

COMPANY RESULTS

UMW Holdings (UMWH MK)

1Q21: Automobile Division Drives Earnings; MCO 3.0 Impact Will Be Minimal

UMW's 1Q21 earnings were broadly in line with expectations with core net profit of RM87.5m accounting for 30%/28% of our/consensus estimates respectively. The impact of MCO 3.0 is expected to be minimal. We remain positive on UMW's near-term prospects. The company's earnings growth will be mainly driven by sales of new launches. Its three business divisions are expected to benefit from the reopening of the economy. Maintain BUY with an unchanged target price of RM3.80.

1Q21 RESULTS

Year to 31 Dec	1Q21 (RMm)	qoq % chg	yoy % chg	Remarks
Revenue	2,954.2	(8.9)	39.4	Mainly driven by automobile division
-Auto	2,396.0	(10.2)	51.1	yoy, strong sales due to SST exemption and new launches
-Equipment	332.5	4.6	15.0	
-M&E	230.3	(5.7)	(7.4)	
Associates	87.5	(18.7)	199.8	
PBT	162.7	(31.3)	158.1	
-Auto	145.5	(23.8)	171.0	
-Equipment	21.9	18.6	(14.9)	yoy, affected by Myanmar's political instability
-M&E	8.4	(63.2)	(20.1)	Dragged down by aerospace unit
PATAMI	97.3	(29.2)	119.5	
Core PATAMI	87.5	(53.8)	79.2	Broadly in line with expectations
Toyota unit sales	17,151	(22.0)	62.1	
Perodua unit sales	57,909	(22.9)	28.8	
PBT Margins	(%)	ppts	ppts	
-Overall	(1.8)	2.5	(1.8)	
-Auto	(1.1)	2.7	(1.1)	
-Equipment	0.8	(2.3)	0.8	
-M&E	(5.7)	(0.6)	(5.7)	

Source: UMW, UOB Kay Hian

RESULTS

• **1Q21 earnings broadly in line.** UMW Holdings (UMW) reported a 1Q21 core net profit of RM87.5m (-53.8% qoq, +79.2% yoy), accounting for 30% and 28% of our and consensus full-year estimates respectively. The results were deemed broadly in line with our forecasts, considering the RM35m perpetual sukuk payment expected in 2Q21 and 4Q21 respectively. The automobile division continues to be the key earnings driver, contributing RM145.5m, or 90%, of the group's PBT during the quarter. The sequentially lower earnings were mainly due to the base effect - vehicle sales were seasonally higher in 4Q20 due to aggressive promotions.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	11,739	9,554	9,651	10,670	10,789
EBITDA	679	712	814	852	855
Operating profit	333	338	419	465	476
Net profit (rep./act.)	447	205	294	341	358
Net profit (adj.)	259	285	294	341	358
EPS (sen)	22.2	24.4	25.2	29.2	30.7
PE (x)	14.2	12.9	12.5	10.8	10.2
P/B (x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA (x)	9.6	9.1	8.0	7.6	7.6
Dividend yield (%)	1.9	1.6	1.6	1.9	2.0
Net margin (%)	3.8	2.1	3.0	3.2	3.3
Net debt/(cash) to equity (%)	21.7	28.8	26.2	24.3	21.1
Interest cover (x)	11.8	11.7	16.3	14.7	14.7
ROE (%)	9.7	4.2	5.8	6.4	6.4
Consensus net profit	-	-	313	343	344
UOBKH/Consensus (x)	-	-	0.94	0.99	1.04

Source: UMW, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.14
Target Price	RM3.80
Upside	+21.0%

COMPANY DESCRIPTION

UMW, through its 51%-owned subsidiary UMW-Toyota, imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. It also owns a 38% stake in Perodua.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	3,668.4
Market cap (US\$m):	884.9
3-mth avg daily t'over (US\$m):	0.9

Price Performance (%)

52-week high/low	RM3.60/RM2.08			
1mth	3mth	6mth	1yr	YTD
(6.3)	9.4	16.3	49.5	(7.6)

Major Shareholders

Major Shareholders	%
Skim Amanah Saham Bumiputra	41.9
EPF	10.4
Permodalan Nasional Berhad	6.1
FY21 NAV/Share (RM)	4.43
FY21 Net Debt/Share (RM)	1.16

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Automobile division reported 171% yoy higher PBT during the quarter**, mainly due to higher sales underpinned by the sales tax exemption and new model launches, eg Perodua Ativa, Toyota Vios and Yaris facelifts. Perodua has delivered nearly 9,000 units of Ativa since its launch (3 Mar 21), and the demand for Ativa continues to be strong with a waiting period of 2-4 months. Separately, UMW guided that digital sales contributed about 15% of its total sales vs 2% two years ago and expects the number to grow to 30% next year. UMW Toyota's (UMWT) outstanding orders stand at 20,000 units or a 2-3 months waiting period. Based on our estimates, UMWT contributed about 40% of the automobile division's PBT while the remaining 60% was from the associate's contribution, which was predominantly Perodua.
- The equipment division's** profitability continues to be affected by the political instability in Myanmar. The division's PBT margin deteriorated yoy mainly due to lower sales from Myanmar. The company's sales mix in Myanmar was largely dominated by sales of equipment parts that tend to have a better margin than new equipment sales. Separately, UMW expects the division's earnings to improve moving forward in tandem with the reopening of the economy. Demand is expected from the construction sector across its operating countries.
- Manufacturing & Engineering's** profitability was dragged down by the aerospace unit, which has turned red due to lower orders from Rolls-Royce. However, based on Rolls-Royce's latest planned order, the unit could turn profitable in 2022, with production expected to reach 67% of pre-pandemic levels vs 45% of the pre-pandemic level in 2021.

STOCK IMPACT

- Movement Control Order (MCO) 3.0 impact: Neutral.** UMW expects minimal impact on its production from a government requirement to have 40% of the private sector's workforce to work from home. The Bukit Raja plant is running with two shifts, while the Shah Alam plant will switch to two shifts to mitigate the impact.
- Impact of chip shortage crisis already included in sales forecasts.** Perodua reported that its Apr 21 sales declined 16.5% mom due to the semiconductor shortage crisis that is affecting the industry worldwide. The company previously guided that the chip shortage will affect the production of Perodua Myvi, Aruz, and Alza. Nevertheless, the company's 2021 sales target and our sales forecast of 240,000 units have included the potential impact of this crisis. For UMWT, it will only affect its non-volume models, ie Toyota Corolla and Toyota Camry starting 4Q21, assuming the issue has not been resolved yet. Toyota Vios and Toyota Yaris remain unaffected.
- Sales tax exemption ending soon.** We foresee sales slowing down for 2-3 months after the year-long sales tax exemption ends on 30 Jun 21, but to gradually recover going into 4Q21 as distributors gear up their year-end promotional activities to bolster sales.

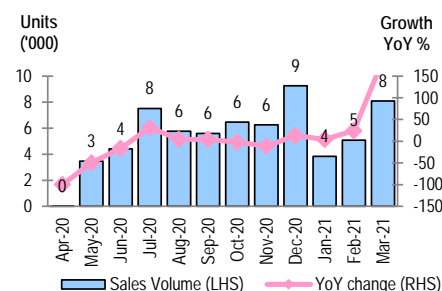
EARNINGS REVISION/RISK

- No change in our earnings forecasts.
- Key risks.** a) A longer-than-expected MCO implementation which could lead to order cancellations and cause a downside risk to our earnings forecasts, b) worse-than-expected impact of the chip shortage.

VALUATION/RECOMMENDATION

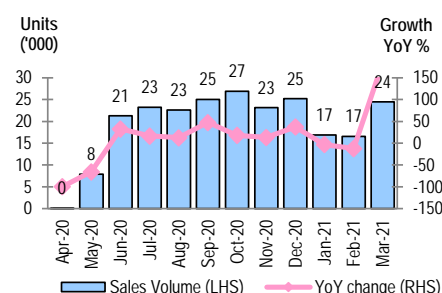
- Maintain BUY with an unchanged target price of RM3.80.** Our valuation implies a 12-month forward PE. There is no change in our target PE of 14x (sector average). We believe the earnings will be supported by the launching of new models – Toyota Corolla Cross and Perodua Ativa – as well as the sales tax exemption extension. The positive news on vaccine deployment should further boost consumer sentiment.

UMW TOYOTA SALES VOLUME TREND



Source: Malaysian Automotive Association, UMW

PERODUA SALES VOLUME TREND



Source: MAA, UMW

KEY ASSUMPTIONS

Sales volume (Units)	FY21F	FY22F	FY22F
Toyota/Lexus	62,000	67,000	67,000
Perodua	240,000	260,000	260,000

Source: UOB Kay Hian

EBIT SEGMENT FORECASTS

MYRm	FY21F	FY22F	FY22F
Auto	370.4	389.6	389.7
Equipment	140.6	164.2	172.4
Manufacturing	67.4	70.8	74.3
Others	(160.0)	(160.0)	(160.0)
Total	418.5	464.6	476.4

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	9,554	9,651	10,670	10,789
EBITDA	712	814	852	855
Deprec. & amort.	374	396	387	379
EBIT	338	419	465	476
Associate contributions	204	272	299	307
Net interest income/(expense)	(61)	(50)	(58)	(58)
Pre-tax profit	401	641	706	726
Tax	(78)	(139)	(150)	(153)
Minorities	(118)	(208)	(215)	(215)
Net profit	205	294	341	358
Net profit (adj.)	285	294	341	358

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	608	532	496	573
Pre-tax profit	401	641	706	726
Tax	(78)	(139)	(150)	(153)
Deprec. & amort.	374	396	387	379
Associates	(204)	(272)	(299)	(307)
Working capital changes	169	(34)	(86)	(10)
Other operating cashflows	(54)	(60)	(62)	(62)
Investing	(574)	(140)	(138)	(138)
Capex (growth)	(628)	(200)	(200)	(200)
Investments	0	0	0	0
Others	54	60	62	62
Financing	(467)	(109)	(118)	(72)
Dividend payments	(57)	(59)	(68)	(72)
Proceeds from borrowings	(410)	(50)	(50)	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(433)	283	240	363
Beginning cash & cash equivalent	1,472	575	933	1,241
Changes due to forex impact	(465)	75	68	0
Ending cash & cash equivalent	575	933	1,241	1,604

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	2,920	2,920	2,921	2,921
Other LT assets	2,952	3,224	3,524	3,831
Cash/ST investment	679	697	678	792
Other current assets	3,964	3,907	4,160	4,190
Total assets	10,515	10,748	11,283	11,734
ST debt	500	450	400	400
Other current liabilities	1,812	1,721	1,889	1,908
LT debt	1,600	1,600	1,600	1,600
Other LT liabilities	312	312	312	312
Shareholders' equity	4,938	5,174	5,446	5,733
Minority interest	1,352	1,490	1,635	1,781
Total liabilities & equity	10,515	10,748	11,283	11,734

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	7.5	8.4	8.0	7.9
Pre-tax margin	4.2	6.6	6.6	6.7
Net margin	2.1	3.0	3.2	3.3
ROA	1.9	2.8	3.1	3.1
ROE	4.2	5.8	6.4	6.4
Growth				
Turnover	(18.6)	1.0	10.6	1.1
EBITDA	4.9	14.4	4.6	0.4
Pre-tax profit	(46.9)	59.9	10.1	2.9
Net profit	(54.2)	43.7	15.9	5.1
Net profit (adj.)	10.0	3.2	15.9	5.1
EPS	10.0	3.2	15.9	5.1
Leverage				
Debt to total capital	25.0	23.5	22.0	21.0
Debt to equity	42.5	39.6	36.7	34.9
Net debt/(cash) to equity	28.8	26.2	24.3	21.1
Interest cover (x)	11.7	16.3	14.7	14.7

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