

27 August 2021

# UMW Holdings Bhd

## 1HFY21 Below Our Expectation

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1HFY21 core PATAMI returned to the black at RM49.6m compared to core losses of RM8.1m in 1HFY20, and compared to our/consensus core PATAMI of RM190.3m/RM292.0m. We deemed the results below our expectation on harder-than-expected impact from closure of its factory in June 2021. We cut our FY21E CNP by 10% to account for lower Automotive profit contribution as the factory only restarted on 16<sup>th</sup> August 2021, but increase FY22E CNP by 9% on back-logged orders spill-over recovery. Maintain MP with a higher TP of RM3.20 (from RM3.00)

**Results highlights, YoY, 1HFY21 core PATAMI** turned into the black at RM49.6m compared to core losses of RM8.1m in 1HFY20 mainly due to higher overall sales (+48%) as last year was impacted by the closure of businesses during MCO starting 18<sup>th</sup> March 2020 until 4<sup>th</sup> May 2020, and boosted by the current extension of sales tax exemption until 30<sup>th</sup> December 2021. Evidently, Toyota & Lexus, and Perodua recorded significantly higher unit sales at 34,111 units (+84.7%) and 97,290 units (+31.2%), respectively. On the other hand, Equipment segment recorded stronger overall sales (+21.1%) and segment profit (+6.6%) with improved demand in almost all regions, except for Myanmar operation due to political instability (Myanmar typically registers higher margin for parts sales compared to other region). M&E segment sales (-9.6%) was negatively affected by lower production demand for fan cases amidst travel restrictions.

**QoQ, 2QFY21** plunged into core losses of RM30.4m compared to core PATAMI of RM80.0m in 1QFY21, tracking the plunge in sales (-17%) following the implementation of the FMCO from 1<sup>st</sup> June 2021 as well as from recognition of payment to holders of perpetual sukuk at RM34.8m, usually paid half-yearly. Toyota & Lexus, and Perodua recorded lower unit sales at 16,715 units (-2%) and 39,381 units (-32%), respectively. This was cushioned by higher profit contribution from Equipment segment (+45%) driven by Industrials sub-segment margin sales. Nonetheless, M&E segment (-30.5%) continued to register weak demand for the fan cases amidst the pandemic.

**Outlook.** UMW derives its earnings mostly from: (i) the stream of new models such as Vios and face-lifted Yaris, Toyota RAV4 CBU, Lexus UX200, Toyota Hilux Rogue, Innova & Fortuner (Feb 2021), Toyota Corolla Cross (CBU 25 Mar, CKD 2HCY21), Harrier (8<sup>th</sup> April 2021), and (ii) its 38%-owned Perodua with the all-new launches of Perodua Ativa. For Equipment division, the group will continue to leverage on its partners (KOMATSU & TICO)'s strengths and new collaborative robots ("Cobots") venture with Universal Robot A/S, while UMW Aerospace is expected to recover with the roll-out of vaccines and the implementation of travel bubbles. UMW has also unveiled its mobility CREST@2021 strategic framework, aiming for RM1b in PATAMI by 2030.

**Cut FY21E CNP by 10%, increase FY22E CNP by 9%.** We cut our FY21E CNP by 10% to account for lower Automotive profit contribution as factory only open its doors on 16<sup>th</sup> August 2021, but increase FY22E CNP by 9% on back-logged spill-over recovery.

**Maintain MP with a higher TP of RM3.20 (from RM3.00)** based on 13x FY22E EPS (at -1.0 SD of 5-year historical mean PER).

**Risks to our call include:** (i) lower-than-expected car sales volume, and (ii) higher-than-expected operating expenses.

## MARKET PERFORM ↔

Price: RM3.20  
Target Price: RM3.20 ↑

### Share Price Performance



KLCI	1,585.74
YTD KLCI chg	-2.5%
YTD stock price chg	-5.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK EQUITY
Market Cap (RM m)	3,738.5
Shares Outstanding	1,168.3
52-week range (H)	3.64
52-week range (L)	2.19
3-mth avg daily vol:	472,819
Free Float	29%
Beta	1.9

### Major Shareholders

Amanah Saham Nasional	52.3%
Employees Provident Fund	13.2%
KWAP	8.9%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	9,554.6	9,083.7	10,851.4
EBIT	631.7	723.1	931.9
PBT	400.7	453.5	712.6
<b>PATAMI</b>	<b>204.6</b>	<b>170.8</b>	<b>289.7</b>
<b>Core PATAMI</b>	<b>230.0</b>	<b>170.8</b>	<b>289.7</b>
Consensus NP	-	292.0	335.2
Earnings Revision	-	-10.2%	+9.3%
Core EPS (sen)	19.7	14.6	24.8
C.EPS growth (%)	-9.8	-25.7	69.6
NDPS (sen)	4.0	6.0	6.0
BVPS (RM)	3.31	3.40	3.59
Core PER (x)	16.3	21.9	12.9
PBV (x)	1.0	0.9	0.9
Net Gearing (x)	0.3	0.1	0.0
Net Div. Yield (%)	1.3	1.9	1.9

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**Result Highlight**

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	2,445.1	2,954.2	-17%	1,529.7	60%	5,399.3	3,648.9	48%
Associates and JV	25.2	87.5	-71%	(26.9)	194%	112.7	2.2	4928%
EBIT	58.3	190.1	-69%	(28.7)	303%	248.4	64.1	288%
PBT	32.6	162.7	-80%	(58.8)	155%	195.3	4.2	4527%
Taxation and Zakat	(11.1)	(39.3)	72%	4.7	-333%	(50.4)	(9.5)	-431%
<b>PATAMI</b>	<b>(21.1)</b>	<b>97.7</b>	<b>-122%</b>	<b>(78.4)</b>	<b>73%</b>	<b>76.5</b>	<b>(34.1)</b>	<b>324%</b>
<b>Core PATAMI</b>	<b>(30.4)</b>	<b>80.0</b>	<b>-138%</b>	<b>(29.3)</b>	<b>-4%</b>	<b>49.6</b>	<b>(8.1)</b>	<b>&gt;100%</b>
Core EPS (sen)	(2.6)	6.9	-138%	(2.5)	-4%	4.2	(0.7)	>100%
DPS (sen)	-	-	-	-	-	-	-	-
EBIT margin	2.4%	6.4%		-1.9%		4.6%	1.8%	
PBT margin	1.3%	5.5%		-3.8%		3.6%	0.1%	
Core NP margin	-1.2%	2.7%		-1.9%		0.9%	-0.2%	
Effective tax rate	34.0%	24.2%		8.1%		25.8%	225.0%	

\*1HFY21 Core PATAMI excludes: (i) net reversal on receivables impairment (RM10.496m), (ii) net loss on investments disposal (RM1.1m), (iii) PPE gain on disposal (RM0.560m), and (iv) reversal of inventories (RM4.4m).

Source: Company, Kenanga Research

**Segmental Breakdown**

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Revenue</b>	<b>2,445.1</b>	<b>2,954.2</b>	<b>-17.2%</b>	<b>1,529.7</b>	<b>59.8%</b>	<b>5,399.3</b>	<b>3,648.9</b>	<b>48.0%</b>
Automotive	1,981.9	2,396.0	-17.3%	1,102.0	79.8%	4,377.9	2,687.9	62.9%
Equipment	299.9	332.5	-9.8%	233.2	28.6%	632.4	522.4	21.1%
M&E	159.9	230.3	-30.5%	183.3	-12.8%	390.2	431.9	-9.6%
Others	3.4	(4.5)	N.M	11.1	-69.9%	(1.1)	6.7	N.M
<b>Segment PBT/(LBT)</b>	<b>32.6</b>	<b>162.7</b>	<b>-80.0%</b>	<b>(58.8)</b>	<b>155.4%</b>	<b>195.3</b>	<b>4.2</b>	<b>&gt;100%</b>
Automotive	34.6	145.5	-76.2%	(41.7)	183.0%	180.2	12.0	>100%
Equipment	31.8	21.9	45.0%	24.6	29.1%	53.8	50.4	6.6%
M&E	(6.1)	8.4	-172.3%	8.0	-175.5%	2.3	18.5	-87.5%
Others	(27.8)	(13.1)	N.M	(49.8)	N.M	(40.9)	(76.7)	N.M
<b>Segment Margin</b>								
Automotive	1.7%	6.1%		-3.8%		4.1%	0.4%	
Equipment	10.6%	6.6%		10.6%		8.5%	9.6%	
M&E	-3.8%	3.6%		4.4%		0.6%	4.3%	

Source: Company, Kenanga Research

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Peer Comparison																		
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
<b>STOCKS UNDER COVERAGE</b>																		
BERMAZ AUTO BHD	1.62	1,880.8	Y	04/2022	-8.0%	10.6%	-11.5%	12.3%	14.0	15.9	14.1	3.0	2.2	16.1%	3.7%	1.45	MP	
DRB-HICOM BHD	1.67	3,228.1	Y	12/2021	-6.3%	42.4%	-76.0%	628.8%	N.A.	69.9	9.6	0.3	0.3	0.5%	1.2%	2.20	OP	
MBM RESOURCES BERHAD	3.25	1,270.4	Y	12/2021	-7.9%	15.8%	-1.9%	20.3%	7.7	7.8	6.5	0.6	0.6	7.6%	4.6%	3.50	OP	
SIME DARBY BERHAD	2.39	16,254.4	Y	06/2022	4.6%	5.0%	15.2%	5.8%	13.0	11.3	10.7	1.0	1.0	8.8%	4.2%	2.60	OP	
TAN CHONG MOTOR HOLDINGS BHD	1.17	786.2	N	12/2021	-25.4%	31.9%	-133.5%	-72.8%	N.A.	N.A.	62.9	0.3	0.3	-1.6%	1.3%	1.00	UP	
UMW HOLDINGS BHD	3.20	3,738.6	Y	12/2021	-4.9%	19.5%	-25.7%	69.6%	16.3	21.9	12.9	0.6	0.5	3.5%	1.9%	3.20	MP	
<b>Simple Average</b>					<b>-8.0%</b>	<b>20.9%</b>	<b>-38.9%</b>	<b>110.7%</b>	<b>12.7</b>	<b>25.3</b>	<b>19.4</b>	<b>1.0</b>	<b>0.8</b>	<b>5.8%</b>	<b>2.8%</b>			

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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