



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

28 Feb 2022

Automotive division propels earnings higher

BUY

(Maintained)

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Rationale for report: Company results

Price	RM3.10
Fair Value	RM4.00
52-week High/Low	RM3.50/RM2.85

Key Changes

Fair value	↑
EPS	↑

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	11,060.8	11,722.0	12,043.0	12,698.0
Core net profit (RM mil)	259.2	318.7	354.2	376.0
FD Core EPS (sen)	22.2	27.3	30.3	32.2
FD Core EPS growth (%)	(9.0)	22.9	11.2	6.1
Consensus Net Profit (RM mil)	-	292.8	333.4	-
DPS (sen)	5.8	7.0	8.0	8.5
PE (x)	14.0	11.4	10.2	9.6
EV/EBITDA (x)	5.5	5.1	4.9	4.6
Div yield (%)	1.9	2.3	2.6	2.7
ROE (%)	6.7	7.5	7.9	7.9
Net Gearing (%)	nm	nm	nm	nm

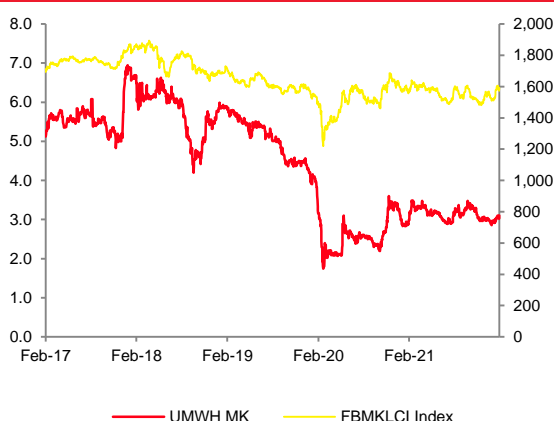
Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RM mil)	3,621.7
Book Value (RM/share)	3.52
P/BV (x)	0.9
ROE (%)	6.7
Net Gearing (%)	-

Major Shareholders	Amanah Saham Nasional (53.5%) Employees Providen Fund (12.6%) Kumpulan Wang Persaraan Diperbadankan (8.8%)
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Free Float	28.7
Avg Daily Value (RM mil)	0.7

Price performance	3mth	6mth	12mth
Absolute (%)	(1.0)	(0.3)	3.7
Relative (%)	(5.8)	0.3	2.8



Investment Highlights

- **We retain our BUY call on UMW Holdings (UMWH) with higher sum-of-parts (SOP) derived fair value of RM4.00/share (from RM3.90/share). We revise upwards 2022F–23F earnings by 3–4% to reflect a higher associate contribution by Perodua. Moving forward, all its three divisions are set to benefit from the economic recovery as the world shifts towards the endemic phase of Covid-19.**
- **UMW's 4Q21 results exceeded our and street's expectations** with a core net profit of RM228.3mil (3Q21: net loss of RM48.1mil, +10% YoY), bringing 2021 core net profit to RM259.2mil (-9% YoY). The positive variance was mainly attributed to RM140mil deferred tax assets related to an investment tax allowance recognized during the quarter and the strong associate contribution from Perodua. 2021's RM1,106.8mil revenue which met our expectation, accounting for 99% of our estimate. A final dividend of 5.8 sen was declared which translates to a 25% payout ratio of 2021 EPS.
- **The automotive division is the quarter's star performer**, propelling the group's profitability with a PBT of RM269.2mil (+882% QoQ, +41% YoY), fuelled by higher sales volume from Toyota and Perodua. The division continues to be the key earnings contributor of the group; it yields 79% of the group's PBT in 2021. Notably, Toyota has overtaken Honda as the top non-national brand in 2021. The success could be attributed to the resiliency of UMW Toyota's supply chain in navigating through disruptions caused by the pandemic.
- **Other divisions.** The equipment segment posted sequential improvement (PBT: +19% QoQ) with all its operating countries recording stronger revenue following the reopening of the economy, except for Myanmar. PBT in the manufacturing & engineering division rose 43% QoQ following all three sub-segments benefiting from the ease of movement restrictions.
- **The higher raw materials price likely will be borne by the principal**, up to a certain threshold. However, should the input costs continue to increase and surpass this threshold, UMW and the principal may revise the pricing structure which could result in a redistribution of the additional costs along the supply chain, from the principal to end consumers. At the current level, UMW's margin remains unaffected.
- **Outlook.** Demand for Toyota and Perodua cars remains robust, indicated by the four months' worth of backlog orders. The new model launches i.e., Perodua Alza and locally assembled Toyota Corolla Cross will provide additional booster to 2022 sales. The rising commodity price will benefit the heavy equipment business while the aerospace unit set to improve with the recovery of the airline industry.

EXHIBIT 1: RESULTS SUMMARY

RM mil	4Q20	3Q21	4Q21	QoQ	YoY	2020	2021	YoY
Revenue	3,242.3	2,016.4	3,645.1	81%	12%	9,554.6	11,060.8	16%
Operating Profit	144.5	38.3	125.5	228%	-13%	258.4	274.2	6%
Finance Costs	(29.1)	(25.4)	(29.7)	17%	2%	(115.5)	(108.2)	-6%
Investment Income	13.9	9.2	14.3	56%	3%	54.4	48.7	-10%
Share of Profits of Associates & JV	107.6	(5.7)	160.9	n.m.	50%	204.1	268.0	31%
Profit before tax	236.9	16.5	271.0	1545%	14%	401.4	482.8	20%
Tax	(26.3)	(26.0)	109.3	n.m.	n.m.	(78.5)	32.9	-142%
Profit after tax	210.6	(9.6)	380.3	n.m.	81%	322.9	515.6	60%
Less: Minority interest	38.1	20.9	122.8	487%	222%	48.5	177.6	266%
Less: Holders of perpetual sukuk	17.4	17.4	17.6	1%	1%	69.7	69.9	0%
Net profit - Continuing operations	155.0	(47.9)	240.0	n.m.	55%	204.8	268.2	31%
Non-core adjustments	(51.7)	0.2	11.7			(80.1)	9.0	
Core net profit	206.8	(48.1)	228.3	n.m.	10%	284.9	259.2	-9%
Margins								
EBIT margin	4.5%	1.9%	3.4%			2.7%	2.5%	
PBT Margin	7.3%	0.8%	7.4%			4.2%	4.4%	
Net profit margin	4.8%	-2.4%	6.6%			2.1%	2.4%	
Core net profit margin	6.4%	-2.4%	6.3%			3.0%	2.3%	
Sales volume (units)								
Toyota	21,667	11,856	26,024	120%	20%	58,501	71,585	22%
Perodua	75,151	21,803	71,198	227%	-5%	220,163	190,291	-14%

Source: UMWH, AmInvestment Bank

EXHIBIT 2: NON-CORE ADJUSTMENTS FOR 2021 EARNINGS

	RM million	Remarks
Reported PATAMI	268	-
ADJUSTMENTS		
Amount recognised in PATAMI		
Forex	14	Unrealised forex loss due to the political unrest in Myanmar.
Net reversal of impairment on receivables	(11)	Debt recovery from an earlier impairment.
Net gain on disposal of PPE not relating to business operations	(9)	Mainly due to the gain on disposal of a property which was completed in 3Q 2021.
Net gain on disposal of investment	(3)	Due to the disposal of a subsidiary in 4Q 2021.
CORE PATAMI	259	

Source: UMWH

EXHIBIT 3: RESULTS SUMMARY - SEGMENTAL BREAKDOWN

Segmental Breakdown	4Q20	3Q21	4Q21	QoQ	YoY	2020	2021	YoY
Revenue								
Automotive	2,668.2	1,590.8	3,061.6	92%	15%	7,483.7	9,030.3	21%
Equipment	317.9	316.0	365.1	16%	15%	1,137.3	1,313.4	15%
Manufacturing & Engineering	244.2	110.3	225.9	105%	-7%	918.3	726.3	-21%
Others	12.0	(0.7)	(7.5)	1054%	n.m.	15.3	(9.3)	n.m.
Total	3,242.3	2,016.4	3,645.1	81%	12%	9,554.6	11,060.8	16%
PBT								
Automotive	191.0	27.4	269.2	882%	41%	334.6	476.7	42%
Equipment	18.5	24.3	28.9	19%	56%	102.9	107.0	4%
Manufacturing & Engineering	22.7	8.2	11.7	43%	-49%	61.6	22.2	-64%
Others	4.6	(43.4)	(38.8)	-11%	n.m.	(98.4)	(123.2)	25%
Total	236.9	16.5	271.0	1545%	14%	400.7	482.8	20%
Net profit								
Automotive	135.1	7.4	266.5	3497%	97%	262.8	395.9	51%
Equipment	15.8	16.9	21.5	27%	36%	76.8	77.3	1%
Manufacturing & Engineering	10.2	(1.9)	0.3	n.m.	-97%	34.3	(8.6)	n.m.
Others	11.4	(52.9)	(30.7)	-42%	n..m	(99.5)	(126.5)	27%
Sub-total	172.5	(30.5)	257.6	n.m.	49%	274.5	338.1	23%
Less: Holders of perpetual sukuk	17.4	17.4	17.6	1%	1%	69.7	69.9	0%
Total	155.0	(47.9)	240.0	-601%	55%	204.8	268.2	31%
PBT Margin								
Automotive	7.2%	1.7%	8.8%			4.5%	5.3%	
Equipment	5.8%	7.7%	7.9%			9.1%	8.1%	
Manufacturing & Engineering	9.3%	7.4%	5.2%			6.7%	3.1%	
Net Profit Margin								
Automotive	5.1%	0.5%	8.7%			3.5%	4.4%	
Equipment	5.0%	5.4%	5.9%			6.8%	5.9%	
Manufacturing & Engineering	4.2%	-1.8%	0.1%			3.7%	-1.2%	

Source: UMWH, AmlInvestment Bank

EXHIBIT 4: SALES ASSUMPTIONS

Units	2020	2021	2022F	2023F	2024F
Toyota	59,320	71,585	72,000	73,000	78,000
Perodua	220,154	190,291	240,000	250,000	255,000

Source: AmlInvestment Bank estimates

EXHIBIT 5: SOP VALUATION MATRIX

Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of shares
Automotive	116.0	51%	13.0	768.8	0.66	1,168.3
Equipment	85.8	91%	9.0	702.6	0.60	
Manufacturing & Engineering	28.1		10.0	281.2	0.24	
					1.50	
Add: Perodua	715.6	38%	13.0	3,534.8	3.03	
Add: Serendah land				1,073.0	0.92	
Add: Company net debt				-1,742.4	-1.49	
Fair Value					4.00	

Source: AmlInvestment Bank estimates

EXHIBIT 6: PB BAND CHART



Source: AmlInvestment Bank

EXHIBIT 7: PE BAND CHART

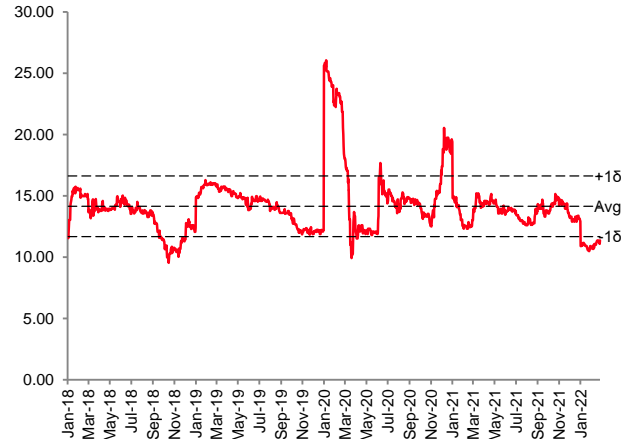


EXHIBIT 8: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★			
Work site safety	★	★	★		
Shareholder accountability	★	★	★		
Social responsibility	★	★	★	★	
Pollution control	★	★			
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	9,554.6	11,060.8	11,722.0	12,043.0	12,698.0
EBITDA	632.5	617.8	624.2	607.2	587.2
Depreciation/Amortisation	(374.1)	(343.5)	(325.6)	(297.9)	(273.6)
Operating income (EBIT)	258.4	274.2	298.6	309.3	313.6
Other income & associates	204.1	268.0	276.9	286.4	295.4
Net interest	(61.1)	(59.5)	(89.9)	(83.3)	(76.6)
Exceptional items	-	-	-	-	-
Pretax profit	401.4	482.8	485.6	512.4	532.4
Taxation	(78.5)	32.9	(83.5)	(67.8)	(61.6)
Minorities/pref dividends	48.5	177.6	83.5	90.4	94.8
Net profit	204.8	268.2	318.7	354.2	376.0
Core net profit	284.9	259.2	318.7	354.2	376.0
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	2,463.0	2,531.4	2,325.8	2,127.9	1,954.3
Intangible assets	-	-	-	-	-
Other long-term assets	2,992.3	3,261.3	3,538.2	3,824.6	4,120.0
Total non-current assets	5,455.3	5,792.7	5,864.0	5,952.5	6,074.3
Cash & equivalent	2,050.9	2,941.4	3,109.4	3,307.0	3,476.0
Stock	1,439.3	1,752.2	1,856.9	1,907.8	2,011.5
Trade debtors	1,187.7	1,051.7	1,114.5	1,145.0	1,207.3
Other current assets	1,313.9	634.8	634.8	634.8	634.8
Total current assets	5,991.8	6,380.0	6,715.6	6,994.6	7,329.6
Trade creditors	2,156.2	2,284.8	2,421.4	2,487.7	2,623.0
Short-term borrowings	523.8	638.1	588.1	538.1	488.1
Other current liabilities	116.2	96.9	96.9	96.9	96.9
Total current liabilities	2,796.2	3,019.8	3,106.4	3,122.7	3,208.0
Long-term borrowings	1,942.3	2,095.0	2,095.0	2,095.0	2,095.0
Other long-term liabilities	291.5	295.4	295.4	295.4	295.4
Total long-term liabilities	2,233.7	2,390.4	2,390.4	2,390.4	2,390.4
Shareholders' funds	3,868.1	4,116.5	4,353.3	4,614.1	4,890.7
Minority interests	2,549.0	2,646.1	2,729.6	2,820.0	2,914.8
BV/share (RM)	3.31	3.52	3.73	3.95	4.19
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	401.4	482.8	485.6	512.4	532.4
Depreciation/Amortisation	374.1	343.5	325.6	297.9	273.6
Net change in working capital	460.0	(221.1)	(31.0)	(15.1)	(30.7)
Others	(289.2)	(343.5)	(270.5)	(270.9)	(280.4)
Cash flow from operations	946.3	261.6	509.7	524.3	494.9
Capital expenditure	(95.5)	(406.4)	(120.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	(1,081.5)	(526.3)	(276.9)	(286.4)	(295.4)
Others	1,066.5	1,406.7	276.9	286.4	295.4
Cash flow from investing	(110.5)	474.0	(120.0)	(100.0)	(100.0)
Debt raised/(repaid)	(43.1)	267.0	(50.0)	(50.0)	(50.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(46.7)	(67.8)	(81.8)	(93.5)	(99.3)
Others	(147.7)	(159.8)	(89.9)	(83.3)	(76.6)
Cash flow from financing	(237.5)	39.4	(221.7)	(226.7)	(225.9)
Net cash flow	598.3	775.0	168.0	197.6	169.0
Net cash/(debt) b/f	1,350.9	1,901.4	2,533.0	2,701.0	2,898.6
Net cash/(debt) c/f	1,901.4	2,533.0	2,701.0	2,898.6	3,067.6
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(18.6)	15.8	6.0	2.7	5.4
EBITDA growth (%)	(19.1)	(2.3)	1.0	(2.7)	(3.3)
Pretax margin (%)	4.2	4.4	4.1	4.3	4.2
Net profit margin (%)	2.1	2.4	2.7	2.9	3.0
Interest cover (x)	4.2	4.6	3.3	3.7	4.1
Effective tax rate (%)	19.6	6.8	17.2	13.2	11.6
Dividend payout (%)	22.8	25.3	25.7	26.4	26.4
Debtors turnover (days)	50	37	34	34	34
Stock turnover (days)	58	53	56	57	56
Creditors turnover (days)	81	73	73	74	73

Source: Company, AmlInvestment Bank Bhd estimates

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