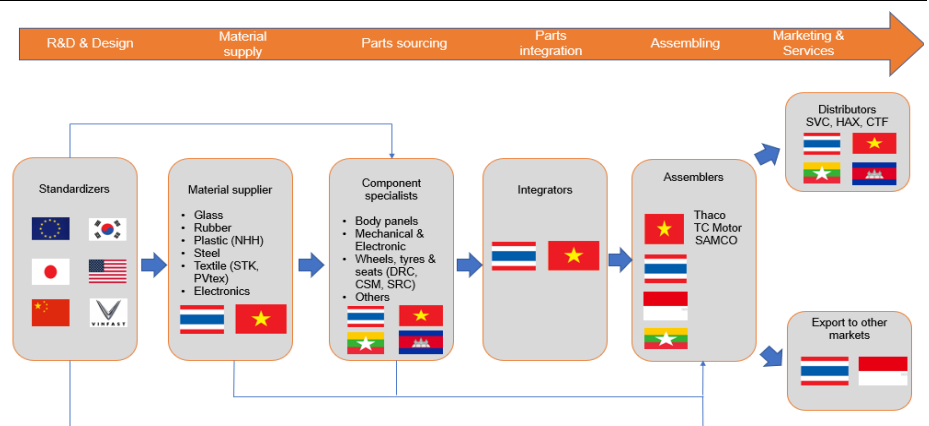
Go green – Electric Vehicle (EV) is not the far future anymore

Global passenger electric vehicle (EV) sales volume in 1Q23 rose 32% yoy, according to the latest research from Counterpoint's Global Passenger Electric Vehicle Model Sales Tracker. The International Energy Vehicle Agency (IEA) forecasts that global EV sales will accelerate to 14m units in 2023, rising 35% yoy and reaching a total market share of around 18% of sales. We expect large EV company such as Vingroup (VIC-HOSE) to take advantage from EV trend. Currently, Vinfast owns a range of popular car products from size A to E, including VFe34, VF3, VF5, VF6, VF7, VF8 and VF9.

Our stock picks are HAX and VEA, while VEA is on our watchlist

We expect HAX to take benefits from preferential policy from the Government as most of HAX's car model is assembled in Vietnam. While for VEA, we believe Toyota will continue to gain market share in 2H23-24F due to its attractive price/feature profiles such as Corolla Cross (CBU, compact SUV) and Veloz (CBU, MPV) and taking advantage from reduction registration tax.

Figure 1: Automobile industry supply chain



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Source: VNDIRECT RESEARCH

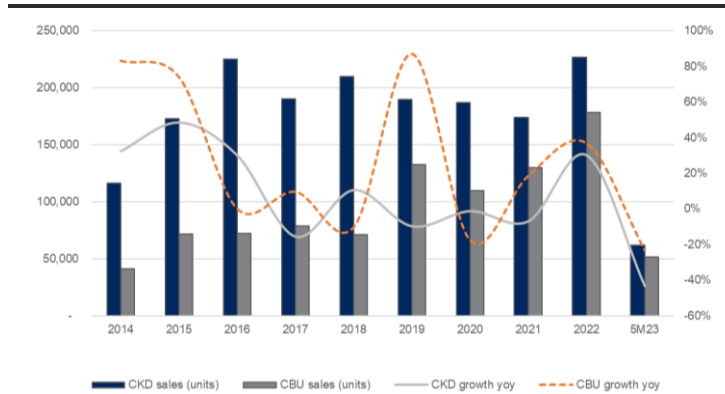
Automobile market recap 5M23: Headwinds were foreseen

Automobile sales showed a strong plummet in 5M23

According to VAMA, automobile sales volume in the domestic market in 5M23 decreased by 36% yoy, reaching 113,527 units. In which, completely knocked down (CKD) car and passenger car sales plunged by 43%/40% yoy in 5M23 mainly driven by 1) end of registration tax reduction incentives; 2) weak demand due to high interest rates on car loans.

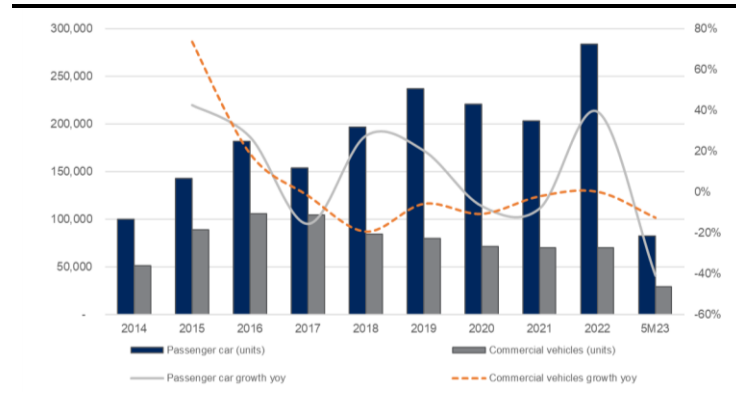
A member other than VAMA, TC Group - the assembly and distribution unit of the Hyundai also recorded negative results in 5M23. Hyundai sales volume reached only 22,903 units (-28.6% yoy) in 5M23. Meanwhile, VinFast sold 8,483 units in 5M23 (-30.4% yoy) due to the cessation of selling gasoline engine vehicles since end of 4Q22.

Figure 2: CKD sales decreased 43% yoy in 5M23



Source: VAMA, VNDIRECT RESEARCH

Figure 3: Passenger cars sales only reached 82,943 units (-40% yoy) in 5M23

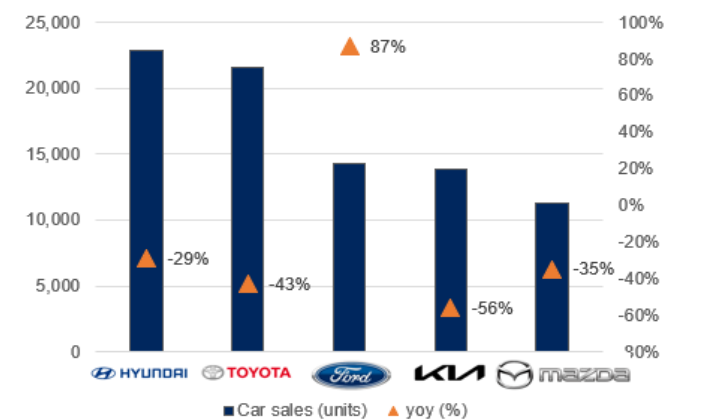


Source: VAMA, VNDIRECT RESEARCH

Difficulties will last at least until the end of 2Q23 due to high inventory

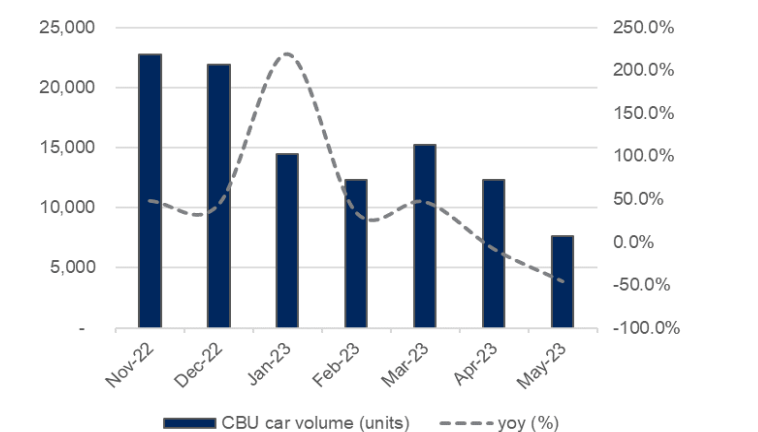
According to General Department of Customs, the whole country in Mar-23 imported 15,228 CBU of all kinds, with a turnover of US\$355.4m, (+23.2% mom in volume and + 36.8% mom in value). Overall, Vietnam imported 61,974 CBU cars, increasing 21% yoy in 5M23. To solve the problem of high inventory, car manufacturers and distributors are applying a strong discount policy, up to 100% of the registration fee and many other forms of attractive promotion. However, we think that auto sales will remain dismal in Jun-23 given weak demand.

Figure 4: Hyundai led in car sales in 5M23 with 22,903 units (-29% yoy)



Source: VNDIRECT RESEARCH, Company reports

Figure 5: Vietnam imported 61,974 CBU cars (+21% yoy) in 5M23



Source: General Department of Customs, VNDIRECT RESEARCH

Figure 6: Promotion policy of car manufacturers in June 2023

Promotions in Jun-23	
Nissan	Nissan Almera is on promotion up to VND70bn
Honda	Honda City is supported with 100% registration fee
Totyota	Toyota Vios is supported with 50% registration fee
Huyndai	Santa Fe produced in 2022 is discounted from VND70m to VND200m
Mitsubishi	The 2022 Mitsubishi Xpander AT is supported by agents with 100% of the registration fee
BWM	The BMW 3-Series is discounted by dealers to about VND1,2950 - 1,629bn for the old generation version
Mercedes-Benz	Mercedes-Benz GLC 2022 is also supported with 100% of the registration fee

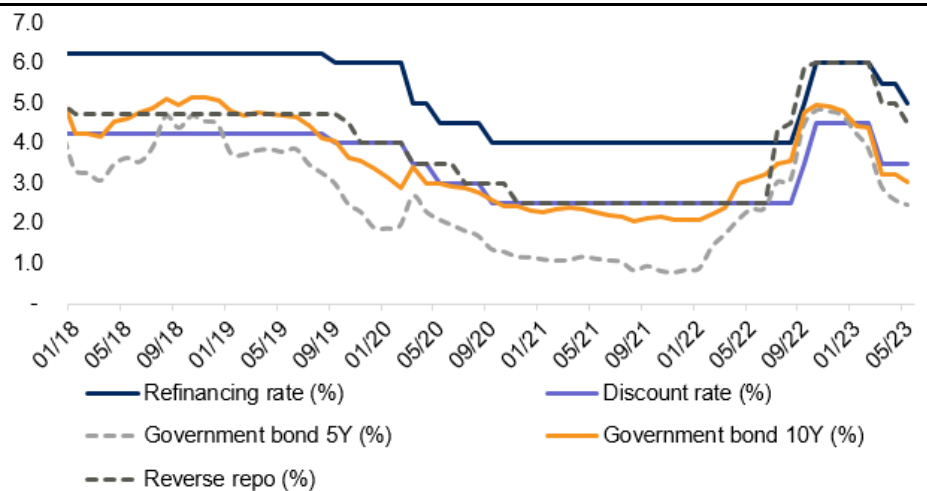
Source: VNDIRECT RESEARCH, Company report

2H23-1H24F Outlook: Vietnam automobile sales are likely to bottom out from 3Q23

Reducing interest rates would boost demand for luxury goods

On 23 May 2023, the SBV decided to reduce some policy rates such as the refinancing rate (down 0.5% points), the ceiling deposit interest rate for 1-month to 6-month term (down by 0.5% points). In addition, commercial banks have also continued to reduce deposit interest rates for terms in May-23. Currently, the general level of 12-month deposit interest rates listed at commercial banks has fallen to less than 8%/year. We expect lending interest rate to dwindle in 2H23 which could boost demand for luxury goods such as automobiles.

Figure 7: SBV cuts the policy rates for the 3rd time since the beginning of 2023



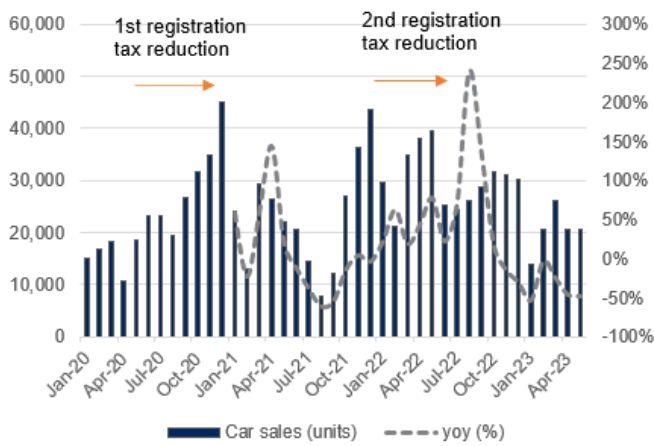
Source: SBV, VNDIRECT RESEARCH

Preferential policies from the Government are the key drivers for the recovery of automobile industry in 2H23

The Government has just issued Decree No.36 extending the deadline for paying excise tax for domestically manufactured or assembled cars. Specifically, the deadline for paying excise tax incurred in the tax period of Jun, Jul, Aug, and Sep is 20 Nov 2023 at the latest. This Decree takes effect from 21 Jun 2023 until the end of this year. After the extension period under this Decree, the payment of this tax will be made in accordance with current regulations. From 2020, this is the fourth time the special consumption tax on domestically manufactured and assembled cars has been extended to support and restore production and business due to the impact of the Covid-19 pandemic.

In addition, the Government has approved a proposal to reduce the registration fee for domestically CKD automobiles by 50%, coming into effect from 01 Jul to the end of 2023. Shown in the past, after being applied to reduce the registration fee in 2H20 and 1H22, the total car sales volume of the whole market showed a strong recovery. Specially, cars sale volume in 2H20 reached 189,451 units, soaring 76% vs. 1H20 and 33% yoy, while this figure in 1H22 achieved 252,932 units (+36% yoy). As a result, we expect that preferential policies from the Government are the key drivers for the recovery of the automobile industry in 2H23F.

Figure 8: The total car sales volume of the whole market showed a strong recovery post-preferential policy



Source: VAMA, VNDIRECT RESEARCH

Figure 9: Car models benefiting from registration tax reduction

Company	CKD cars
HAX	Mercedes-Benz E-Class (E180, E200, E300)
	Mercedes-Benz C- Class (C180,C200, C300)
	Mercedes-Benz GLC (GLC200, GLC300)
SVC	Mercedes-Benz S-Class (S450)
	Huyndai (Accents, Santafe,i10,..)
CTF	Toyota (Vios, Innova, Veloz)
	Ford (Ranger)
VEA	Ford (Ranger)
	Toyota (Vios, Innova, Veloz)
VIC	Honda (City, CR-V)
	Ford (Ranger)
	Vinfast

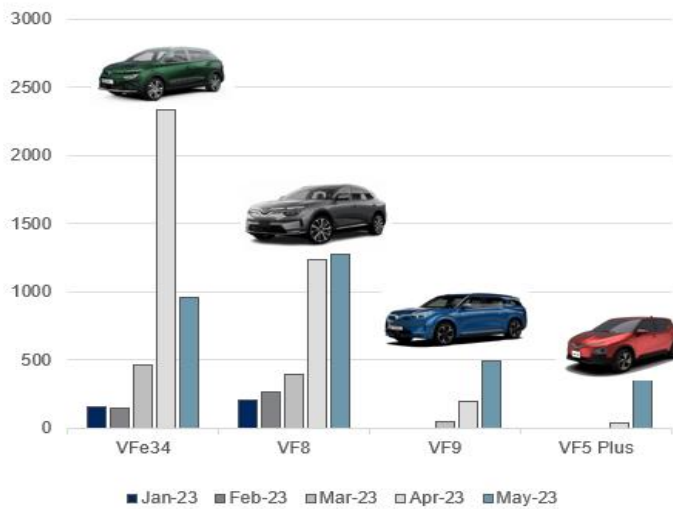
Source: VNDIRECT RESEARCH, Company report

Go green – Electric Vehicle (EV) is not the far future anymore

Global passenger electric vehicle (EV) sales volume in 1Q23 rose 32% yoy, according to the latest research from Counterpoint’s Global Passenger Electric Vehicle Model Sales Tracker. One in every seven cars sold during 1Q23 was an EV. Battery EVs (BEVs) accounted for 73% of all EV sales during the quarter, while plug-in hybrid EVs (PHEVs) made up the rest.

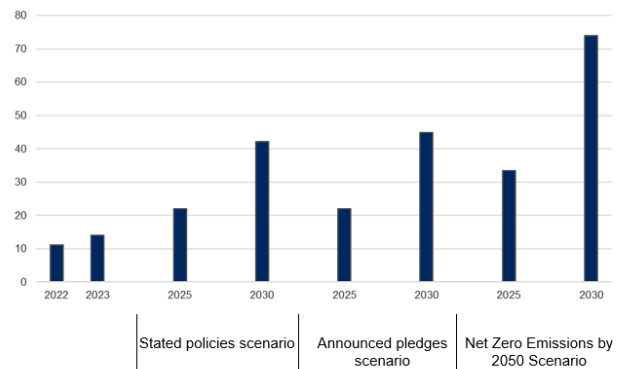
The International Energy Vehicle Agency (IEA) forecasts that global EV sales will accelerate to 14m units in 2023, rising 35% yoy and reaching a total market share of around 18% of sales. We expect large EV company such as Vingroup (VIC-HOSE) to take advantage from EV trend. Currently, Vinfast owns a range of popular car products from size A to E, including VF34, VF3, VF5, VF6, VF7, VF8 and VF9.

Figure 10: Vinfast EV sales in 5M23 achieved 8,483 units (-30.4% yoy)



Source: Vinfast, VNDIRECT RESEARCH

Figure 11: Electric vehicle sales for 3 scenarios in 2022-2030 (Unit: million units)





Source: IEA, VNDIRECT RESEARCH

Stock picks: Our stock picks are HAX and VEA, HUT is in our watchlist

We expect HAX to take benefits from preferential policies from the Government as most of HAX's car models are assembled in Vietnam. While for VEA, we believe Toyota will continue to gain market share in 2H23-24 due to its attractive price/feature profiles such as Corolla Cross (CBU, compact SUV) and Veloz (CBU, MPV) and taking advantage from reduction registration tax.

Figure 12: Investment ideas

No	Ticker	Rating	Investment thesis
1	 HAX	N/a	<p>We like HAX regarding to:</p> <p>(1) HAX is the No. 1 Mercedes-Benz distributor in Vietnam with nearly 40% market share.</p> <p>(2) We expect HAX's NP to recover from 3Q23 thanks to benefiting greatly from the Government's preferential policy since most of HAX's models are assembled in Vietnam.</p> <p>(3) GLC300 model 2023 is expected to continue to dominate the luxury SUV market in 2H23-24 thanks to its superiority in design and price.</p>
2	 VEA	N/a	<p>We like VEA for:</p> <p>(1) VEA is currently a joint venture with 3 large enterprises, including 30% of Honda Vietnam, 20% of Toyota Vietnam and Ford Vietnam</p> <p>(2) We believe Toyota will continue to gain market share in 2H23-24 due to its attractive price/feature profiles such as Corolla Cross (CBU, compact SUV) and Veloz (CBU, MPV) and taking advantage from reduction registration tax</p>
3	HUT	N/a	<p>(1) HUT's General Meeting of Shareholders in 2023 approved the business plan for 2023 with revenue and profit after tax reaching VND22,500bn and VND600bn (+400% yoy) thanks to the merger of SVC Holding. SVC Holding is the parent company of Savico (SVC) - the distribution agent of many car manufacturers Toyota, Ford, Hyundai and Honda, Volvo with 62 showrooms in Vietnam.</p> <p>(2) HUT and VETC have completed and put into operation the ETC system of all 4 expressways managed by the Vietnam Expressway Development Corporation (VEC), and implemented automatic toll collection from Aug-22. In 2023, Tasco aims to make the VETC project profitable after nearly 7 years of operation.</p>

Source: VNDIRECT RESEARCH

Figure 13: Peer comparison in automobile industry

Company	Ticker	Market cap		P/E(x)		3 year CAGR		P/BV (x)		EV/EBITDA		ROE (%)		ROA (%)	
		US\$m	TTM	FY23F	% Current	FY23F	TTM	FY23F	TTM	FY23F	TTM	FY23F	TTM	FY23F	
China Meidong Auto Holdings Ltd	1268 HK	4,951	19.3	9.8	36.7	2.2	1.9	7.7	19.6	12.1	32.2	4.1	na		
Saigon General Service Corp	SVC VN	222.0	8.3	na	32.2	1.8	na	50.3	na	16.9	na	4.8	na		
Hang Xanh Motor Service JSC	HAX VN	76.8	5.3	4.4	47.1	1.1	1.0	87.5	na	17.9	19.9	9.3	11.5		
Competent Automobiles Co Ltd	CPA IN	21.8	7.6	na	-10.0	1.5	na	10.9	na	8.1	na	4.5	na		
Vietnam Engune & Agricultural Machinery Corp	VEA VN	117.0	6.7	7.8	6.3	1.9	1.7	3.9	na	31.3	20.6	29.0	19.1		
City Auto Corp	CTF VN	182.1	26.3	na	-0.8	3.2	na	37.8	na	12.7	na	5.1	na		
Average			12.3	7.3	18.6	2.0	1.5	33.0	19.6	16.5	24.2	9.5	15.3		
Median			8.0	7.8	19.2	1.9	1.7	24.3	19.6	14.8	20.6	5.0	15.3		

Source: VNDIRECT RESEARCH, BLOOMBERG (Data as in 26 June 2023)

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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