

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: RM3.58

Previously: RM3.45

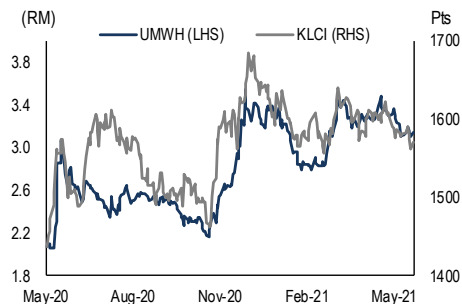
Current Price: RM3.14

Capital upside	14.0%
Dividend yield	1.3%
Expected total return	15.3%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price



Historical return (%)	1M	3M	12M
Absolute	-6.3	9.4	49.5
Relative	-4.1	8.4	36.7

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,668
3-mth average volume ('000)	1,087
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

Permodalan Nasional Berhad	59.7%
Employess Provident Fund	13.1%
Kumpulan Wang Persaraan	8.7%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	125	326	365
EPS - core (sen)	10.7	27.9	31.2
P/E (x)	29.4	11.2	10.0

UMW Holdings

Leveraging on strong automotive demand

Reported core PATMI at RM80.7m for 1QFY21, in line with HLIB's forecast (24.7%) and consensus (25.7%). Performance for the quarter was mainly driven by automotive segment. Management has revealed its aspiration of Revenue RM20bn, PBT RM2bn and PATMI of RM1bn under its new CREST@2021 framework. Adjusted earnings for FY21-22 by -3.7% and +4.5% respectively and introduce FY23 earnings at RM408m. Maintain BUY with higher TP: RM3.58 (from RM3.45) based on 10% discount to SOP: RM3.96.

Within expectations. UMW reported core PATMI of RM80.7m (adjusted for quarterly provision of RM17.5m Perps distribution) for 1QFY21, which was in line with HLIB's FY21 forecast (24.7%) and consensus (25.7%). Performance for the quarter was mainly driven by automotive segment, leveraging on SST exemption measures. We have excluded net EIs of -RM0.9m in 1QFY21, with the gain from reversal of impairments and asset disposal was offset by the forex loss and derivative loss.

Dividend. None.

QoQ. Adjusted for quarterly distribution for Perpetual Sukuk, UMW core PATMI declined 29.9% QoQ, mainly attributed to lower contribution from automotive segment with overall group car sales volume dropped 22.7% due to accelerated deliveries by end of 4QFY20 and lack of starting inventory and supply constraints in 1QFY21.

YoY. Reverted to core earnings of RM80.7m (from loss of -RM19.5m in 1QFY20), due to combinations of stronger accelerated car sales during SST exemption period in 1QFY21, on-going cost cutting measures and low base effect in 1QFY20 being affected by Covid-19 and implementation of strict MCO1.0.

Automotive. Management remains confidence of the strong automotive performance in FY21 with indicative outstanding orders of 20k units for Toyota (implied up to 3 months waiting period) and 70k units for Perodua (implied 3.0-3.5 months waiting period). The industry has started approaching the government to further extend the SST exemption to 31 Dec 2021. The group is set to achieve sales target of 302k units for 2021 (62k units for Toyota and 240k units for Perodua).

Equipment. The segment has been affected by the on-going Myanmar political crisis. Management is expanding its product range and services, leveraging onto the recovery program and infrastructure spending in other countries.

M&E. Automotive parts will leverage on the recovery of local car production volume, for earnings sustainability. Kayaba will tap onto its +15% capacity expansion in Nov 2020 to meet strong automotive demand while lubricant business is planning for a 70% capacity expansion by end 2022. On the other hand, Aerospace manufacturing is expected to face further slowdown in 2021 and only expected to fully recover in 2023.

Group. Management has revealed a new framework CREST@2021, targeting to achieve Revenue RM20bn, PBT RM2bn and PATMI RM1bn by latest 2030. The growth will be driven by organic growth of existing businesses and M&A initiatives.

Forecast. Adjusted earnings for FY21-22 by -3.7% and +4.5% respectively after incorporating information from Annual Report. Introduce FY23 earnings at RM408m.

Maintain BUY, TP: RM3.58. Maintain BUY with higher TP: RM3.58 (from RM3.45), based on unchanged discount of 10% to SOP of RM3.96 (from RM3.83) post earnings adjustments. UMW will continue to leverage onto the strong automotive sales in 2021 driven by SST exemption, attractive new models and economic recovery (driven by stimulus plan and vaccination program).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	1,472	2,051	1,630	1,497	1,380
Receivables	1,590	1,439	1,462	1,489	1,492
Inventories	1,243	1,059	1,149	1,133	1,105
PPE	2,702	2,463	2,477	2,391	2,307
Others	4,128	4,435	4,575	4,719	4,875
Assets	11,135	11,447	11,293	11,228	11,160
Payables	941	1,236	1,259	1,200	1,127
Debt	3,608	3,564	3,110	2,764	2,419
Others	488	230	230	230	230
Liabilities	5,037	5,030	4,598	4,194	3,776
Shareholder's equity	3,696	3,868	4,124	4,443	4,769
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,304	1,451	1,472	1,494	1,517
Equity	6,098	6,417	6,694	7,034	7,384

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	755	401	605	657	711
D&A	345	374	376	376	374
Working capital	(90)	629	(90)	(70)	(49)
Taxation	(112)	(64)	(106)	(113)	(118)
Others	(570)	(337)	(279)	(289)	(313)
CFO	328	1,003	506	561	606
Capex	(345)	(221)	(390)	(290)	(290)
Asset disposal	506	57	0	0	0
Acquisitions	(9)	28	0	0	0
Others	205	(32)	140	144	156
CFI	357	(167)	(250)	(146)	(134)
Changes in debt	(323)	(43)	(454)	(345)	(345)
Shares issued	0	0	0	0	0
Dividends	(76)	(23)	(70)	(47)	(82)
Distribution to Perps	(70)	(70)	(70)	(70)	(70)
Others	(116)	(101)	(82)	(87)	(92)
CFF	(584)	(238)	(677)	(549)	(589)
Net cash flow	101	598	(421)	(133)	(117)
Forex	(4)	(3)	0	0	0
Others	64	(16)	0	0	0
Beginning cash	1,312	1,472	2,051	1,630	1,497
Ending cash	1,472	2,051	1,630	1,497	1,380

Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	11,739	9,555	10,445	10,788	11,054
EBITDA	867	658	758	789	805
EBIT	521	284	382	413	431
Net finance cost	(58)	(87)	(56)	(45)	(32)
Associates & JV	292	204	279	289	313
Profit before tax	755	401	605	657	711
Tax	(109)	(87)	(106)	(113)	(118)
Operation net profit	646	313	499	544	593
Discontinued operation	(17)	0	0	0	0
Reported net profit	629	313	499	544	593
Minority interest	(105)	(48)	(103)	(109)	(115)
Perpetual sukuk	(99)	(41)	(85)	(88)	(90)
Reported PATMI	454	195	326	365	408
Exceptionals	(202)	10	0	0	0
Core PATMI	253	205	326	365	408
Concensus			313	343	344
HLIB/Consensus (%)			104.1%	106.4%	118.8%

Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Reported EPS (sen)	38.9	16.7	27.9	31.2	35.0
Core EPS (sen)	21.6	17.5	27.9	31.2	35.0
Core P/E (x)	14.5	17.9	11.2	10.0	9.0
DPS (sen)	6.0	4.0	4.0	6.0	8.0
Dividend yield (%)	1.9%	1.3%	1.3%	1.9%	2.5%
BVPS (RM)	3.16	3.31	3.53	3.80	4.08
P/B (x)	1.0	0.9	0.9	0.8	0.8
EBITDA margin	7.4%	6.9%	7.3%	7.3%	7.3%
EBIT margin	4.4%	3.0%	3.7%	3.8%	3.9%
PBT margin	6.4%	4.2%	5.8%	6.1%	6.4%
Net margin	-0.8%	-0.4%	-0.8%	-0.8%	-0.8%
ROE	7.2%	5.4%	8.2%	8.5%	8.9%
ROA	2.3%	1.8%	2.9%	3.2%	3.6%
Net gearing*	-57.8%	-39.1%	-35.9%	-28.5%	-21.8%

Assumptions

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Sales (Unit)					
Toyota	69,391	58,501	62,000	62,000	62,000
Lexus	918	819	800	800	800
Perodua	240,341	220,163	240,105	245,128	250,275
Average Price (RM)					
UMW	103,315	97,246	105,025	105,025	105,025
Perodua	42,758	41,749	43,537	42,441	42,783

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Revenue	2,119.2	3,242.3	2,954.2	-8.9%	39.4%
EBITDA	101.8	204.9	188.3	-8.1%	85.1%
EBIT	9.7	107.7	106.5	-1.1%	993.4%
Net finance expense	(20.8)	(20.6)	(19.6)	-4.7%	-5.7%
Associates	29.2	107.6	87.5	-18.7%	199.8%
Eis	45.0	42.1	(11.7)		
Reported PBT	63.0	236.9	162.7	-31.3%	158.1%
Tax	(14.2)	(26.3)	(39.3)	49.5%	176.3%
Reported operation net profit	48.8	210.6	123.4	-41.4%	152.8%
Reported PATMI	44.3	137.4	97.3	-29.2%	119.5%
Eis & Sukuk Adjustments	(63.8)	(22.4)	(16.6)	-25.9%	-74.0%
Core PATMI	(19.5)	115.1	80.7	-29.9%	N.M.
Reported EPS (Sen)	3.8	11.8	8.3	-29.2%	119.5%
Core EPS (Sen)	(1.7)	9.8	6.9	-29.9%	- N.M.
				pts	pts
EBITDA margin (%)	4.8%	6.3%	6.4%	0.1	1.6
EBIT margin (%)	0.5%	3.3%	3.6%	0.3	3.1
Core PATMI margin (%)	-0.9%	3.5%	2.7%	(0.6)	2.3

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Figure #2 Quarterly results comparison by segment

	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Reported Revenue					
Automotive	1,585.9	2,668.2	2,396.0	-10.2%	51.1%
Equipment	289.2	317.9	332.5	4.6%	15.0%
Manufacturing & Engineering	248.5	244.2	230.3	-5.7%	-7.4%
Total	2,123.6	3,230.4	2,958.7	-8.4%	39.3%
Reported PATMI					
Automotive	50.5	135.1	95.1	-29.6%	88.4%
Equipment	15.6	15.8	15.3	-3.4%	-2.2%
Manufacturing & Engineering	6.5	10.2	0.7	-92.7%	-88.6%
Others	(28.3)	(23.7)	(13.8)	-41.5%	-51.2%
Total	44.3	137.4	97.3	-29.2%	119.5%
Core PATAMI	(19.5)	115.1	80.7	-29.9%	N.M.

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Figure #3 UMW automotive sales statistics

FYE Dec (RMm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Toyota	10,415	21,667	16,990	-21.6%	63.1%
Lexus	168	314	161	-48.7%	-4.2%
Perodua	44,977	75,151	57,909	-22.9%	28.8%
Total	55,560	97,132	75,060	-22.7%	35.1%

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Figure #4 **UMW sum-of-parts valuation**

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,680.2	4.01	FY22 PE 12x
Equipment	Various	972.1	0.83	FY22 PE 10x
Manufacturing & Engineering	Various	749.3	0.64	FY22 PE 18x
700 acres Serendah land	Various	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	100.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk	90.00	(1,097.9)	(0.94)	Based on 2020 Annual Report
Holding Co Net Debt		(1,742.4)	(1.49)	Based on 2020 Annual Report
Subtotal		4,628.9	3.96	
Holding Co Discount			10.0%	
Target Price			3.58	Implied FY22 PE 12.8x
* No of Shares		1,168.3		As at end FY2020

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HOLD	Expected absolute return of -10% to +10% over the next 12 months.
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UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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