

HLIB Research

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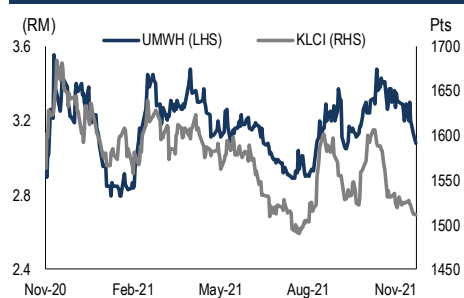
HOLD (Maintain)

Target Price: RM2.95
Previously: RM2.98
Current Price: RM3.08

| | |
|-----------------------|-------|
| Capital upside | -4.2% |
| Dividend yield | 0.6% |
| Expected total return | -3.6% |

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


| Historical return (%) | 1M | 3M | 12M |
|-----------------------|------|------|-----|
| Absolute | -9.7 | -2.5 | 3.0 |
| Relative | -6.6 | 3.3 | 6.6 |

Stock information

| | |
|------------------------------|---------|
| Bloomberg ticker | UMWH MK |
| Bursa code | 4588 |
| Issued shares (m) | 1,168 |
| Market capitalisation (RM m) | 3,598 |
| 3-mth average volume ('000) | 790 |
| SC Shariah compliant | Yes |
| F4GBM Index member | No |
| ESG rating | ★★★ |

Major shareholders

| | |
|----------------------------|-------|
| Permodalan Nasional Berhad | 60.4% |
| Employs Provident Fund | 12.6% |
| Kumpulan Wang Persaraan | 8.8% |

Earnings summary

| FYE (Dec) | FY20 | FY21f | FY22f |
|---------------------|------|-------|-------|
| PATMI - core (RM m) | 125 | 155 | 288 |
| EPS - core (sen) | 10.7 | 13.2 | 24.6 |
| P/E (x) | 28.9 | 23.3 | 12.5 |

UMW Holdings

Expecting a stronger 4QFY21

Reported core 3QFY21 LATMI -RM61.2m, which dragged 9MFY21 PATMI down to RM10.8m, below HLIB's forecast (5.5%) and consensus (4.8%). The disappointment was due to the implementation of Phase 1 in Jun-Aug 2021. Management is guiding for a strong rebound in coming 4QFY21, leveraging on the economic reopening and SST exemptions for recovery. Cut earnings for FY21-23 by 20.8%, 3.8% and 3.5% respectively. Maintain HOLD with lower adjusted TP: RM2.95 (from RM2.98) based on 10% discount to SOP: RM3.26.

Below expectations. UMW reported core LATMI -RM61.2m for 3QFY21, which further dragged lower 9MFY21 PATMI to RM10.8m. Despite the expected strong earnings rebound in 4QFY21, we deem the result below HLIB's FY21 forecast (5.5%) and consensus (4.8%). RM27.3m EIs for 9MFY21, mainly attributed to RM38.3m gain on PPE disposal, partially offsets by unrealised forex losses.

Dividend. None.

QoQ/YoY. Adjusted for quarterly distribution for Perpetual Sukuk, result deteriorated to LATMI -RM61.2m in 3QFY21 (vs. LATMI -RM20.3m in 2QFY21; PATMI RM76.0m in 3QFY20). The dismal performance was mainly dragged by longer period of strict lockdown (due to implementation of Phase 1) and slower ramping up of operations during the quarter.

YTD. Improvement in results with PATMI +RM10.8m in 9MFY21 (vs. PATMI +RM9.6m in 9MFY20), due to low base effect (for YoY), as the group was first caught with strict implementation of MCO1.0 in 9MFY20. The improvement was also driven by on-going cost-saving initiatives despite the longer strict lockdown period during current period.

Automotive. Management is confident of a strong recovery of automotive performance in 4QFY21 with indicative outstanding orders of 23k units for Toyota (implied up to 2-3 months waiting period) and 80k units for Perodua (implied 2-3 months waiting period). Toyota guided FY21 sales to reach 70k units and targeted sales of 73k units for FY22, while Perodua has reviewed its FY21 sales target to 205k units and UMW would like Perodua to achieve 240k units for FY22. New Toyota EV model is expected to be introduced in 2022 and Lexus EV in 2023 to assess market demand before potentially more models from 2024 onwards.

Equipment. The segment is expected to hang onto the strong demand for industrial equipment (mainly for logistic and warehousing segment) while heavy equipment is expected to remain slow in the near term (also dragged by political issues in Myanmar) before an upcycle again in 2024-2025 as stimulus plans are being implemented. Management is expanding its product range and services, leveraging onto the recovery program and infrastructure spending within its geographical operation.

M&E. While 9MFY21 was affected by lockdowns, management remains positive on the segment outlook. Automotive parts (Kayaba) and lubricant will leverage on the recovery of local car production volume. Similarly, aerospace manufacturing will regain traction as the global aviation sector recovers into 2022.

Forecast. Cut earnings for FY21-23 by 20.8%, 3.8% and 3.5% respectively.

Maintain HOLD, TP: RM2.85. Maintain HOLD with lower adjusted TP: RM2.95 (from RM2.98), based on unchanged discount of 10% to SOP of RM3.26. UMW will continue to leverage onto the economic recovery towards 4QFY21 driven by NRP and SST exemption.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| Cash | 1,472 | 2,051 | 1,433 | 1,293 | 1,127 |
| Receivables | 1,590 | 1,439 | 1,573 | 1,526 | 1,524 |
| Inventories | 1,243 | 1,059 | 1,236 | 1,161 | 1,129 |
| PPE | 2,702 | 2,463 | 2,477 | 2,391 | 2,307 |
| Others | 4,128 | 4,435 | 4,532 | 4,661 | 4,811 |
| Assets | 11,135 | 11,447 | 11,252 | 11,032 | 10,899 |
| Payables | 941 | 1,236 | 1,371 | 1,238 | 1,159 |
| Debt | 3,608 | 3,564 | 3,110 | 2,764 | 2,419 |
| Others | 488 | 230 | 230 | 230 | 230 |
| Liabilities | 5,037 | 5,030 | 4,711 | 4,232 | 3,807 |
| Shareholder's equity | 3,696 | 3,868 | 3,976 | 4,217 | 4,490 |
| Perpetual sukuk | 1,098 | 1,098 | 1,098 | 1,098 | 1,098 |
| Minority interest | 1,304 | 1,451 | 1,467 | 1,485 | 1,504 |
| Equity | 6,098 | 6,417 | 6,541 | 6,800 | 7,092 |

Cash Flow Statement

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Profit before taxation | 755 | 401 | 397 | 538 | 618 |
| D&A | 345 | 374 | 376 | 376 | 374 |
| Working capital | (90) | 629 | (176) | (10) | (47) |
| Taxation | (112) | (64) | (92) | (92) | (97) |
| Others | (570) | (337) | (195) | (257) | (301) |
| CFO | 328 | 1,003 | 310 | 555 | 548 |
| Capex | (345) | (221) | (390) | (290) | (290) |
| Asset disposal | 506 | 57 | 0 | 0 | 0 |
| Acquisitions | (9) | 28 | 0 | 0 | 0 |
| Others | 205 | (32) | 97 | 128 | 150 |
| CFI | 357 | (167) | (293) | (162) | (140) |
| Changes in debt | (323) | (43) | (454) | (345) | (345) |
| Shares issued | 0 | 0 | 0 | 0 | 0 |
| Dividends | (76) | (23) | (47) | (47) | (82) |
| Distribution to Perps | (70) | (70) | (70) | (70) | (70) |
| Others | (116) | (101) | (64) | (71) | (77) |
| CFF | (584) | (238) | (635) | (533) | (574) |
| Net cash flow | 101 | 598 | (618) | (139) | (166) |
| Forex | (4) | (3) | 0 | 0 | 0 |
| Others | 64 | (16) | 0 | 0 | (0) |
| Beginning cash | 1,312 | 1,472 | 2,051 | 1,433 | 1,293 |
| Ending cash | 1,472 | 2,051 | 1,433 | 1,293 | 1,127 |

Income Statement

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|------------------------|------------|------------|------------|------------|------------|
| Revenue | 11,739 | 9,555 | 11,238 | 11,055 | 11,291 |
| EBITDA | 867 | 658 | 689 | 737 | 758 |
| EBIT | 521 | 284 | 313 | 361 | 384 |
| Net finance cost | (58) | (87) | (111) | (80) | (67) |
| Associates & JV | 292 | 204 | 195 | 257 | 301 |
| Profit before tax | 755 | 401 | 397 | 538 | 618 |
| Tax | (109) | (87) | (92) | (92) | (97) |
| Operation net profit | 646 | 313 | 305 | 446 | 521 |
| Discontinued operation | (17) | 0 | 0 | 0 | 0 |
| Reported net profit | 629 | 313 | 305 | 446 | 521 |
| Minority interest | (105) | (48) | (80) | (88) | (97) |
| Perpetual sukuk | (99) | (41) | (70) | (63) | (64) |
| Reported PATMI | 454 | 195 | 155 | 288 | 354 |
| Exceptionals | (202) | (70) | 0 | 0 | 0 |
| Core PATMI | 253 | 125 | 155 | 288 | 354 |
| Consensus | | | 223 | 317 | 359 |
| HLIB/Consensus (%) | | | 69.3% | 90.6% | 98.6% |

Valuation & Ratios

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|--------------------|--------|--------|--------|--------|--------|
| Reported EPS (sen) | 38.9 | 16.7 | 13.2 | 24.6 | 30.3 |
| Core EPS (sen) | 21.6 | 10.7 | 13.2 | 24.6 | 30.3 |
| Core P/E (x) | 14.2 | 28.9 | 23.3 | 12.5 | 10.2 |
| DPS (sen) | 6.0 | 4.0 | 2.0 | 6.0 | 8.0 |
| Dividend yield (%) | 1.9% | 1.3% | 0.6% | 1.9% | 2.6% |
| BVPS (RM) | 3.16 | 3.31 | 3.40 | 3.61 | 3.84 |
| P/B (x) | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 |
| EBITDA margin | 7.4% | 6.9% | 6.1% | 6.7% | 6.7% |
| EBIT margin | 4.4% | 3.0% | 2.8% | 3.3% | 3.4% |
| PBT margin | 6.4% | 4.2% | 3.5% | 4.9% | 5.5% |
| Net margin | -0.8% | -0.4% | -0.6% | -0.6% | -0.6% |
| ROE | 7.2% | 3.3% | 3.9% | 7.0% | 8.1% |
| ROA | 2.3% | 1.1% | 1.4% | 2.6% | 3.2% |
| Net gearing* | -57.8% | -39.1% | -42.2% | -34.9% | -28.8% |

Assumptions

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|---------------------------|---------|---------|---------|---------|---------|
| Sales (Unit) | | | | | |
| Toyota | 69,391 | 58,501 | 70,000 | 65,000 | 65,000 |
| Lexus | 918 | 819 | 800 | 800 | 800 |
| Perodua | 240,341 | 220,163 | 197,769 | 223,045 | 238,350 |
| Average Price (RM) | | | | | |
| UMW | 103,315 | 97,246 | 105,025 | 105,025 | 105,025 |
| Perodua | 42,758 | 41,749 | 42,992 | 44,322 | 43,761 |

Figure #1 Quarterly results comparison

| FYE Dec (RMm) | 3QFY20 | 2QFY21 | 3QFY21 | QoQ (%) | YoY (%) | 9MY20 | 9MY21 | YoY (%) |
|-------------------------------|---------|---------|---------|------------|------------|---------|---------|------------|
| Revenue | 2,663.3 | 2,445.1 | 2,016.4 | -17.5% | -24.3% | 6,312.3 | 7,415.7 | 17.5% |
| EBITDA | 166.6 | 95.6 | 106.2 | 11.0% | -36.3% | 381.4 | 390.2 | 2.3% |
| EBIT | 76.9 | 9.9 | 19.4 | 94.8% | -74.8% | 104.6 | 135.8 | 29.9% |
| Net finance expense | (20.3) | (18.3) | (20.5) | 11.9% | 1.0% | (66.5) | (58.4) | -12.2% |
| Associates | 94.3 | 25.2 | (5.7) | -122.5% | -106.0% | 96.5 | 107.1 | 10.9% |
| Eis | 8.6 | 15.7 | 23.3 | | | 29.3 | 27.3 | |
| Reported PBT | 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% | (60.9) | (76.4) | 25.5% |
| Reported operation net profit | 117.6 | 21.5 | (9.6) | -144.4% | -108.1% | 102.9 | 135.3 | 31.6% |
| Reported PATMI | 101.3 | (21.2) | (47.9) | 126.0% | -147.3% | 92.5 | 28.2 | -69.5% |
| Eis & Sukuk Adjustments | (25.3) | 1.7 | (13.3) | -874.2% | -47.5% | (83.0) | (17.4) | -79.1% |
| Core PATMI | 76.0 | (19.5) | (61.2) | 213.9% | -180.5% | 9.6 | 10.8 | 13.2% |
| Reported EPS (Sen) | 8.7 | (1.8) | (4.1) | 126.0% | -147.3% | 4.9 | 2.4 | -51.2% |
| Core EPS (Sen) | 6.5 | (1.7) | (5.2) | 213.9% | -180.5% | 0.8 | 0.9 | 13.2% |
| | | | | <u>pts</u> | <u>pts</u> | | | <u>pts</u> |
| EBITDA margin (%) | 6.3% | 3.9% | 5.3% | 1.4 | (1.0) | 6.0% | 5.3% | (0.8) |
| EBIT margin (%) | 2.9% | 0.4% | 1.0% | 0.6 | (1.9) | 1.7% | 1.8% | 0.2 |
| Core PATMI margin (%) | 2.9% | -0.8% | -3.0% | (3.4) | (5.9) | 0.2% | 0.1% | (1.5) |

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Figure #2 Quarterly results comparison by segment

| | 3QFY20 | 2QFY21 | 3QFY21 | QoQ (%) | YoY (%) | 9MY20 | 9MY21 | YoY (%) |
|-----------------------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|---------------|
| Reported Revenue | | | | | | | | |
| Automotive | 2,127.5 | 1,981.9 | 1,590.8 | -19.7% | -25.2% | 4,815.5 | 5,968.7 | 23.9% |
| Equipment | 297.0 | 299.9 | 316.0 | 5.3% | 6.4% | 819.4 | 948.3 | 15.7% |
| Manufacturing & Engineering | 242.3 | 159.9 | 110.3 | -31.1% | -54.5% | 674.1 | 500.5 | -25.8% |
| Total | 2,666.8 | 2,441.8 | 2,017.0 | -17.4% | -24.4% | 6,309.0 | 7,417.5 | 17.6% |
| Reported PATMI | | | | | | | | |
| Automotive | 94.6 | 27.0 | 7.4 | -72.5% | -92.2% | 127.7 | 129.4 | 1.3% |
| Equipment | 24.3 | 23.5 | 16.9 | -28.1% | -30.5% | 61.0 | 55.7 | -8.6% |
| Manufacturing & Engineering | 9.7 | (7.7) | (1.9) | -74.9% | -119.8% | 24.1 | (8.9) | -137.0% |
| Others | (27.4) | (64.0) | (70.3) | 9.8% | 156.3% | (120.3) | (148.1) | 23.1% |
| Total | 101.3 | (21.2) | (47.9) | 126.0% | -147.3% | 92.5 | 28.2 | -69.5% |
| Core PATAMI | 76.0 | (19.5) | (61.2) | 213.9% | N.M. | 9.6 | 10.8 | 13.2% |

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Figure #3 UMW automotive sales statistics

| FYE Dec (RMm) | 3QFY20 | 2QFY21 | 3QFY21 | QoQ (%) | YoY (%) | 9MY20 | 9MY21 | YoY (%) |
|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|--------------|
| Toyota | 18,635 | 16,715 | 11,856 | -29.1% | -36.4% | 36,834 | 45,561 | 23.7% |
| Lexus | 235 | 245 | 151 | -38.4% | -35.7% | 505 | 557 | 10.3% |
| Perodua | 70,842 | 39,381 | 21,803 | -44.6% | -69.2% | 145,012 | 119,093 | -17.9% |
| Total | 89,712 | 56,341 | 33,810 | -40.0% | -62.3% | 182,351 | 165,211 | -9.4% |

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Figure #4 UMW sum-of-parts valuation

| Division | Stakes (%) | Value (RMm) | RM/Share | Basis |
|-----------------------------|------------|-------------|------------------|------------------------------|
| Automotive | Various | 3,987.1 | 3.41 | FY22 PE 12x |
| Equipment | Various | 853.1 | 0.73 | FY22 PE 10x |
| Manufacturing & Engineering | Various | 745.5 | 0.64 | FY22 PE 18x |
| 700 acres Serendah land | Various | 914.8 | 0.78 | Based on RM30/sqf |
| 130 acres Serendah land | 100.00 | 152.9 | 0.13 | Based on RM30/sqf |
| Perpetual Sukuk | 90.00 | (1,097.9) | (0.94) | Based on 2020 Annual Report |
| Holding Co Net Debt | | (1,742.4) | (1.49) | Based on 2020 Annual Report |
| Subtotal | | 3,615.2 | 3.26 | |
| Holding Co Discount | | | 10.0% | |
| Target Price | | | 2.95 | Implied FY22 PE 12.0x |
| * No of Shares | | 1,168.3 | As at end FY2020 | |

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Stock rating guide

| | |
|---------------------|---|
| BUY | Expected absolute return of +10% or more over the next 12 months. |
| HOLD | Expected absolute return of -10% to +10% over the next 12 months. |
| SELL | Expected absolute return of -10% or less over the next 12 months. |
| UNDER REVIEW | Rating on the stock is temporarily under review which may or may not result in a change from the previous rating. |
| NOT RATED | Stock is not or no longer within regular coverage. |

Sector rating guide

| | |
|--------------------|---|
| OVERWEIGHT | Sector expected to outperform the market over the next 12 months. |
| NEUTRAL | Sector expected to perform in-line with the market over the next 12 months. |
| UNDERWEIGHT | Sector expected to underperform the market over the next 12 months. |

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