

UMW Holdings (UMWH MK)

MCO drove down 1H21 results

Maintain BUY and MYR4.00 TP

1H21 results came in below ours/ consensus FY estimates, on a weaker QoQ performance due to disruptions at its automotive operations from the lockdown. While we cut FY21 estimates by 34%, largely on its auto ops, weighed down by the pandemic, focus should instead be on the FY22 recovery play. Our TP is unchanged, pegged to 16x FY22 PER (-0.5-SD valuation).

In the red in 2Q21

UMW reported a core net loss of MYR15m in 2Q21 (vs. +MYR88m in 1Q21), which took its 1H21 core earnings to MYR73m, 25% of ours/ consensus initial FY estimates. The QoQ weakness was mainly due to: (i) lower automotive earnings (-76%), losses at its M&E ops (-MYR6m vs. + MYR8m in 1Q21) and (iii) a biennial Sukuk payment (MYR35m). Its automotive ops were disrupted by the MCO/ lockdown, which led to lower vehicle sales (Toyota: -1% to 17k units, Perodua (P2): -32% to 39.4k units) and margins (-4.2-ppts to 1.3%).

Cut FY21 earnings, look forward to FY22

Our 34% cut in FY21 earnings largely reflects: (i) lower P2 sales volume expectation (-11% to 221k units) and (ii) margin (-1-ppts). P2's production/ sales are affected by the chips shortage, especially for its MyVi model. As for Toyota, UMW is confident of meeting its 62k units target in FY21. We expect the auto ops' performance in 3Q21 to reflect 2Q21 due to the continued lockdown but we see a much improved 4Q21 as MCOs are progressively lifted. All in, we expect FY21 earnings to drop by 32% YoY before staging a strong recovery in FY22 (+54% YoY). Our FY22-23 estimates are relatively unchanged.

EV agenda, big picture aspiration

It will roll out hybrid CBU models from 4Q21 to ride on the EV plays, once the MY EV policy is announced. The BEVs will be a 2023 aspiration. All in, UMW has set a 10-year target, to achieve: (i) MYR20b revenue, (ii) MYR2b pretax profit and (iii) MYR1b net profit. This would be aided by organic growth, M&As as well as divestment strategies.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	11,760	9,555	9,851	10,783	11,146
EBITDA	655	712	620	756	759
Core net profit	237	285	194	299	308
Core EPS (sen)	20.2	24.4	16.6	25.6	26.4
Core EPS growth (%)	(57.6)	20.3	(31.8)	54.0	3.0
Net DPS (sen)	6.0	4.0	3.8	5.8	6.0
Core P/E (x)	22.2	14.0	19.3	12.5	12.1
P/BV (x)	1.4	1.0	0.9	0.9	0.8
Net dividend yield (%)	1.3	1.2	1.2	1.8	1.9
ROAE (%)	12.9	5.4	4.9	7.1	6.8
ROAA (%)	2.2	2.5	1.7	2.5	2.4
EV/EBITDA (x)	11.6	8.2	8.7	6.9	6.6
Net gearing (%) (incl perps)	17.0	6.5	2.0	net cash	net cash
Consensus net profit	-	-	290	333	365
MKE vs. Consensus (%)	-	-	(33.0)	(10.2)	(15.5)

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BUY

Share Price	MYR 3.20
12m Price Target	MYR 4.00 (+25%)
Previous Price Target	MYR 4.00

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

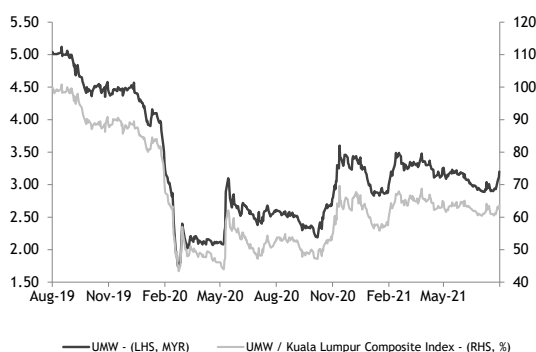
Statistics

52w high/low (MYR)	3.60/2.19
3m avg turnover (USDm)	0.3
Free float (%)	24.0
Issued shares (m)	1,168
Market capitalisation	MYR3.7B USD891M

Major shareholders:

Permodalan Nasional Bhd.	42.1%
Employees Provident Fund	13.2%
Kumpulan Wang Persaraan	8.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	10	(2)	23
Relative to index (%)	6	(1)	21

Source: FactSet

Value Proposition

- Has 3 key business units: (i) automotive via Toyota, Lexus and 38%-owned Perodua, (ii) equipment with Komatsu and Toyota Industrial Equipment Corporation (TICO) (iii) manufacturing & engineering (M&E) in auto components, lubricants and aerospace products.
- The sole distributor of Toyota and Lexus models in MY.
- UMW Aerospace is a first Malaysian company to become a Tier 1 supplier to Rolls-Royce.
- Divested its stake in UMW Oil & Gas (now known as Velesto Energy) in 2017 via the distribution in-specie of its 55.7% stake to UMW's shareholders.
- Has 861 acres of land in Serendah with strong monetisation prospect.

Unlocking value of its assets (861 acres of land at Serendah)



- Close to **40 acres** of UMW's land in Serendah has been taken up so far

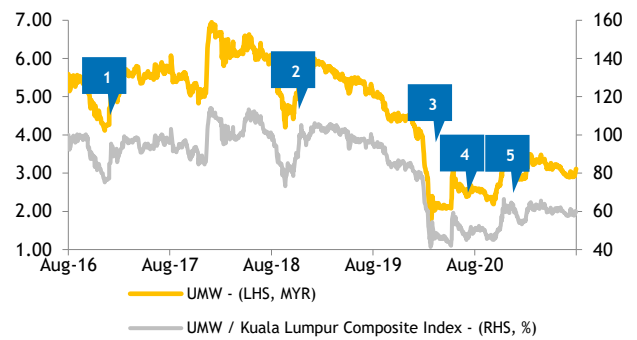
Company	Acreage
UMW Aerospace	24.0 acres
Multi-Code Electronics Industries (M) Bhd	8.25 acres
Private local company	5.3 acres
T7 Kilgour Sdn Bhd	2.0 acres

- We are actively negotiating with interested parties and hope to close some deals soon

Source: Company

Price Drivers

Historical share price trend



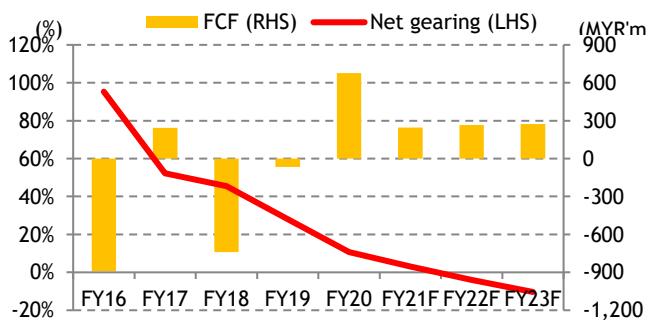
Source: Company, Maybank Kim Eng

- De-merger of UMW Oil & Gas (now known as Velesto Energy).
- Sold its industrial leasehold land in Shah Alam measuring 38.8 acres to Strategic Sonata S/B for MYR287.7m in Nov 2018.
- MCO started in 18 Mar 2020, affecting its vehicle sales & production in Apr, May & Jun 2020.
- SST exemption policy from mid-Jun 2020.
- Perodua continues to record new highs, registering 26,852 units in Sep 2020 (highest ever monthly sales in its 26-year history).

Financial Metrics

- Order backlog/ replenishment, ASP, vehicle sales volume, margins, forex and opex are UMW's key earnings drivers for its operations. Variation in any of these parameters will impact profitability.
- Nimble balance sheet with low gearing level, which offers ample headroom for strategic expansion plans.
- Disposal of non-core assets will improve its operating focus/ integration and cost management.

FCF and net gearing trend



Source: Company

Swing Factors

Upside

- New model launches, rebates, incentives (i.e. zero GST, SST) with will spur vehicle sales.
- Recovery in order replenishment and margin expansion are key catalysts.
- A successful corporate exercise (i.e. IPO, divestment, privatisation) would likely generate excitement.
- High dividend payment serves as a potential positive.

Downside

- Soft consumer sentiment and unattractive model launches are risks to its motors division.
- Forex volatility will affect its profitability and operational planning.
- Execution mishap, cost overruns and / or absence of new orders will cause adverse reaction.
- Acquisition of non-core assets or poor usage of capex will not be well received, particularly at this point of industry cycle.

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Fig 1: UMWH's quarterly results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	2Q21	1Q21	%QoQ	2Q20	%YoY	1H21	1H20	% YoY
Turnover	2,445.1	2,954.2	(17.2)	1,529.7	59.8	5,399.3	3,648.9	48.0
EBIT	20.7	89.8	(77.0)	(14.0)	NM	110.5	31.7	>100
Interest expense	(25.7)	(27.4)	(6.1)	(30.1)	(14.6)	(53.1)	(59.9)	(11.3)
Associates	25.2	87.5	(71.1)	(26.9)	NM	112.7	2.2	>100
Investment Income	12.4	12.8	(2.9)	0.9	>100	25.2	18.9	33.5
Pre-tax profit	32.6	162.7	(80.0)	(58.8)	NM	195.3	4.2	>100
Taxation	(11.1)	(39.3)	(71.9)	4.7	NM	(50.4)	(9.5)	NM
Minority interest	(7.8)	(26.1)	(70.1)	10.5	NM	(33.9)	6.0	NM
Sukuk	(34.8)	0.0	NM	(34.8)	0.0	(34.8)	(34.8)	0.0
Net profit / (loss)	(21.1)	97.3	NM	(78.4)	(73.1)	76.2	(34.1)	NM
Exceptional item	(6.4)	9.3	NM	(51.7)	(87.7)	2.9	(49.7)	NM
Recurring net profit / (loss)	(14.7)	88.0	NM	(26.8)	(44.9)	73.3	15.6	>100
	2Q21	1Q21	+/- ppt	2Q20	%YoY	6M21	6M20	+/- ppt
EBIT margin (%)	0.8	3.0	(2.2)	(0.9)	1.8	2.0	0.9	1.2
Tax rate (%)	34.0	24.2	9.8	8.1	25.9	25.8	225.0	(199.2)
Revenue	2,445.1	2,954.2	(17.2)	1,529.7	59.8	5,399.3	3,648.9	48.0
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)	NM	11.1	(69.9)	(1.1)	6.7	NM
	0.0	0.0	NM	(0.0)	NM	0.0	0.0	NM
Pre-tax profit	32.6	162.7	(80.0)	(58.8)	NM	195.3	4.2	NM
Automotive	34.6	145.5	(76.2)	(41.7)	NM	180.2	12.0	NM
Equipment	31.8	21.9	45.0	24.6	29.1	53.8	50.4	6.6
M&E	(6.1)	8.4	NM	8.0	NM	2.3	18.5	(87.5)
Others	(27.8)	(13.1)	NM	(49.8)	(44.1)	(40.9)	(76.7)	(46.6)
	2Q21	1Q21	+/- ppt	2Q20	%YoY	6M21	6M20	+/- ppt
Pre-tax margins (%)	1.3	5.5	(4.2)	(3.8)	5.2	3.6	0.1	3.5
Automotive	1.7	6.1	(4.3)	(3.8)	5.5	4.1	0.4	3.7
Equipment	10.6	6.6	4.0	10.6	0.0	8.5	9.6	(1.1)
M&E	(3.8)	3.6	(7.4)	4.4	(8.2)	0.6	4.3	(3.7)
Vehicle Unit Sales (MAA)	2Q21	1Q21	%QoQ	2Q20	%YoY	6M21	6M20	%YoY
Toyota	16,960	17,151	(1.1)	7,886	115.1	34,111	18,469	84.7
Perodua	39,381	57,909	(32.0)	29,193	34.9	97,290	74,170	31.2

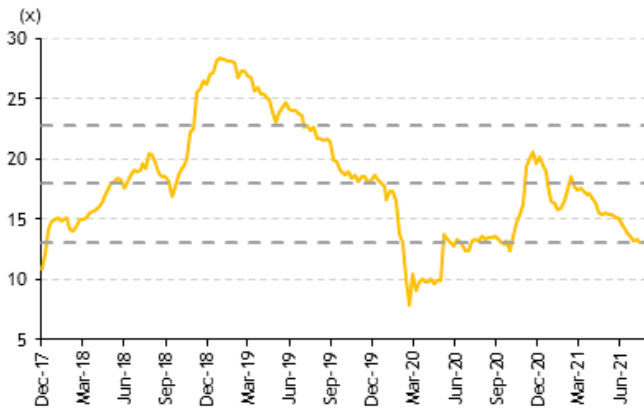
Source: Company

Fig 2: UMW: Vehicles sales

	2019	2020A	2021F	2022F	2023F
Toyota	70,009	59,320	62,900	66,500	69,030
Perodua	240,341	220,163	221,152	240,000	242,500

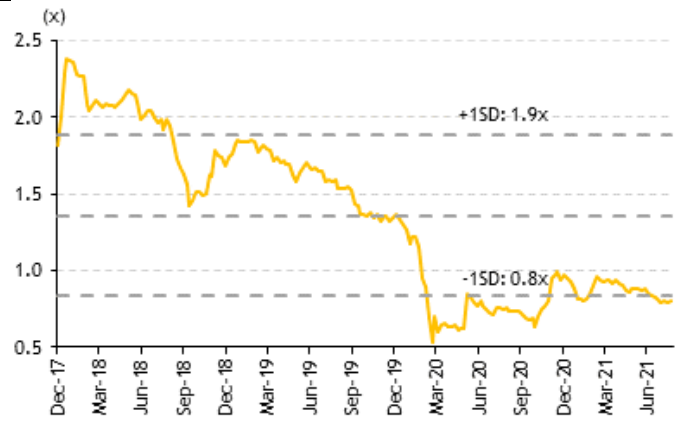
Source: Company, Maybank KE

Fig 3: 1-year forward PER



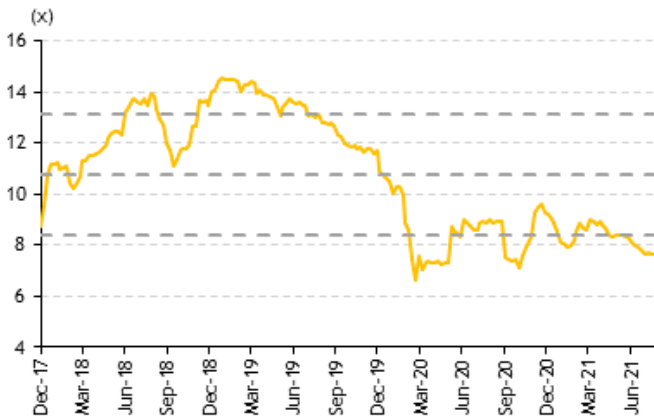
Source: Company, Maybank KE

Fig 4: 1-year forward PBV



Source: Company, Maybank KE

Fig 5: 1-year forward EV/ EBITDA



Source: Company, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	13.4	15.9	19.3	12.5	12.1
Core P/E (x)	22.2	14.0	19.3	12.5	12.1
P/BV (x)	1.4	1.0	0.9	0.9	0.8
P/NTA (x)	1.4	1.0	0.9	0.9	0.8
Net dividend yield (%)	1.3	1.2	1.2	1.8	1.9
FCF yield (%)	nm	17.0	5.9	5.6	7.4
EV/EBITDA (x)	11.6	8.2	8.7	6.9	6.6
EV/EBIT (x)	24.5	17.3	21.8	13.6	12.9

INCOME STATEMENT (MYR m)

Revenue	11,760.2	9,554.6	9,850.6	10,782.7	11,146.0
EBITDA	655.4	712.0	619.8	756.0	759.2
Depreciation	(346.2)	(374.1)	(373.1)	(372.1)	(370.6)
EBIT	309.2	338.0	246.6	383.9	388.5
Net interest income / (exp)	(61.6)	(61.1)	(61.3)	(52.9)	(43.8)
Associates & JV	275.7	204.1	241.9	298.2	301.3
Exceptionals	217.9	(80.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	741.2	400.7	427.2	629.3	646.0
Income tax	(112.5)	(77.7)	(109.7)	(156.0)	(160.4)
Minorities	(104.6)	(48.5)	(53.4)	(104.2)	(107.6)
Perpetual securities	(69.7)	(69.9)	(69.9)	(69.9)	(69.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	454.4	204.6	194.3	299.2	308.1
Core net profit	236.6	284.9	194.3	299.2	308.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,472.1	2,050.9	2,330.0	2,583.1	2,906.3
Accounts receivable	1,450.5	1,202.3	1,236.2	1,339.7	1,380.0
Inventory	1,589.6	1,439.3	1,560.2	1,615.9	1,673.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,861.2	2,463.0	2,289.9	2,117.8	1,947.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,921.3	2,080.9	2,272.6	2,520.7	2,771.8
Other assets	1,853.2	2,210.8	2,210.8	2,210.8	2,210.8
Total assets	11,147.8	11,447.1	11,899.7	12,387.9	12,889.8
ST interest bearing debt	386.4	523.8	523.8	523.8	523.8
Accounts payable	2,093.4	2,156.2	2,335.7	2,419.1	2,505.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,123.4	1,942.3	1,942.3	1,942.3	1,942.3
Other liabilities	450.0	408.0	408.0	408.0	408.0
Total Liabilities	5,053.4	5,029.9	5,209.4	5,292.8	5,379.6
Shareholders Equity	3,692.6	3,868.1	4,087.9	4,388.5	4,696.1
Minority Interest	1,303.9	1,451.2	1,504.5	1,608.7	1,716.3
Total shareholder equity	4,996.5	5,319.3	5,592.4	5,997.3	6,412.4
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	11,147.8	11,447.1	11,899.7	12,387.9	12,889.8

CASH FLOW (MYR m)

Pretax profit	741.2	400.7	427.2	629.3	646.0
Depreciation & amortisation	346.2	374.1	373.1	372.1	370.6
Adj net interest (income)/exp	(133.5)	(133.5)	(114.7)	(113.4)	(111.0)
Change in working capital	(60.3)	449.7	24.6	(75.7)	(11.5)
Cash taxes paid	(129.6)	(77.7)	(109.7)	(156.0)	(160.4)
Other operating cash flow	(485.5)	(99.5)	(180.6)	(245.4)	(257.4)
Cash flow from operations	278.4	913.7	420.0	410.8	476.3
Capex	(345.5)	(237.3)	(200.0)	(200.0)	(200.0)
Free cash flow	(67.1)	676.5	220.0	210.8	276.3
Dividends paid	(172.2)	(93.7)	(44.4)	(68.4)	(70.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(340.9)	(74.0)	0.0	0.0	0.0
Other invest/financing cash flow	767.3	67.0	103.5	110.8	117.3
Effect of exch rate changes	(26.8)	(3.3)	0.0	0.0	0.0
Net cash flow	160.3	572.5	279.1	253.1	323.2

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.0	(18.8)	3.1	9.5	3.4
EBITDA growth	(23.7)	8.6	(13.0)	22.0	0.4
EBIT growth	(46.6)	9.3	(27.0)	55.7	1.2
Pretax growth	(7.4)	(45.9)	6.6	47.3	2.7
Reported net profit growth	(12.7)	(55.0)	(5.0)	54.0	3.0
Core net profit growth	(57.6)	20.4	(31.8)	54.0	3.0
Profitability ratios (%)					
EBITDA margin	5.6	7.5	6.3	7.0	6.8
EBIT margin	2.6	3.5	2.5	3.6	3.5
Pretax profit margin	6.3	4.2	4.3	5.8	5.8
Payout ratio	15.4	22.9	22.9	22.9	22.9
DuPont analysis					
Net profit margin (%)	3.9	2.1	2.0	2.8	2.8
Revenue/Assets (x)	1.1	0.8	0.8	0.9	0.9
Assets/Equity (x)	3.0	3.0	2.9	2.8	2.7
ROAE (%)	12.9	5.4	4.9	7.1	6.8
ROAA (%)	2.2	2.5	1.7	2.5	2.4
Liquidity & Efficiency					
Cash conversion cycle	23.9	21.7	12.7	10.4	11.4
Days receivable outstanding	38.7	50.0	44.6	43.0	43.9
Days inventory outstanding	57.4	70.1	64.1	65.5	65.5
Days payables outstanding	72.2	98.4	96.0	98.1	98.1
Dividend cover (x)	6.5	4.4	4.4	4.4	4.4
Current ratio (x)	2.2	2.1	2.2	2.2	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.3	2.3	2.3	2.4
Net gearing (%) (incl perps)	17.0	6.5	2.0	net cash	net cash
Net gearing (%) (excl. perps)	20.8	7.8	2.4	net cash	net cash
Net interest cover (x)	5.0	5.5	4.0	7.3	8.9
Debt/EBITDA (x)	3.8	3.5	4.0	3.3	3.2
Capex/revenue (%)	2.9	2.5	2.0	1.9	1.8
Net debt/ (net cash)	1,037.7	415.2	136.1	(117.1)	(440.2)

Source: Company; Maybank

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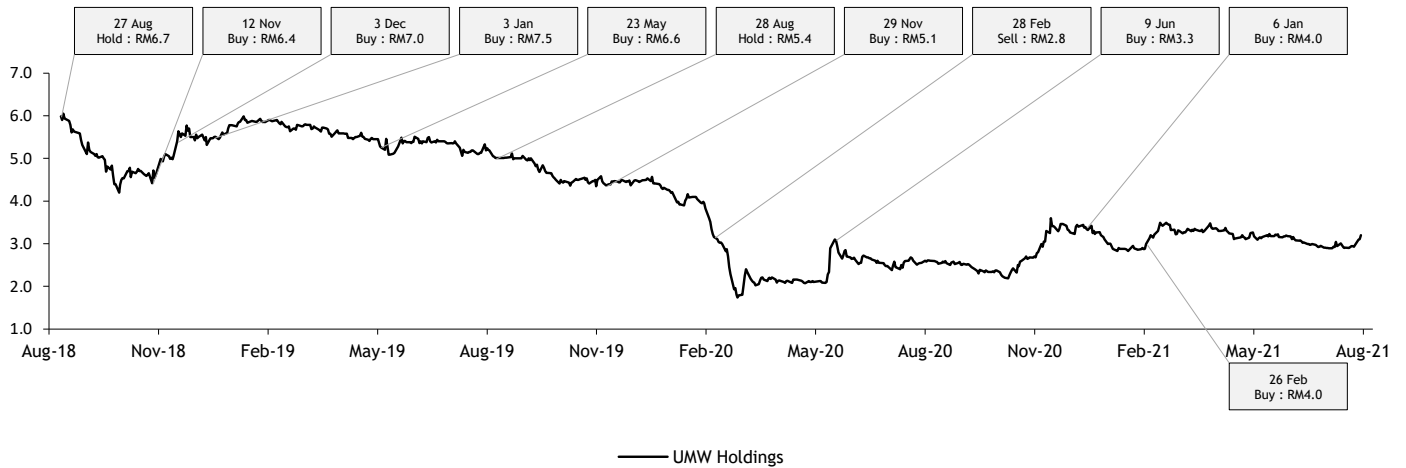
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