

UMW Holdings (UMWH MK)

1Q21 results in line

Maintain BUY and MYR4.00 TP

1Q21 results were in line with a strong YoY recovery, driven by higher automotive ops vehicle sales & earnings. Our earnings are unchanged. We see a high probability that the SST exemption, due to end by June, may extend until YE, a positive for the industry as it grapples with MCOs and chips shortage. Our TP is pegged to 16x FY21 PER, which equates to -0.5-SD valuation (unchanged). We do not rule out a higher dividend payout from its 38%-owned Perodua this FY, another catalyst.

1Q21: Stronger YoY

UMW reported core net profit of MYR88m (+108% YoY) in 1Q21, 30% of our FY estimate. We deem this to be in line, for UMW's 2Q and 4Q earnings will be impacted by the Sukuk payment (MYR35m/ qtr). The YoY strength was driven mainly by improved automotive ops, on stronger vehicle sales (Toyota: 62% to 17,151 units and 38%-owned Perodua: 29% to 57,909 units) and margins (+2.5-ppts to 5.5%). This was partially offset by lower YoY earnings at its: (i) equipment (-15%) and (ii) manufacturing & engineering (-20%) ops respectively.

SST extension beyond Jun 2021?

Our earnings estimates are unchanged, with vehicle sales estimates of 62.9k units for Toyota and 248k units for Perodua respectively. We concur with UMW that there is a strong likelihood that the SST exemption, which is scheduled to run until end-Jun 2021, will likely see yet another extension up to end-Dec 2021 (+6-months) as the industry grapples with MCO 2.0-3.0 and shortages of chips. Operationally, its CKD models (i.e. Vios, Yaris) are not affected by the latter, with adequate supply till 3Q21. Only its CBU models (Camry, Altis) are partially affected.

Higher dividends ahead?

We do not rule out: (i) divestment of its non-core assets (i.e. land in Serendah)/ investments as a means to monetise and recycle its capital more effectively and (ii) higher dividends from its 38%-owned Perodua.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	11,760	9,555	10,241	10,783	11,146
EBITDA	655	712	747	756	758
Core net profit	237	285	293	306	315
Core EPS (sen)	20.2	24.4	25.1	26.2	27.0
Core EPS growth (%)	(57.6)	20.3	2.9	4.4	3.0
Net DPS (sen)	6.0	4.0	5.7	6.0	6.2
Core P/E (x)	22.2	14.0	12.5	12.0	11.6
P/BV (x)	1.4	1.0	0.9	0.8	0.8
Net dividend yield (%)	1.3	1.2	1.8	1.9	2.0
ROAE (%)	12.9	5.4	7.3	7.1	6.8
ROAA (%)	2.2	2.5	2.5	2.5	2.5
EV/EBITDA (x)	11.6	8.2	7.2	6.8	6.5
Net gearing (%) (incl perps)	17.0	6.5	1.9	net cash	net cash
Consensus net profit	-	-	302	340	363
MKE vs. Consensus (%)	-	-	(2.9)	(9.9)	(13.1)

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BUY

Share Price	MYR 3.14
12m Price Target	MYR 4.00 (+27%)
Previous Price Target	MYR 4.00

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

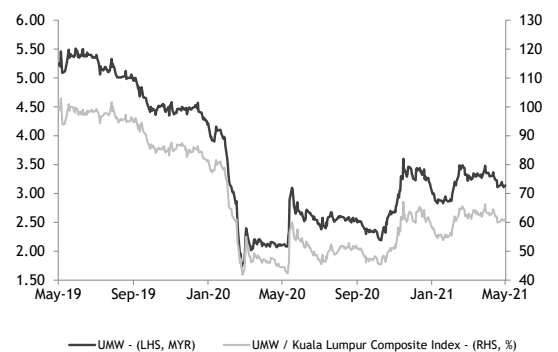
Statistics

52w high/low (MYR)	3.60/2.08
3m avg turnover (USDm)	0.9
Free float (%)	24.0
Issued shares (m)	1,168
Market capitalisation	MYR3.7B USD886M

Major shareholders:

Permodalan Nasional Bhd.	50.4%
Employees Provident Fund	10.8%
Bumiputra Investment Foundation	7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	9	50
Relative to index (%)	(3)	9	38

Source: FactSet

Value Proposition

- Has 3 key business units: (i) automotive via Toyota, Lexus and 38%-owned Perodua, (ii) equipment with Komatsu and Toyota Industrial Equipment Corporation (TICO) (iii) manufacturing & engineering (M&E) in auto components, lubricants and aerospace products.
- The sole distributor of Toyota and Lexus models in MY.
- UMW Aerospace is a first Malaysian company to become a Tier 1 supplier to Rolls-Royce.
- Divested its stake in UMW Oil & Gas (now known as Velesto Energy) in 2017 via the distribution in-specie of its 55.7% stake to UMW's shareholders.
- Has 861 acres of land in Serendah with strong monetisation prospect.

Unlocking value of its assets (861 acres of land at Serendah)



- Close to **40 acres** of UMW's land in Serendah has been taken up so far

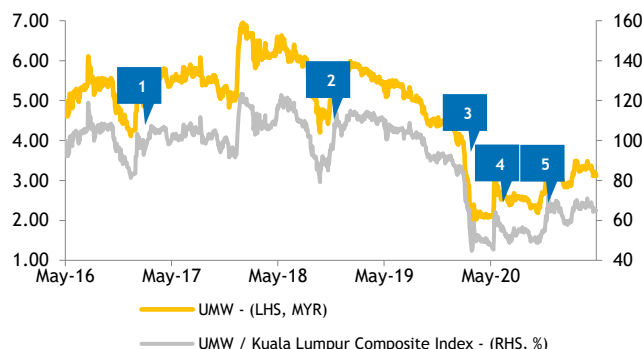
Company	Acreage
UMW Aerospace	24.0 acres
Multi-Code Electronics Industries (M) Bhd	8.25 acres
Private local company	5.3 acres
T7 Kilgour Sdn Bhd	2.0 acres

- We are actively negotiating with interested parties and hope to close some deals soon

Source: Company

Price Drivers

Historical share price trend



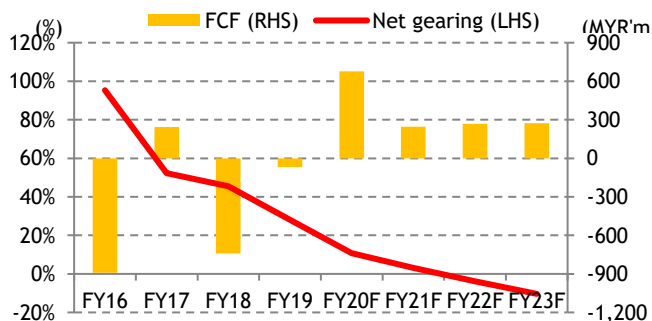
Source: Company, Maybank Kim Eng

- De-merger of UMW Oil & Gas (now known as Velesto Energy).
- Sold its industrial leasehold land in Shah Alam measuring 38.8 acres to Strategic Sonata S/B for MYR287.7m in Nov 2018.
- MCO started in 18 Mar 2020, affecting its vehicle sales & production in Apr, May & Jun 2020.
- SST exemption policy from mid-Jun 2020.
- Perodua continues to record new highs, registering 26,852 units in Sep 2020 (highest ever monthly sales in its 26-year history).

Financial Metrics

- Order backlog/ replenishment, ASP, vehicle sales volume, margins, forex and opex are UMW's key earnings drivers for its operations. Variation in any of these parameters will impact profitability.
- Nimble balance sheet with low gearing level, which offers ample headroom for strategic expansion plans.
- Disposal of non-core assets will improve its operating focus/ integration and cost management.

FCF and net gearing trend



Source: Company

Swing Factors

Upside

- New model launches, rebates, incentives (i.e. zero GST, SST) with will spur vehicle sales.
- Recovery in order replenishment and margin expansion are key catalysts.
- A successful corporate exercise (i.e. IPO, divestment, privatisation) would likely generate excitement.
- Higher/ special dividend payment serves as a potential positive.

Downside

- Soft consumer sentiment and unattractive model launches are risks to its motors division.
- Forex volatility will affect its profitability and operational planning.
- Execution mishap, cost overruns and / or absence of new orders will cause adverse reaction.
- Acquisition of non-core assets or poor usage of capex will not be well received, particularly at this point of industry cycle.

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UMWH's quarterly results summary

FY Dec (MYR m)	Quarterly results				
	1Q21	4Q20	%QoQ	1Q20	%YoY
Turnover	2,954.2	3,242.2	(8.9)	2,119.2	39.4
EBIT	89.8	1,760.5	(94.9)	45.7	96.7
Interest expense	(27.4)	(29.1)	(5.9)	(29.7)	(7.9)
Associates	87.5	107.6	(18.7)	29.2	NM
Investment Income	12.8	13.9	(8.4)	17.9	(28.8)
Pre-tax profit	162.7	236.9	(31.3)	63.0	>100
Taxation	(39.3)	(26.3)	49.5	(14.2)	NM
Minority interest	(26.1)	(38.1)	(31.6)	(4.5)	NM
Sukuk	0.0	(35.0)	NM	0.0	NM
Net profit / (loss)	97.3	137.4	(29.2)	44.3	>100
Exceptional item	9.3	(51.9)	NM	2.0	>100
Recurring net profit / (loss)	88.0	189.4	(53.5)	42.3	>100
	1Q21	4Q20	+/- ppt	1Q20	%YoY
EBIT margin (%)	3.0	54.3	(51.3)	2.2	0.9
Tax rate (%)	24.2	11.1	13.1	22.6	1.6
Revenue	2,954.2	3,242.2	(8.9)	2,119.2	39.4
Automotive	2,396.0	2,668.2	(10.2)	1,585.9	51.1
Equipment	332.5	317.9	4.6	289.2	15.0
M&E	230.3	244.2	(5.7)	248.5	(7.4)
Others	(4.5)	12.0	NM	(4.4)	1.9
Pre-tax profit	162.7	236.9	(31.3)	63.0	158.1
Automotive	145.5	191.0	(23.8)	53.7	>100
Equipment	21.9	18.5	18.6	25.8	(14.9)
M&E	8.4	22.7	(63.2)	10.5	(20.1)
Others	(13.1)	4.6	NM	(26.9)	(51.1)
	1Q21	4Q20	%QoQ	1Q20	%YoY
Pre-tax margins (%)	5.5	7.3	(1.8)	3.0	2.5
Automotive	6.1	7.2	(1.1)	3.4	2.7
Equipment	6.6	5.8	0.8	8.9	(2.3)
M&E	3.6	9.3	(5.7)	4.2	(0.6)
Vehicle Unit Sales (MAA)	1Q21	4Q20	%QoQ	1Q20	%YoY
Toyota	17,151	21,981	(22.0)	10,583	62.1
Perodua	57,909	75,151	(22.9)	44,977	28.8

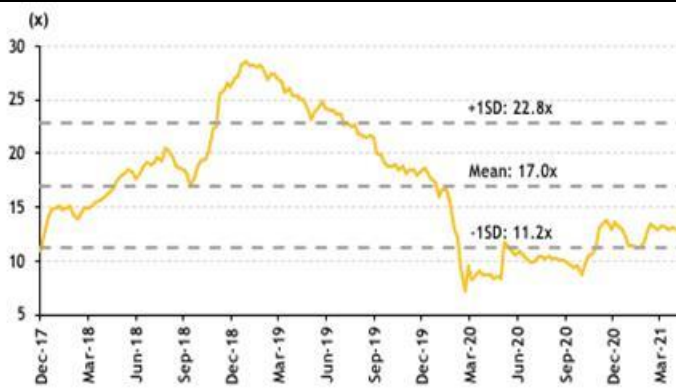
Source: Company

UMW: Vehicles sales

	2019	2020A	2021F	2022F	2023F
Toyota	70,009	59,320	62,900	66,500	69,030
Perodua	240,341	220,163	248,000	250,000	252,500

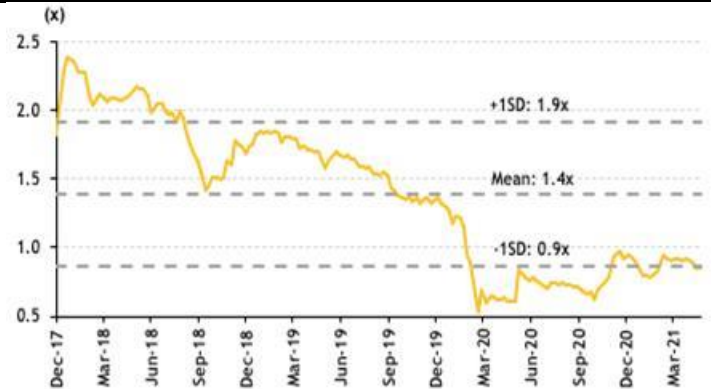
Source: Company, Maybank KE

1-year forward PER



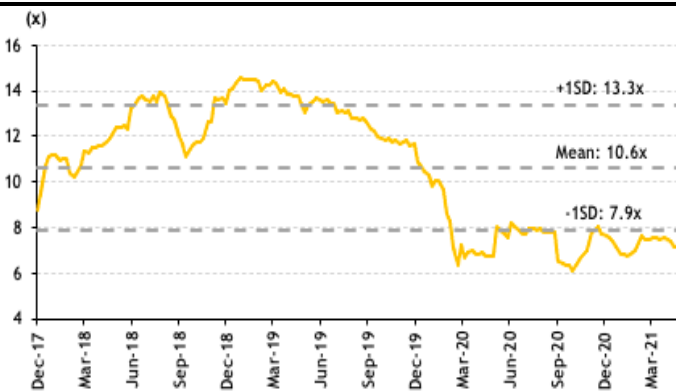
Source: Company, Maybank KE

1-year forward PBV



Source: Company, Maybank KE

1-year forward EV/ EBITDA



Source: Company, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	13.4	15.9	12.5	12.0	11.6
Core P/E (x)	22.2	14.0	12.5	12.0	11.6
P/BV (x)	1.4	1.0	0.9	0.8	0.8
P/NTA (x)	1.4	1.0	0.9	0.8	0.8
Net dividend yield (%)	1.3	1.2	1.8	1.9	2.0
FCF yield (%)	nm	17.0	6.7	7.3	7.4
EV/EBITDA (x)	11.6	8.2	7.2	6.8	6.5
EV/EBIT (x)	24.5	17.3	14.3	13.4	12.8

INCOME STATEMENT (MYR m)

Revenue	11,760.2	9,554.6	10,241.2	10,782.7	11,146.0
EBITDA	655.4	712.0	746.6	755.9	757.6
Depreciation	(346.2)	(374.1)	(373.1)	(372.1)	(370.6)
EBIT	309.2	338.0	373.5	383.8	387.0
Net interest income / (exp)	(61.6)	(61.1)	(61.3)	(52.8)	(42.3)
Associates & JV	275.7	204.1	301.5	306.9	310.2
Exceptionals	217.9	(80.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	741.2	400.7	613.6	637.9	654.9
Income tax	(112.5)	(77.7)	(151.8)	(157.8)	(162.3)
Minorities	(104.6)	(48.5)	(98.7)	(104.2)	(107.6)
Perpetual securities	(69.7)	(69.9)	(69.9)	(69.9)	(69.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	454.4	204.6	293.2	306.1	315.2
Core net profit	236.6	284.9	293.2	306.1	315.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,472.1	2,050.9	2,333.9	2,641.9	2,961.7
Accounts receivable	1,450.5	1,202.3	1,279.6	1,339.6	1,380.0
Inventory	1,589.6	1,439.3	1,530.4	1,615.9	1,674.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,861.2	2,463.0	2,289.9	2,117.8	1,947.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,921.3	2,080.9	2,332.2	2,588.8	2,848.8
Other assets	1,853.2	2,210.8	2,210.8	2,210.8	2,210.8
Total assets	11,147.8	11,447.1	11,976.7	12,514.9	13,022.6
ST interest bearing debt	386.4	523.8	523.8	523.8	523.8
Accounts payable	2,093.4	2,156.2	2,291.1	2,419.1	2,506.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,123.4	1,942.3	1,942.3	1,942.3	1,942.3
Other liabilities	450.0	408.0	408.0	408.0	408.0
Total Liabilities	5,053.4	5,029.9	5,164.8	5,292.8	5,380.0
Shareholders Equity	3,692.6	3,868.1	4,164.2	4,470.1	4,783.1
Minority Interest	1,303.9	1,451.2	1,549.9	1,654.1	1,761.7
Total shareholder equity	4,996.5	5,319.3	5,714.0	6,124.2	6,544.8
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	11,147.8	11,447.1	11,976.7	12,514.9	13,022.6

CASH FLOW (MYR m)

Pretax profit	741.2	400.7	613.6	637.9	654.9
Depreciation & amortisation	346.2	374.1	373.1	372.1	370.6
Adj net interest (income)/exp	(133.5)	(133.5)	(114.7)	(113.4)	(111.0)
Change in working capital	(60.3)	449.7	(33.6)	(17.6)	(11.4)
Cash taxes paid	(129.6)	(77.7)	(151.8)	(157.8)	(162.3)
Other operating cash flow	(485.5)	(99.5)	(240.1)	(254.1)	(267.9)
Cash flow from operations	278.4	913.7	446.5	467.1	473.0
Capex	(345.5)	(237.3)	(200.0)	(200.0)	(200.0)
Free cash flow	(67.1)	676.5	246.5	267.1	273.0
Dividends paid	(172.2)	(93.7)	(67.0)	(70.0)	(72.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(340.9)	(74.0)	0.0	0.0	0.0
Other invest/financing cash flow	767.3	67.0	103.5	110.9	118.9
Effect of exch rate changes	(26.8)	(3.3)	0.0	0.0	0.0
Net cash flow	160.3	572.5	283.0	308.0	319.8

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.0	(18.8)	7.2	5.3	3.4
EBITDA growth	(23.7)	8.6	4.9	1.2	0.2
EBIT growth	(46.6)	9.3	10.5	2.8	0.8
Pretax growth	(7.4)	(45.9)	53.1	4.0	2.7
Reported net profit growth	(12.7)	(55.0)	43.3	4.4	3.0
Core net profit growth	(57.6)	20.4	2.9	4.4	3.0
Profitability ratios (%)					
EBITDA margin	5.6	7.5	7.3	7.0	6.8
EBIT margin	2.6	3.5	3.6	3.6	3.5
Pretax profit margin	6.3	4.2	6.0	5.9	5.9
Payout ratio	15.4	22.9	22.9	22.9	22.9
DuPont analysis					
Net profit margin (%)	3.9	2.1	2.9	2.8	2.8
Revenue/Assets (x)	1.1	0.8	0.9	0.9	0.9
Assets/Equity (x)	3.0	3.0	2.9	2.8	2.7
ROAE (%)	12.9	5.4	7.3	7.1	6.8
ROAA (%)	2.2	2.5	2.5	2.5	2.5
Liquidity & Efficiency					
Cash conversion cycle	23.9	21.7	11.4	11.5	11.4
Days receivable outstanding	38.7	50.0	43.6	43.7	43.9
Days inventory outstanding	57.4	70.1	64.7	64.9	65.5
Days payables outstanding	72.2	98.4	96.9	97.2	98.1
Dividend cover (x)	6.5	4.4	4.4	4.4	4.4
Current ratio (x)	2.2	2.1	2.2	2.3	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.3	2.3	2.4	2.4
Net gearing (%) (incl perps)	17.0	6.5	1.9	net cash	net cash
Net gearing (%) (excl. perps)	20.8	7.8	2.3	net cash	net cash
Net interest cover (x)	5.0	5.5	6.1	7.3	9.2
Debt/EBITDA (x)	3.8	3.5	3.3	3.3	3.3
Capex/revenue (%)	2.9	2.5	2.0	1.9	1.8
Net debt/ (net cash)	1,037.7	415.2	132.1	(175.8)	(495.7)

Source: Company; Maybank

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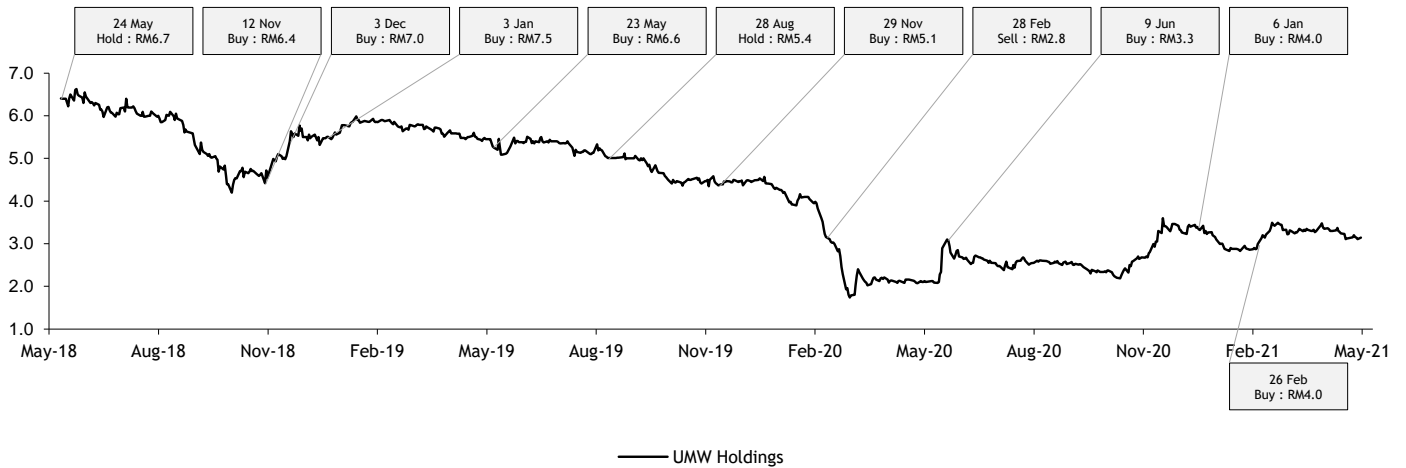
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