

# UMW Holdings Berhad

(4588 | UMWH MK) Consumer Products & Services | Automotive & Parts

**Maintain BUY**

## A Blip on the Road to Recovery

### KEY INVESTMENT HIGHLIGHTS

- **2Q21 impacted by MCO3.0 in June, 1H21 behind estimates**
- **Group has resumed operations and confident of catching up, UMWT maintains FY21F sales target of 62K units (+4.5%yoy)**
- **UMWT/Perodua sitting on strong 2-4 month/3-4 month order backlog, Corolla Cross CKD rollout remains on track**
- **FY21F trimmed to reflect more conservative Perodua TIV assumption, but FY22F largely unchanged**
- **TP raised to RM4.35 on rollover to FY22F valuation base, BUY maintained**

**2Q21 impacted by lockdowns.** UMW slipped into a RM21m net loss in 2Q21 given impact of MCO3.0 in June. 1H21 core net profit of RM76m (+>100%yoy) was behind estimates accounting for 26% of both our and consensus forecasts respectively.

**Resumed production.** On a positive note, UMW has now resumed operations with >90% of its workforce fully vaccinated under PIKAS. Supply of CKD kits and components are in abundance which should accommodate a production ramp-up. The Bukit Raja and Shah Alam plants are running at 80% and 95% utilisation respectively, the latter on single-shift, we understand. Perodua may not be as agile in ramping up production as it was already running at full swing prior to the lockdown. However, we gather Perodua is looking at shifting to a 7-day workweek, which may squeeze out additional capacity to catch up with production loss in the past 2.5 months. Chip shortage issues related to the MyVi is understood to have been resolved. Aerospace is still dragged by low volumes, but FY21F could mark a bottom given a recovery in global aircraft deliveries.

**Target maintained.** UMWT is maintaining its FY21F TIV target of 62K units (+4.5%yoy). The group is sitting on 2-4 months of outstanding orders - with room to increase production as well as kit supplies already secured for the entire 62K volume, it is confident of catching up to hit this target. The Corolla Cross CKD is still on track for production in 4Q21. However, Perodua could be looking at a revised target despite a 3-4 month order backlog given less flexibility in ramping up production.

**Earnings revision.** We trim FY21F estimates by 26% to reflect a more conservative FY21F Perodua TIV of 207K units (-6.8%yoy) from 237K previously (+7.8%yoy), but our FY21F UMWT TIV of 61K units (+4%yoy) is maintained, which is a tad more conservative than management's target. FY22F estimates remain largely unchanged other than minor housekeeping revisions. We now expect FY21F earnings to fall 11% mainly due to a shortfall in Perodua production, but to rebound by 36% in FY22F in the absence of further lockdowns.

**Revised Target Price: RM4.35**

(from RM4.30 previously)

### RETURN STATISTICS

Price @ 26 <sup>th</sup> Aug 2021 (RM)	3.20
Expected share price return (%)	+35.9
Expected dividend yield (%)	+1.6
<b>Expected total return (%)</b>	<b>+37.5</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	10.0	5.0
3 months	1.3	-1.3
12 months	22.6	20.2

### KEY STATISTICS

FBM KLCI	1,585.74
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	29.10
Market Capitalisation (RM'm)	3,738.54
52-wk price range	RM2.19 - RM3.64
Beta vs FBM KLCI (x)	1.86
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.48
3-mth average daily value (RM'm)	1.47
Top Shareholders (%)	
Amanah Saham Nasional Bhd	52.27
Employees Provident Fund Board	13.23
Kumpulan Wang Persaraan	8.91


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## INVESTMENT STATISTICS

FYE Dec	FY18	FY19	FY20	FY21F	FY22F
Revenue (RM'm)	11,306.3	11,739.1	9,554.6	11,060.9	11,271.8
EBIT (RM'm)	522.9	332.6	257.7	426.8	421.0
Pre-tax Profit (RM'm)	786.2	754.8	400.7	479.7	552.0
Core net profit (RM'm)	341.7	266.3	240.9	214.3	292.3
FD EPS (sen)	29.2	22.8	20.6	18.3	25.0
EPS growth (%)	108.6	(22.1)	(9.5)	(11.1)	36.4
PER (x)	10.9	14.0	15.5	17.4	12.8
Net Dividend (sen)	7.5	6.0	4.0	3.7	5.0
Net Dividend Yield (%)	2.3	1.9	1.3	1.1	1.6

Source: Company, MIDFR

**Recommendation.** Despite the downward revision to FY21F earnings, our SOP-derived TP is raised slightly to RM4.35 (from RM4.30 previously) as we rollover our valuation to FY22F. UMW is one of the prime beneficiaries of a cyclical recovery in autos given its dominant market share of 53% (via UMWT and Perodua). UMWT in particular, has successfully regained its position as the largest non-national, driven by roll out of key models that plugged gaps in its model mix e.g., Yaris, Corolla Cross, innovative marketing strategies and maintaining strong after sales network. Key catalysts: (1) Launch of the CKD Corolla Cross (2) RM270m investment in new Hybrid EV production with rollout targeted from FY22F (3) Sustained earnings recovery on the back of a low interest rate environment, underlying macro recovery and a boost from the tax holiday till December 2021. Key risk to our call is a weaker than expected demand recovery, a weakening of the Ringgit, rising commodity prices and a worse than expected global chip shortage situation. 

## Exhibit 1: UMW Sum-of-Parts Valuation

Segments	FY22F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	310	PER	12	3,717	
Equipment	61	PER	11	668	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
<b>Total value</b>				<b>5,077</b>	
No of shares (m)				1,168	
<b>Fair value (RM)</b>				<b>4.35</b>	

Source: Company, MIDFR

## Exhibit 2: 2QFY21 Result Summary

FYE Dec (RMm)	2Q20	1Q21	2Q21	YoY	QoQ	1H20	1H21	YTD
<b>Revenue</b>	<b>1,529.7</b>	<b>2,954.2</b>	<b>2,445.1</b>	<b>59.8%</b>	<b>-17.2%</b>	<b>3,648.9</b>	<b>5,399.3</b>	<b>48.0%</b>
EBITDA	81.2	171.6	106.4	31.0%	-38.0%	218.9	278.0	27.0%
<b>Operating Profit</b>	<b>(14.0)</b>	<b>89.8</b>	<b>20.7</b>	<b>-248.1%</b>	<b>-77.0%</b>	<b>31.7</b>	<b>110.5</b>	<b>248.5%</b>
Finance Cost	(30.1)	(27.4)	(25.7)	-14.6%	-6.1%	(59.9)	(53.1)	-11.3%
Associates	(26.9)	87.5	25.2	-193.7%	-71.1%	2.2	112.7	4927.9%
Investment Income / Other gains	12.2	12.8	12.4	1.8%	-2.9%	30.1	25.2	-16.4%
<b>Pretax Profit</b>	<b>(58.8)</b>	<b>162.7</b>	<b>32.6</b>	<b>155.4%</b>	<b>-80.0%</b>	<b>4.2</b>	<b>195.3</b>	<b>4526.5%</b>
Taxation	4.7	(39.3)	(11.1)			(9.5)	(50.4)	
Minorities / PERP	24.4	26.1	42.6			28.8	68.7	
Net Profit	(78.4)	97.3	(21.1)	-73.1%	-121.7%	(34.1)	76.2	-323.2%
<b>Core net profit</b>	<b>(33.2)</b>	<b>97.3</b>	<b>(21.1)</b>	<b>-36.5%</b>	<b>-121.7%</b>	<b>15.6</b>	<b>76.2</b>	<b>388.9%</b>
EPS (FD, sen)	-2.8	7.5	-1.8			1.3	6.5	
DPS (sen)	0.0	0.0	0.0			0.0	0.0	
<b>Margins (%):</b>								
Operating	-0.9%	3.0%	0.8%			0.9%	2.0%	
Pretax Profit	-3.8%	5.5%	1.3%			0.1%	3.6%	
Core Net Profit	-2.2%	3.0%	-0.9%			0.4%	1.4%	
Tax Rate	8.1%	24.2%	34.0%			225.0%	25.8%	
EBITDA	5.3%	5.8%	4.3%			6.0%	5.1%	
<b>Segmental Breakdown</b>	<b>2Q20</b>	<b>1Q21</b>	<b>2Q21</b>	<b>YoY</b>	<b>QoQ</b>	<b>1H20</b>	<b>1H21</b>	<b>YTD</b>
Automotive	1,102.0	2,396.0	1,981.9	79.8%	-17.3%	2,687.9	4,377.9	62.9%
Equipment	233.2	332.5	299.9	28.6%	-9.8%	522.4	632.4	21.1%
Manuf & Eng	183.3	230.3	159.9	-12.8%	-30.5%	431.9	390.2	-9.6%
Others	11.1	(4.5)	3.4	-69.9%	175.0%	6.7	(1.1)	-116.5%
<b>Revenue</b>	<b>1,529.7</b>	<b>2,954.2</b>	<b>2,445.1</b>	<b>59.8%</b>	<b>-17.2%</b>	<b>3,648.9</b>	<b>5,399.3</b>	<b>48.0%</b>
Automotive	(41.7)	145.5	34.6	-183.0%	-76.2%	12.0	180.2	1402.6%
Equipment	24.6	21.9	31.8	29.1%	45.0%	50.4	53.8	6.6%
Manuf & Eng	8.0	8.4	(6.1)	-175.5%	-172.3%	18.5	2.3	-87.5%
Others	(49.8)	(13.1)	(27.8)	-44.1%	111.6%	(76.7)	(40.9)	46.6%
<b>Pretax profit</b>	<b>(58.8)</b>	<b>162.7</b>	<b>32.6</b>	<b>155.4%</b>	<b>-80.0%</b>	<b>4.2</b>	<b>195.3</b>	<b>4526.5%</b>
<b>Pretax margins</b>								
Automotive	-3.8%	6.1%	1.7%			0.4%	4.1%	
Equipment	10.6%	6.6%	10.6%			9.6%	8.5%	
Manuf & Eng	4.4%	3.6%	-3.8%			4.3%	0.6%	
Others	NA	NA	NA			NA	NA	
Toyota TIV (units)	7,784	16,990	16,715	114.7%	-1.6%	18,199	33,705	85.2%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology