

MALAYSIA

Results

UMW Holdings (UMWH MK/BUY/RM3.20/Target: RM3.80)

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2Q21: The company is ramping up its production to meet its two to four months backlog orders. Extension of SST exemption will provide earnings upside in 2022.

Usage notes:

1. Braces <...>:

Placeholders, denoted by <...> (such as. <co. name>), are to be overtyped with the appropriate entry

2. 2-line caption markers:

<Xxx ...

... xxx >

These denote placeholders for the story's 2-line caption.

3. Fiscal period format: XQYY

Overtyping the fiscal period notation as follows:

Eg:

For fiscal period 3rd Quarter 2011, the field XQYY should be overwritten as 3Q11 for fiscal year ending in December. Otherwise, the field should be written as 3QFY11.

COMPANY RESULTS

UMW Holdings (UMWH MK)

2Q21: Ramping Up Production To Catch Up With Demand

UMW's 2Q21 core net loss of RM14.2m brought its 6M21 core earnings to RM73.3m. We deemed this as broadly in line, anticipating stronger earnings in 2H21 to be driven by the deliveries of backlog orders and seasonally stronger 4Q21 sales. The company has gotten approval from the authority to operate at 100% capacity and is currently ramping up its production. Extension of SST exemption beyond Dec 21 will provide an upside to 2022's earnings. Maintain BUY and target price of RM3.80.

2Q21 RESULTS

Year to 31 Dec	2Q21 (RMm)	qoq % chg	yoy % chg	6M21 (RMm)	yoy % chg	Remarks
Revenue	2,445.1	(17.2)	59.8	5,399.3	48.0	Qoq, generally affected by FMCO imposition
-Auto	1,981.9	(17.3)	79.8	4,377.9	62.9	Minimal auto sales in June
-Equipment	299.9	(9.8)	28.6	632.4	21.1	
-M&E	159.9	(30.5)	(12.8)	390.2	(9.6)	
Associates	25.2	(71.1)	<100	112.7	>100	Perodua sales were affected by FMCO as well
PBT	32.6	(80.0)	<100	195.3	>100	
-Auto	34.6	(76.2)	(183.0)	180.2	>100	
-Equipment	31.8	45.0	29.1	53.8	6.6	
-M&E	(6.1)	n.m.	<100	2.3	(87.5)	
PATAMI	(21.1)	n.m.	(73.1)	76.2	n.m.	
Core PATAMI	(14.2)	n.m.	(57.3)	73.3	>100	Broadly within expectations
Toyota unit sales	16,960	(1.1)	>100	34,111	84.7	
Perodua unit sales	39,381	(32.0)	34.9	97,290	31.2	
PBT Margins	(%)	ppts	ppts	(%)	ppts	
-Overall	1.3	(4.2)	5.2	3.6	3.5	
-Auto	1.7	(4.3)	n.m.	4.1	3.7	
-Equipment	10.6	4.0	0.0	8.5	(1.1)	
-M&E	(3.8)	n.m.	n.m.	0.6	(3.7)	

Source: UMW Holdings Berhad, UOB Kay Hian

RESULTS

• **2Q21 earnings broadly in line.** UMW Holdings (UMW) reported a 2Q21 core net loss of RM14.2m (1Q21: net profit of RM87.5m), lowering its 6M21 core earnings to RM73.3m. This accounts for 33% and 25% of our and consensus full-year estimates, respectively. All divisions reported sequentially lower revenue, generally affected by the full lockdown. However, the results were deemed broadly in line as we anticipate a stronger 2H21 due to the resumption of automobile supply chain operations starting mid-August and seasonally stronger sales in 4Q21.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	11,739	9,554	9,651	10,670	10,789
EBITDA	679	712	814	852	855
Operating profit	333	338	419	465	476
Net profit (rep./act.)	447	205	223	315	358
Net profit (adj.)	259	285	223	315	358
EPS (sen)	22.2	24.4	19.1	26.9	30.7
PE (x)	14.4	13.1	16.8	11.9	10.4
P/B (x)	0.8	0.8	0.7	0.7	0.7
EV/EBITDA (x)	9.7	9.2	8.1	7.7	7.7
Dividend yield (%)	1.9	1.5	1.2	1.7	1.9
Net margin (%)	3.8	2.1	2.3	3.0	3.3
Net debt/(cash) to equity (%)	21.7	28.8	26.2	24.3	21.0
Interest cover (x)	11.8	11.7	16.3	14.7	14.7
ROE (%)	9.7	4.2	4.4	6.0	6.5
Consensus net profit	-	-	292	335	373
UOBKH/Consensus (x)	-	-	0.76	0.94	0.96

Source: UMW Holdings Berhad, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM3.20
Target Price	RM3.80
Upside	+18.8%

COMPANY DESCRIPTION

UMW, through its 51%-owned subsidiary UMW-Toyota, imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. It also owns 38% stake in Perodua.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	3,738.5
Market cap (US\$m):	891.1
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low RM3.60/RM2.19

1mth	3mth	6mth	1yr	YTD
10.0	(1.5)	7.0	22.6	(5.9)

Major Shareholders

	%
Amanah Saham Nasional	52.3
Employees Provident Fund	13.2
Kumpulan Wang Persaraan Diperbadankan	8.9

FY21 NAV/Share (RM) 4.38

FY21 Net Debt/Share (RM) 1.15

PRICE CHART

Source: Bloomberg

ANALYST(S)

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- Automobile:** Sequentially lower PBT is in line with the decline in Perodua and Toyota's sales volume. Both brands' plants stopped operation during the implementation of the full movement control order (FMCO) which started in early-June. 3Q21 sales will likely continue to be affected as the plants and showrooms were only allowed to resume operations starting mid-August. The recent unfavourable forex trend of the Malaysian ringgit against the US dollar has also affected the division's margin.
- The equipment division's** profitability continues to be affected by the political instability in Myanmar and the imposition of the FMCO in Malaysia. This had led to lower sales of the heavy equipment unit. The industrial equipment business remains resilient as it mainly serves the essential service sector.
- Manufacturing & engineering** profitability continues to be dragged down by the aerospace unit, impacted by lower delivery of fan cases to Rolls-Royce. This is expected to improve in 2H21 as management guided that the fan cases orders are 70% higher than in 1H21. The auto parts businesses also were affected by the FMCO, in tandem with the decline in auto sales during the quarter.

STOCK IMPACT

- Production resumed, catching up on demand.** We gathered that UMW Toyota (UMWT) and Perodua had resumed their operations following the government's restrictions relaxation announcement on 16 Aug. Both companies have 100% approved production capacity after more than 90% of their workforce has been fully vaccinated. The companies are ramping up the production to catch up on demand and currently have two to four months of backlog orders. UMW's Shah Alam and Bukit Raja plants are now running at 95% and 80% utilisation rates, respectively. UMWT and Perodua maintain their sales target of 62,000 units and 240,000 units, respectively.
- Minimal impact on the chip shortage crisis.** UMW's management clarified that Toyota Motor's decision to cut its worldwide production by 40% would have minimal impact on their production. The company has pre-ordered its completely knocked-down kits and completely built-up models ahead of its principal announcement. Also, to avoid the same production bottleneck issue they faced last year, UMWT continues to import auto components from its principal even during the lockdown period.
- SST exemption: Another extension?** We gathered that the Malaysia Automotive Association (MAA) is currently communicating with the authorities on the potential extension of the sales and services tax (SST) exemption which is set to end on 31 Dec 21. In our view, extending the tax-free period will be a win-win situation between the industry and the government. The government's potential loss of SST income could be offset by the higher excise duty revenue from higher sales volume while the extension will help the industry to recover better from the recent lockdowns.

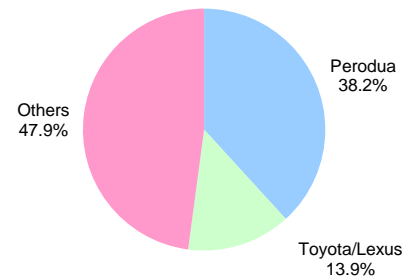
EARNINGS REVISION/RISK

- None.
- Key risks.** Worse-than-expected impact of the chip shortage.

VALUATION/RECOMMENDATION

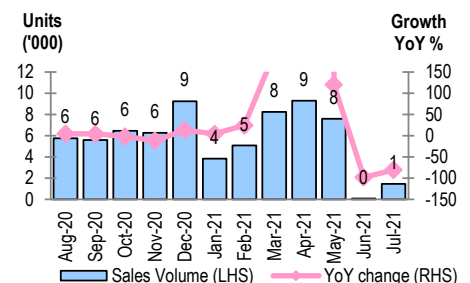
- Maintain BUY with an unchanged target price of RM3.80.** Our valuation implies 14x PE (sector average) of 2022F earnings. We believe the earnings will be supported by the pent-up demand well as the sales tax exemption extension. The positive news on vaccine deployment should further boost consumer sentiment. All its three divisions are expected to report stronger earnings in 2022 on the back of the economic recovery.

UMW'S MARKET SHARE



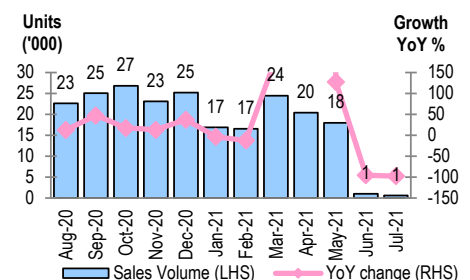
Source: MAA, UMW

UMW TOYOTA SALES VOLUME TREND



Source: MAA, UMW

PERODUA SALES VOLUME TREND



Source: MAA, UMW

KEY ASSUMPTIONS

Sales volume (Units)	FY21F	FY22F	FY22F
Toyota/Lexus	62,000	67,000	67,000
Perodua	200,000	245,000	260,000

Source: UOB Kay Hian

EBIT SEGMENTAL FORECASTS

MYRm	FY21F	FY22F	FY22F
Auto	370.4	389.6	389.7
Equipment	140.6	164.2	172.4
Manufacturing	67.4	70.8	74.3
Others	(160.0)	(160.0)	(160.0)
Total	418.5	464.6	476.4

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	9,554	9,651	10,670	10,789
EBITDA	712	814	852	855
Deprec. & amort.	374	396	387	379
EBIT	338	419	465	476
Associate contributions	204	201	273	307
Net interest income/(expense)	(61)	(50)	(58)	(58)
Pre-tax profit	401	569	679	726
Tax	(78)	(139)	(150)	(153)
Minorities	(118)	(208)	(215)	(215)
Net profit	205	223	315	358
Net profit (adj.)	285	223	315	358

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	608	532	496	573
Pre-tax profit	401	569	679	726
Tax	(78)	(139)	(150)	(153)
Deprec. & amort.	374	396	387	379
Associates	(204)	(201)	(273)	(307)
Working capital changes	169	(34)	(86)	(10)
Other operating cashflows	(54)	(60)	(62)	(62)
Investing	(574)	(140)	(138)	(138)
Capex (growth)	(628)	(200)	(200)	(200)
Investments	0	0	0	0
Others	54	60	62	62
Financing	(467)	(95)	(113)	(72)
Dividend payments	(57)	(45)	(63)	(72)
Proceeds from borrowings	(410)	(50)	(50)	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(433)	297	245	363
Beginning cash & cash equivalent	1,472	575	947	1,261
Changes due to forex impact	(465)	75	68	0
Ending cash & cash equivalent	575	947	1,261	1,623

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	2,920	2,920	2,921	2,921
Other LT assets	2,952	3,153	3,426	3,733
Cash/ST investment	679	711	697	811
Other current assets	3,964	3,907	4,160	4,190
Total assets	10,515	10,690	11,205	11,656
ST debt	500	450	400	400
Other current liabilities	1,812	1,721	1,889	1,908
LT debt	1,600	1,600	1,600	1,600
Other LT liabilities	312	312	312	312
Shareholders' equity	4,938	5,117	5,368	5,655
Minority interest	1,352	1,490	1,635	1,781
Total liabilities & equity	10,515	10,690	11,205	11,656

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	7.5	8.4	8.0	7.9
Pre-tax margin	4.2	5.9	6.4	6.7
Net margin	2.1	2.3	3.0	3.3
ROA	1.9	2.1	2.9	3.1
ROE	4.2	4.4	6.0	6.5
Growth				
Turnover	(18.6)	1.0	10.6	1.1
EBITDA	4.9	14.4	4.6	0.4
Pre-tax profit	(46.9)	42.1	19.3	6.8
Net profit	(54.2)	8.9	41.2	13.8
Net profit (adj.)	10.0	(21.8)	41.2	13.8
EPS	10.0	(21.8)	41.2	13.8
Leverage				
Debt to total capital	25.0	23.7	22.2	21.2
Debt to equity	42.5	40.1	37.3	35.4
Net debt/(cash) to equity	28.8	26.2	24.3	21.0
Interest cover (x)	11.7	16.3	14.7	14.7