

# Rough journey expected

## Parts shortage, end of tax holiday among challenges

### AUTOMOTIVE

**KUALA LUMPUR:** The automotive sector is in for a bumpy ride for the remainder of 2022 as rising inflation, inconsistencies such as labour and parts shortages and the discontinuation of the efficacious vehicle tax holiday could potentially dampen sales.

Vehicle sales in May slumped 12% month-on-month (m-o-m) to 49,603 units, as production was affected by the shorter working month amid the persistent chip shortage and component shipment delays.

While several marques had softer sales as a result, RHB Investment Bank noted that market leader Perusahaan Otomobil Kedua Sdn Bhd's (Perodua) sharp 26% m-o-m decline dragged total industry volume (TIV) down in May.

"Excluding Perodua, May's TIV would have risen by 0.5% m-o-m.

"Perodua's shortfall was mainly due to plant shutdowns during Aidil Fitri and from the supply shortfall from a key vendor, due to the labour shortage."

Year-on-year sales in May rose 5%, but mainly due to the lower base in the previous corresponding period, which was affected by nationwide lockdowns to curb the spread of Covid-19.

Going forward, RHB said there are also concerns of persistently high inflation. This, it added, may dampen consumer sentiment in 2023 and pose potential risks to demand.

"Inflation may also post margin compression risks to the auto players. We like Sime Darby Bhd and Bermaz Auto Bhd for their ability to weather inflationary pressures, given their relatively more premium marques and for the recovery in Sime Darby's auto sales in China."

Other downside risks that may hamper the automotive sector's recovery, said RHB,

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Maybank Investment Bank Research

include persistent shortages of key components, tighter bank approvals for car loans, the weaker ringgit and delays in new model launches.

For now, RHB is maintaining its TIV forecast of 615,000 units for 2022.

Separately, the government's announcement earlier this week that the vehicle sales tax exemption will end on June 30 has set tongues wagging on how this could potentially affect forward vehicle sales.

Buyers who had booked their vehicles during the tax holiday period still have until March 31, 2023 to enjoy the tax exemptions.

Despite the additional nine-month delivery lead time, Maybank Investment Bank Research (Maybank IB) said the situation could create unnecessary operational issues.

"Firstly, speculative bookings will rise over the next few days (until the expiry of the tax holiday on June 30).

"It is envisaged that many prospective and speculative buyers will take advantage of this outcome and place token deposit bookings, just to lock in orders. That would skew bookings."

Based on this assumption, Maybank IB said vehicle bookings could surge tremendously in June and then fall drastically from next month and into the second half of 2022.

"Another potential unnecessary outcome

may be that some not-so-time-sensitive buyers may place orders by end-June 2022, but could request for a 2023 delivery (from a depreciation value angle).

"That could see weaker sales in the second half of 2022 and strong first quarter 2023 TIV." For now, Maybank IB said that it was maintaining its 2022 TIV forecast of between 580,000 and 600,000 units.

"All in all, the vehicle sales tax holiday has proven to be a wise and popular policy to drive vehicle sales (868,422 units sold during this period) and counter the Covid-19 lockdown effect.

"While the revenue loss from the sales tax exemption totalled RM4.7bil, we reckon the revenues gained from the excise and import duties collected during the period far outweigh the loss incurred during the tax holiday period," it said.

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