

## Auto Sector – Overweight

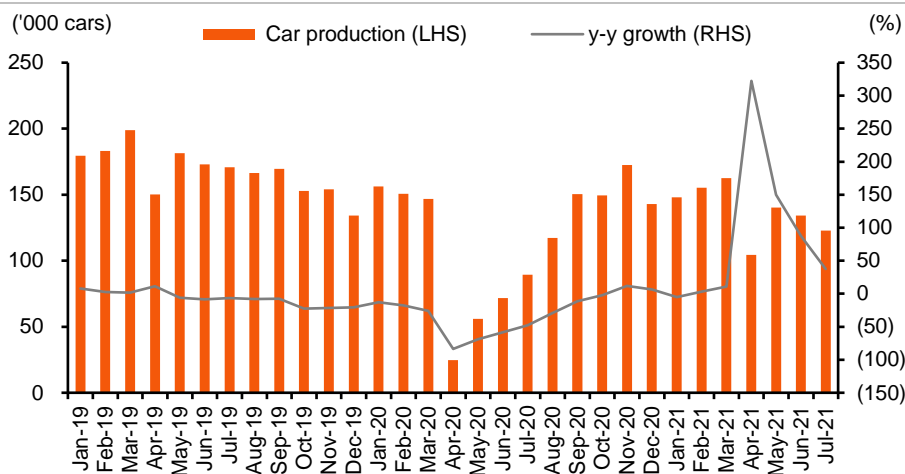
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News Update

### Slight hiccup in July vehicle production, as we'd expected

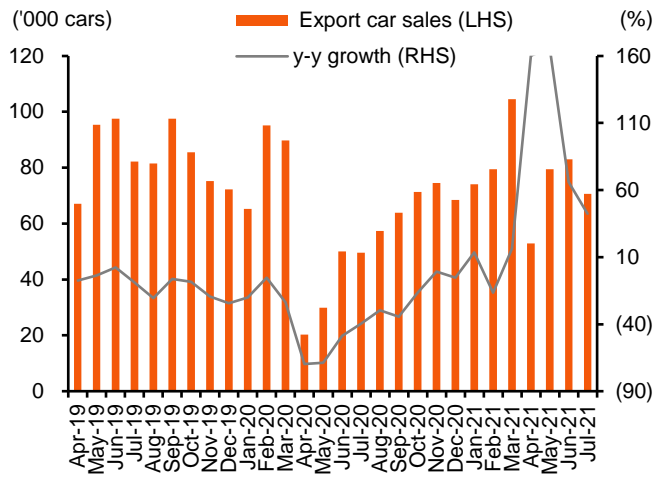
- July auto production fell m-m. No surprise to us and should recover in later months.
  - Export sales declined m-m due to a fall in some markets but continued to improve y-y
  - Domestic sales were weak as we'd expected, falling y-y and m-m due to weak spending
  - We like SAT for its strong earnings growth recovery and inexpensive valuation
- The Federation of Thai Industries (FTI) reported production of new vehicles in July dropped by 8.5% m-m to 122,852 units (72% of 2019 base). This was no surprise to us. The drop was mainly because of Toyota's closure of its plants in late July due to its supplier production hiccup caused by the COVID-19 outbreak. Now, Toyota is back to operating as normal. 7M21 auto production stood 967,453 units (78% of 2019's base), accounting for 63% of our full-year assumption of 1.54m units for 2021. We keep our assumption as is to cushion against the risk of auto parts shortage, including semiconductor chips, amid Covid-19 outbreak in Southeast Asia. Looking into 2H21, we believe auto production will improve moderately q-q in 3Q21 with stronger momentum in 4Q21.
- As for sales, vehicle exports in July dropped 15% m-m (and rose 42% y-y due to the low base) to 70,590 units (86% of the 2019 base) because of the new COVID-19 outbreak. Looking by markets, Africa, Middle East, and Europe were the key draggers. Domestic sales were weak with a drop of 12% y-y despite the low base effect and 15% m-m to 52,442 units (65% of 2019 base) in July. The decrease was because of more cautious consumer spending after the new COVID-19 wave and stricter auto lending criteria.
- We maintain our OVERWEIGHT stance on the auto sector. We like SAT (BUY, TP: Bt28) as we expect it to enjoy a strong EPS growth recovery at a 80% two-year CAGR in 2020-22F. Valuation still looks inexpensive to us at 202F PE 9x (6x excl. cash) vs. very strong earnings growth and 6-7% yields in 2021-22F while it is backed by its net cash position (27% of its share price).

Ex 1: Vehicle Production



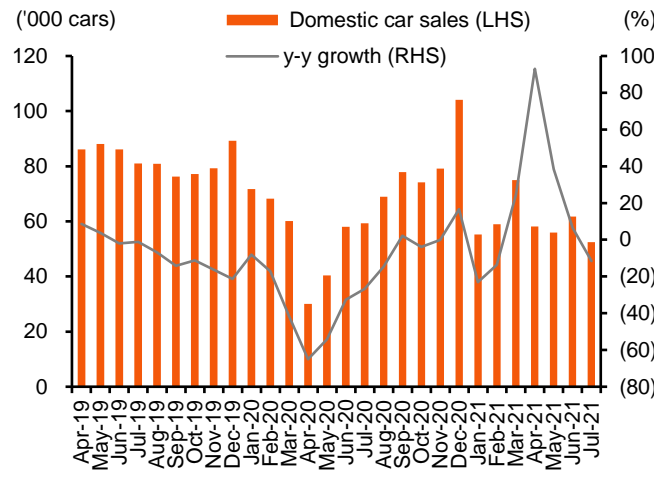
Source: Thai Automotive Industry Association

Ex 2: Export Car Sales



Source: Thai Automotive Industry Association

Ex 3: Domestic Car Sales



Source: Thai Automotive Industry Association

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