

# UMW Holdings Berhad

(4588 | UMWH MK) Consumer Products & Services | Automotive & Parts

**Maintain BUY**

## Prime Beneficiary of TIV Recovery

**Unchanged Target Price: RM4.30**

### KEY INVESTMENT HIGHLIGHTS

- **1Q21 result came in within expectations**
- **Core earnings up by 79%yoy driven mainly by strong automotive division performance**
- **62K UMWT volume target (+4.5%yoy) maintained with potential upside, notwithstanding chip shortage situation**
- **UMWT/Perodua sitting on strong 2-3 months/3-4 months' order backlog**
- **Re-affirm BUY at unchanged TP of RM4.30**

**1Q21 within expectations.** UMW reported core earnings of RM88m for its 1Q21 (+79%yoy). Adjusted for the semi-annual PERP profit distribution, adjusted 1Q21 earnings (of RM70m) was in-line, accounting for 24% of our FY21F and 22% of consensus.

**Auto division drove strong earnings growth.** Auto division revenue was up 51%yoy to RM2.4b, while PBT more than doubled to RM146m (+171%yoy) on improved margins and higher contribution from 38%-owned Perodua (associate earnings was up 200%yoy to RM88m). This was driven by improved volumes i.e. UMWT sales volume was up 62%yoy to 17,151 units, while Perodua sales volume was up 29%yoy to 57,909 units. The Bukit Raja plant is currently running at ~75% utilization rate on 2-shifts, while Shah Alam is running at maximum capacity (on 1-shift) and is looking at increasing to a 2-shift cycle.

**Strong outstanding bookings.** UMWT maintains its 62K volume target (+4.5%yoy) for FY21F, which is based on the assumption of June expiry of the tax holiday and already takes into account the chip shortage situation. There has been lobbying by industry players for further extension the tax holiday till year-end, which could provide more upside to this target if it materializes. As it is, UMWT is currently sitting on healthy outstanding orders i.e. 20K units, equivalent to 2-3 months waiting period. Meanwhile, Perodua was last reported to entail 55K outstanding orders, equivalent to 3-4 months waiting period. A key new launch in 2H21 will be the CKD Corolla Cross (B/C-segment SUV), which could drive more competitive pricing compared to the current CBU variant, priced at RM124K-134K.

**Drag from aerospace and Myanmar heavy equipment.** M&E division PBT contracted 20%yoy to RM8m in 1Q21, dragged by losses at the aerospace division given lower fan case volumes. However, FY21F should mark a bottom; based on the principal's projections, FY22F volumes should recover to >80% of pre-covid volume (which should be profitable levels), vs. 55% of pre-covid volumes for FY21F. For the equipment division, PBT was down 15%yoy to RM22m as Myanmar operations were impacted by the military coup.

### RETURN STATISTICS

Price @ 24 <sup>th</sup> May 2021 (RM)	3.10
Expected share price return (%)	+38.7
Expected dividend yield (%)	+1.6
<b>Expected total return (%)</b>	<b>+40.3</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.3	-4.1
3 months	-3.7	9.7
12 months	49.5	36.7

### KEY STATISTICS

FBM KLCI	1,571.82
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	29.00
Market Capitalisation (RM'm)	3,668.44
52-wk price range	RM2.06 - RM3.64
Beta vs FBM KLCI (x)	1.88
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	1.08
3-mth average daily value (RM'm)	3.58
Top Shareholders (%)	
Amanah Saham Nasional Bhd	52.71
Employees Provident Fund Board	13.12
Kumpulan Wang Persaraan	8.70


**Analyst:**  
**HAFRIZ** Hezry  
 hafriz.hezry@midf.com.my  
 03-2173 8392

## INVESTMENT STATISTICS

FYE Dec	FY18	FY19	FY20	FY21F	FY22F
Revenue (RM'm)	11,306.3	11,739.1	9,554.6	11,060.9	11,271.8
EBIT (RM'm)	522.9	332.6	257.7	426.8	421.2
Pre-tax Profit (RM'm)	786.2	754.8	400.7	555.5	559.1
Core net profit (RM'm)	341.7	266.3	240.9	290.1	299.3
FD EPS (sen)	29.2	22.8	20.6	24.8	25.6
EPS growth (%)	108.6	(22.1)	(9.5)	20.4	3.2
PER (x)	10.6	13.4	19.7	12.5	12.1
Net Dividend (sen)	7.5	6.0	4.0	5.0	5.1
Net Dividend Yield (%)	2.4	1.9	1.3	1.6	1.7

Source: Company, MIDFR

**Crest 2021.** Management unveiled a broad vision named 'Crest 2021', which aims to double group revenue to RM20b and expand PBT and net profit to RM2b and RM1b respectively by 2030. This is expected to encompass both organic and non-organic growth, with expansion focused on adjacent and complimentary businesses to the current core units. Broadly, the group foresees reduced dependency on autos (to reduce to 65%-70% of earnings mix) with equal contribution from the equipment and M&E segments.

**Recommendation.** No change to our earnings projection. Maintain BUY at unchanged SOP-derived TP of RM4.30. UMW is one of the prime beneficiaries of the TIV recovery given its dominant market share of 54% (via UMWT and Perodua). Key catalysts: (1) Launch of the CKD Corolla Cross (2) A stronger Ringgit (3) Sustained earnings improvement on the back of a low interest rate environment, underlying macro recovery and a boost from the tax holiday till June 2021. Key risk to our call is a weaker than expected demand recovery, a weakening of the Ringgit, rising commodity prices and a worse than expected global chip shortage situation. 

## Exhibit 1: UMW Sum-of-Parts Valuation

Segments	FY21F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	310	PER	12	3,719	
Equipment	59	PER	11	647	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
<b>Total value</b>				<b>5,058</b>	
No of shares (m)				1,168	
<b>Fair value (RM)</b>				<b>4.30</b>	

Source: Company, MIDFR

## Exhibit 2: 1QFY21 Result Summary

FYE Dec (RMm)	1Q20	4Q20	1Q21	YoY	QoQ
<b>Revenue</b>	<b>2,119.2</b>	<b>3,242.3</b>	<b>2,954.2</b>	<b>39.4%</b>	<b>-8.9%</b>
EBITDA	137.7	241.7	171.6	24.6%	-29.0%
<b>Operating Profit</b>	<b>45.7</b>	<b>144.5</b>	<b>89.8</b>	<b>96.7%</b>	<b>-37.8%</b>
Finance Cost	(29.7)	(29.1)	(27.4)	-7.9%	-5.9%
Associates	29.2	107.6	87.5	199.8%	-18.7%
Investment Income / Other gains	17.9	13.9	12.8	-28.8%	-8.4%
<b>Pretax Profit</b>	<b>63.0</b>	<b>236.9</b>	<b>162.7</b>	<b>158.1%</b>	<b>-31.3%</b>
Taxation	(14.2)	(26.3)	(39.3)		
Minorities / PERP	4.5	73.1	26.1		
Loss from discontinued operations (UMWOG)	0.0	0.0	0.0		
Net Profit	44.3	137.4	97.3	119.5%	-29.2%
<b>Core net profit</b>	<b>48.8</b>	<b>174.1</b>	<b>87.5</b>	<b>79.2%</b>	<b>-49.8%</b>
EPS (FD, sen)	4.2	14.9	7.5		
DPS (sen)	0.0	4.0	0.0		
<b>Margins (%):</b>					
Operating	2.2%	4.5%	3.0%		
Pretax Profit	3.0%	7.3%	5.5%		
Core Net Profit	2.3%	5.4%	3.0%		
Tax Rate	22.6%	11.1%	24.2%		
EBITDA	6.5%	7.5%	5.8%		
<b>Segmental Breakdown</b>	<b>1Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>YoY</b>	<b>QoQ</b>
Automotive	1,585.9	2,668.2	2,396.0	51.1%	-10.2%
Equipment	289.2	317.9	332.5	15.0%	4.6%
Manuf & Eng	248.5	244.2	230.3	-7.4%	-5.7%
Others	(4.4)	12.0	(4.5)	1.9%	-137.3%
<b>Revenue</b>	<b>2,119.2</b>	<b>3,242.3</b>	<b>2,954.2</b>	<b>39.4%</b>	<b>-8.9%</b>
Automotive	53.7	191.0	145.5	171.0%	-23.8%
Equipment	25.8	18.5	21.9	-14.9%	18.6%
Manuf & Eng	10.5	22.7	8.4	-20.1%	-63.2%
Others	(26.9)	4.6	(13.1)	-51.1%	-383.8%
<b>Pretax profit</b>	<b>63.0</b>	<b>236.9</b>	<b>162.7</b>	<b>158.1%</b>	<b>-31.3%</b>
<b>Pretax margins</b>					
Automotive	3.4%	7.2%	6.1%		
Equipment	8.9%	5.8%	6.6%		
Manuf & Eng	4.2%	9.3%	3.6%		
Toyota TIV (units) (MAA)	10,415	21,667	16,990	63.1%	-21.6%

Source: Company, MIDFR

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology