8. IMR REPORT

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Date: 15 March 2024

The Board of Directors

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Dear Sirs/ Madams,

Independent Market Research Report on the Automotive Industry and Automotive Parts and Components Industry in Malaysia ("IMR Report")

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD ("**SMITH ZANDER**") for inclusion in the draft Prospectus in conjunction with the proposed listing of KHPT Holdings Berhad on the ACE Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry and market(s) in which KHPT Holdings Berhad and its subsidiary ("**KHPT Group**") operates and to offer a clear understanding of the industry and market dynamics. As KHPT Group is involved in manufacturing and sale of automotive parts and components, the scope of work for this IMR Report will thus address the following areas:

(i) The automotive industry in Malaysia;
(ii) The automotive parts and components industry in Malaysia;
(iii) Key demand drivers, risks and challenges;
(iv) Competitive landscape; and
(v) Prospects and outlook.

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants and industry experts. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies as mentioned in this report.

For and on behalf of SMITH ZANDER:

DENNIS TAN TZE WEN
MANAGING PARTNER

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The research for this IMR Report was completed on 12 March 2024.

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About SMITH ZANDER INTERNATIONAL SDN BHD

SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.

Profile of the signing partner, Dennis Tan Tze Wen

Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has over 26 years of experience in market research and strategy consulting, including over 21 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

1 THE AUTOMOTIVE INDUSTRY IN MALAYSIA

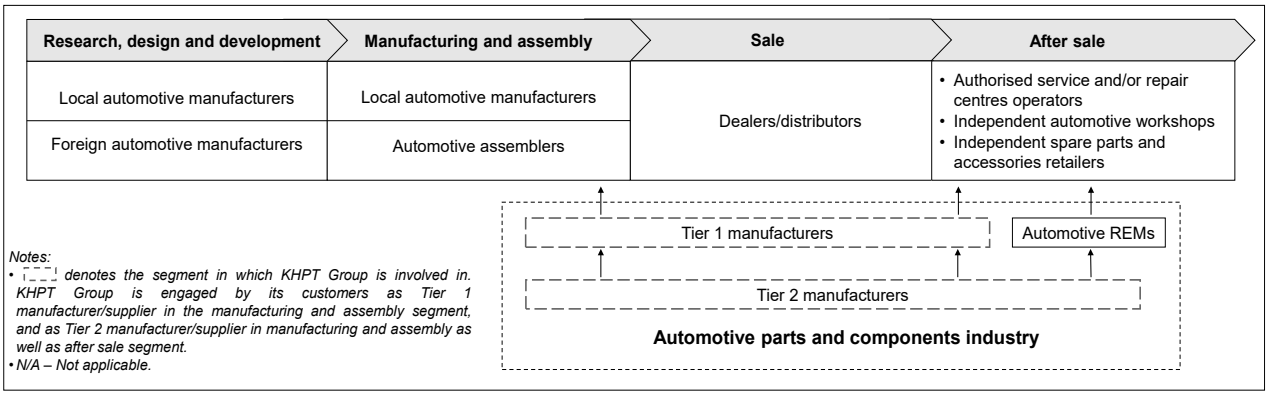
1.1 Introduction and value chain

As of 2023, Malaysia was amongst the top three largest automotive markets in Southeast Asia in terms of production and sales of motor vehicles, along with Indonesia and Thailand.[1] In 1985, Perusahaan Otomobil Nasional Berhad ("Proton"), the first local automotive manufacturer in Malaysia, launched the country's first local branded car model, namely Proton Saga.[2] This marked the launch of the manufacturing of the first local completely knocked-down ("CKD") model. In 1994, Malaysia's second local automotive manufacturer, Perusahaan Otomobil Kedua Sendirian Berhad ("Perodua"), launched its first model, Perodua Kancil.[3]

The automotive industry in Malaysia comprises the following industry players:

Industry players	Description
Local automotive manufacturers	Local motor vehicle brand owners who design, develop, manufacture and/or assemble motor vehicles, for example, Proton and Perodua.
Foreign automotive manufacturers	Foreign motor vehicle brand owners who design, develop, and/or assemble motor vehicles, such as Toyota, Honda, Nissan, Mitsubishi, BMW, Mercedes Benz, Audi and Volvo.
Automotive assemblers	Appointed by foreign automotive manufacturers to carry out the assembly of motor vehicles in Malaysia.
Tier 1 manufacturers	Appointed by local and/or foreign automotive manufacturers and/or automotive assemblers for the manufacturing and/or sub-assembly of automotive parts and components.
Tier 2 manufacturers	Engaged by Tier 1 manufacturers for the manufacturing of automotive parts and components.
Dealers/distributors	Appointed by local and/or foreign automotive manufacturers to operate showrooms and sell motor vehicles to the public.
Automotive replacement equipment manufacturers ("REMs")	Manufacturers and/or suppliers of non-genuine spare parts to independent automotive workshops and spare part retailers.
Authorised service and/or repair centre operators	Owned or appointed by local and/or foreign automotive manufacturers to provide after-sales services such as vehicle servicing, sales of spare parts, as well as repair and painting services for the vehicle models of the respective automotive manufacturers.
Independent automotive workshops	Operate automotive workshops independently from automotive manufacturers to provide vehicle servicing, sales of spare parts, as well as repair and painting services for selected or all vehicle models.
Independent spare parts and accessories retailers	Operate spare parts and/or accessories retail shops independently such as vehicle spare parts, exhaust systems, bodykits and dash cameras as well as providing modification and/or installation services.

The automotive industry value chain involving the above industry players is described as follows:



Source: SMITH ZANDER

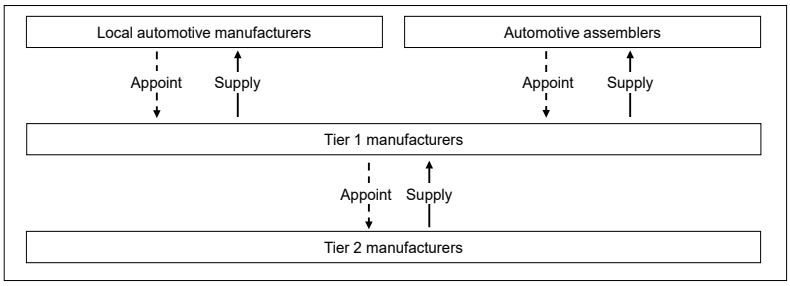
[1] *Source: ASEAN Automotive Federation*
[2] *Source: Proton company website*
[3] *Source: Perodua company website*

Research, design and development

The automotive industry value chain in Malaysia begins with the research, design and development segment. Local automotive manufacturers carry out research and development activities on latest technologies to enhance current models for facelifts as well as to design and develop new models. Foreign automotive manufacturers typically carry out research, design and development activities in their home countries.

Manufacturing and assembly

Motor vehicles are manufactured and/or assembled by local automotive manufacturers or automotive assemblers using parts and components manufactured in-house as well as parts and components sourced from third party manufacturers (i.e. Tier 1 manufacturers and Tier 2 manufacturers). The relationship between local automotive manufacturers, automotive assemblers, Tier 1 manufacturers, and Tier 2 manufacturers is depicted as follows:



Source: SMITH ZANDER

Tier 2 manufacturers manufacture parts and components according to their customers' designs and specifications, which varies for each vehicle brand/model. These parts and components are then supplied to Tier 1 manufacturers for sub-assembly into larger automotive components for onward supply to automotive manufacturers or automotive assemblers. The role of Tier 1 or Tier 2 manufacturers varies across different vehicle models as well as different parts and components, and it is dependent on the arrangement with the respective Tier 1 manufacturer, local automotive manufacturer or automotive assembler.

Generally, Tier 1 and Tier 2 manufacturers supply parts and components to local automotive manufacturers and automotive assemblers over the long term once they have been identified as qualified suppliers. This is because Tier 1 and Tier 2 manufacturers are required to pass stringent qualification processes with the respective automotive manufacturers and automotive assemblers, whereby they are assessed in various aspects, including manufacturing and technical capabilities, product accuracy and quality consistency, product costing and timeliness of delivery.

Further, local automotive manufacturers, automotive assemblers and Tier 1 manufacturers generally source different parts and components from various Tier 2 manufacturers. Parts and components that are sourced from different Tier 2 manufacturers will then be sub-assembled by Tier 1 manufacturers, automotive manufacturers or automotive assemblers to form larger components such as seats, vehicle bodies, or engines, which will then be used in the manufacturing and assembly of motor vehicles. Hence, it is crucial that parts and components sourced from different Tier 2 manufacturers are of precise measurements to ensure that they are able to be sub-assembled together.

Due to the time-consuming qualification process as well as the stringent requirement in terms of measurements and dimensions, local automotive manufacturers and automotive assemblers maintain long term engagements with their Tier 1 and Tier 2 manufacturers once they are deemed qualified.

Sale

Finished motor vehicles are sold by local and foreign automotive manufacturers to dealers/distributors, who operate showrooms and sell the motor vehicles to end-users.

After-sales

The after-sales segment includes authorised service and/or repair centre operators, independent automotive workshops, as well as independent spare parts and accessories retailers. Authorised service and/or repair centre operators source genuine spare parts and components from Tier 1 manufacturers, who manufacture the genuine spare parts and components in-house or source them from Tier 2 manufacturers. Authorised service and/or repair centre operators owned or appointed by foreign automotive manufacturers may also import genuine spare parts and components that are not manufactured by local Tier 1 or Tier 2 manufacturers. Genuine spare parts and components are identical to the automotive parts and components used in the assembly of motor vehicles, as they are manufactured according to the designs and specifications of the local or foreign automotive manufacturers.

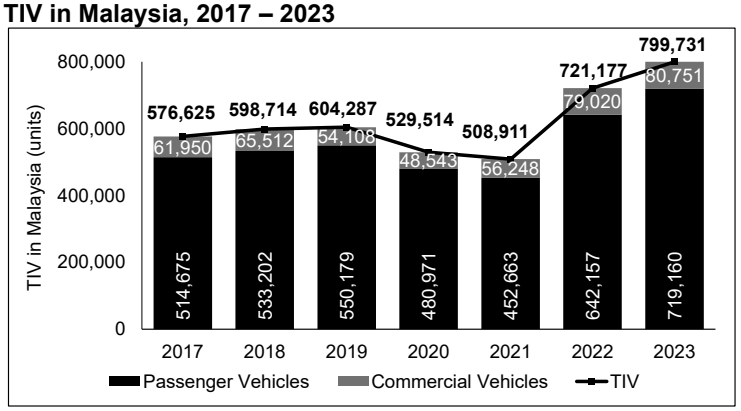
Independent automotive workshops may carry genuine spare parts and components as well as non-genuine spare parts and components; whereas independent spare parts and accessories retailers mainly carry non-genuine spare parts. Non-genuine spare parts and components are manufactured by automotive REMs, hence may not have identical specifications to genuine spare parts.

1.2 Industry performance, size and growth

The growth and outlook of the automotive parts and components industry is driven by the size and growth of the automotive industry. The size of the automotive industry in Malaysia is represented by total industry volume ("TIV"), which refers to new passenger vehicles and commercial vehicles registered in Malaysia. On average, passenger vehicles contributed 89.63% of the TIV in Malaysia from 2017 to 2023, and the remaining 10.37% was contributed by commercial vehicles.

The TIV of the automotive industry in Malaysia increased at a compound annual growth rate ("CAGR") of 2.37% from 576,625 units to 604,287 units from 2017 to 2019. Pursuant to the outbreak of COVID-19 pandemic, the TIV decreased 12.37% year-on-year ("YOY") to 529,514 units in 2020, and further decreased by 3.89% YOY to 508,911 units in 2021. This was mainly due to operational restrictions and shortages of labour faced by the industry during the movement restriction periods. Further, supply chain challenges and rising cost of freight caused shortages of certain automotive parts and components (e.g. semiconductor chips), which in turn disrupted production.

TIV in Malaysia, 2017 – 2023



Sources: Malaysian Automotive Association ("MAA"), SMITH ZANDER

Economic downturns caused by the COVID-19 pandemic also caused a decline in demand as consumers were more prudent in spending. Nevertheless, this impact was cushioned by the sales tax exemption[4] implemented by the Government which continued to drive sales of passenger vehicles amidst the COVID-19 pandemic.

The TIV recovered by 41.71% YOY to 721,177 units in 2022, supported by the reduction in COVID-19 cases, the transition to endemic phase and fulfilment of order backlogs as production activities normalised. In addition, the recovery of the economy had also stimulated demand. In 2023, the TIV grew by a further 10.89% YOY to 799,731 units, mainly due to fulfilment of pent-up car bookings, resilient domestic economy and improved supply chain environment.

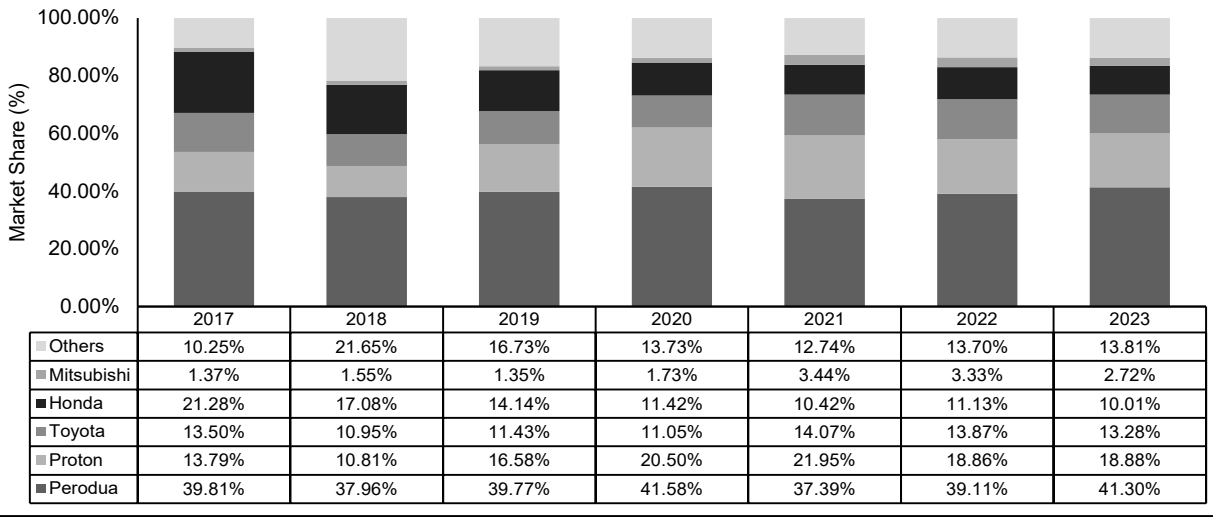
In terms of passenger vehicles, the TIV increased from 514,675 units in 2017 to 550,179 units in 2019 at a CAGR of 3.39%. Pursuant to the outbreak of the COVID-19 pandemic, TIV of passenger vehicles dropped by 12.58% to 480,971 units in 2020, and further decreased by 5.89% to 452,663 units in 2021. Subsequently as operational restrictions were lifted, the TIV of passenger vehicles increased by 41.86% from 452,663 units in 2021 to 642,157 units in 2022, surpassing pre-pandemic levels. In 2023, TIV of passenger vehicles increased further by 11.99% YOY to 719,160 units, which was boosted by favourable economic conditions and new vehicle model launches.

Notwithstanding the all-time high TIV recorded in 2023, the MAA forecasts TIV of the automotive industry in Malaysia to normalise from 799,731 units in 2023 to 740,000 units in 2024, and the TIV of passenger vehicles to also normalise from 719,160 units in 2023 to 666,000 units in 2024. This is mainly due to global economic uncertainties and the anticipated dampening of consumer spending resulting from expectations of rising cost of living. However, the demand for passenger vehicles is expected to be supported by the increasing disposable income of the Malaysian population attributed to economic recovery as well as the car-centric culture in Malaysia moving forward. For more details on the factors supporting the demand for passenger vehicles, please refer to ***Chapter 3.1 Key demand drivers*** of this IMR Report.

Perodua is the highest selling vehicle brand in Malaysia, with market share by TIV ranging from 37.39% to 41.58%, between 2017 and 2023. On the other hand, prior to 2019, Proton was the third largest contributor (i.e. 13.79% market share) and fourth largest contributor (i.e. 10.81% market share) to the TIV in 2017 and 2018 respectively. In 2019, Proton became the second highest selling vehicle brand when its market share contribution to the TIV increased to 16.58% following the launch of its new X70 model in December 2018. From 2019 to 2023, Proton has maintained its market share as the second largest contributor to the TIV in Malaysia. Collectively, the market share of the local automotive manufacturers, namely Perodua and Proton, increased from 53.60% in 2017 to 60.18% in 2023, dominating the automotive industry in Malaysia.

[4] *In June 2020, the Government introduced 100% sales tax exemption on CKD vehicles and 50% sales tax exemption on completely built-up ("CBU") vehicles which are foreign assembled passenger vehicles, effective from 15 June 2020 to 31 December 2020. The sales tax exemption was later announced to be extended to 30 June 2021, and was then further extended to 31 December 2021. The sales tax exemption was extended for the third time under Budget 2022 to 30 June 2022, where buyers with confirmed bookings made by 30 June 2022 are allowed to enjoy the sales tax exemption with the new passenger vehicles registered by 31 March 2023.*

TIV by brands, 2017 – 2023



	2017	2018	2019	2020	2021	2022	2023
Others	10.25%	21.65%	16.73%	13.73%	12.74%	13.70%	13.81%
Mitsubishi	1.37%	1.55%	1.35%	1.73%	3.44%	3.33%	2.72%
Honda	21.28%	17.08%	14.14%	11.42%	10.42%	11.13%	10.01%
Toyota	13.50%	10.95%	11.43%	11.05%	14.07%	13.87%	13.28%
Proton	13.79%	10.81%	16.58%	20.50%	21.95%	18.86%	18.88%
Perodua	39.81%	37.96%	39.77%	41.58%	37.39%	39.11%	41.30%

Notes:

- *Includes both passenger and commercial vehicles as breakdown for passenger vehicles is not publicly available.*
- *Others comprise Mitsubishi, Nissan, Mazda, Ford, BMW, Mercedes Benz, Audi and Volvo, amongst others.*

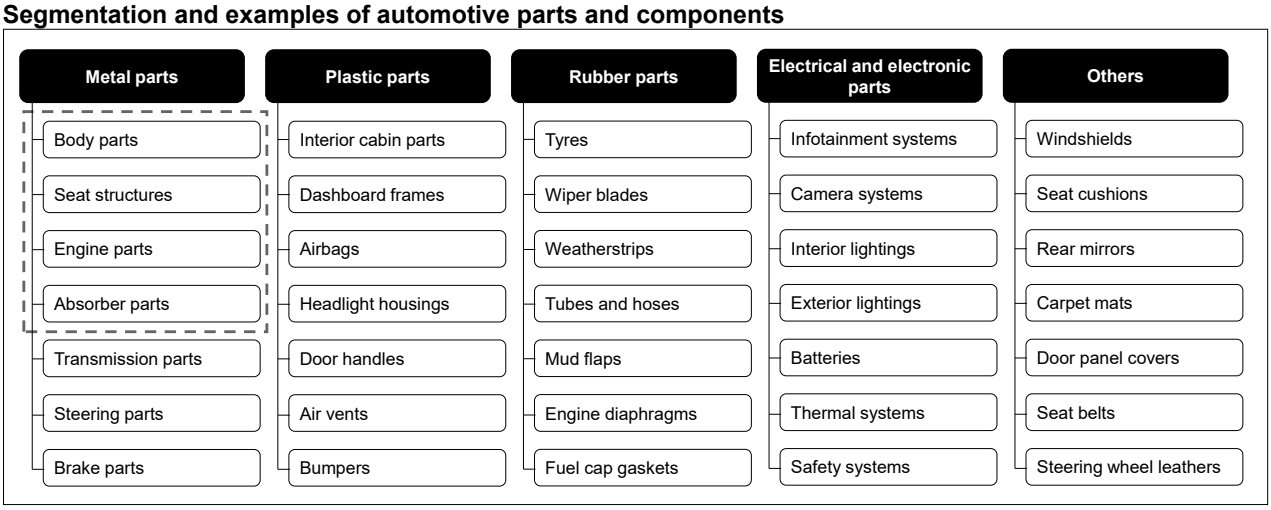
Sources: MAA, SMITH ZANDER

2 THE AUTOMOTIVE PARTS AND COMPONENTS INDUSTRY IN MALAYSIA

2.1 Introduction and segmentation

Automotive parts and components can be broadly segmented into metal parts, plastic parts, rubber parts, electrical and electronic parts and other parts, as follows:

Segmentation and examples of automotive parts and components



Notes:

- *The list is not exhaustive.*
- *denotes the segment in which KHPT Group is involved in, namely the manufacturing of metal stamped parts comprising body parts, seat structures, engine parts and absorber parts for passenger vehicles.*

Source: SMITH ZANDER

These automotive parts and components are manufactured by industry players (e.g. Tier 1 and Tier 2 manufacturers) and supplied to local automotive manufacturers and automotive assemblers for assembly into motor vehicles. Local automotive manufacturers and automotive assemblers may also manufacture certain automotive parts and components in-house.

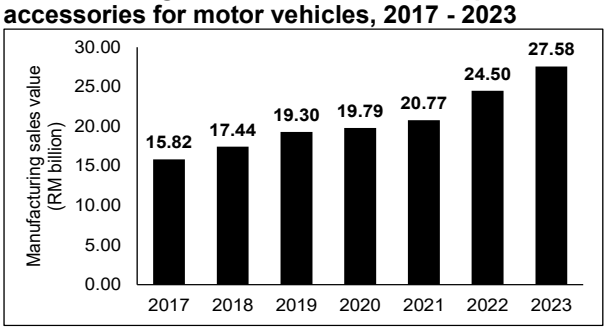
The automotive parts and components industry plays an integral role in supporting the automotive industry, as automotive industry players rely on automotive parts and components industry players for automotive parts and components. According to MIDA, there are approximately 640 automotive parts and components industry players in Malaysia, producing a wide range of parts and components including body parts, engine parts, transmission parts, steering parts, brake parts, seat structures, dashboard frames, interior cabin parts, as well as various rubber parts as well as electrical and electronics parts.

2.2 Industry performance, size and growth

As KHPT Group is involved in the manufacturing and sale of metal automotive parts and components, this section will focus on the performance of the metal automotive parts or components segment of the automotive parts and components industry. The size of metal automotive parts or components segment, in which KHPT Group is involved in, is represented by the manufacturing sales value of metal parts and accessories for motor vehicles[5].

The manufacturing sales value of metal parts and accessories for motor vehicles increased from RM15.82 billion in 2017 to RM27.58 billion in 2023 at a CAGR of 9.71%. Despite the decline in the TIV in Malaysia in 2020 and 2021 due to operational restrictions, shortages of labour and supply chain disruptions resulting from the COVID-19 pandemic, the manufacturing sales value of metal parts and accessories recorded a CAGR of 3.74% from RM19.30 billion in 2019 to RM20.77 billion in 2021. Although motor vehicles produced and registered in 2020 and 2021 decreased due to shortage of certain automotive parts and components (e.g. semiconductor chips), industry players involved in manufacturing of metal automotive parts and accessories carried on with production to fulfill orders.

Manufacturing sales value of metal parts and accessories for motor vehicles, 2017 - 2023



Sources: Department of Statistics Malaysia ("DOSM"), SMITH ZANDER

In 2022, the manufacturing sales value of metal parts and accessories for motor vehicles increased 17.96% YOY to RM24.50 billion and further increased by 12.57% to RM27.58 billion in 2023. This is attributed to industry players scaling up production to meet the demand from automotive manufacturers and automotive assemblers, with the TIV increasing by 41.71% YOY to 721,177 units in 2022 and 10.89% YOY to 799,731 units in 2023.

The continuous growth of local automotive manufacturers, namely Perodua and Proton, as depicted by their domination of the automotive industry in terms of TIV, is expected to benefit industry players who supply parts and components for the manufacturing or Proton and Perodua vehicles, including KHPT Group.

3 KEY DEMAND DRIVERS, RISKS AND CHALLENGES

3.1 Key demand drivers

- **Introduction of new vehicle models and localisation of parts and components drives the automotive parts and components industry**

Local automotive manufacturers constantly design and develop new vehicle models as part of their growth strategies to drive sales. Between 2017 and 2023, Proton and Perodua each launched 4 (i.e. Proton X50, Proton X70, Proton X90 and Proton S70) and 2 new vehicle models (i.e. Perodua Aruz and Perodua Ativa) respectively. Further, local automotive manufacturers also continuously carry out research and development activities to enhance their existing vehicle models for facelifts. This may include designing and developing new parts and components to replace older parts and components.

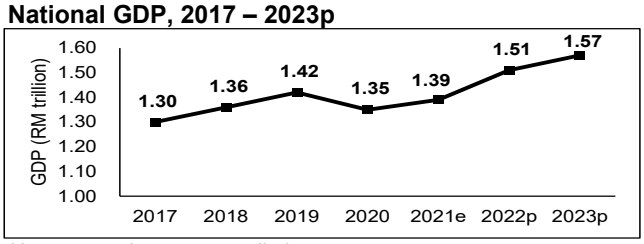
The ongoing design and development activities for new and existing vehicle models lead to the development of new automotive parts and components, which in turn leads to the localisation of automotive parts and components. The sustained demand for new automotive parts and components is expected to continue driving the growth of automotive parts and components industry players (e.g. Tier 1 and Tier 2 manufacturers) which supply parts and components for the assembly of vehicles. In addition, the commonisation of automotive parts and components (i.e. the use of same parts and components across different vehicle models) is also expected to drive growth for industry players, as existing manufacturers are expected to continue to be engaged to supply the same parts for new models, due to the stringent and lengthy qualification processes.

[5] *Only includes manufacturing sales value of parts and accessories for motor vehicles with more than 2 wheels, such as passenger vehicles, commercial vehicles, all-terrain vehicles (ATVs) and motor carts.*

- **Economic recovery and increasing disposable income drive the demand for passenger vehicles, in turn driving the automotive parts and components industry**

The gross domestic product ("GDP") of Malaysia increased at a CAGR of 4.51% from RM1.30 trillion in 2017 to RM1.42 trillion in 2019. In 2020, due to the Government-imposed lockdowns and restricted operations of non-essential businesses as containment measures to curb the COVID-19 pandemic, the GDP decreased 4.93% YOY to RM1.35 trillion. Subsequently, the GDP recovered and grew by 2.96% YOY to RM1.39 trillion in 2021, and by 8.63% YOY to RM1.51 trillion in 2022, which exceeded the pre-COVID-19 level of RM1.42 trillion in 2019. In 2023, the national GDP increased by 3.97% YOY to RM1.57 trillion, attributed to increasing domestic demand, successful containment and management of the pandemic as well as the Government's support on the cost of living.[6] According to the Ministry of Finance, economic growth is expected to sustain and the national GDP is anticipated to grow at approximately 4.00% to 5.00% in 2024[7].

National GDP, 2017 – 2023p

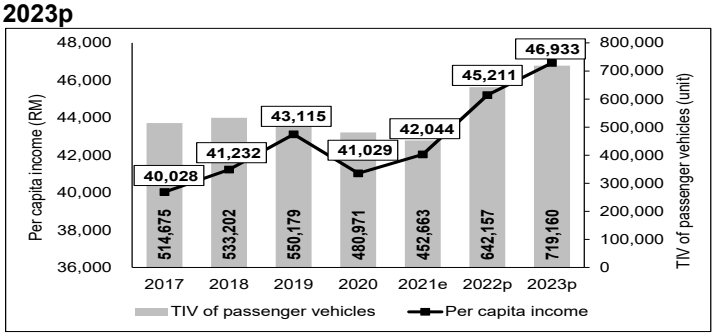


Note: e – estimate; p – preliminary.

Sources: DOSM, SMITH ZANDER

Growth in economic conditions is expected to lead to continuous recovery and increase in disposable income. The TIV of passenger vehicles generally moves in tandem with the growth in disposable income as increasing disposable income signifies greater spending power.

Per capita income and TIV of passenger vehicles, 2017 – 2023p



Note: e – estimate; p – preliminary.

Sources: DOSM, MAA, SMITH ZANDER

The disposable income of the Malaysian population, measured by per capita income, increased at a CAGR of 3.78% from RM40,028 in 2017 to RM43,115 in 2019. The TIV for passenger vehicles also increased, at a CAGR of 3.39%, from 514,675 units in 2017 to 550,179 units in 2019.

In 2020, per capita income decreased 4.84% YOY to RM41,029, in line with the adverse impacts on the economy due to the COVID-19 pandemic. Similarly, the TIV of passenger vehicles also decreased, by 12.58%, to 480,971 units in 2020. Following which, per capita income recovered by 2.47% to RM42,044 in 2021.

Despite the recovery in per capita income, the TIV for passenger vehicles dropped by 5.89% to 452,663 units due to operational restrictions, shortages of labour, as well as supply chain challenges. Further, uncertainties caused by the COVID-19 pandemic may have also resulted in more cautious spending. In 2022, per capita income recovered further by 7.53% to RM45,211, and subsequently increased 3.81% YOY to RM46,933 in 2023. In line with the increasing trend of per capita income, the TIV of passenger vehicles recorded YOY growth of 41.86% to 642,157 units and 11.99% to 719,160 units in 2022 and 2023 respectively.

- **Car-centric culture in Malaysia drives the growth of the automotive industry, which in turn benefits automotive parts and components manufacturers**

Malaysia has a car-centric culture as people generally prefer to own and drive their own vehicles. In 2021, there was a total of 15.81 million cars on the road in Malaysia.[8] This could be due to:

i. Affordable fuel – Certain grades of petrol and diesel are subsidised by the Malaysian Government to shield Malaysians against high crude oil prices, allowing more Malaysians to afford and enjoy lower-priced fuel.

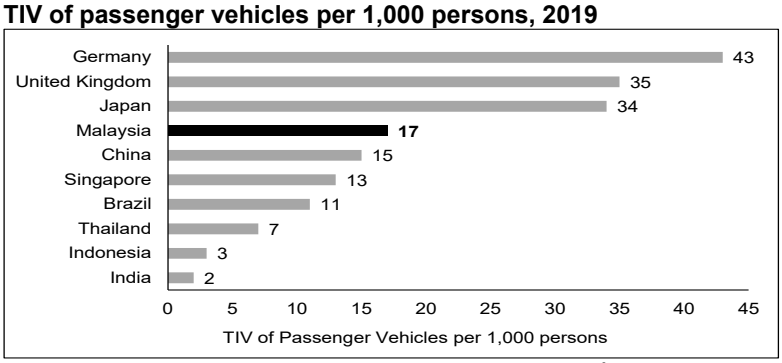
ii. Comfort of driving – People are able to enjoy personal space while driving as public transport tends to be crowded during peak hours.

In addition, certain consumer segments deem owning vehicles as representation of financial wellbeing, as well as symbol of wealth and social status. Automotive manufacturers and their dealers/distributors leverage on the car-centric culture in Malaysia to promote car-buying through marketing activities such as roadshows, advertisements and festive season promotions, as well as extended warranties and/or free after-sales service to attract buyers.

[6] *Source: Economic Outlook 2023*
[7] *Source: Economic Outlook 2024*
[8] *Source: Road Transport Department*

The car-centric culture in Malaysia is represented by the TIV of new passenger vehicles per 1,000 persons in 2019 as compared to other selected countries. In view of the impact caused by the COVID-19 pandemic to the demand for passenger vehicles, TIV of new passenger vehicles in 2019 is used in the comparison of car ownership across the different countries.

TIV of passenger vehicles per 1,000 persons, 2019



Sources: Various associations and databases[9], SMITH ZANDER

In 2019, Malaysia recorded approximately 17 new passenger vehicles sold per 1,000 persons. Other Southeast Asian countries such as Singapore, Thailand and Indonesia recorded approximately 13, 7, and 3 new passenger vehicles sold per 1,000 persons respectively. In other developing countries such as China, Brazil and India, there were approximately 15, 11 and 2 new passenger vehicles sold per 1,000 persons in 2019 respectively.

On the other hand, TIV of new passenger vehicles per 1,000 persons in developed countries such as, Germany, United Kingdom and Japan were recorded at approximately 43, 35 and 34 respectively. As shown above, car ownership in Malaysia is relatively higher than its peers in Asia, which demonstrates the car-centric culture in Malaysia.

- **Government initiatives to drive the automotive industry**

The automotive industry is one of the sectors which the Government focuses on to drive the economy of the country. The Government has introduced various incentives to attract foreign automotive manufacturers to set up plants in Malaysia. Amongst others, the Government has announced full excise duty and sales tax exemptions on CKD electric vehicles ("EV") up to 31 December 2027, as well as full import duty and excise duty exemptions on CBU EV up to 31 December 2025. Excise duty exemption on EV helps reduce cost for EV assemblers, hence is expected to attract foreign automotive manufacturers to expand their operations in Malaysia. Further, sales tax exemption on EV could help to boost local demand for EV, which could in turn drive the growth of the automotive industry. Increase in foreign direct investments in the EV sector as well as greater demand for EV could create greater need for automotive parts and components, which will benefit industry players, particularly those involved in manufacturing parts and components that are used in EV and non-EV (i.e. internal combustion engine) vehicles, which includes parts and components such as seats and seat structures, body parts and absorber parts.

In addition, to maintain the competitiveness of the automotive industry of Malaysia in the global markets, the Government has introduced the National Automotive Policy 2020 ("NAP 2020") to enhance the digital industrial transformation, development and implementation of Industry Revolution 4.0 ("IR 4.0") in the Malaysian automotive industry from 2020 to 2030. The strategies announced in the NAP 2020 to support the transformation to IR 4.0 include expanding soft loan schemes to support supply chain activities, as well as leading automotive parts and components manufacturers towards smart manufacturing by establishing relevant training programmes. The initiatives under the NAP 2020 are expected to enhance operational efficiency which in turn reduces the cost of producing components with the use of IR 4.0 technologies, as well as to help industry players to remain competitive in the pursuit of high-quality parts and components.

3.2 Key industry risks and challenges

- **The automotive parts and components industry is dependent on the performance of the automotive industry**

The growth of the automotive parts and components industry is reliant on the performance of the automotive industry. The performance of the automotive industry generally correlates to economic conditions, as the wellbeing of the economy affects the demand for automotives. In 2020, the national GDP and per capita income decreased by 4.93% and 4.84% YOY respectively, in line with effects from the COVID-19 pandemic. Similarly, the TIV of passenger vehicles also decreased by 12.58% YOY in 2020. Please refer to ***Chapter 3.1 Key demand drivers*** of this IMR Report for further details on the relationship between per capita income and TIV of passenger vehicles. In the event that the economy experiences a decline, the demand for passenger vehicles may reduce. Such negative impact to the performance of automotive industry may negatively affect the automotive parts and components industry.

[9] *Comprise ASEAN Automotive Federation, DOSM, German Association of the Automotive Industry, International Organization of Motor Vehicle Manufacturers, Japan Automobile Manufacturers Association, MAA, and The World Bank.*

The automotive industry can also be adversely impacted by unexpected events or disruptions such as outbreak of diseases, such as the COVID-19 pandemic, which may lead to lockdowns. Further, lockdowns may also cause disruptions to business operations of automotive industry players, which may cause negative impacts on automotive parts and components industry players.

- **The automotive industry as well as the automotive parts and components industry face risks arising from political, economic, social and regulatory changes**

The performance of the automotive industry as well as automotive parts and components industry are exposed to any uncertainties in the political, economic, social and legal environment in the country. Events such as changes in political leadership, terrorisms, wars, strikes, riots, changes in tax policies, amongst others, could lead to adverse impacts on the operations of industry players, hence negatively affecting their business and financial performances. Further, any introduction and implementation of new regulations governing the automotive industry or automotive parts and components industry may also affect the operations of industry players.

In addition, any uncertainties arising from political, economic, social and regulatory changes may also cause consumers to be more cautious with their spendings, which could lead to reduce in demand for high-priced goods, including automotives. This may in turn cause negative impacts on the financial performance of industry players.

- **Competition from other industry players**

Automotive parts and components industry players compete with other industry players in terms of technical capabilities, manufacturing capacities, pricing, quality of products and services, as well as delivery timing. Industry players generally compete with each other during tendering stage. Local automotive manufacturers and automotive assemblers typically continue to engage automotive parts and components industry players that have been identified as qualified suppliers for a period of time due to the time-consuming qualification process. As such, it is important for industry players to remain competitive in order to successfully secure sales from their customers (i.e local automotive manufacturers and automotive assemblers). Failure to constantly remain competitive can cause industry players to lose their abilities to retain existing customers or secure new customers, hence affecting their business and financial performances.

4 COMPETITIVE LANDSCAPE

4.1 Overview

This section will focus on the metal stamping segment of the automotive parts and components industry in Malaysia as KHPT Group is principally involved in the manufacturing and sale of metal stamped automotive parts and components in Malaysia.

Industry players in the metal stamping segment of the automotive parts and components industry generally compete in terms of technical capabilities, manufacturing capacities, pricing, quality of products and services and delivery timing. Industry players who have strong technical capabilities in understanding and meeting customers' specifications have competitive advantage as they are able to modify and adapt their manufacturing processes to ensure that the automotive parts and components manufactured are of high quality and in accordance to customers' requirements. Further, the technical capability in process engineering also increases the competitiveness of industry players as it allows them to add value to their customers by helping their customers achieve cost efficiencies.

The metal stamping segment of the automotive parts and components industry is competitive with substantial barriers to entry. Industry players are required to go through qualification processes with their customers in various aspects, such as technical capabilities, manufacturing capacities, product consistency and product costing, prior to being appointed by their customers. These qualification processes are stringent and lengthy, hence customers will generally continue to engage with manufacturers that they have qualified to ensure consistency in quality and delivery. Automotive parts and components industry players also require high initial capital for the purchase of machinery and equipment. Further, investments are also required for the design, development and manufacture of moulds and dies, which are required in metal stamping processes where flat metal sheets are pressed against the moulds and dies to form the required shapes and dimensions.

4.2 Key industry players

The basis for selection of key industry players in the automotive parts and components industry that compete with KHPT Group is based on the following criteria:

- Companies involved in the manufacturing of metal-stamped seat structures, car body parts or other metal parts, and
- Companies which recorded more than RM30.00 million in revenue based on their respective latest available financial years.

8. IMR REPORT *(Cont'd)*

Company[(i)]	Examples of metal parts and components supplied	Latest available financial year	Revenue[(ii)] (RM million)	Gross profit / (loss) margin (%)	Profit / (loss) after tax margin (%)
EP Manufacturing Berhad	Cross member, dash panel, door panel, car lamps, suspension, and other metal parts	31 December 2022	516.33	7.15	0.08
Autokeen Sdn Bhd[(iii)]	Body parts and other metal parts	30 June 2023	265.58	4.02	1.20
Erect Engineering Pressworks Sdn Bhd	Body parts and other metal parts	31 March 2023	228.22	13.25	2.84
LSF Technologies Sdn Bhd	Door hinge side, roof side rail, roof center, windshield header, center body pillar, and other metal parts	31 December 2022	226.79	7.11	1.53
Industrial Quality Management Sdn Bhd[(iii)]	Panel rear end assembly, front deck assembly, pedal clutch, pedal assembly brake module, and other metal parts	31 March 2023	189.62	10.04	1.32
Ingress Technologies Sdn Bhd (subsidiary of Ingress Corporation Bhd)[(iii)]	Front-end module, floor module assembly, body lower back, panel assembly, cross beam, and other metal parts	31 January 2023	172.09	7.22	0.45
United Vehicle Industries Sdn Bhd	Cross member assembly, floor cross, bracket oil filter, bracket air cleaner, member front panel, and other metal parts	28 February 2023	139.19	13.03	6.84
Y&L Metal Technology Sdn Bhd	Safety belt, automotive frame, car seat rail, automotive board mounting, automotive exhaust, and other metal parts	30 June 2023	117.19	28.90	17.97
KHPT Holdings Berhad	Body parts, seat structures and other parts (i.e. engine parts and absorber parts)	31 December 2022	116.25	14.74	7.57
Anshin Precision Industries Sdn Bhd	Seat structures and other metal parts	31 December 2022	58.41	4.35	(5.70)
Burnmark Industries Sdn Bhd[(iii)]	Cross member assembly, panel body lower back inner, lid assembly fuel filler opening, brake and acceleration pedal module, and other metal parts	31 December 2022	55.27	11.62	1.47
S.A. Networks Technical Industries Sdn Bhd	Seat structures and other metal parts	31 December 2022	52.84	5.58	0.98
Dermaga Sari Holdings Sdn Bhd	Body parts and other metal parts	31 December 2022	38.11	9.45	1.10
Aureumaex Industries (M) Sdn Bhd	Seat structures and other metal parts	31 December 2022	35.09	1.71	(30.78)

Notes:

(i) An industry player can be a Tier 2 manufacturer in certain arrangements (i.e. appointed by a Tier 1 manufacturer), and the same industry player can be a Tier 1 manufacturer in other arrangements (i.e. appointed directly by a local automotive manufacturer or automotive assembler).

(ii) Revenue of industry players may include revenue derived from other business activities (i.e. business activities other than the manufacturing of metal-stamped seat structures, car body parts or other metal parts) and/or revenue derived from countries outside Malaysia.

(iii) These companies are customers of KHPT Group. Despite being KHPT Group's customers, these companies are deemed industry players that compete with KHPT Group due to their involvement in the manufacturing of metal stamped automotive parts and components either as Tier 1 manufacturers or Tier 2 manufacturers.

- *Latest available as at the date of research completion.*
- *The identified key industry players include all industry players that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that do not have online and/or published media presence, or are operating with minimal public advertisement, and hence SMITH ZANDER is unable to state conclusively that the list of industry players identified is exhaustive.*

Sources: KHPT Group, various company websites, Companies Commission of Malaysia, SMITH ZANDER

4.3 Market share

KHPT Group captured a market share of approximately 0.41%, computed based on its revenue of RM114.08 million in the FYE 2023 against the manufacturing sales value of metal parts and accessories for motor vehicles of RM27.58 billion in Malaysia in 2023.

5 PROSPECTS AND OUTLOOK

The Malaysian automotive industry, represented by TIV, recorded a CAGR of 2.37% from 576,625 units in 2017 to 604,287 units in 2019. The TIV decreased 12.37% YOY to 529,514 units in 2020, and further decreased by 3.89% YOY to 508,911 units in 2021 pursuant to the outbreak of COVID-19 pandemic. The TIV recovered by 41.71% YOY to 721,177 units in 2022, and subsequently increased by 10.89% YOY to 799,731 units in 2023. This was mainly due to the transition to endemic phase, fulfilment of pent-up car bookings, resilient domestic economy as well as improved supply chain environment. The automotive industry is expected to normalise in 2024 after recording an all-time high TIV in 2023. MMA forecasts the TIV of the automotive industry to normalise from 799,731 units in 2023 to 740,000 units in 2024, and the TIV of passenger vehicles to also normalise from 719,160 units in 2023 to 660,000 units in 2024.

In terms of the automotive parts and components industry, the manufacturing sales value of metal parts and accessories for motor vehicles increased from RM15.82 billion in 2017 to RM27.58 billion in 2023 at a CAGR of 9.71%. In view of the anticipated normalisation of TIV in Malaysia in 2024, SMITH ZANDER forecasts the manufacturing sales value of metal parts and accessories for motor vehicle to be registered at RM25.53 billion in 2024. Moving forward, the growth of the automotive industry as well as the automotive parts and components industry is expected to be driven by the following:

- **Introduction of new vehicle models and localisation of parts and components**

Continuous design and development activities of local automotive manufacturers for new as well as existing vehicle models lead to the sustained demand for new automotive parts and components, which is expected to drive the growth of automotive parts and components industry players (e.g. Tier 1 and Tier 2 manufacturers).

- **Economic recovery and increasing disposable income**

The improving economic conditions in Malaysia is expected to lead to continuous recovery and increase in disposable income of the Malaysian population. Per capita income in Malaysia increased at a CAGR of 3.78% from RM40,028 in 2017 to RM43,115 in 2019. In 2020, per capita income decreased 4.84% YOY to RM41,029, in line with the adverse impacts on the economy arising from the COVID-19 pandemic. Following which, per capita income recovered by 2.47% to RM42,044 in 2021. In 2022, per capita income recovered further by 7.53% to RM45,211, and subsequently increased 3.81% YOY to RM46,933 in 2023. Further, according to the Ministry of Finance, economic growth is expected to sustain and the national GDP is anticipated to grow at approximately 4.00% to 5.00% in 2024. The anticipated growth of the general economy is expected to lead to higher disposable income, hence driving the demand for high-priced goods, including passenger vehicles. This will in turn drive the growth of automotive as well as automotive parts and components industry players.

- **Car-centric culture in Malaysia**

Malaysia recorded 17 new passenger vehicles sold per 1,000 persons in 2019, which was relatively higher than its peers in Asia, such as, amongst others, China (15 new passenger vehicles sold per 1,000 persons), Singapore (13 new passenger vehicles sold per 1,000 persons), Thailand (7 new passenger vehicles sold per 1,000 persons) and Indonesia (3 new passenger vehicles sold per 1,000 persons). This reflects the car-centric culture in Malaysia, as Malaysians generally prefer owning cars due to the affordability of fuel, the comfort of driving, as well as the perception of car ownership as a symbol of financial wellbeing. This is expected to sustain the demand for passenger vehicles, hence driving the growth of automotive as well as automotive parts and components industry players.

- **Government initiatives to drive the automotive industry**

The Malaysian Government has introduced and implemented various initiatives to drive the automotive industry as well as the automotive parts and components industry. This includes, amongst others, full excise duty and tax exemptions on CKD EV, full import duty and excise duty exemptions on CBU EV, as well as the NAP 2020 to enhance digital industrial transformation by providing soft loan schemes and relevant training programs. These initiatives are expected to drive the demand for EV in the local markets and provide growth opportunities to automotive industry as well as automotive parts and components industry players.