

Company Result

30 November 2021

# UMW Holdings Berhad

Performance dragged by FMCO

**BUY**

Maintained

Share Price	RM3.08
Target Price	RM3.90

### Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

### Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
FTSE4Good Index	No
ESG Rating	N/A
Issued shares (m)	1,168.29
Market cap. (RM'm)	3598.35
52-week price Range	RM2.79-3.64
Beta (against KLCI)	1.80
3-m Average Daily Volume	0.79m
3-m Average Daily Value	RM2.56m

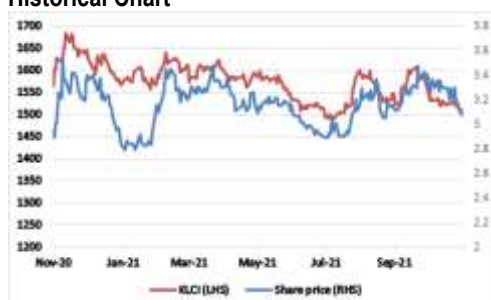
### Share Performance

	1m	3m	12m
Absolute (%)	-9.7	-1.6	3.0
Relative (%-pts)	-6.6	3.3	6.6

### Major Shareholders

Shareholder	%
AMANAH SAHAM NASIONAL	53.35
EMPLOYEES PROVIDENT FUND	12.57
Kumpulan Wang Persaraan Diperbadan	8.84
ESTIMATED FREE FLOAT	28.76

### Historical Chart



Source: Bloomberg

**Tan Kean Dick (Jayden)**

**03-87361118, ext. 754**

**kdtan@jfafex.com.my**

### Result

- **UMW Holdings Berhad (UMW) posted a 3Q21 revenue of RM2016.4m, -24.3% yoy and -17.5% qoq due to the lower contribution from Automotive and Manufacturing & Engineering (M&E) segment no thanks to imposition of FMCO in 3QFY21 in which only certain operations of the Group were allowed to be operated with limited capacity.**
- **Misses expectations.** UMW recorded a core net loss of RM47.7m in their 3Q21 (vs 3Q20: profit of RM 86.6m) and (vs 2Q21: net loss of RM 14.2m) which took its 9M21 core earnings to RM25.6m which only constitute 11%/12% of consensus/our in-house FY21 forecasts. The weak earnings performance on yoy and qoq were mainly due to the lower share from associated company (Perodua) (Share of results of associates in 3Q21: -RM5.7m, 3Q20: RM 94.3m, 2Q21: RM 25.2m) caused by the halted operation during FMCO.
- **Revenue of Equipment segment improved but profit affected by Myanmar operation.** Revenue in Equipment segment inched up 6.4% yoy and 5.3% qoq thanks to the demand increased for local market (industry allowed to operate during FMCO) and overseas market. However, profit from the Equipment segment dropped 23.6% qoq and 28.5% yoy, affected by Myanmar operation with depreciation of Myanmar Kyat caused by the ongoing political unrest in Myanmar.
- **Lower sales of lubricants, auto-parts and aerospace components caused sluggish performance for M&E segment.** Revenue from M&E plunged 31.1% qoq and 54.5% yoy which was adversely impacted by lower revenue contribution with the prolonged FMCO during the quarter.

### Comment

- **UMW Toyota registered 54.6k units of sales during 10M21 whilst its associate company, Perodua registered 147k units for 10M21.** Following the relaxation of economic activities, our forecast on Toyota sales is able to reach 70k units (target of management: 62k) in full year of FY21 on the back of encouraging orders and the extension of sales tax exemption. Meanwhile, our forecast on Perodua sales in FY21 is around 190k units (management target: 214k) due to the production of bestselling model – Myvi has been adversely affected by the shortage of semiconductor chips.

- **Expecting Equipment and M&E segments to improve gradually along with the economic recovery.** Although the performance of Equipment segment will continue to be dragged by Myanmar operation, the negative impact should be mitigated by the positive outlook of construction and mining industries, along with the higher gold prices. In the meantime, the sales of auto-parts, aerospace and lubricants are expected to rebound as the disruption of supply chain has progressively eased as well as the increase of demand with the recovery of automotive and aerospace industries.
- **Pioneer of local electrifying automotive.** UMW started their order-taking for its first locally assembled hybrid Electric vehicle (EV) Toyota Corolla Cross on 29 October 21 and is looking to introduce a fully EV Toyota model to local market in CY2022 and more models in CY2024. This allows UMW to take the lead in the field of local EV market with the positive outlook underpinned by the initiative of government to push EV.

### Earnings Outlook/Revision

- **We revise up our revenue forecast for FY21F to RM10,797m (from RM 10,162m) due to the higher-than-expected demand of vehicles but lower down our forecast on core earnings for FY21F to RM168.2m (from RM 216.1m) after slashing the share of associate profits and margin in the Equipment segment as well as the M&E segment. Nevertheless, we keep our forecast for FY22F at RM356m, banking on the full recovery of economic activities in FY22F.**
- Our earnings forecasts are based on assumption of no breakout of the pandemic and no full lockdown in local and oversea markets.

### Valuation & Recommendation

- **Maintain BUY call on UMW with an unchanged target price of RM3.90.** Our valuation is pegged at PE multiple of 13x FY22F PE with an EPS of 30 sen which is in line with its 3-year mean PER. Our fair value of the stock renders 27% upside to the current share price of RM 3.08.
- **Cautiously optimistic on the prospects of the Group's performance under presence of some downside risks. Positive on UMW outlook as:** 1) Encouraging backlog order underpinned by strong demand of vehicles; 2) Expecting Equipment and M&E segments to improve gradually along with the economic recovery; 3) Pioneer in local EV. **Nevertheless, the downside risks which could bring the uncertainty to the Group are:** 1) Ineffective vaccine against the virus variant; 2) Outbreak of pandemic cause re-imposition of lockdown of global economic; and 3) Longer-than-expected situation of global chips shortage.

Figure 1: Quarterly Figures

Year to 31 Dec	3Q21 (RMm)	2Q21 (RMm)	3Q20 (RMm)	QoQ % chg	YoY % chg	9M21 (RMm)	9M20 (RMm)	YoY % chg
Revenue	2,016.4	2,445.1	2,663.3	-17.5%	-24.3%	7,415.7	6,312.3	17.5%
Operating Profit	38.3	20.7	81.5	85.4%	-53.0%	148.8	113.2	31.4%
Pre-tax Profit	14.7	32.6	186.1	-55.0%	-92.1%	210.0	190.3	10.3%
Profit After Tax	(9.6)	21.5	117.6	n.a.	n.a.	135.3	112.3	20.4%
Net Profit	(47.9)	(21.1)	101.3	n.a.	n.a.	28.3	67.2	57.9%
Core Profit	(47.7)	(14.2)	86.6	n.a.	n.a.	25.6	37.8	32.2%
<b>Margin (%)</b>				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Operating profit	1.9%	0.8%	3.1%	1.1	-1.2	2.0%	1.8%	0.2
Profit before tax	0.7%	1.3%	7.0%	-0.6	-6.3	2.8%	3.0%	-0.2
Net profit	-0.5%	0.9%	4.4%	-1.4	-4.9	1.8%	1.8%	0.0
Core profit	-2.4%	-0.6%	3.3%	-1.8	-5.6	0.3%	0.6%	-0.3

Source: Company, JF Apex

Figure 2: Segmental Breakdown

Year to 31 Dec	3Q21 (RMm)	2Q21 (RMm)	3Q20 (RMm)	QoQ % chg	YoY % chg	9M21 (RMm)	9M20 (RMm)	YoY % chg
<b>Segmental Revenue</b>								
Automotive	1,590.8	1,981.9	2,127.5	-19.7%	-25.2%	5,968.7	4,815.5	23.9%
Equipment	316.0	299.9	297.0	5.3%	6.4%	948.3	819.4	15.7%
M & E	110.3	159.9	242.3	-31.1%	-54.5%	500.5	674.1	-25.8%
<b>Segmental PBT</b>								
Automotive	27.4	34.6	131.6	-20.9%	-79.2%	207.6	143.6	44.6%
Equipment	24.3	31.8	30.0	-23.6%	-19.0%	78.1	80.4	-2.9%
M & E	8.2	(6.1)	20.3	n.a.	n.a.	10.5	38.8	-73.0%
<b>Segmental Margin (%)</b>				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Automotive	1.7%	1.7%	6.2%	0.0	-4.5	3.5%	3.0%	0.5
Equipment	7.7%	10.6%	10.1%	-2.9	-2.4	8.2%	9.8%	-1.6
M & E	7.4%	-3.8%	8.4%	11.2	-1.0	2.1%	5.8%	-3.7

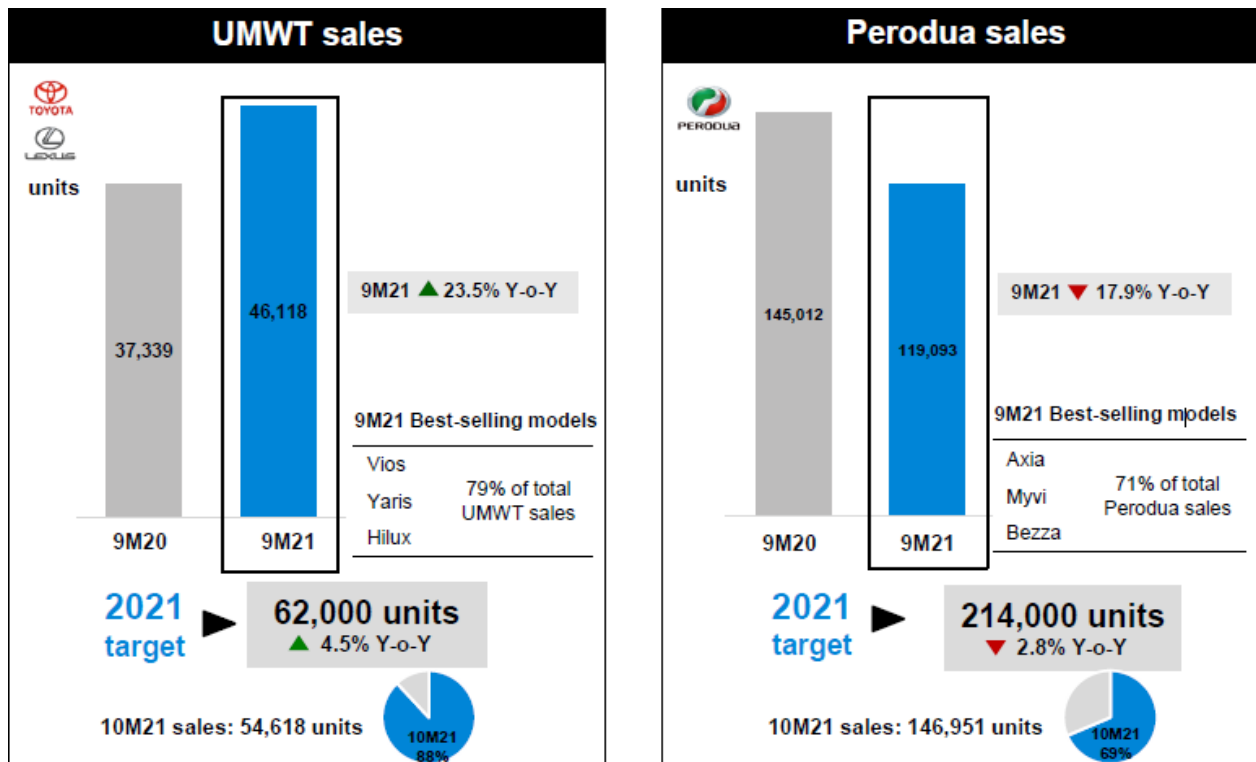
Source: Company, JF Apex

**Figure 3: Financial Summary**

Year to 31 Dec (RMm)	2017	2018	2019	2020	2021F	2022F
Revenue	11,066.6	11,303.6	11,739.0	9,554.6	10,796.9	11,215.3
Operating profit	123.7	335.2	521.5	257.7	379.7	342.2
PBT	266.6	593.3	871.7	516.2	467.6	662.9
Net profit	(640.6)	172.9	454.5	204.6	168.2	356.0
Core profit	(85.8)	370.3	260.3	223.4	168.2	356.0
Core EPS (sen)	(0.07)	0.32	0.22	0.19	0.14	0.30
P/BV (x)	0.86	0.63	0.59	0.56	0.51	0.43
DPS (sen)	0.00	0.075	0.06	0.04	0.02	0.05
Dividend yield (%)	0.0%	2.4%	1.9%	1.3%	0.7%	1.5%
Operating margin (%)	1.1%	3.0%	4.4%	2.7%	3.5%	3.1%
PBT margin (%)	2.4%	5.2%	7.4%	5.4%	4.3%	5.9%
Net profit margin (%)	-5.8%	1.5%	3.9%	2.1%	1.6%	3.2%
Net Gearing Ratio(x)	0.7	0.5	0.4	0.5	0.6	0.7
ROE (%)	-2.1%	6.5%	4.3%	3.5%	2.4%	4.2%
ROA (%)	-6.4%	1.6%	4.1%	1.8%	1.1%	1.9%

Source: Company, JF Apex

**Figure 4: Sales Breakdown of Automotive segment**



Source: Company

## JF APEX SECURITIES BERHAD – CONTACT LIST

### JF APEX SECURITIES BHD

#### Head Office:

6<sup>th</sup> Floor, Menara Apex  
Off Jalan Semenyih  
Bukit Mewah  
43000 Kajang  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 8736 1118  
Facsimile: (603) 8737 4532

#### PJ Office:

15<sup>th</sup> Floor, Menara Choy Fook On  
No. 1B, Jalan Yong Shook Lin  
46050 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 7620 1118  
Facsimile: (603) 7620 6388

### DEALING TEAM

#### Head Office:

Kong Ming Ming (ext 3237)  
Shirley Chang (ext 3211)  
Norisam Bojo (ext 3233)

#### Institutional Dealing Team:

Zairul Azman (ext 746)  
Nur Nadia (ext 741)  
Siti Nur Nadhirah (ext 743)

#### PJ Office:

Azfar Bin Abdul Aziz (Ext 822)

### RESEARCH TEAM

#### Head Office:

Lee Chung Cheng (ext 758)  
Lee Cherng Wee (ext 759)  
Nursuhaiza Hashim (ext 752)  
Jayden Tan (ext 754)

## JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

### SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

### ESG RECOMMENDATIONS

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

Source: Bursa Malaysia and FTSE Russell

\*capital gain + dividend yield

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