

**HLIB Research**

PP 9484/12/2012 (031413)

**Daniel Wong**

[kkwong@hlib.hongleong.com.my](mailto:kkwong@hlib.hongleong.com.my)

(603) 2083 1720

**HOLD** (Maintain)

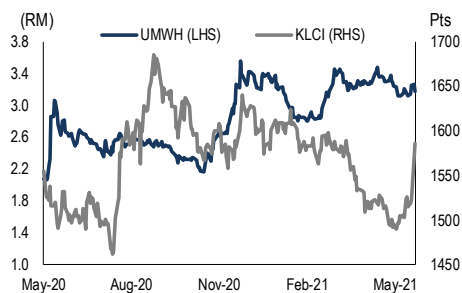
**Target Price: RM2.98**  
**Previously: RM2.98**  
**Current Price: RM3.20**

Capital upside -6.9%  
Dividend yield 0.6%  
Expected total return -6.3%

**Sector coverage:** Automotive

**Company description:** UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

**Share price**



Historical return (%)	1M	3M	12M
Absolute	10.0	-1.8	22.6
Relative	5.0	-1.3	20.2

**Stock information**

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,739
3-mth average volume ('000)	481
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

**Major shareholders**

Permodalan Nasional Berhad	59.3%
Employess Provident Fund	13.2%
Kumpulan Wang Persaraan	8.9%

**Earnings summary**

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	125	195	299
EPS - core (sen)	10.7	16.7	25.6
P/E (x)	30.0	19.1	12.5

# UMW Holdings

## Badly affected by Phase 1

Reported core 2QFY21 LATMI -RM20.3m, which dragged 1HFY21 PATMI down to RM60.4m, in line with HLIB's forecast (30.9%), but below consensus (20.7%). Performance for the quarter was mainly affected the implementation of Phase 1 in Jun 2021. The group will leverage on the recent relaxation measures under NRP and SST exemptions for recovery towards 4QFY21. Maintain HOLD with unchanged TP: RM2.98 based on 10% discount to SOP: RM3.30.

**Within expectations.** UMW reported core LATMI -RM20.3m (adjusted for quarterly provision of RM17.5m perps distribution) for 2QFY21, which dragged lower 1HFY21 PATMI to RM60.4m. We deem the result in line with HLIB's FY21 forecast (30.9%) as we are expecting a stronger 2HFY21 with the recent relaxation measures under the National Recovery Plan (NRP) and SST exemptions, but below consensus (20.7%).

**Dividend.** None.

**QoQ.** Adjusted for quarterly distribution for Perpetual Sukuk, UMW recorded core LATMI -RM20.3m in 2QFY21, deteriorating from PATMI RM80.7m in 1QFY21, following implementation of Phase 1 in Jun 2021, resulting in temporary halt to the group's operation.

**YoY/YTD.** Improvement in results with LATMI -RM20.3m in 2QFY21 (vs. LATMI -RM46.9m in 2QFY20) and PATMI RM60.4m in 1HFY21 (vs. PATMI RM66.5m in 1HFY20), due to low base effect (for YoY), as the group was first caught with strict implementation of MCO1.0 in 1HFY20. The improvement was also driven by on-going cost-saving initiatives.

**Automotive.** Management remains confidence of a strong recovery of automotive performance in 2HFY21 with indicative outstanding orders of 20k units for Toyota (implied up to 4 months waiting period) and 70k units for Perodua (implied 3.0-3.5 months waiting period). Toyota will invest RM270m for CKD HEV Corrola Cross, which will commence by end 2021. Toyota is still maintaining its sales target of 62k units for FY21, while Perodua has announced to review its sales target of 240k units. Management is confident of the government further extending the SST exemption (ending 31 Dec 2021) into 2022.

**Equipment.** The segment has remained stable for the quarter with strong demand for industrial equipment (mainly for logistic and warehousing segment) while heavy equipment remained slow due to various lock down measures as well as political issue in Myanmar. Management is expanding its product range and services, leveraging onto the recovery program and infrastructure spending in other countries.

**M&E.** Recent quarter has been affected by Phase 1 restrictions, resulting temporary production halt. Overall production volume (aerospace, lubricants, parts/components) has dropped, dragging the M&E segment into the red. On the brighter note, automotive parts and lubricant is expected to leverage on the recovery of local car production volume. Similarly, aerospace manufacturing is expected to regain traction as the global aviation sector recovers into 2022.

**Forecast.** Unchanged.

**Maintain HOLD, TP: RM2.98.** Maintain HOLD with unchanged TP: RM2.98, based on unchanged discount of 10% to SOP of RM3.30. UMW will continue to leverage onto the economic recovery towards 4QFY21 driven by NRP and SST exemption. However, there are still uncertainties post 2021 – if the market is able to maintain demand momentum if SST exemption is not extended.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	1,472	2,051	1,617	1,417	1,257
Receivables	1,590	1,439	1,409	1,447	1,456
Inventories	1,243	1,059	1,107	1,101	1,079
PPE	2,702	2,463	2,477	2,391	2,307
Others	4,128	4,435	4,532	4,661	4,811
<b>Assets</b>	<b>11,135</b>	<b>11,447</b>	<b>11,142</b>	<b>11,018</b>	<b>10,910</b>
Payables	941	1,236	1,221	1,173	1,105
Debt	3,608	3,564	3,110	2,764	2,419
Others	488	230	230	230	230
<b>Liabilities</b>	<b>5,037</b>	<b>5,030</b>	<b>4,560</b>	<b>4,166</b>	<b>3,754</b>
Shareholder's equity	3,696	3,868	4,017	4,269	4,555
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,304	1,451	1,467	1,484	1,504
<b>Equity</b>	<b>6,098</b>	<b>6,417</b>	<b>6,581</b>	<b>6,851</b>	<b>7,156</b>

### Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	755	401	432	554	635
D&A	345	374	376	376	374
Working capital	(90)	629	(33)	(82)	(54)
Taxation	(112)	(64)	(89)	(97)	(101)
Others	(570)	(337)	(195)	(257)	(301)
<b>CFO</b>	<b>328</b>	<b>1,003</b>	<b>492</b>	<b>494</b>	<b>553</b>
Capex	(345)	(221)	(390)	(290)	(290)
Asset disposal	506	57	0	0	0
Acquisitions	(9)	28	0	0	0
Others	205	(32)	97	128	150
<b>CFI</b>	<b>357</b>	<b>(167)</b>	<b>(293)</b>	<b>(162)</b>	<b>(140)</b>
Changes in debt	(323)	(43)	(454)	(345)	(345)
Shares issued	0	0	0	0	0
Dividends	(76)	(23)	(47)	(47)	(82)
Distribution to Perps	(70)	(70)	(70)	(70)	(70)
Others	(116)	(101)	(62)	(70)	(77)
<b>CFF</b>	<b>(584)</b>	<b>(238)</b>	<b>(633)</b>	<b>(532)</b>	<b>(574)</b>
<b>Net cash flow</b>	<b>101</b>	<b>598</b>	<b>(434)</b>	<b>(200)</b>	<b>(161)</b>
Forex	(4)	(3)	0	0	0
Others	64	(16)	0	0	0
Beginning cash	1,312	1,472	2,051	1,617	1,417
Ending cash	1,472	2,051	1,617	1,417	1,257

### Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	11,739	9,555	10,061	10,489	10,788
EBITDA	867	658	670	718	740
EBIT	521	284	294	342	366
Net finance cost	(58)	(87)	(56)	(45)	(32)
Associates & JV	292	204	195	257	301
Profit before tax	755	401	432	554	635
Tax	(109)	(87)	(89)	(97)	(101)
Operation net profit	646	313	343	457	533
Discontinued operation	(17)	0	0	0	0
Reported net profit	629	313	343	457	533
Minority interest	(105)	(48)	(78)	(88)	(96)
Perpetual sukuk	(99)	(41)	(66)	(68)	(70)
Reported PATMI	454	195	195	299	367
Exceptionals	(202)	(70)	0	0	0
<b>Core PATMI</b>	<b>253</b>	<b>125</b>	<b>195</b>	<b>299</b>	<b>367</b>
Consensus			292	335	373
HLIB/Consensus (%)			66.9%	89.2%	98.4%

### Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Reported EPS (sen)	38.9	16.7	16.7	25.6	31.4
Core EPS (sen)	21.6	10.7	16.7	25.6	31.4
Core P/E (x)	14.8	30.0	19.1	12.5	10.2
DPS (sen)	6.0	4.0	2.0	6.0	8.0
Dividend yield (%)	1.9%	1.3%	0.6%	1.9%	2.5%
BVPS (RM)	3.16	3.31	3.44	3.65	3.90
P/B (x)	1.0	1.0	0.9	0.9	0.8
EBITDA margin	7.4%	6.9%	6.7%	6.8%	6.9%
EBIT margin	4.4%	3.0%	2.9%	3.3%	3.4%
PBT margin	6.4%	4.2%	4.3%	5.3%	5.9%
Net margin	-0.8%	-0.4%	-0.7%	-0.6%	-0.6%
ROE	7.2%	3.3%	5.0%	7.2%	8.3%
ROA	2.3%	1.1%	1.7%	2.7%	3.3%
Net gearing*	-57.8%	-39.1%	-37.2%	-31.6%	-25.5%

### Assumptions

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
<b>Sales (Unit)</b>					
Toyota	69,391	58,501	60,000	60,000	60,000
Lexus	918	819	800	800	800
Perodua	240,341	220,163	197,769	223,045	238,350

### Average Price (RM)

UMW	103,315	97,246	105,025	105,025	105,025
Perodua	42,758	41,749	42,992	44,322	43,761

**Figure #1** Quarterly results comparison

FYE Dec (RMm)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	6MFY20	6MFY21	YoY (%)
Revenue	1,529.7	2,954.2	2,445.1	-17.2%	59.8%	3,648.9	5,399.3	48.0%
EBITDA	113.0	188.3	95.6	-49.2%	-15.4%	214.8	284.0	32.2%
EBIT	17.9	106.5	9.9	-90.7%	-44.5%	27.6	116.5	321.5%
Net finance expense	(25.5)	(19.6)	(18.3)	-6.9%	-28.1%	(46.3)	(37.9)	-18.1%
Associates	(26.9)	87.5	25.2	-71.1%	-193.7%	2.2	112.7	4927.9%
Eis	(24.3)	(11.7)	15.7			20.6	4.0	
Reported PBT	(58.8)	162.7	32.6	-80.0%	-155.4%	4.2	195.3	4526.5%
Tax	(4.7)	(39.3)	(11.1)	-71.9%	133.3%	(19.0)	(50.4)	165.5%
Reported operation net profit	(63.6)	123.4	21.5	-82.6%	-133.9%	(14.8)	144.9	-1081.4%
Reported PATMI	(87.9)	97.3	(21.2)	-121.8%	-75.9%	(8.8)	76.1	-966.5%
Eis & Sukuk Adjustments	41.0	(16.6)	0.9	-105.3%	-97.9%	(57.7)	(15.7)	-72.8%
Core PATMI	(46.9)	80.7	(20.3)	-125.2%	-56.7%	(66.5)	60.4	-190.8%
Reported EPS (Sen)	(7.5)	8.3	(1.8)	-121.8%	-75.9%	(3.7)	6.5	-274.4%
Core EPS (Sen)	(4.0)	6.9	(1.7)	-125.2%	-56.7%	(5.7)	5.2	-190.8%
				<u>pts</u>	<u>pts</u>			<u>pts</u>
EBITDA margin (%)	7.4%	6.4%	3.9%	(2.5)	(3.5)	5.9%	5.3%	(0.6)
EBIT margin (%)	1.2%	3.6%	0.4%	(3.2)	(0.8)	0.8%	2.2%	1.4
Core PATMI margin (%)	-3.1%	2.7%	-0.8%	(4.4)	(2.0)	-1.8%	1.1%	0.4

Bursa, HLIB Research

**Figure #2** Quarterly results comparison by segment

	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	6MFY20	6MFY21	YoY (%)
<b>Reported Revenue</b>								
Automotive	1,102.0	2,396.0	1,981.9	-17.3%	79.8%	2,687.9	4,377.9	62.9%
Equipment	233.2	332.5	299.9	-9.8%	28.6%	522.4	632.4	21.1%
Manufacturing & Engineering	183.3	230.3	159.9	-30.5%	-12.8%	431.9	390.2	-9.6%
<b>Total</b>	<b>1,518.6</b>	<b>2,958.7</b>	<b>2,441.8</b>	<b>-17.5%</b>	<b>60.8%</b>	<b>3,642.2</b>	<b>5,400.5</b>	<b>48.3%</b>
<b>Reported PATMI</b>								
Automotive	(17.4)	95.1	27.0	-71.6%	-255.4%	33.1	122.0	268.6%
Equipment	21.0	15.3	23.5	53.9%	11.9%	36.7	38.8	5.9%
Manufacturing & Engineering	7.8	0.7	(7.7)	-1140.9%	-198.6%	14.3	(7.0)	-148.6%
Others	(99.4)	(13.8)	(64.0)	362.8%	-35.6%	(92.9)	(77.8)	-16.2%
<b>Total</b>	<b>(87.9)</b>	<b>97.3</b>	<b>(21.2)</b>	<b>-121.8%</b>	<b>-75.9%</b>	<b>(8.8)</b>	<b>76.1</b>	<b>-966.5%</b>
<b>Core PATAMI</b>	<b>(46.9)</b>	<b>80.7</b>	<b>(20.3)</b>	<b>-125.2%</b>	<b>N.M.</b>	<b>(66.5)</b>	<b>60.4</b>	<b>-190.8%</b>

Bursa, HLIB Research

**Figure #3** UMW automotive sales statistics

FYE Dec (RMm)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	6MFY20	6MFY21	YoY (%)
Toyota	7,784	16,990	16,751	-1.4%	115.2%	18,199	33,741	85.4%
Lexus	102	161	245	52.2%	140.2%	270	406	50.4%
Perodua	29,193	57,909	39,381	-32.0%	34.9%	74,170	97,290	31.2%
<b>Total</b>	<b>37,079</b>	<b>75,060</b>	<b>56,377</b>	<b>-24.9%</b>	<b>52.0%</b>	<b>92,639</b>	<b>131,437</b>	<b>41.9%</b>

Bursa, HLIB Research

**Figure #4** UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,052.6	3.47	FY22 PE 12x
Equipment	Various	847.6	0.73	FY22 PE 10x
Manufacturing & Engineering	Various	726.6	0.62	FY22 PE 18x
700 acres Serendah land	Various	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	100.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk	90.00	(1,097.9)	(0.94)	Based on 2020 Annual Report
Holding Co Net Debt		(1,742.4)	(1.49)	Based on 2020 Annual Report
Subtotal		3,854.2	3.30	
Holding Co Discount			10.0%	
<b>Target Price</b>			<b>2.98</b>	<b>Implied FY22 PE 11.6x</b>
* No of Shares		1,168.3		As at end FY2020

HLIB Research

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 27 August 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 27 August 2021, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

### Published & printed by:

#### Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,  
No. 6, Jalan Damanlela,  
Bukit Damansara,  
50490 Kuala Lumpur  
Tel: (603) 2083 1800  
Fax: (603) 2083 1766

### Stock rating guide

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

### Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.