

# Auto sector eyes stronger 2H performance

## EV demand and subsidies to offset market headwinds

### AUTOMOTIVE

PETALING JAYA: The automobile and components sector's growth outlook remains tepid as earnings risks from intensifying market competition and unfavourable foreign exchange movements loom over automakers.

That said, a stronger second half of financial year 2026 (2H26) is expected for the sector's total industry volume (TIV), underpinned by continued subsidies, seasonal trends, electric vehicle momentum, and stable financing conditions, said CIMB Research.

The research house, which maintained a "neutral" stance on the sector, said that it anticipates a strong rebound after TIV for first five months of 2026 (5M26) contracted by 1.2% year-on-year (y-o-y) to 315,476 units.

"Although 5M26 TIV accounted for 40.4% of our financial year (FY26) forecast of 780,000 units, we expect a seasonally stronger 2H26, consistent with historical trends," it said.

The improved 2H26 will likely be supported by continuation of the Budi95 subsidy programme and the expansion of the Budi Diesel subsidy, it added.

According to the Malaysian Automotive Association (MAA), the Budi Diesel programme's expansion may revive pickup truck segment demand among consumers after its steep 16.7% y-o-y decline in 5M26.

CIMB Research also expects electric vehicle (EV) sales momentum to remain strong in 2H26, driven by aggressive promotional campaigns and ramped-up production from national automakers such as Proton and Perodua.

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CIMB Research

ed to increase domestic production following the government's revised policy to raise the minimum cost, insurance, and freight (CIF) threshold to RM200,000 while lowering minimum motor output requirement to 180 kW, which made locally assembled EVs more competitive.

The research house said it does not believe the policy will materially derail long-term EV adoption in Malaysia, given that underlying consumer demand remains structurally intact.

"We believe most EV manufacturers will increasingly focus on developing local assembly capabilities to preserve their competitiveness, given that completely knocked-down (CKD) EV incentives remain in place until end-2027," it added.

"This should encourage greater investment in the local assembly ecosystem and support the longer-term growth of Malaysia's EV industry."

Moreover, it said the central bank is not expected to raise interest rates, which should help maintain affordability within the mass-market segment, underpinning new vehicle sales in 2H26.

CIMB Research projects sector net profit in FY26 to grow by 6.9% y-o-y, largely supported by stronger earnings contributions from Sime Darby as a result of resilient performance from its Australian industrial operations and a recovery in its China Motors business.

Despite the stronger 2H26 TIV outlook, it said downside risks to earnings remain, including rising competition and currency pressures, as the recent weakening of the ringgit against the US dollar could weigh on automakers' margins.

It maintained its TIV forecast of 780,000 units, coming slightly under MAA's prediction of 790,000 units, to reflect a challenging macroeconomic backdrop and inflationary pressures from the Middle East conflict.

The research house's preferred sector picks are Bermaz Auto and HI Mobility.

It predicted a strong earnings rebound in FY27 for Bermaz Auto, on the back of its new CX-5 launch and a turnaround at associate companies, while anticipating lower FY26 earnings for MBM Resources due to a decline in Perodua sales volume amid intensifying competition from Proton.