

24 May 2021

Buy

Price
 RM3.14

Target Price
 RM4.00

Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,773.6
52-week high/low (RM)	3.64 / 2.06
Avg daily turnover (RMm)	3.6
KLCI (pts)	1,571.82

Source: Bloomberg, KAF

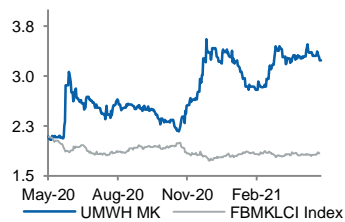
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(52.7%)
EPF	(13.1%)
Kumpulan Wang Persaraan	(8.7%)
Free Float	29.0

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	12.9	29.2	49.5
Rel Market (%)	13.9	28.5	30.5



Source: Bloomberg, KAF

UMW Holdings

1Q21 in line

UMW's 1Q21 core earnings of RM87m were in line at 28% of our and consensus estimates. Earnings rose 79% from a year earlier, mainly due to stronger auto sales and the impact of MCO 1.0 a year ago. This helped to mitigate weaker equipment margins and lower fan case deliveries. Auto sales remain on track for management's 62k sales target, with a 2- to 3-month waiting list, and the company is experiencing minimal impact from the global chip shortage. We maintain our Buy rating.

Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	11,739	9,555	10,064	10,327	10,612
Core net profit (RMm)	169	285	308	338	380
Core EPS (Sen)	14.5	24.4	26.4	28.9	32.5
EPS growth (%)	(48.1)	68.6	8	9	12
DPS (Sen)	6.0	4.0	6.0	6.0	6.0
Core PE (x)	22.3	13.2	12	11	10
Div yield (%)	1.9	1.2	2	2	2
ROE (%)	12.9	5.4	8	8	8
Net Gearing (%)	28.1	10.7	18	(7)	(29)
PBV(x)	1.0	1.0	0.9	0.8	0.8

Source: Company, KAF

1Q earnings in line. UMW's 1Q21 core earnings of RM87m were in line at 28% of our and consensus estimates. Earnings rose 79% from a year earlier on 39% top-line growth, mainly due to stronger auto sales. Sequentially, earnings fell 54% on 9% top-line decline.

Strong auto sales from low base. Auto PBT rose 171% to RM146m, on 51% top-line growth. This was on a low base and MCO 1.0 being implemented a year ago, which halted auto sales and production. PBT margin improved 3ppts to 6%. 1Q also benefited from the sales tax exemption and new model launches.

Higher auto deliveries. Notably, UMW delivered 17k units in 1Q, up 62% from 11k a year earlier. New models launched in 1Q include Innova and Fortuner updates and all-new Corolla Cross and Harrier. Perodua sales volume rose 29% to 57k. The Ativa was launched on 3 March, with 9k units delivered since.

Weaker equipment and M&E. Despite 15% top-line growth, equipment PBT fell 15% to RM22m. While demand for equipment improved along with increasing economic activity, margins were affected by higher operation costs. Consequently, PBT margin contracted 2ppts to 7%. PBT for the M&E division fell 20% to RM8m, as fan case deliveries were impacted by the weak aviation sector, but this was partly mitigated by better lubricant sales.

Auto outlook. Management remains optimistic of UMW sales volume growing 5% to 62k this year. As it is, 4M sales of 26k already make up 43% of its sales target (and 41% of our 63.8k forecast). Notably, the semiconductor chip shortage only impacts the Camry and Harrier models, according to management. UMW's top 3 selling models — Yaris, Vios, and Hilux (which make up 85% of sales) — are unaffected by the chip shortage. It currently has 20k bookings with a 2- to 3-month waiting list.

Perodua outlook. Similarly, the chip shortage is currently only affecting Perodua's Myvi model, but management is actively resolving this issue by redesigning, as well as seeking potential new vendors. We are unperturbed by this, as other models are unaffected; thus, we maintain our 237k sales forecast. Perodua's 4M sales of 78k currently make up 33% of our and management's 240k target.

M&E outlook. Meanwhile, management expects the aerospace arm to fall into losses this year due to lower deliveries (at 55% of pre-Covid volume), before returning to profitability next year. Nevertheless, management is investing RM50m to increase its lubricant capacity (to be completed at end-2022) to meet higher demand.

Maintain Buy. We maintain our Buy recommendation and SOP-based TP of RM4.00. In our view, UMW remains a strong proxy to market leader Perodua and Toyota, which collectively hold 54% of TIV. Upsides include extension of sales tax exemption until year-end, while a weakening MYR and a more stringent lockdown are key downside risks.

Analyst

Max Koh
 (603) 2171 0505
 maxkoh@kaf.com.my

Exhibit 1: Results summary

FYE 31 Dec	1Q20	4Q20	1Q21	yoy %	qoq%	FY21F	1Q/F
Revenue	2119	3243	2954	39%	-9%	10064	29%
Operating profit	46	144	90	97%	-38%	372	24%
Investment income	18	14	13	-29%	-8%	55	23%
Finance cost	(30)	(29)	(27)	-8%	-6%	(116)	24%
JV & Associates	29	108	87	200%	-19%	286	31%
Pretax profit	63	237	163	158%	-31%	596	27%
Tax	(14)	(26)	(39)	176%	49%	(113)	35%
Profit after tax	49	211	123	153%	-41%	483	26%
MI & perpetual sukuk holders	(4)	(73)	(26)	481%	-64%	(175)	15%
Net profit	44	137	97	119%	-29%	308	32%
Core net profit	49	189	87	79%	-54%	308	28%
EPS (sen)	3.8	11.8	8.3				
Core EPS (sen)	4.2	16.2	7.5				
Net DPS (sen)	0.0	4.0	0.0				
BV (RM)	3.20	3.25	3.40				
EBIT margin (%)	2%	4%	3%			4%	
PBT margin (%)	3%	7%	6%			6%	
PAT margin (%)	2%	6%	4%			5%	
Net margin (%)	2%	4%	3%			3%	
Core net margin (%)	2%	6%	3%			3%	
Effective tax rate (%)	23%	11%	24%			19%	

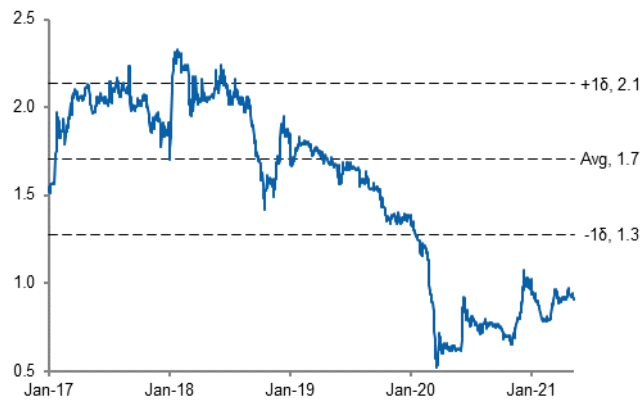
Source: Company, KAF

Exhibit 2: Segmental breakdown

	1Q20	4Q20	1Q21	yoy %	qoq %	FY21F	1Q/F
Automotive	1586	2668	2396	51%	-10%	8,078	30%
Equipment	289	318	332	15%	5%	1,160	29%
Manufacturing	249	244	230	-7%	-6%	811	28%
Others & Eliminations	(4)	12	(4)	2%	-137%		
Total Revenue (RM mil)	2119	3242	2954	39%	-9%	10,064	29%
Automotive	54	191	146	171%	-24%	448	32%
Equipment	26	19	22	-15%	19%	151	14%
Manufacturing	10	23	8	-20%	-63%	44	19%
Others	(27)	5	(13)	-51%	-384%		
Total PBT (RM mil)	63	237	163	158%	-31%	596	27%
Automotive PBT margin (%)	3%	7%	6%			6%	
Equipment PBT margin (%)	9%	5.8%	7%			13%	
Manufacturing PBT (%)	4%	9%	4%			5%	
Total PBT margin (%)	3%	7%	6%			6%	
Unit sales	1Q20	4Q20	1Q21	yoy %	qoq %	FY21F	1Q/F
Toyota & Lexus	10,583	21,981	17,151	62%	-22%	63,800	27%
Perodua	44,977	75,151	57,909	29%	-23%	237,000	24%
Grand total	55,560	97,132	75,060	35%	-23%	300,800	25%

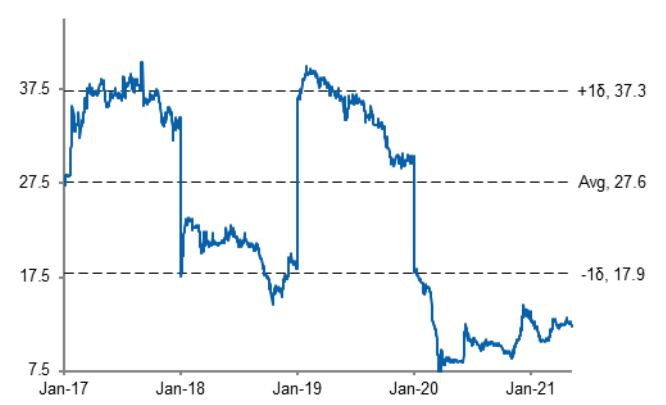
Source: Company, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Revenue	11,739.1	9,554.6	10,063.8	10,327.4	10,611.9
EBITDA	872.2	631.7	672.9	732.3	787.4
Depreciation/Amortisation	(345.1)	(374.1)	(301.2)	(294.5)	(287.8)
Operating income (EBIT)	527.1	257.7	371.7	437.8	499.6
Other income & associates	275.7	204.1	285.6	294.7	303.4
Net interest	(61.6)	(61.1)	(61.0)	(98.2)	(106.2)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	741.2	400.7	596.2	634.3	696.8
Taxation	(112.5)	(77.7)	(113.3)	(120.5)	(139.4)
Minorities/pref dividends	(174.0)	(118.3)	(174.5)	(176.1)	(177.8)
Net profit	454.7	204.6	308.4	337.6	379.6
Core net profit	169.0	284.9	308.4	337.6	379.6

Balance Sheet

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	2,701.7	2,463.0	2,076.8	1,697.4	1,324.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	865.1	911.5	911.5	911.5	911.5
Total non-current assets	5,488.2	5,455.3	5,069.2	4,689.7	4,317.0
Cash & equivalent	1,472.1	2,050.9	1,764.4	2,904.9	4,088.5
Stock	1,589.6	1,439.3	1,553.8	1,578.7	1,605.5
Trade debtors	1,449.1	1,187.7	1,151.2	1,167.5	1,185.2
Other current assets	1,082.5	1,313.9	2,271.3	2,069.1	1,860.7
Total current assets	5,593.2	5,991.8	6,740.7	7,720.2	8,739.8
Trade creditors	2,076.6	2,156.2	1,969.8	1,981.4	1,994.0
Short-term borrowings	386.4	523.8	125.3	117.3	110.4
Other current liabilities	138.1	116.2	116.2	116.2	116.2
Total current liabilities	2,601.0	2,796.2	2,211.3	2,214.9	2,220.6
Long-term borrowings	2,123.4	1,942.3	2,406.9	2,492.0	2,578.0
Other long-term liabilities	312.1	291.5	291.5	289.2	286.9
Total long-term liabilities	2,435.6	2,233.7	2,698.4	2,781.2	2,864.8
Shareholders' funds	3,696.4	3,868.1	4,176.5	4,514.2	4,893.8
Minority interests	2,401.7	2,549.0	2,723.6	2,899.7	3,077.5

Cash flow Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	741.2	400.7	596.2	634.3	696.8
Depreciation/Amortisation	345.1	374.1	301.2	294.5	287.8
Net change in working capital	(142.9)	496.1	(264.5)	(29.6)	(31.8)
Others	(688.4)	(324.5)	(278.3)	(257.5)	(277.0)
Cash flow from operations	255.0	946.3	354.6	641.7	675.7
Capital expenditure	(345.5)	(95.5)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	(1,187.9)	(1,080.8)	(1,099.3)	(1,099.3)	(1,099.3)
Others	1,963.0	1,065.8	640.6	1,757.5	1,763.4
Cash flow from investing	429.7	(110.5)	(558.7)	558.2	564.2
Debt raised/(repaid)	(323.0)	(43.1)	79.0	81.0	84.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(75.9)	(23.4)	(46.7)	(70.1)	(70.1)
Others	(185.3)	(171.1)	(70.3)	(70.3)	(70.3)
Cash flow from financing	(584.2)	(237.5)	(38.0)	(59.4)	(56.4)
Net cash flow	100.5	598.3	(242.1)	1,140.5	1,183.5
Cash b/f	1,315.2	1,411.5	2,006.5	1,764.4	2,904.9
Cash c/f	1,411.5	2,006.5	1,764.4	2,904.9	4,088.5

Key Ratios

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue growth (%)	3.9	(18.6)	5.3	2.6	2.8
EBITDA growth (%)	6.9	(27.6)	6.5	8.8	7.5
Pretax margins (%)	6.3	4.2	5.9	6.1	6.6
Net profit margins (%)	3.9	2.1	3.1	3.3	3.6
Interest cover (x)	8.6	4.2	6.1	4.5	4.7
Effective tax rate (%)	15.3	0.0	0.0	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	39	50	42	41	40
Stock turnover (days)	49	58	54	55	55
Creditors turnover (days)	61	81	75	70	68

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)