

UMW Holdings Berhad

(4588 | UMW MK) Consumer Products & Services | Automotive & Parts

Maintain BUY

Strong 4Q ahead, electrification in the works

Unchanged Target Price: RM4.35

KEY INVESTMENT HIGHLIGHTS

- **9M21 results in-line, earnings to be significantly backloaded**
- **Strong recovery in sales and production - UMWT's October TIV accounted for up to 71% of entire 3Q21 volume**
- **UMWT revises up FY21F sales target by 13% to 70K units given strong momentum and backlog orders**
- **UMWT/Perodua sitting on strong 3-4 month/3-6 month waiting lists**
- **Maiden Toyota BEV model rollout by mid-FY22**
- **Maintain BUY at unchanged TP of RM4.35**

Weak quarter but earnings to be significantly backloaded. UMW reported a net loss of RM48m for its 3Q21, bringing 9M21 earnings to RM28m. While this seems a lot weaker than our and consensus expectations (accounting for 13% and 10% of FY21F estimates respectively), we deem it in line as we expect a significantly stronger 4Q21 ahead. To note, UMW has also now apportioned its semi annual perpetual sukuk profit recognition on a quarterly basis at RM17.4m/quarter (from half yearly basis previously).

Impacted by lockdowns, weakness not a surprise. The weak 3Q21 is not entirely a surprise as half of the quarter was disrupted by MCO3.0. As a result, the auto and equipment divisions reported a -21%qoq and -24%qoq drop in PBT in 3Q21. Additionally, associate earnings dipped into a loss of RM6m (mainly represented by Perodua). The M&E division reported a >+100%qoq rise in earnings but this was due to a gain on property disposal.

4Q21 should see a strong rebound. Earnings should rebound significantly in 4Q21 premised on: (1) A strong rebound in Toyota TIV as operations fully resume – Toyota's October TIV of 8417 units alone accounted for up to 71% of the entire 3Q21 Toyota TIV, (2) Also reflecting strong recovery post-lockdowns, Perodua's record October TIV of 27,858 units alone accounted for 128% of its entire 3Q21 TIV. In short, UMW's 4Q21 could mirror that, or potentially beat its recent peak 4Q20 earnings of RM174m. UMWT's Bukit Raja plant is now running at >80% utilization on 2-shifts, while Shah Alam is running at >100% on single-shift and will be raised to 2-shift next year.

UMWT revising up sales target. Reflecting strong sales momentum, UMW Toyota (UMWT) now expects its FY21F TIV to cross the 70K mark (+18%yoy) vs. its original target of 62K units i.e. a 13% increase. Overall group outstanding bookings stand at around 100K units with UMWT-specific backlog orders at ~23K and Perodua accounting for the remaining, reflecting 3-4 months and up to 6 months waiting lists respectively. For FY22F, UMWT is targeting to maintain this momentum at a volume target of 73K (+4.3%yoy).

RETURN STATISTICS

Price @ 29 th Nov 2021 (RM)	3.08
Expected share price return (%)	+41.1
Expected dividend yield (%)	+1.2
Expected total return (%)	+42.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-9.7	-6.6
3 months	-1.6	4.3
12 months	10.0	17.1

KEY STATISTICS

FBM KLCI	1,510.57
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	28.76
Market Capitalisation (RM'm)	3,598.35
52-wk price range	RM2.79 - RM3.64
Beta vs FBM KLCI (x)	1.80
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.82
3-mth average daily value (RM'm)	2.65
Top Shareholders (%)	
Amanah Saham Nasional Bhd	53.35
Employees Provident Fund Board	12.57
Kumpulan Wang Persaraan	8.84

Analyst:
Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

INVESTMENT STATISTICS

FYE Dec	FY18	FY19	FY20	FY21F	FY22F
Revenue (RM'm)	11,306.3	11,739.1	9,554.6	11,060.9	11,271.8
EBIT (RM'm)	522.9	332.6	257.7	426.8	421.0
Pre-tax Profit (RM'm)	786.2	754.8	400.7	479.7	552.0
Core net profit (RM'm)	341.7	266.3	240.9	214.3	292.3
FD EPS (sen)	29.2	22.8	20.6	18.3	25.0
EPS growth (%)	108.6	(22.1)	(9.5)	(11.1)	36.4
PER (x)	10.5	13.5	14.9	16.8	12.3
Net Dividend (sen)	7.5	6.0	4.0	3.7	5.0
Net Dividend Yield (%)	2.4	1.9	1.3	1.2	1.6

Source: Company, MIDFR

Maiden BEV model launch next year. To capitalize on Budget 2022's duty exemption incentive for CBU/CKD BEVs (battery electric vehicle), UMWT will be launching a CBU BEV model around middle of next year. As highlighted in our recent sector thematic (*dated 11th November 2021*), while TMC's (Toyota Motor Corporation) focus has been on advancing its HEV technology, it nonetheless, has also set an aggressive roadmap for electrification. TMC is targeting to rollout 15 new BEV models by 2025, including 7 Toyota bZ models and hopes to begin worldwide sales of the Toyota bZ4x, a new SUV BEV, by mid-2022, which is in line with UMWT's targeted BEV rollout timeline. TMC is also investing USD13.6b in development of battery supply system and R&D, targeting 200GWh annual battery capacity by 2030. It also aims to reduce battery cost by up to 50% by 2030. At this point however, there are no concrete plans to CKD the BEV model, as this would depend on the volume generated to justify investments into local assembly lines and component localisation.


Recommendation. Maintain **BUY** at unchanged SOP-derived **TP** of **RM4.35**. UMW is one of the prime beneficiaries of a cyclical recovery in autos given its dominant market share of 53% (via UMWT and Perodua). UMWT in particular, has successfully regained its position as the largest non-national, driven by roll out of key models that plugged gaps in its model mix e.g., Yaris, Corolla Cross, innovative marketing strategies and a strong after sales network. Key catalysts: (1) Launch of the CKD Corolla Cross (2) RM270m investment in new Hybrid EV production with rollout targeted from FY22F (3) Launch of maiden BEV model in FY22F (4) Sustained underlying earnings recovery on the back of a low interest rate environment, underlying macro recovery and a boost from the tax holiday till June 2022. Key risk to our call is a weaker than expected demand recovery, a weakening of the Ringgit, rising commodity prices, further lockdowns and a worse than expected global chip shortage situation. 

Exhibit 1: UMW Sum-of-Parts Valuation

Segments	FY22F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	310	PER	12	3,717	
Equipment	61	PER	11	668	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Total value				5,077	
No of shares (m)				1,168	
Fair value (RM)				4.35	

Source: Company, MIDFR

Exhibit 2: UMW 3QFY21 Result Summary

FYE Dec (RMm)	3Q20	2Q21	3Q21	YoY	QoQ	9M20	9M21	YTD
Revenue	2,663.3	2,445.1	2,016.4	-24.3%	-17.5%	6,312.3	7,415.7	17.5%
EBITDA	171.2	106.4	122.1	-28.7%	14.8%	390.1	400.1	2.6%
Operating Profit	81.5	20.7	38.3	-53.0%	85.4%	113.2	148.8	31.4%
Finance Cost	(26.5)	(25.7)	(25.4)	4.5%	1.4%	(86.4)	(78.5)	9.2%
Associates	94.3	25.2	(5.7)	-106.0%	-122.5%	96.5	107.1	10.9%
Investment Income / Other gains	10.3	12.4	9.2	-11.0%	-25.8%	40.5	34.4	-15.0%
Pretax Profit	159.5	32.6	16.5	-89.7%	-49.5%	163.8	211.8	29.3%
Taxation	(41.9)	(11.1)	(26.0)			(51.4)	(76.4)	
Minorities / PERP	33.8	42.6	38.3			62.6	107.1	
Net Profit	0.0	0.0	0.0			0.0	0.0	
Core net profit	83.9	(21.1)	(47.9)	-157.1%	-127.0%	49.7	28.3	-43.2%
	83.9	(21.1)	(47.9)	-157.1%	-127.0%	78.1	28.3	-63.8%
EPS (FD, sen)								
DPS (sen)	7.2	-1.8	-4.1			6.7	2.4	
	0.0	0.0	0.0			0.0	0.0	
Margins (%):								
Operating	3.1%	0.8%	1.9%			1.8%	2.0%	
Pretax Profit	6.0%	1.3%	0.8%			2.6%	2.9%	
Core Net Profit	3.1%	-0.9%	-2.4%			1.2%	0.4%	
Tax Rate	26.3%	34.0%	158.0%			31.4%	36.1%	
EBITDA	6.4%	4.3%	6.1%			6.2%	5.4%	
Segmental Breakdown	3Q20	2Q21	3Q21	YoY	QoQ	9M20	9M21	YTD
Automotive	2,127.5	1,981.9	1,590.8	-25.2%	-19.7%	4,815.5	5,968.7	23.9%
Equipment	297.0	299.9	316.0	6.4%	5.3%	819.4	948.3	15.7%
Manuf & Eng	242.3	159.9	110.3	-54.5%	-31.1%	674.1	500.5	-25.8%
Others	(3.4)	3.4	(0.7)	-81.1%	-119.5%	3.3	(1.8)	-153.5%
Revenue	2,663.3	2,445.1	2,016.4	-24.3%	-17.5%	6,312.3	7,415.7	17.5%
Automotive	131.6	34.6	27.4	-79.2%	-20.9%	143.6	207.6	44.6%
Equipment	34.0	31.8	24.3	-28.5%	-23.6%	84.4	78.1	-7.5%
Manuf & Eng	20.3	(6.1)	8.2	-59.8%	234.9%	38.8	10.5	-73.0%
Others	(26.4)	(27.8)	(43.4)	-64.5%	-56.2%	(103.1)	(84.4)	18.1%
Pretax profit	159.5	32.6	16.5	-89.7%	-49.5%	163.8	211.8	29.3%
Pretax margins								
Automotive	6.2%	1.7%	1.7%			3.0%	3.5%	
Equipment	11.5%	10.6%	7.7%			10.3%	8.2%	
Manuf & Eng	8.4%	-3.8%	7.4%			5.8%	2.1%	
Others	NA	NA	NA			NA	NA	
Toyota TIV (units)	18,635	16,715	11,856	-36.4%	-29.1%	36,834	45,561	23.7%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

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

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology