

UMW Holdings (UMWH MK)

9M21 results came in below expectation

Maintain BUY and MYR4.00 TP

9M21 results came in below, mainly on weaker 3Q21's performance at its 38%-owned Perodua (P2) ops, which leads us to lower FY21-23E earnings by 3%-12%, on lower vehicle sales/margins. Conversely, its Toyota division is expected to perform remarkably in 4Q21. All in, the sub-par FY21 is well-flagged and focus should instead be on the FY22 recovery play. Our TP is unchanged, pegged to 16x FY22 PER (-0.5-SD valuation).

3Q21 results: Higher QoQ losses

UMW reported higher core net loss of MYR48m in 3Q21 (2Q21: -MYR15m), which took its 9M1 core loss to MYR26m. The QoQ weakness was mainly due to lower PBT at its: (i) automotive (-21%) and (ii) equipment (-24%) divisions, and (iii) the Sukuk payment (MYR17m), which is now reflected on a quarterly basis (vs. half yearly previously). Its automotive ops were clearly disrupted by the MCO/ lockdown (1.5 months), which led to lower vehicle sales (Toyota: -29% to 12k units, P2: -45% to 22k units).

Cut FY21-23 earnings, a better FY22 inspiration

Our 12%/ 3%/ 3% cut in FY21/ 22/ 23 earnings largely reflects lower P2 sales volume (-7%/-3%/-3%), margins and Cukai Makmur tax impact (-2%; FY22). Its production/ sales are affected by the ongoing chips shortage, especially for its MyVi model, which will extend into FY22. Conversely, its Toyota ops are expected to see improved performance. With a strong 4Q21 outlook, driven by new hybrid CBU model and YE sales promotions, it should end FY21 on 72k units (above our earlier 63k estimate and surpass FY19's 70k units). Putting things into perspective, we expect UMW to see a sharp rebound in 4Q21 earnings. Its automotive division will continue to benefit from the SST exemption that has been extended to 1H22. It has built up a sizeable order backlog of 100k units to-date.

EV agenda, big picture aspiration

It will roll out one BEV model by mid-2022 to ride on the EV plays. More EVs (hybrids. BEVs) will be introduced from 2023. All in, UMW has set a 10-year target, to achieve: (i) MYR20b revenue, (ii) MYR2b pretax profit and (iii) MYR1b net profit. This would be aided by organic growth, M&As and divestment strategies.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	11,760	9,555	10,769	11,482	11,711
EBITDA	655	712	664	717	722
Core net profit	237	285	171	289	298
Core EPS (sen)	20.2	24.4	14.6	24.8	25.5
Core EPS growth (%)	(57.6)	20.3	(39.9)	69.0	2.9
Net DPS (sen)	6.0	4.0	3.3	5.7	5.8
Core P/E (x)	22.2	14.0	21.0	12.4	12.1
P/BV (x)	1.4	1.0	0.9	0.8	0.8
Net dividend yield (%)	1.3	1.2	1.1	1.8	1.9
ROAE (%)	12.9	5.4	4.3	6.9	6.6
ROAA (%)	2.2	2.5	1.5	2.3	2.3
EV/EBITDA (x)	11.6	8.2	7.9	7.2	6.9
Net gearing (%) (incl perps)	17.0	6.5	1.6	net cash	net cash
Consensus net profit	-	-	216	299	358
MKE vs. Consensus (%)	-	-	(20.7)	(3.3)	(16.9)

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BUY

Share Price	MYR 3.08
12m Price Target	MYR 4.00 (+30%)
Previous Price Target	MYR 4.00

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

Statistics

52w high/low (MYR)	3.60/2.83
3m avg turnover (USDm)	0.6
Free float (%)	24.0
Issued shares (m)	1,168
Market capitalisation	MYR3.6B USD849M

Major shareholders:

Permodalan Nasional Bhd.	43.1%
Employees Provident Fund	12.6%
Kumpulan Wang Persaraan	8.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(10)	(1)	10
Relative to index (%)	(7)	4	17

Source: FactSet

Fig 1: UMWH's quarterly results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	3Q21	2Q21	%QoQ	3Q20	%YoY	9M21	9M 20	% YoY
Turnover	2,016.4	2,445.1	(17.5)	2,663.4	(24.3)	7,415.7	6,312.3	17.5
EBIT	38.3	20.7	85.4	81.6	(53.1)	148.8	113.3	31.3
Interest expense	(25.4)	(25.7)	(1.4)	(26.5)	(4.5)	(78.5)	(86.4)	(9.2)
Associates	(5.7)	25.2	NM	94.3	NM	107.1	96.5	10.9
Investment Income	9.2	12.4	(25.8)	21.6	(57.4)	34.4	40.5	(15.0)
Pre-tax profit	16.5	32.6	(49.5)	159.5	(89.7)	211.8	163.8	29.3
Taxation	(26.0)	(11.1)	NM	(41.9)	(37.9)	(76.4)	(51.4)	48.7
Minority interest	(20.9)	(7.8)	NM	(16.3)	28.1	(54.8)	(10.4)	NM
Sukuk	(17.4)	(34.8)	(50.0)	0.0	NM	(52.2)	(34.8)	50.0
Net profit / (loss)	(47.9)	(21.1)	NM	101.3	NM	28.3	67.2	(57.9)
Exceptional item	(0.2)	(6.4)	(96.9)	21.3	NM	2.7	(28.4)	NM
Recurring net profit / (loss)	(47.7)	(14.7)	NM	80.0	NM	25.6	95.5	(73.2)
	3Q21	2Q21	+/- ppt	3Q20	%YoY	9M21	9M 20	+/- ppt
EBIT margin (%)	1.9	0.8	1.1	3.1	(1.2)	2.0	1.8	0.2
Tax rate (%)	158.0	34.0	NM	26.3	NM	36.1	31.4	4.7
Revenue	2,016.4	2,445.1	(17.5)	2,663.4	(24.3)	7,415.7	6,312.3	17.5
Automotive	1,590.8	1,981.9	(19.7)	2,127.6	(25.2)	5,968.7	4,815.5	23.9
Equipment	316.0	299.9	5.3	297.0	6.4	948.3	819.4	15.7
M&E	110.3	159.9	(31.1)	242.3	(54.5)	500.5	674.1	(25.8)
Others	(0.7)	3.4	NM	(3.4)	(81.1)	(1.8)	3.3	NM
	0.0	0.0	(33.7)	0.0	(14.5)	0.0	0.0	NM
Pre-tax profit	16.5	32.6	(49.5)	159.5	(89.7)	211.8	163.8	29.3
Automotive	27.4	34.6	(20.9)	131.6	(79.2)	207.6	143.6	44.6
Equipment	24.3	31.8	(23.6)	34.0	(28.5)	78.1	84.4	(7.5)
M&E	8.2	(6.1)	NM	20.3	(59.8)	10.5	38.8	(73.0)
Others	(43.4)	(27.8)	56.2	(26.4)	64.5	(84.4)	(103.1)	(18.1)
	3Q21	2Q21	+/- ppt	3Q20	%YoY	9M21	9M 20	+/- ppt
Pre-tax margins (%)	0.8	1.3	(0.5)	6.0	(5.2)	2.9	2.6	0.3
Automotive	1.7	1.7	(0.0)	6.2	(4.5)	3.5	3.0	0.5
Equipment	7.7	10.6	(2.9)	11.5	(3.8)	8.2	10.3	(2.1)
M&E	7.4	(3.8)	11.2	8.4	(1.0)	2.1	5.8	(3.7)
Vehicle Unit Sales (MAA)	3Q21	2Q21	%QoQ	3Q20	%YoY	9M21	9M 20	% YoY
Toyota	12,007	16,960	(29.2)	18,870	(36.4)	46,118	37,339	23.5
Perodua	21,803	39,381	(44.6)	70,842	(69.2)	119,093	145,012	(17.9)

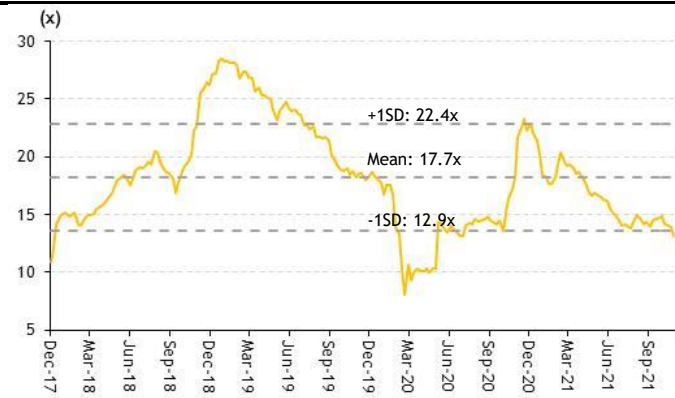
Source: Company

Fig 2: UMW: Vehicles sales

	2019	2020A	2021F	2022F	2023F
Toyota	70,009	59,320	72,200	74,040	75,520
Perodua	240,341	220,163	205,000	233,000	235,500

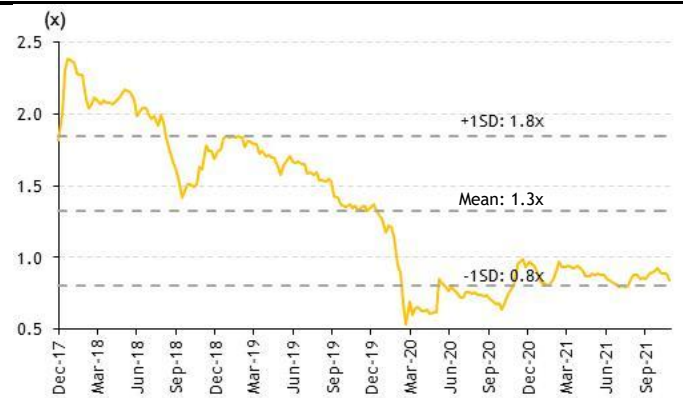
Source: Company, Maybank KE

Fig 3: 1-year forward PER



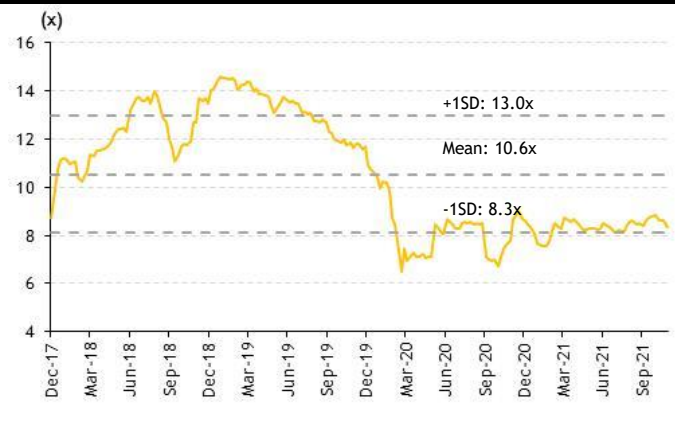
Source: Company, Maybank KE

Fig 4: 1-year forward PBV



Source: Company, Maybank KE

Fig 5: 1-year forward EV/ EBITDA



FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	13.4	15.9	21.0	12.4	12.1
Core P/E (x)	22.2	14.0	21.0	12.4	12.1
P/BV (x)	1.4	1.0	0.9	0.8	0.8
P/NTA (x)	1.4	1.0	0.9	0.8	0.8
Net dividend yield (%)	1.3	1.2	1.1	1.8	1.9
FCF yield (%)	nm	17.0	6.7	5.5	6.9
EV/EBITDA (x)	11.6	8.2	7.9	7.2	6.9
EV/EBIT (x)	24.5	17.3	15.4	12.5	11.6

INCOME STATEMENT (MYR m)

Revenue	11,760.2	9,554.6	10,768.6	11,481.6	11,710.6
EBITDA	655.4	712.0	664.4	717.3	721.8
Depreciation	(346.2)	(374.1)	(322.7)	(306.6)	(292.6)
EBIT	309.2	338.0	341.7	410.7	429.2
Net interest income / (exp)	(61.6)	(61.1)	(52.7)	(44.8)	(38.4)
Associates & JV	275.7	204.1	169.2	255.6	255.9
Exceptionals	217.9	(80.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	741.2	400.7	458.2	621.5	646.6
Income tax	(112.5)	(77.7)	(114.4)	(146.4)	(161.3)
Minorities	(104.6)	(48.5)	(102.7)	(115.8)	(117.7)
Perpetual securities	(69.7)	(69.9)	(69.9)	(69.9)	(69.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	454.4	204.6	171.3	289.5	297.8
Core net profit	236.6	284.9	171.3	289.5	297.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,472.1	2,050.9	2,355.6	2,600.2	2,896.9
Accounts receivable	1,450.5	1,202.3	1,338.1	1,417.2	1,442.6
Inventory	1,589.6	1,439.3	1,708.5	1,735.7	1,771.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,861.2	2,463.0	2,340.4	2,233.8	2,141.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,921.3	2,080.9	2,199.9	2,405.3	2,611.0
Other assets	1,853.2	2,210.8	2,210.8	2,210.8	2,210.8
Total assets	11,147.8	11,447.1	12,153.2	12,602.9	13,074.1
ST interest bearing debt	386.4	523.8	523.8	523.8	523.8
Accounts payable	2,093.4	2,156.2	2,557.7	2,598.4	2,652.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,123.4	1,942.3	1,942.3	1,942.3	1,942.3
Other liabilities	450.0	408.0	408.0	408.0	408.0
Total Liabilities	5,053.4	5,029.9	5,431.4	5,472.1	5,526.1
Shareholders Equity	3,692.6	3,868.1	4,070.1	4,363.2	4,662.8
Minority Interest	1,303.9	1,451.2	1,553.8	1,669.7	1,787.4
Total shareholder equity	4,996.5	5,319.3	5,623.9	6,032.9	6,450.2
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	11,147.8	11,447.1	12,153.2	12,602.9	13,074.1

CASH FLOW (MYR m)

Pretax profit	741.2	400.7	458.2	621.5	646.6
Depreciation & amortisation	346.2	374.1	322.7	306.6	292.6
Adj net interest (income)/exp	(133.5)	(133.5)	(106.0)	(106.0)	(106.0)
Change in working capital	(60.3)	449.7	(3.5)	(65.6)	(7.5)
Cash taxes paid	(129.6)	(77.7)	(114.4)	(146.4)	(161.3)
Other operating cash flow	(485.5)	(99.5)	(116.5)	(210.8)	(217.4)
Cash flow from operations	278.4	913.7	440.4	399.3	447.0
Capex	(345.5)	(237.3)	(200.0)	(200.0)	(200.0)
Free cash flow	(67.1)	676.5	240.4	199.3	247.0
Dividends paid	(172.2)	(93.7)	(39.2)	(66.2)	(68.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(340.9)	(74.0)	0.0	0.0	0.0
Other invest/financing cash flow	767.3	67.0	103.5	111.4	117.8
Effect of exch rate changes	(26.8)	(3.3)	0.0	0.0	0.0
Net cash flow	160.3	572.5	304.7	244.5	296.7

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.0	(18.8)	12.7	6.6	2.0
EBITDA growth	(23.7)	8.6	(6.7)	8.0	0.6
EBIT growth	(46.6)	9.3	1.1	20.2	4.5
Pretax growth	(7.4)	(45.9)	14.4	35.6	4.0
Reported net profit growth	(12.7)	(55.0)	(16.3)	69.0	2.9
Core net profit growth	(57.6)	20.4	(39.9)	69.0	2.9
Profitability ratios (%)					
EBITDA margin	5.6	7.5	6.2	6.2	6.2
EBIT margin	2.6	3.5	3.2	3.6	3.7
Pretax profit margin	6.3	4.2	4.3	5.4	5.5
Payout ratio	15.4	22.9	22.9	22.9	22.9
DuPont analysis					
Net profit margin (%)	3.9	2.1	1.6	2.5	2.5
Revenue/Assets (x)	1.1	0.8	0.9	0.9	0.9
Assets/Equity (x)	3.0	3.0	3.0	2.9	2.8
ROAE (%)	12.9	5.4	4.3	6.9	6.6
ROAA (%)	2.2	2.5	1.5	2.3	2.3
Liquidity & Efficiency					
Cash conversion cycle	23.9	21.7	11.9	10.3	11.2
Days receivable outstanding	38.7	50.0	42.5	43.2	44.0
Days inventory outstanding	57.4	70.1	61.4	66.2	66.0
Days payables outstanding	72.2	98.4	92.0	99.0	98.8
Dividend cover (x)	6.5	4.4	4.4	4.4	4.4
Current ratio (x)	2.2	2.1	2.1	2.2	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.3	2.2	2.3	2.4
Net gearing (%) (incl perps)	17.0	6.5	1.6	net cash	net cash
Net gearing (%) (excl. perps)	20.8	7.8	2.0	net cash	net cash
Net interest cover (x)	5.0	5.5	6.5	9.2	11.2
Debt/EBITDA (x)	3.8	3.5	3.7	3.4	3.4
Capex/revenue (%)	2.9	2.5	1.9	1.7	1.7
Net debt/ (net cash)	1,037.7	415.2	110.4	(134.1)	(430.8)

Source: Company; Maybank

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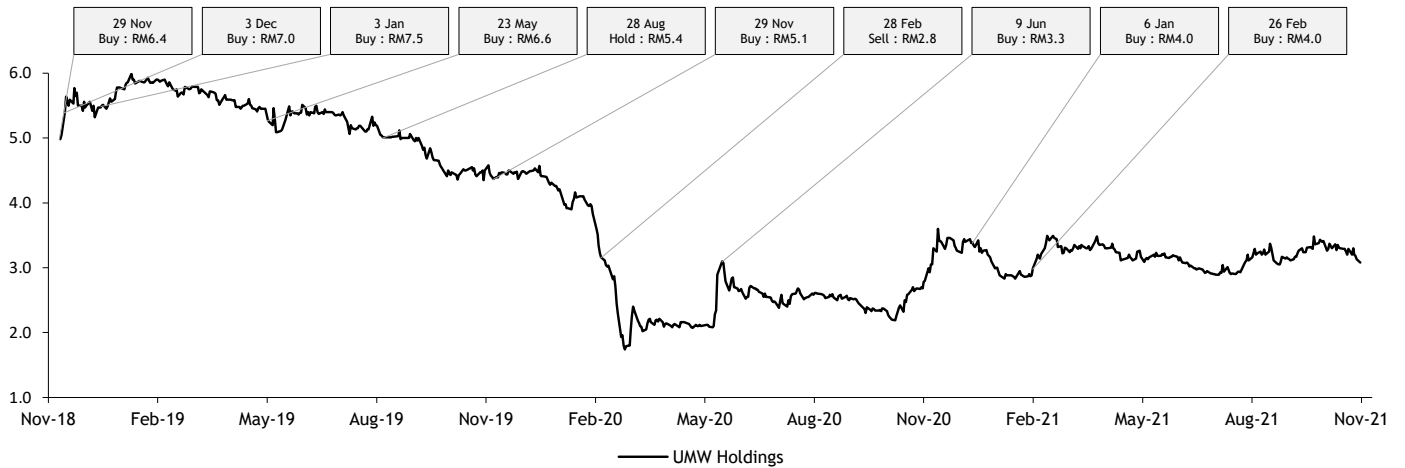
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