

"Below expectations"

Share price performance



	1M	3M	12M
Absolute (%)	10.0	-1.5	22.6
Rel KLCI (%)	4.9	-2.0	19.8

	BUY	HOLD	SELL
Consensus	12	3	-

Stock Data

Sector	Auto & Auto Parts
Issued shares (m)	1168.3
Mkt cap (RMm)/(US\$m)	3738.5/891.2
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	2.19-3.64
Est free float	29.1%
Stock Beta	1.86
Net cash / (debt) (RMm)	
ROE (CY21E)	7.7%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good	No
Constituent	
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	27.9 (-2.4 yoy)

Key Shareholders

PNB	52.3%
EPF	13.2%
KWAP	8.9%

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics, Bursa Malaysia

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UMW Holdings (UMWH MK)

BUY (maintain)

Up/Downside: 10.4%

Price Target: RM3.53

Previous Target (Rating): RM3.64 (Buy)

2Q21 impacted by FMCO

- **UMW's 6M21 core net profit jumped 13.7x yoy to RM64.4m (from RM4.7m in 6M20) on a low base effect**
- **However, UMW fell into a 2Q21 core net loss of RM26.4m due to a halt in UMW's plant operations due to FMCO**
- **We cut our FY21-23E EPS estimates by 3.1-14.2% and lower our TP to RM3.53. Maintain BUY**

2Q21 fell into core net loss of RM26.4m

UMWH's 2Q21 revenue declined by 17.2% qoq as a result of the full movement control order (FMCO) which halted UMW's plant operations for 11 weeks (from 1 June to 16 August), resulting in a decline in revenue contribution across its automotive (-17.3%), equipment (-9.8%) and M&E (-30.5%) segments. Profit from its associate Perodua also fell by 71.1% qoq on FMCO restrictions and some shortage in chip supply affecting production. Consequently, core net profit fell to a loss of RM26.4m (vs a core net profit of RM90.7m in 1Q21) on higher absorption of fixed costs.

6M21 core net profit improved to RM64.4m (vs RM4.7m in 6M20)

Nevertheless, 6M21 core net profit grew strongly by 13.7x to RM64.4m largely off a low base last year, which was impacted by the pandemic. 6M21 unit sales for Toyota as well as its associate Perodua grew about 84.8% and 31.3% to 34.1k and 97.3k vehicles sold, respectively. Besides, 1H21 also saw new launches such as the new Innova, Fortuner, Corolla Cross and Harrier for Toyota, while Perodua saw the launch of the all-new Ativa and a refreshed Aruz. We gather that UMW Toyota is looking to invest RM270m to manufacture hybrid electric vehicles ("HEV") locally in a move to advance its carbon neutrality initiative and new product offerings for FY22.

Maintain BUY with a lower TP of RM3.53

As earnings only accounted for about 23% of our and 22% of consensus full-year estimates, we cut our FY21-23E EPS forecasts by 3-14% to factor in the impact of prolonged FMCO on 3Q21 and a weaker Ringgit. Post earnings revision, our SOTP-derived target price is lowered to RM3.53. Maintain BUY as we take an optimistic stance on UMW's recovery towards 4Q21 on a potential pick-up in demand across its segments. Besides, we gather that domestic Toyota vehicle sales are not likely to be affected by the global chip shortage on sufficient inventories. Downside risks: (i) depreciation of Ringgit (ii) tightening of hire purchase approvals, and (iii) intense competition in the automotive and equipment segments.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	11,739.1	9,554.6	10,264.3	11,726.5	12,431.1
EBITDA (RMm)	635.8	712.0	562.0	685.6	702.8
Pretax profit (RMm)	754.8	400.7	544.6	674.3	683.1
Net profit (RMm)	454.4	204.6	285.9	354.0	358.6
EPS (sen)	38.9	17.5	24.5	30.3	30.7
PER (x)	8.2	18.3	13.1	10.6	10.4
Core net profit (RMm)	223.7	284.9	255.9	319.0	323.6
Core EPS (sen)	19.1	24.4	21.9	27.3	27.7
Core EPS growth (%)	(59.9)	27.4	(10.2)	24.7	1.4
Core PER (x)	16.7	13.1	14.6	11.7	11.6
Net DPS (sen)	6.0	2.0	5.0	6.0	6.0
Dividend Yield (%)	1.9	0.6	1.6	1.9	1.9
EV/EBITDA	7.5	5.8	7.1	5.2	5.1

Chg in EPS (%)	-14.2	-3.1	-4.0
Affin/Consensus (x)	0.9	1.0	0.9

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	2Q20	1Q21	2Q21	QoQ % chg	YoY % chg	6M20	6M21	YoY % chg	Comments
Revenue	1,530	2,954	2,445	(17.2)	59.8	3,648.9	5,399.3	48.0	6M21: YoY higher from higher contribution from automotive (+62.9%) and equipment (+21.1%) but was partially offset by lower M&E (-9.6%) and others segments QoQ lower contribution across its automotive, equipment and M&E segments
Op costs	(1,447)	(2,789)	(2,344)	(16.0)	61.9	-3,421.3	-5,133.1	50.0	
EBITDA	82.3	165.1	101.1	(38.8)	22.9	227.7	266.2	16.9	
EBITDA margin (%)	5.4	5.6	4.1	-1.5 ppt	-1.2 ppt	6.2	4.9	-1.3ppt	
Depn and amort	(95.1)	(81.8)	(85.7)	4.8	(9.9)	(187.2)	(167.5)	(10.5)	
EBIT	(12.9)	83.3	15.4	(81.5)	n.m.	40.5	98.7	143.8	
EBIT margin (%)	(0.8)	2.8	0.6	-2.2 ppt	n.m.	1.1	1.8	0.7ppt	
Int expense	(30.1)	(27.4)	(25.7)	(6.1)	(14.6)	(59.9)	(53.1)	(11.3)	
Int and other inc	12.2	12.8	12.4	(2.9)	1.8	30.1	25.2	(16.4)	
Associates	3.1	87.5	25.2	(71.1)	725.7	32.2	112.7	249.6	QoQ: Weaker contribution from Perodua
Exceptional items	(31.1)	6.5	5.3	(19.5)	n.m.	(38.8)	11.8	n.m.	
Pretax	(58.8)	162.7	32.6	(80.0)	n.m.	4.2	195.3	4,526.5	
Tax	4.7	(39.3)	(11.1)	(71.9)	n.m.	(9.5)	(50.4)	430.7	
Tax rate (%)	(8.1)	(24.2)	(34.0)	-9.8 ppt	-25.9 ppt	n.m.	(25.8)	n.m.	
MI	(24.4)	(26.1)	(42.6)	63.4	75.0	(28.8)	(68.7)	138.2	Distribution of RM34m to Perpetual Sukuk holders in 2Q21 and 2Q20
Net profit	(78.4)	97.3	(21.1)	n.m.	(73.1)	(34.1)	76.2	n.m.	
EPS (sen)	(6.71)	8.33	(1.81)	n.m.	(73.1)	(2.9)	6.5	n.m.	
Core net profit	(47.3)	90.7	(26.4)	n.m.	(44.3)	4.7	64.4	1,282.2	Below our and consensus expectation

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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