25 May 2021

Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM3.14 @ 24 May 2021**

UMW Holdings (UMWH MK)

BUY (maintain)
Up/Downside: +15.8%

Price Target: RM3.64
Previous Target (Rating): RM3.50 (Buy)

"A decent quarter"

Share price performance

	1M	3M	12M
Absolute (%)	-7.5	8.0	47.6
Rel KLCI (%)	-5.3	7.0	34.9

	BUY	HOLD	SELL
Consensus	13	2	-

Source: Bloomberg

Stock Data

Sector	Auto & Autoparts
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	3,621.7/874.4
Avg daily vol - 6mth (m)	1.1
52-wk range (RM)	2.06-3.64
Est free float	29.0%
Stock Beta	1.83
Net cash / (debt) (RMm)	621.6
ROE (CY21E)	8.7%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

PNB	52.7%
EPF	13.1%
KWSP	8.7%

Source: Affin, Bloomberg

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In-line with expectations

- **1Q21 core net profit of RM90.7m (+74.5% yoy) was within our and consensus estimates on the back of higher revenue contribution and higher associate profit from Perodua**
- **QoQ, revenue and core net profit declined by 8.9% and 57.2% respectively on lower automotive and aerospace sub segment sales**
- **We raise our 2021-23E earnings by 1.5-5.2% largely to input a higher ASP assumption for Perodua. Post rolling forward our base year to 2022, we arrive at a higher SOTP derived TP of RM3.64.**

1Q21 core net profit at RM90.7m (+74.5% yoy)

UMW's 1Q21 revenue increased by 39.4% yoy on the back of higher automotive sales (+51.1% yoy) supported by the extension of SST exemption and new model launches. Meanwhile, equipment segment sales increased by 15% yoy as it benefitted from a recovery in infrastructure projects from both its local and overseas markets, except Myanmar. This was however partially offset by lower contribution from its manufacturing & engineering (M&E) segment (-7.4% yoy) due to lower delivery of fan cases for its Aerospace sub-segment. Excluding one off, core net profit came in at RM90.7m (+74.5% yoy) on the back of higher revenue contribution and higher associate profit from Perodua (+199.8% yoy) – results was broadly in-line with our expectations, accounting for 31% of ours and 29% of consensus' full year estimates, as we expect a weaker 2H21 post the expiry of the SST exemption.

Sequentially weaker on lower unit sales

Sequentially, revenue and core net profit saw a decline of 8.9% qoq and 57.2% qoq respectively on the back of lower contribution from its Automotive (decline arising from higher spending in preceding quarter on anticipation of SST exemption to end in 31st Dec 2020) and M&E (lower contribution from the aerospace sub-segment). To note, Toyota/Lexus unit sales for 1Q21 was at 17.1k (-22% qoq/ 62.1% yoy) whereas Perodua's unit sales was 57.9k (-22.9% qoq / 28.8% yoy)

Maintain BUY

We raise our 2021-23E earnings estimates slightly by 1.5-5.2% taking into account higher ASPs for Perodua at RM50.4k for FY21 (vs RM49.8k previously). We roll forward our earnings horizon to arrive at a higher SOTP derived TP of RM3.64. Maintain BUY. Despite the prolonged pandemic challenges, we believe SST exemption and new launches would likely continue to support sales in 2Q21 and going into 2H21. Downside risks: (i) depreciation of Ringgit (ii) tightening of hire purchase approvals, and (iii) intense competition in the automotive and equipment segments.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	11,739.1	9,554.6	10,769.1	11,858.9	12,428.7
EBITDA (RMm)	636.8	712.0	688.3	710.6	725.0
Pretax profit (RMm)	754.8	400.7	692.1	693.6	708.9
Net profit (RMm)	454.4	204.6	363.4	364.1	372.2
EPS (sen)	38.9	17.5	31.1	31.2	31.9
PER (x)	8.1	17.9	10.1	10.1	9.9
Core net profit (RMm)	223.7	284.9	308.4	329.1	337.2
Core EPS (sen)	19.1	24.4	26.4	28.2	28.9
Core EPS growth (%)	(59.9)	27.4	8.2	6.7	2.4
Core PER (x)	16.4	12.9	11.9	11.1	10.9
Net DPS (sen)	6.0	2.0	5.0	6.0	6.0
Dividend Yield (%)	1.9	0.6	1.6	1.9	1.9
EV/EBITDA	7.4	5.7	5.6	4.7	4.6
Chg in EPS (%)			+5.2	+3.1	+1.5
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg	Comments
Revenue	2,119	3,242	2,954	*(8.9)*	*39.4*	YoY increase contributed by higher automotive (+51.1%), equipment (+15%) sales but was partially offset by lower manufacturing & engineering sales (-7.4%)
Op costs	(1,974)	(2,926)	(2,789)	*(4.7)*	*41.3*	
EBITDA	145.4	316.3	165.1	*(47.8)*	*13.6*	
EBITDA margin (%)	*6.9*	*9.8*	*5.6*	*-4.2ppt*	*-1.3ppt*	
Depn and amort	(92.0)	(97.2)	(81.8)	*(15.9)*	*(11.1)*	
EBIT	**53.3**	**219.1**	**83.3**	*(62.0)*	*56.2*	
EBIT margin (%)	*2.5*	*6.8*	*2.8*	*-3.9ppt*	*0.3ppt*	
Int expense	(29.7)	(29.1)	(27.4)	*(5.9)*	*(7.9)*	
Int and other inc	17.9	13.9	12.8	*(8.4)*	*(28.8)*	
Associates	29.2	107.6	87.5	*(18.7)*	*>100*	
Exceptional items	(7.7)	(74.6)	6.5	*>100*	*>100*	Mainly consisting of gain on disposal of PPE, net disposal of investments and PPE written off
Pretax	**63.0**	**236.9**	**162.7**	*(31.3)*	*158.1*	
Tax	(14.2)	(26.3)	(39.3)	*49.5*	*176.3*	
Tax rate (%)	*(22.6)*	*(11.1)*	*(24.2)*	*-13.1ppt*	*-1.6ppt*	
MI	(4.5)	(73.1)	(26.1)	*(64.3)*	*>100*	
Net profit	**44.3**	**137.4**	**97.3**	*(29.2)*	*>100*	
EPS (sen)	3.79	11.76	8.33	*(29.2)*	*>100*	
Core net profit	**52.0**	**212.1**	**90.7**	*(57.2)*	*74.5*	In line with expectation

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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