Auto Sector – Overweight

News Update

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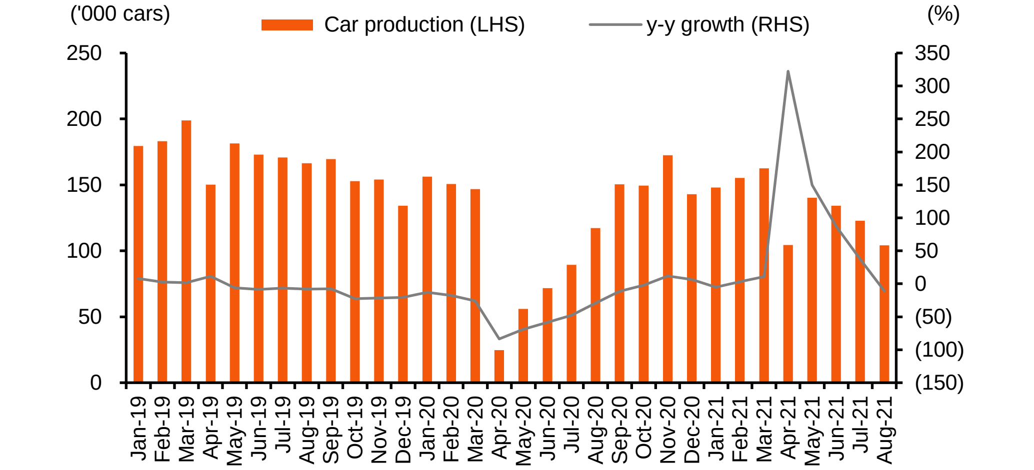
Hiccup in August vehicle production, as we'd expected

- **August auto production fell y-y and m-m as expected on a chip shortage and COVID**
- **Export and domestic sales were both weak**
- **We expect the soft momentum to continue before an improvement in 1Q22F**
- **Overweight. SAT is our top pick as we see the stock as already reflecting the bad news**

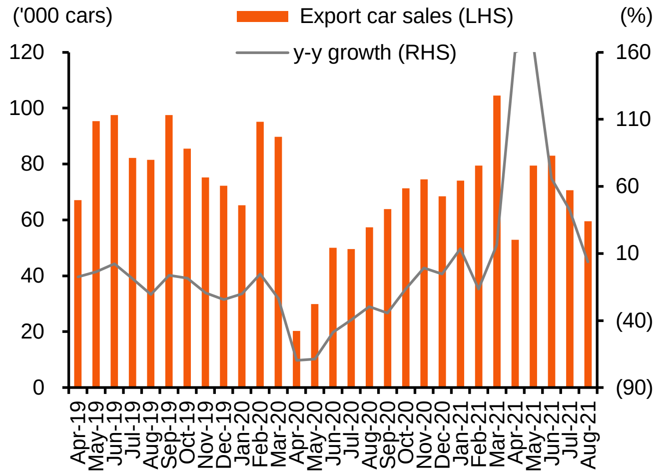
- The Federation of Thai Industries (FTI) reported production of new vehicles in August dropped m-m for the third month in a row by 15% while it was down 11% y-y to 104,144 units (63% of 2019's base), the lowest level in 13 months since the recovery after the COVID first wave in 2Q20. This was no surprise to us. The drop was mainly because of supply chain issues given the global semiconductor chip shortage and COVID infections increasing in Southeast Asia. 8M21 auto production stood at 1.07m units (76% of 2019's base), accounting for 70% of our full-year assumption of 1.54m units for 2021. We keep our assumption as is to cushion against the risk of an auto parts shortage, including semiconductor chips, amid the ongoing COVID outbreak in Southeast Asia. We expect the weak momentum to continue before an improvement in 1Q22F, when the region's vaccination rate should be far higher with a gradual increase in new global chip capacity.
- As for sales, vehicle exports in August hit their lowest level in four months, dropping by 16% m-m (and rising by 4% y-y due to the low base) to 59,571 units (73% of the 2019 base). Thailand's key markets of Asia, Australia and Oceania saw a drop y-y. 8M21 registered sales of 0.6m units or 83% of 2019's base.
- Domestic sales continued their weakness with a drop of 39% y-y and 20% m-m to 42,176 units (52% of 2019's base) in August. The decrease was because of more cautious consumer spending after the new COVID-19 wave and stricter auto lending criteria. 8M21 registered sales of 0.46m units, or 68% of 2019's base.
- We maintain our OVERWEIGHT stance on the auto sector. We like SAT (BUY, TP: Bt28) as we believe its recent share price drop has already reflected supply chain issue concerns. The stock is trading at only 7.6x PE with a 7.9% yield in 2022F while we expect the supply chain issues to ease from 1Q22F with 26/22% EPS growth in 2022-23F

Ex 1: Vehicle Production



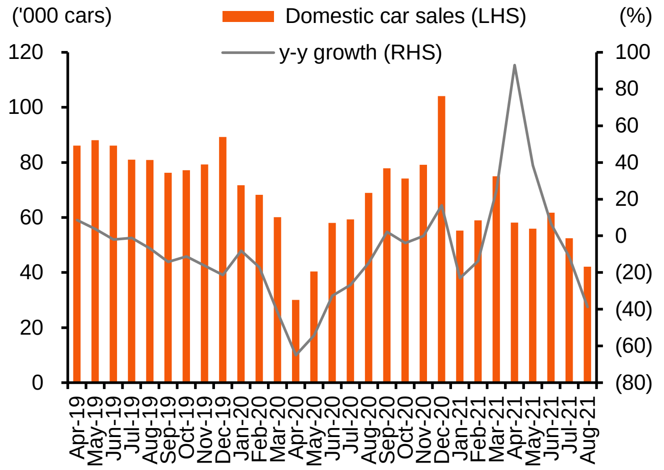
Source: Thai Automotive Industry Association

Ex 2: Export Car Sales



Source: Thai Automotive Industry Association

Ex 3: Domestic Car Sales



Source: Thai Automotive Industry Association

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