30 November 2021

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note RM3.08 @ 29 November 2021

"Lower-than-expected results caused by FMCO"

Share price performance

	1M	3M	12M
Absolute (%)	-9.7	-1.0	10.0
Rel KLCI (%)	-6.6	4.3	17.1

	BUY	HOLD	SELL
Consensus	9	3	-

Stock Data

Sector	Auto & Auto Parts
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	3598.3/849.2
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	2.79-3.64
Est free float	28.8%
Stock Beta	1.80
Net cash/(debt) (RMm)	285.24
ROE (CY21E)	5.8%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	Top 26%-50%
ESG Risk Rating	28.2 (-2.0 yoy)

Key Shareholders

PNB	53.4%
EPF	12.6%
KWSP	8.8%

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics, Bursa Malaysia

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UMW Holdings (UMWH MK)

HOLD (downgrade)
Up/Downside: +8.3%

Price Target: RM3.34
Previous Target (Rating): RM3.53 (Buy)

Earnings below estimates

- **UMW's 9M21 core net profit of RM42m (-37.5% yoy) came in below our and consensus estimates due to higher-than-expected operating costs, taxation and interest expenses**
- **Impact from the FMCO took a toll on sales for the Automotive as well as Manufacturing & Engineering segments.**
- **We cut our FY21-23E EPS estimates by 14-23% and lower our TP to RM3.34. Downgrade call to HOLD**

Sales tax exemption period supported sales

UMW's 9M21 core net profit of RM42.0 (-37.5% yoy) came in below our and consensus estimates. Results accounted for 16% and 18% of our and consensus full-year forecasts due to higher-than-expected operating costs, taxation, and interest expenses. Despite that, revenue increased to RM7.4bn (+17.5% yoy) due to higher sales from the Automotive (+23.9% yoy) segment and Equipment (+15.7% yoy) segment as revenue was supported by the longer sales tax exemption period.

3Q21 affected by FMCO

On the other hand, revenue in the 3Q21 declined to RM2.0bn (-24.3% yoy, -17.5% qoq) attributable to lower sales from the Automotive (-25.2% yoy, -19.7% qoq) segment as well as Manufacturing & Equipment (-54.5% yoy, -31.1% qoq) segment. There were two and half months of halt in business operations during the quarter (vs one month in 2Q21) caused by the Full Movement Control Order (FMCO). Associates contribution recorded a loss of RM5.7m in 3Q21 as Perodua was affected by the FMCO and chip supply shortage. Consequently, UMW recorded a core net loss of RM22.3m in 3Q21 due to high operational fixed costs. No dividend was declared during the quarter.

Downgrade to HOLD with lower TP of RM3.34

We gather UMW has an order backlog of 100k units. Its Bukit Raja and Shah Alam plants are currently operating at 80% and 100% utilisation rates respectively to deliver the backlog orders. This is expected to drive 4Q21 earnings contribution from the Automotive segment and we expect deliveries may overflow into 1Q22. Even so, we reduce our EPS forecasts by 14.0-23.2% for FY21-23E after adjusting our taxation higher to take into account the impact of the prosperity tax as well as higher operating expenses incurred during FMCO. As a result, we lower our TP to RM3.34 (from RM3.53) based on SOP FY22E valuation and downgrade our call from Buy to HOLD. Key up/downside risks: i) higher/lower-than-expected contribution from Perodua associates, ii) higher/lower-than-expected car sales volume and production and iii) increasing/decreasing chip supply.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	11,739.1	9,554.6	10,264.3	11,726.5	12,431.1
EBITDA (RMm)	635.8	712.0	554.7	545.3	606.1
Pretax profit (RMm)	754.8	400.7	505.6	546.9	596.9
Net profit (RMm)	454.4	204.6	235.1	279.9	313.4
EPS (sen)	38.9	17.5	20.1	24.0	26.8
PER (x)	7.9	17.6	15.3	12.9	11.5
Core net profit (RMm)	223.7	284.9	205.1	244.9	278.4
Core EPS (sen)	19.1	24.4	17.6	21.0	23.8
Core EPS growth (%)	(59.9)	27.4	(28.0)	19.4	13.7
Core PER (x)	16.1	12.6	17.5	14.7	12.9
Net DPS (sen)	6.0	2.0	5.0	6.0	6.0
Dividend Yield (%)	1.9	0.6	1.6	1.9	1.9
EV/EBITDA	7.3	5.6	7.1	6.8	6.1
Chg in Core EPS (%)			-19.8	-23.2	-14.0
Affin/Consensus (x)			0.9	0.7	0.7

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	3Q20	2Q21	3Q21	QoQ % chg	YoY % chg	9M20	9M21	YoY % chg	Comments
Revenue	2,663	2,445	2,016	*(17.5)*	*(24.3)*	6,312.3	7,415.7	*17.5*	9M21: Higher revenue from the Automotive (+23.9% yoy) and Equipment (+15.7% yoy) segments supported by the longer SST exemption 3Q21: Limited capacity operation caused by FMCO within the Automotive (-19.7% qoq) and Manufacturing & Engineering (-31.1% qoq) segments
Op costs	(2,513)	(2,344)	(1,869)	*(20.3)*	*(25.7)*	(5,934.7)	(7,001.8)	*18.0*	
EBITDA	**149.9**	**101.1**	**147.7**	***46.1***	***(1.5)***	**377.6**	**413.9**	***9.6***	
EBITDA margin (%)	*5.6*	*4.1*	*7.3*	*3.2 ppt*	*1.7 ppt*	*6.0*	*5.6*	*-0.4 ppt*	
Depn and amort	(89.7)	(85.7)	(83.8)	(2.2)	(6.6)	(276.9)	(251.3)	(9.2)	
EBIT	60.2	15.4	63.8	314.5	6.1	100.7	162.6	61.4	
EBIT margin (%)	2.3	0.6	3.2	*2.5 ppt*	*0.9 ppt*	1.6	2.2	*0.6 ppt*	
Int expense	(26.5)	(25.7)	(25.4)	(1.4)	(4.5)	(86.4)	(78.5)	(9.2)	
Int and other inc	10.3	12.4	9.2	(25.8)	(11.0)	40.5	34.4	(15.0)	
Associates & JV	94.3	25.2	(5.7)	n.m	n.m	126.5	107.1	(15.4)	9M21 & 3Q21: Perodua was affected by FMCO and chip supply shortage
EI	21.3	5.3	(25.6)	n.m	n.m	(17.5)	(13.8)	(21.2)	
Pretax Profit	**159.5**	**32.6**	**16.5**	**(49.5)**	**(89.7)**	**163.8**	**211.8**	**29.3**	
Tax	(41.9)	(11.1)	(26.0)	135.2	(37.9)	(51.4)	(76.4)	48.7	
Tax rate (%)	(26.3)	(34.0)	(158.0)	*-124.1 ppt*	*-131.8 ppt*	(31.4)	(36.1)	*-4.7 ppt*	
MI	(30.8)	(42.6)	(38.3)	(10.0)	24.7	(62.6)	(107.1)	71.0	
Net profit	86.9	(21.1)	(47.9)	127.0	n.m	49.7	28.3	(43.2)	
EPS (sen)	7.44	(1.81)	(4.1)	127.0	n.m	4.3	2.4	(43.2)	
Core net profit	**65.6**	**(26.4)**	**(22.3)**	**(15.2)**	n.m	**67.2**	**42.0**	**(37.5)**	Below expectations - accounted for 16% and 18% of our and street full-year estimates

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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