

30 November 2021

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

Strong Recovery Expected In FY22

Target Price (Return):	MYR2.83 (-8.1%)
Price (Market Cap):	MYR3.08 (USD849m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (MYR/USD)	2.41m/0.58m

- NEUTRAL, new MYR2.83 TP from MYR2.94, 8% downside, c.2% yield.** 9M21 earnings missed expectations. Operations are gradually improving, as disruptions in activities have progressively eased. We expect FY22F earnings to grow by 80% YoY, notwithstanding the implications of the one-off Cukai Makmur. Nevertheless, as headwinds from chip supply shortages still persist, we maintain our rating at this juncture.
- Missed expectations.** UMW reported its second consecutive quarterly loss in 3Q21 of MYR47.7m (2Q21: -MYR14.2m, 3Q20: MYR80m). This brings 9M21 core PATAMI to MYR25.6m, at 13% and 11% of our and Street's estimates. The deviation was mainly on a weaker-than-expected automotive segment and lower share of results from JV/associates.
- Results review.** Business activities continued to be disrupted by COVID-19 lockdown measures during the quarter. 3Q21 automotive segment revenue declined 18% QoQ (-24% YoY) as the 3Q21 lockdown period was longer than in 2Q21. Manufacturing & engineering division revenue fell 31% QoQ (-55% YoY), but headline segmental PBT of MYR8.2m was supported by MYR19.2m gains on disposal of a property completed in the quarter – stripping this out would result in losses. Weakness in the equipment segment was largely due to losses in the Myanmar operations.
- Outlook.** With the SST exemption extended to Jun FY22F, we expect TIV for the remaining months of FY21 to be softer MoM. For FY22F, we expect car sales to be front loaded into 1H22, followed by slow demand for vehicles in the subsequent quarters, as consumers readjust to higher prices, inclusive of SST. Nevertheless, we expect FY22F to post a strong 80% earnings growth YoY. In terms of EVs, UMW is looking to introduce one Battery Electric Vehicle in 2022 and another in the following year.
- FY21-23F earnings lowered by 29%/7%/2%.** We cut our FY21 Perodua TIV assumption to 195,000 units, and raise FY22's to 230,000 from 200,000 and 220,000 units to account for the 6-month extension in SST exemptions. No guidance was given on Cukai Makmur – we assumed 9% additional tax on taxable PBT over MYR100m, and factored in c.MYR15m additional tax for FY22F. Our TP is cut to MYR2.83 against unchanged 13x FY22F target P/E on normalised FY22F EPS (excluding Cukai Makmur impact), close to its 3-year mean. Our TP reflects a 2% discount for its ESG score of 2.90 based on our in-house proprietary methodology.
- Risks:** A COVID-19 resurgence may affect earnings in all segments, while stiff competition in the sector would exert downward pressure on its bottomline. Slower-than-expected demand normalisation post SST exemption, and sustained disruptions in semiconductor chip supply pose risks to our earnings estimates. The opposite represents upside risks.

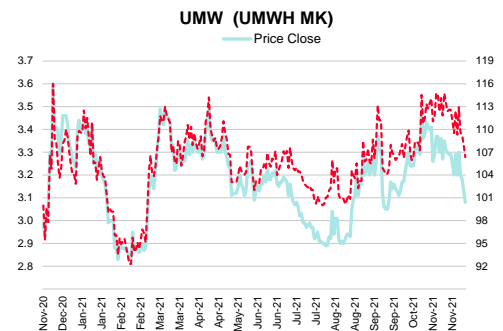
Analyst

Eddy Do Wey Qing
+603 9280 8856
wey.qing.do@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.4)	(9.7)	(1.0)	(2.8)	10.0
Relative	(2.2)	(6.4)	4.0	2.5	16.0
52-wk Price low/high (MYR)	2.83 – 3.60				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	11,739	9,555	9,833	10,889	11,426
Recurring net profit (MYRm)	255	285	136	244	377
Recurring net profit growth (%)	(33.3)	11.7	(52.2)	79.5	54.4
Recurring P/E (x)	14.11	12.63	26.45	14.74	9.55
P/B (x)	1.0	0.9	0.9	0.8	0.7
P/CF (x)	14.11	3.91	9.75	9.16	7.32
Dividend Yield (%)	2.7	1.3	1.9	1.9	1.9
EV/EBITDA (x)	4.54	12.29	5.56	4.46	3.63
Return on average equity (%)	14.9	(2.6)	3.4	5.8	8.2
Net debt to equity (%)	18.6	7.6	6.6	4.7	0.6

Source: Company data, RHB

Overall ESG Score: 2.90 (out of 4)

E: GOOD

UMW has taken efforts to monitor and improve its environmental standing, especially with energy consumption, carbon emissions, and water management. Its carbon footprint increased 2.36% in FY19.

S: GOOD

Aside from the up-to-date health & safety policies and guidelines, UMW is also consistent in its CSR participation – achieving 9,241 volunteer hours in 2019. It recorded average training hours of 12.36 hours per employee in FY19.

G: GOOD

Management has held regular engagements with the market and media while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.22	0.24	0.12	0.21	0.32
Consumer Cyclical	DPS	0.08	0.04	0.06	0.06	0.06
UMW	BVPS	3.16	3.31	3.49	3.76	4.14
UMWH MK	Return on average equity (%)	14.9	(2.6)	3.4	5.8	8.2
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	14.11	12.63	26.45	14.74	9.55
	P/B (x)	1.0	0.9	0.9	0.8	0.7
	FCF Yield (%)	(2.5)	19.0	(0.9)	(0.2)	2.6
	Dividend Yield (%)	2.7	1.3	1.9	1.9	1.9
	EV/EBITDA (x)	4.54	12.29	5.56	4.46	3.63
	EV/EBIT (x)	7.55	na	14.38	9.31	6.90
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	11,739	9,555	9,833	10,889	11,426
	Gross profit	1,902	1,418	1,730	1,860	1,956
	EBITDA	867	258	560	672	751
	Depreciation and amortisation	(345)	(374)	(344)	(350)	(356)
	Operating profit	521	(116)	217	322	394
	Net interest	(127)	(116)	(112)	(108)	(103)
	Pre-tax profit	737	27	302	490	631
	Taxation	(109)	(78)	(38)	(80)	(84)
	Reported net profit	524	(100)	136	244	377
	Recurring net profit	255	285	136	244	377
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(144)	450	(38)	(51)	(29)
	Cash flow from operations	255	920	369	393	492
	Capex	(345)	(237)	(400)	(400)	(400)
	Cash flow from investing activities	430	(100)	(258)	(180)	(117)
	Dividends paid	(99)	(23)	(70)	(70)	(70)
	Cash flow from financing activities	(584)	(602)	(158)	(196)	(201)
	Cash at beginning of period	1,312	1,472	2,051	2,004	2,021
	Net change in cash	101	218	(47)	17	174
	Ending balance cash	1,408	1,686	2,004	2,021	2,195
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	1,472	2,051	2,004	2,021	2,195
	Tangible fixed assets	2,702	2,463	2,519	2,569	2,613
	Total investments	2,098	2,370	2,370	2,370	2,370
	Total assets	11,135	11,447	11,486	11,849	12,212
	Short-term debt	424	548	448	348	248
	Total long-term debt	2,180	1,990	1,990	1,990	1,990
	Total liabilities	5,037	5,030	4,921	5,066	5,083
	Total equity	6,098	6,417	6,565	6,783	7,129
	Total liabilities & equity	11,135	11,447	11,486	11,849	12,212
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	3.9	(18.6)	2.9	10.7	4.9
	Recurrent EPS growth (%)	(33.3)	11.7	(52.2)	79.5	54.4
	Gross margin (%)	16.2	14.8	17.6	17.1	17.1
	Operating EBITDA margin (%)	7.4	2.7	5.7	6.2	6.6
	Net profit margin (%)	4.5	(1.0)	1.4	2.2	3.3
	Dividend payout ratio (%)	18.9	(46.9)	51.5	28.7	18.6
	Capex/sales (%)	2.9	2.5	4.1	3.7	3.5
	Interest cover (x)	4.12	(1.01)	1.93	2.99	3.83

The opposite represents upside risks.

Company Profile

UMW is the largest company in the automotive sector. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia.

Source: Company data, RHB

Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Revenue	2,663.3	2,445.1	2,016.4	(17.5)	(24.3)	6,312.3	7,415.7	17.5	9M21 YoY growth supported by higher revenue from both automotive and equipment segments
EBIT	159.5	32.6	16.5	(49.5)	(89.7)	163.8	211.8	29.3	
<i>EBIT margin (%)</i>	6.0	1.3	0.8			2.6	2.9		
Finance costs	(26.5)	(25.7)	(25.4)	(1.4)	(4.5)	(86.4)	(78.5)	(9.2)	
Associates	94.3	25.2	(5.7)	(122.5)	(106.0)	96.5	107.1	10.9	Lower-than-expected contributions from Perodua
Investment income	10.3	12.4	9.2	(25.8)	(11.0)	40.5	34.4	(15.0)	
Pre-tax profit	159.5	32.6	16.5	(49.5)	(89.7)	163.8	211.8	29.3	
<i>Pre-tax margin (%)</i>	6.0	1.3	0.8			2.6	2.9		
Tax	(41.9)	(11.1)	(26.0)	135.2	(37.9)	(51.4)	(76.4)	48.7	
<i>Eff tax rate (%)</i>	(26.3)	(34.0)	(158.0)			(31.4)	(36.1)		
MI	(16.3)	(7.8)	(20.9)	168.5	28.1	(10.4)	(54.8)	429.3	
Core net profit	80.0	(14.2)	(47.7)	235.9	(159.7)	95.5	25.6	(73.2)	Below our and consensus' expectations
<i>Net margin (%)</i>	3.0	(0.6)	(2.4)			1.5	0.3		

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Automotive	2,127.5	1,981.9	1,590.8	(19.7)	(25.2)	4,815.5	5,968.7	23.9	3Q21 affected by FMCO (1.5 months in 3Q vs one month in 2Q), and chip shortages Improved demand for the segment's products and services in most markets in 2Q21
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)	Lower delivery of fan cases in the Aerospace sub-segment
Others	(3.4)	3.4	(0.7)	(119.5)	(81.1)	3.3	(1.8)	(153.5)	
Revenue	2,663.3	2,445.1	2,016.4	(17.5)	(24.3)	6,312.3	7,415.7	17.5	
Automotive	131.6	34.6	27.4	(20.9)	(79.2)	143.6	207.6	44.6	Affected by losses from the Myanmar operations due to the depreciation of Myanmar Kyat as well as the ongoing political unrest since Feb 2021
Equipment	34.0	31.8	24.3	(23.6)	(28.5)	84.4	78.1	(7.5)	
Manufacturing & engineering	20.3	(6.1)	8.2	(234.9)	(59.8)	38.8	10.5	(73.0)	
Others	(26.4)	(27.8)	(43.4)	(56.2)	(64.5)	(103.1)	(84.4)	(18.1)	
PBT	159.5	32.6	16.5	(49.5)	(89.7)	163.8	211.8	29.3	
PBT Margins									
<i>Automotive</i>	6.2	1.7	1.7			3.0	3.5		
<i>Equipment</i>	11.5	10.6	7.7			10.3	8.2		
<i>Manufacturing & engineering</i>	8.4	(3.8)	7.4			5.8	2.1		

Source: Company data, RHB

Figure 3: Key assumptions

FYE Dec	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Toyota/Lexus TIV (units) – current	66,562	70,009	59,320	64,000	72,000	76,000
Toyota/Lexus TIV (units) – previous				64,000	72,000	76,000
Perodua TIV (units) – current	227,243	240,341	220,154	195,000	230,000	240,000
Perodua TIV (units) – previous				210,000	220,000	230,000
FX (USD/MYR) – current	4.03	4.14	4.20	4.15	4.23	4.10
FX (USD/MYR) – previous				4.15	4.23	4.10

Source: Company data, RHB

Recommendation Chart

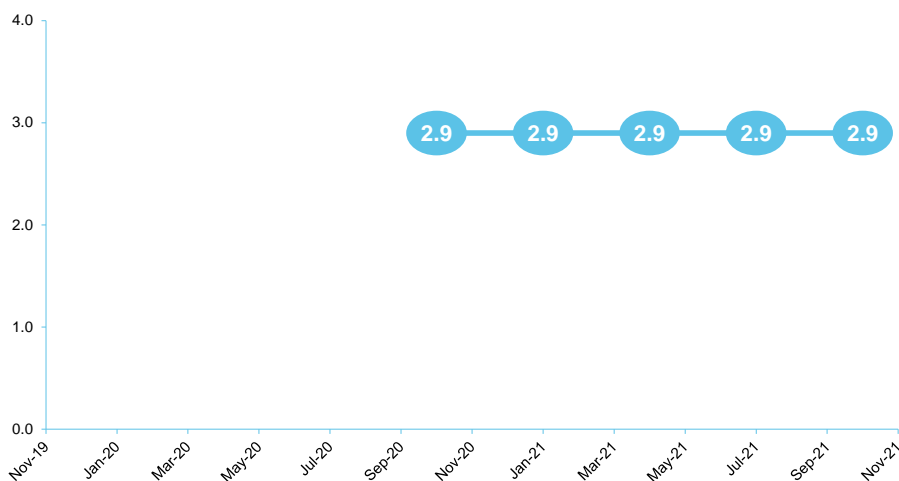


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-07-27	Neutral	2.94	2.91
2021-05-25	Neutral	3.43	3.25
2021-04-22	Neutral	3.40	3.38
2021-02-26	Neutral	2.98	2.99
2020-11-26	Neutral	2.65	2.78
2020-08-28	Neutral	2.40	2.60
2020-06-08	Neutral	2.65	2.89
2020-03-27	Neutral	2.40	2.34
2020-02-28	Sell	2.90	3.16
2019-11-29	Neutral	4.45	4.37
2019-11-18	Neutral	4.60	4.47
2019-08-28	Neutral	5.30	5.01
2019-05-23	Neutral	5.75	5.28

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470