

25 May 2021

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

Likely To Be Unfazed by Chip Shortages

- Maintain NEUTRAL with higher MYR3.43 TP from MYR3.40, 9% upside and 2% yield.** 1Q21 core PATAMI came at 32% and 28% of our and Street's estimates, slightly ahead of expectations. Disruptions due to MCO 3.0 are likely to be contained, with UMW's production facilities adopting a dual-shift arrangement from a single-day shift. We stick with our call, as we think UMW lacks near-term catalysts. It currently trades at c.12x P/E, close to the mean valuation, excluding M&A-led P/E spikes.
- Beat expectations.** UMW recorded 1Q21 core PATAMI of MYR87.5m (+79% YoY, -54% QoQ), at 32% and 28% of our and Street's estimates, which beat our expectations. In deriving our core PATAMI, we excluded net reversal of impairment on receivables, net loss on disposal of investments, and net gains on disposal of property, plant & equipment not related to business operations totalling MYR9.8m.
- Results review.** Comparatively speaking, on a YoY basis, 1Q21 PBT was largely boosted by the automotive segment's performance vs a low base. Overall margins improved 2.5ppts YoY, but declined 1.8ppts QoQ. The weaker QoQ PBT margins were led by the automotive segment, with lower vehicle sales from both UMW and Perodua (4Q was seasonally stronger), as well as the manufacturing segment due to weaker volumes from the aerospace wing. The impact was mitigated by better margins at the equipment segment. Moving forward, we expect Toyota's sales volumes to remain robust beyond the sales tax exemption period, supported by its recently launched models and the replacement cycle. This will be partially offset by continued weakness in the aerospace manufacturing division and unfavourable USD/MYR movement assumptions.
- We lift FY21F-23F earnings by 4%, 1%, and 2%** after imputing higher sales volumes for Toyota of 68,000, 72,000, and 76,000 units from 65,000, 70,000, and 70,000 previously. We also add slightly better margins for the automotive segment. YTD-April, UMW Toyota (UMWT) has sold 24,431 units, which is at 36% of our new FY21 estimates. This is higher than UMWT's target of 62,000 units for FY21, and management is confident of beating this target. Our other assumptions remain unchanged.
- Downside risks:** A COVID-19 resurgence may affect earnings in all segments, while stiff competition in the sector might exert downwards pressure on UMW's bottomline. Sustained disruptions in the supply of semiconductor chips could also bring downside risks to our earnings estimates. The opposite represents the upside risks.

Target Price (Return):	MYR3.43 (9.2%)
Price:	MYR3.14
Market Cap:	USD885m
Avg Daily Turnover (MYR/USD)	3.42m/0.83m

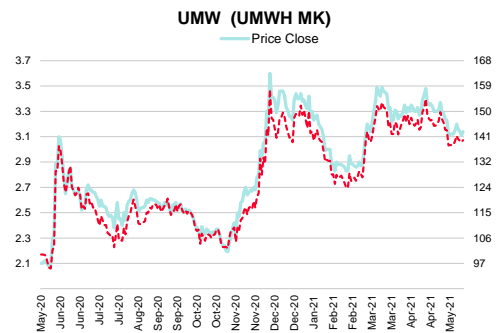
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.7)	(6.3)	9.4	16.3	49.5
Relative	(4.3)	(4.0)	8.5	16.7	40.1
52-wk Price low/high (MYR)	2.08 – 3.60				



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: Good

UMW has taken efforts to monitor and improve its environmental standing, especially with energy consumption, carbon emissions, and water management. Its carbon footprint increased 2.36% in FY19.

S: Good

Aside from the up-to-date health & safety policies and guidelines, UMW is also consistent in its CSR participation – achieving 9,241 volunteer hours in 2019. It recorded average training hours of 12.36 hours per employee in FY19.

G: Good

Management has held regular engagements with the market and media while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	11,739	9,555	10,983	11,592	12,091
Recurring net profit (MYRm)	255	285	282	308	332
Recurring net profit growth (%)	(33.3)	11.7	(1.0)	9.3	7.8
Recurring P/E (x)	14.39	12.88	13.00	11.90	11.04
P/B (x)	1.0	0.9	0.9	0.8	0.7
P/CF (x)	14.38	3.99	122.27	8.89	8.34
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	4.62	12.56	5.50	4.99	4.51
Return on average equity (%)	14.9	(2.6)	8.7	8.6	8.4
Net debt to equity (%)	18.6	7.6	10.5	7.5	4.2

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.22	0.24	0.24	0.26	0.28
Consumer Cyclical	BVPS	3.16	3.31	3.61	3.94	4.28
UMW	Return on average equity (%)	14.9	(2.6)	8.7	8.6	8.4
UMWH MK						
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	14.39	12.88	13.00	11.90	11.04
	P/B (x)	1.0	0.9	0.9	0.8	0.7
	FCF Yield (%)	(2.5)	18.6	(10.1)	0.3	1.1
	EV/EBITDA (x)	4.62	12.56	5.50	4.99	4.51
	EV/EBIT (x)	7.68	na	12.18	10.71	9.50
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	11,739	9,555	10,983	11,592	12,091
	Gross profit	1,902	1,418	1,796	1,843	1,883
	EBITDA	867	258	627	656	678
	Depreciation and amortisation	(345)	(374)	(344)	(350)	(356)
	Operating profit	521	(116)	283	305	321
	Net interest	(127)	(116)	(112)	(108)	(103)
	Pre-tax profit	737	27	503	546	580
	Taxation	(109)	(78)	(61)	(67)	(72)
	Reported net profit	524	(100)	352	378	402
	Recurring net profit	255	285	282	308	332
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(144)	450	(416)	(47)	(39)
	Cash flow from operations	255	920	30	413	440
	Capex	(345)	(237)	(400)	(400)	(400)
	Cash flow from investing activities	430	(100)	(150)	(132)	(121)
	Dividends paid	(99)	(23)	(70)	(70)	(70)
	Cash flow from financing activities	(584)	(602)	(191)	(202)	(206)
	Cash at beginning of period	1,312	1,472	2,051	1,740	1,820
	Net change in cash	101	218	(311)	79	113
	Ending balance cash	1,408	1,686	1,740	1,820	1,933
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	1,472	2,051	1,740	1,820	1,933
	Tangible fixed assets	2,702	2,463	2,519	2,569	2,613
	Total investments	2,098	2,370	2,370	2,370	2,370
	Total assets	11,135	11,447	11,391	11,686	11,979
	Short-term debt	424	548	448	348	248
	Total long-term debt	2,180	1,990	1,990	1,990	1,990
	Total liabilities	5,037	5,030	4,713	4,732	4,729
	Total equity	6,098	6,417	6,678	6,955	7,251
	Total liabilities & equity	11,135	11,447	11,391	11,686	11,979
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	3.9	(18.6)	14.9	5.5	4.3
	Recurrent EPS growth (%)	(33.3)	11.7	(1.0)	9.3	7.8
	Gross margin (%)	16.2	14.8	16.4	15.9	15.6
	Operating EBITDA margin (%)	7.4	2.7	5.7	5.7	5.6
	Net profit margin (%)	4.5	(1.0)	3.2	3.3	3.3
	Capex/sales (%)	2.9	2.5	3.6	3.5	3.3
	Interest cover (x)	4.12	(1.01)	2.52	2.84	3.12

Source: Company data, RHB

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In terms of chip shortages, management was fairly confident that the impact on UMW's output will be limited. We understand that its best-selling models – the Vios and Yaris (together with Hilux they constitute 85% of total sales) – were not impacted by such shortages.

However, the same cannot be said for associate Perodua – with 77% of sales volumes concentrated on the Myvi, Axia, and Bezza. We have seen the Myvi's production volumes trickling downwards since the beginning of this year. We leave our forecast for Perodua unchanged at this juncture.

Figure 1: Earnings review

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
Revenue	2,119.2	3,242.3	2,954.2	(8.9)	39.4	Boosted by higher Toyota sales in 1Q21, supported by the sales tax exemption.
EBIT	63.0	236.9	162.7	(31.3)	158.1	
<i>EBIT margin (%)</i>	3.0	7.3	5.5			
Finance costs	(29.7)	(29.1)	(27.4)	(5.9)	(7.9)	
Associates	29.2	107.6	87.5	(18.7)	199.8	In line with stronger Perodua sales volumes.
Investment income	17.9	13.9	12.8	(8.4)	(28.8)	
Pre-tax profit	63.0	236.9	162.7	(31.3)	158.1	
<i>Pre-tax margin (%)</i>	3.0	7.3	5.5			
Tax	(14.2)	(26.3)	(39.3)	49.5	176.3	
<i>Eff tax rate (%)</i>	(22.6)	(11.1)	(24.2)			
MI	(4.5)	(38.1)	(26.1)	(31.6)	481.3	
Core net profit	48.8	189.4	87.5	(53.8)	79.2	Broadly in line with expectations.
<i>Net margin (%)</i>	2.3	5.8	3.0			

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
Automotive	1,585.9	2,668.2	2,396.0	(10.2)	51.1	Sales tax exemption and new models drove demand.
Equipment	289.2	317.9	332.5	4.6	15.0	Revenue increased following the relaxation of lockdown measures.
Manufacturing & engineering	248.5	244.2	230.3	(5.7)	(7.4)	Lower contribution from the aerospace unit. This was mitigated by the strong performances from the auto components and lubricants segments.
Others	(4.4)	12.0	(4.5)	(137.3)	1.9	
Revenue	2,119.2	3,242.3	2,954.2	(8.9)	39.4	
Automotive	53.7	191.0	145.5	(23.8)	171.0	
Equipment	25.8	18.5	21.9	18.6	(14.9)	YoY declined due to Myanmar operations.
Manufacturing & engineering	10.5	22.7	8.4	(63.2)	(20.1)	Dragged by the aerospace wing.
Others	(26.9)	4.6	(13.1)	383.8	51.1	
PBT	63.0	236.9	162.7	(31.3)	158.1	
PBT Margins						
<i>Automotive</i>	3.4	7.2	6.1			Margins narrowed on contribution from associates.
<i>Equipment</i>	8.9	5.8	6.6			
<i>Manufacturing & engineering</i>	4.2	9.3	3.6			
<i>Others</i>	614.3	38.7	294.4			
	3.0	7.3	5.5			


Source: Company data

Figure 3: UMW vehicle sales summary

FYE Dec (units)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)
Toyota/Lexus	10,583	21,981	17,151	(22.0)	62.1
- Passenger	7,741	15,300	10,600	(30.7)	36.9
- Commercial	2,842	6,681	6,551	(1.9)	130.5
Perodua	44,977	75,151	57,909	(22.9)	28.8
- Passenger	44,977	75,151	57,909	(22.9)	28.8
- Commercial	0	0	0	0.0	0.0
Total	55,560	97,132	75,060	(22.7)	35.1

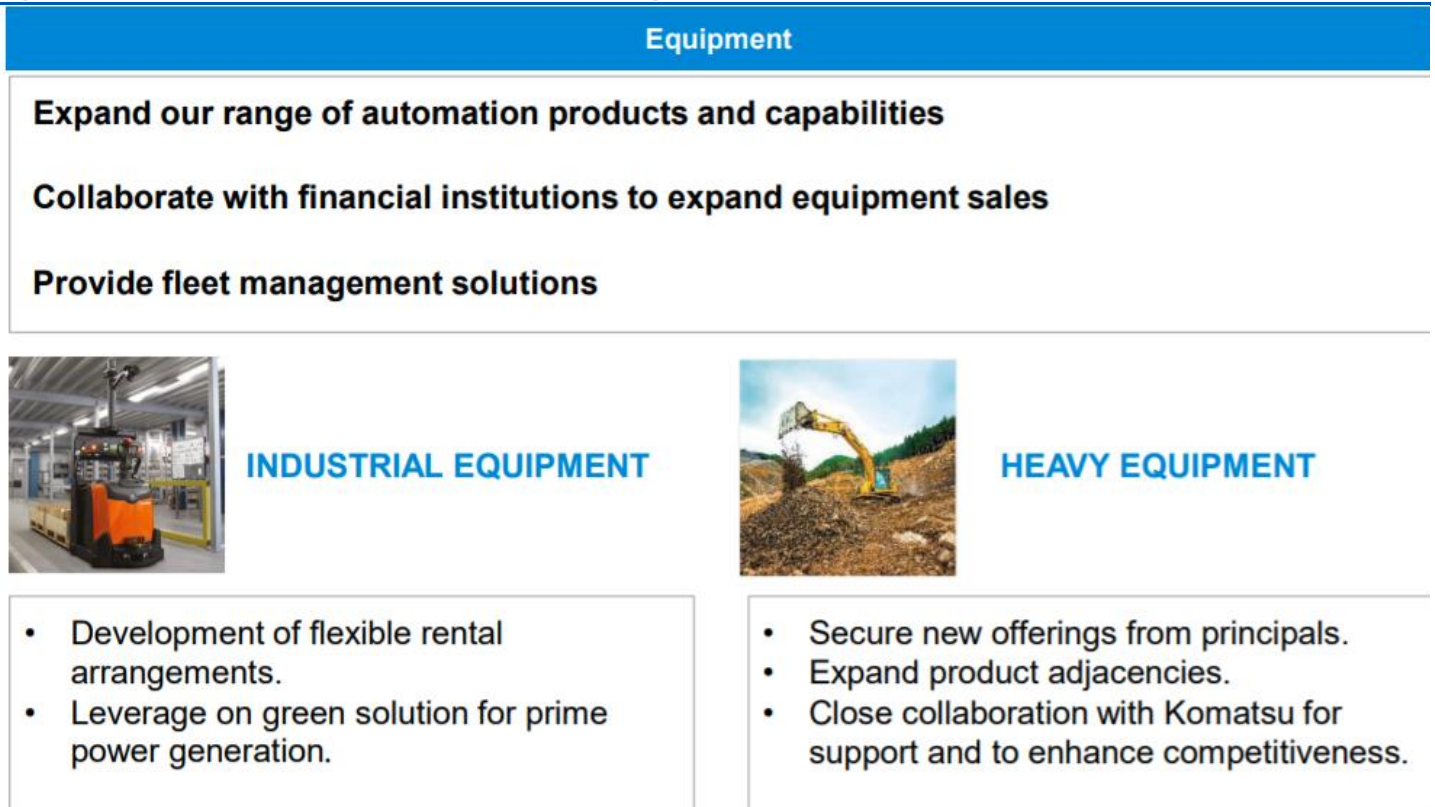
Source: Malaysian Automotive Association

Figure 4: Operational updates and outlook – automotive segment

<p>Continue providing attractive value proposition to customers</p>	<ul style="list-style-type: none"> Remain competitive in the entry-level segment with introduction of models with the best value. <div style="text-align: center;"> <p>Ativa (3 Mar 2021)</p>  </div> <div style="border: 1px solid gray; padding: 5px; width: fit-content; margin-left: auto;"> <p>9,000 units have been delivered since launch.</p> </div>
<p>Continue supporting Malaysia's automotive ecosystem</p>	<ul style="list-style-type: none"> Perodua Smart Build, its first sustainable blueprint to rationalise the gap in quality, cost and delivery within the automotive ecosystem - includes almost the entire Malaysian suppliers and dealers ecosystem.
<p>Explore new technologies and concepts</p>	<ul style="list-style-type: none"> Particularly Autonomous Vehicles and Mobility Solutions. While Ativa is equipped with Level 2 autonomous features, discussions are underway with the government on advancing this technology to higher levels, supported by infrastructure improvement and 5G implementation.

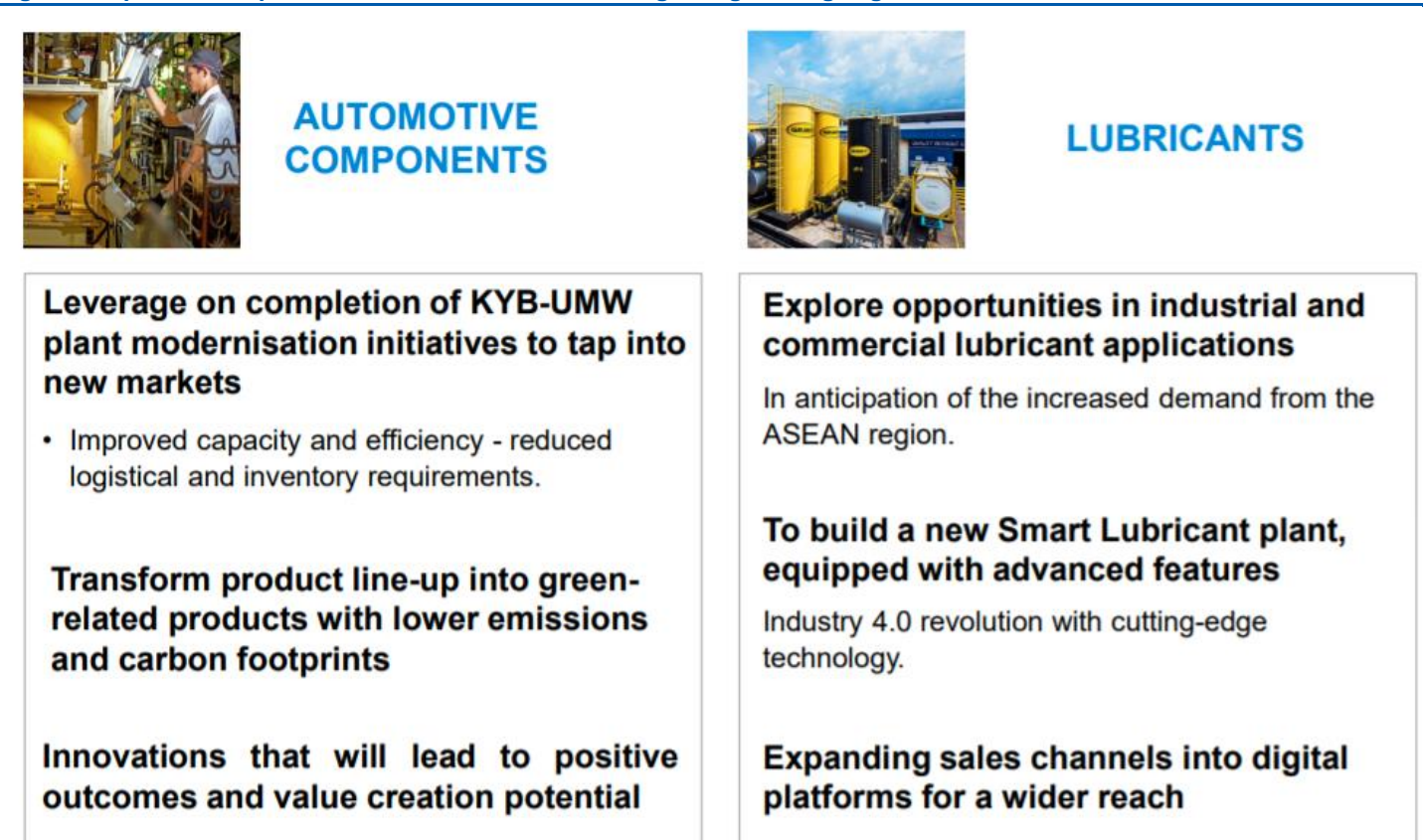
Source: Company

Figure 5: Operational updates and outlook – industrial segment



Source: Company

Figure 6: Operational updates and outlook – manufacturing & engineering segment



Source: Company

Figure 7: Operational updates and outlook – aerospace segment



UMW Aerospace was recently included in the 2021 Cohort of Rolls-Royce's High Performing Supplier Group.



Fully utilise existing aerospace capabilities

Expanding existing capabilities involving parts machining into non-aero machining works.

Product and customer diversification

Active on-going discussions with OEMs to manufacture other components.

Collaborate with existing MROs to increase local content

Capability building

To allow for growth into additive manufacturing / chemical milling.

Source: Company

Figure 8: 1Q21 exceptional items

	RM million	Remarks
Reported PATAMI	97.3	-
ADJUSTMENTS	Amount recognised in PATAMI	
Net reversal of impairment on receivables	(9.7)	Mainly debt recovery from an earlier investment.
Net loss on disposal of investments	0.2	Net loss on disposal of investments in money market.
Net gain on disposal of PPE not relating to business operations	(0.3)	Excluding RM6.7 million, which was mainly sale of leased asset in the Equipment segment (normal business operations).
CORE PATAMI	87.5	

Source: Company

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-04-22	Neutral	3.40	3.38
2021-02-26	Neutral	2.98	2.99
2020-11-26	Neutral	2.65	2.78
2020-08-28	Neutral	2.40	2.60
2020-06-08	Neutral	2.65	2.89
2020-03-27	Neutral	2.40	2.34
2020-02-28	Sell	2.90	3.16
2019-11-29	Neutral	4.45	4.37
2019-11-18	Neutral	4.60	4.47
2019-08-28	Neutral	5.30	5.01
2019-05-23	Neutral	5.75	5.28
2019-02-28	Neutral	6.20	5.80

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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