

HLIB Research

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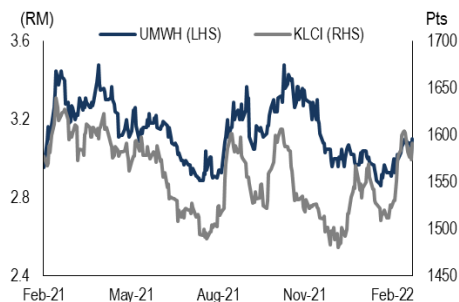
BUY (from Hold)

Target Price: RM3.55
Previously: RM2.95
Current Price: RM3.10

Capital upside	14.5%
Dividend yield	1.9%
Expected total return	16.4%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


Historical return (%)	1M	3M	12M
Absolute	6.2	-1.0	3.7
Relative	0.9	-5.8	2.8

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,622
3-mth average volume ('000)	242
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

Permodalan Nasional Berhad	60.5%
Employees Provident Fund	12.6%
Kumpulan Wang Persaraan	8.8%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	149	362	379
EPS - core (sen)	12.8	31.0	32.4
P/E (x)	24.3	10.0	9.6

UMW Holdings

Continue recovery into FY22

Reported core 4QFY21 PATMI RM137.6m and FY21 PATMI RM149.2m. We deem the results within HLIB's forecast (96.4%), but below consensus (86.8%). The strong 4QFY21 was mainly attributed to the strong recovery of automotive segment (accelerated car deliveries). Management is guiding for sustainable earnings into FY22, leveraging on the anticipated economic recovery and SST exemptions (for automotive). Adjusted earnings for FY22-23 by +25.8% and +6.9% respectively. Upgrade to BUY with higher adjusted TP: RM3.55 (from RM2.95) based on 10% discount to SOP: RM3.95.

Within expectations. UMW reported core PATMI of RM137.6m for 4QFY21, which uplifted FY21 PATMI to RM149.2m. We deem the result within HLIB's FY21 forecast (96.4%), but below consensus (86.8%). RM119.0m EIs were adjusted for FY21, mainly consisting of attributed RM69.9m deferred tax credit for UMW Toyota (51% owned), attributed RM53.2m (estimated) deferred tax credit for Perodua (38% owned) and RM43.2m gain on PPE disposal, partially offsets by RM29.1m loss/impairment of investments and RM10.3m forex loss.

Dividend. Declared a final dividend of 5.8 sen/share (ex-date: 12 April 2022).

QoQ. Returned to core PATMI RM137.6m in 4QFY21 (vs. LATMI -RM61.1m in 3QFY21) as overall group operations recovered in 4QFY21 after government allowed the gradual re-opening of economy since Sep (Phase 1 NRP since Jun). Automotive sales recovered substantially with accelerated deliveries during the quarter.

YoY/YTD. Core PATMI improved +19.1% YoY/+19.3% YTD, mainly driven by stronger contribution from automotive segment on higher deliveries of Toyota models.

Automotive. Management is expecting continue strong automotive performance in FY22, leveraging onto the extend SST exemption to Jun 2022 and on-going strong demand for its models. Toyota has set FY22 sales target at 73k units, with current order backlog of 30k units (4-5 months waiting period). Similarly, Perodua has set a record sales target of 247.8k units for FY22, with indicative current waiting period of 4-5 months. Management guided the supply of chips have been secured for their targeted sales volume. Management does not expect material impact from the increasing global commodity prices (raw material costs) in the near term (usually absorbed by OEM principals) while there is on-going negotiations between UMW and Toyota Japan on potential price adjustments in the future.

Equipment. While Myanmar market remains uncertain in 2022, management expects demand for heavy equipment to improve in tandem with increasing infrastructure stimulus spending and surge in global commodity prices. Demand for its industrial equipment remains healthy, leveraging onto the growing e-commerce platform. UMW will continue to expand its lease rental model for the segment.

M&E. Both automotive parts (Kayaba) and lubricant will leverage onto the strong domestic automotive recovery. However lubricant segment may experience margin compression due to surge in oil base cost. Aerospace manufacturing will regain traction as the global aviation sector recovers into 2022.

Forecast. Increased earnings for FY22 by +25.8% and FY23 by +6.9%.

Upgrade to BUY, TP: RM3.50. Upgrade to BUY with higher adjusted TP: RM3.55 (from RM2.95), based on unchanged discount of 10% to SOP of RM3.95. UMW will continue to leverage onto the anticipated economic recovery in FY22 and SST exemption until Jun 2022.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	11,739	9,555	11,061	11,952	11,637
EBITDA	677	587	630	835	826
EBIT	331	213	283	459	451
PBT	755	401	483	672	684
Operation PAT	646	313	516	556	571
Discontinued operation	(17)	0	0	0	0
PATMI – Reported	454	195	268	362	379
PATMI – Core	253	125	149	362	379
% change YoY – Core PATMI		-50.5%	19.3%	142.4%	4.8%
HLIB/ Consensus (%) – Core PATMI				123.6%	113.7%
Core EPS (sen)	21.6	10.7	12.8	31.0	32.4
P/E (x)	14.3	28.9	24.3	10.0	9.6
DPS (sen)	6.0	4.0	5.8	6.0	8.0
Yield (%)	1.9%	1.3%	1.9%	1.9%	2.6%
Shareholder's equity	3,696	3,868	4,116	4,291	4,588
BVPS (RM/share)	3.16	3.31	3.52	3.67	3.93
P/B (x)	1.0	0.9	0.9	0.8	0.8
ROE (%)	7.2%	3.3%	3.7%	8.8%	8.5%
Net Gearing (%)	28.8%	5.9%	7.0%	5.7%	N.Cash

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Figure #2 Quarterly results comparison

FYE Dec (RMm)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Revenue	3,242.3	2,016.4	3,645.1	80.8%	12.4%	9,554.6	11,060.8	15.8%
EBITDA	205.5	106.2	238.8	124.8%	16.2%	586.9	629.6	7.3%
EBIT	108.3	19.4	146.6	655.0%	35.4%	212.8	283.0	33.0%
Net finance expense	(20.6)	(20.5)	(18.5)	-9.8%	-10.3%	(87.1)	(76.9)	-11.8%
Associates	107.6	(5.7)	160.9	N.M.	49.5%	204.1	268.0	31.3%
Eis	41.6	23.2	(18.0)			70.9	8.6	
Reported PBT	236.9	16.5	271.0	N.M.	14.4%	400.7	482.8	20.5%
Tax	(26.3)	(26.0)	109.3	N.M.	-515.4%	(87.2)	32.9	N.M.
Reported operation net profit	210.6	(9.6)	380.3	N.M.	80.6%	313.4	515.6	64.5%
Reported PATMI	137.4	(47.9)	240.0	N.M.	74.6%	195.1	268.2	37.5%
Eis & Sukuk Adjustments	(21.9)	(13.2)	(102.4)	N.M.	368.1%	(70.0)	(119.0)	70.0%
Core PATMI	115.6	(61.1)	137.6	N.M.	19.1%	125.1	149.2	19.3%
Reported EPS (Sen)	11.8	(4.1)	20.5	N.M.	74.6%	16.7	23.0	37.5%
Core EPS (Sen)	9.9	(5.2)	11.8	N.M.	19.1%	10.7	12.8	19.3%
				<u>pts</u>	<u>pts</u>			<u>pts</u>
EBITDA margin (%)	6.3%	5.3%	6.6%	1.3	0.2	6.1%	5.7%	(0.5)
EBIT margin (%)	3.3%	1.0%	4.0%	3.1	0.7	2.2%	2.6%	0.3
Core PATMI margin (%)	3.6%	-3.0%	3.8%	2.8	0.4	1.3%	1.3%	(0.9)

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Figure #3 Quarterly results comparison by segment

	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Reported Revenue								
Automotive	2,668.2	1,590.8	3,061.6	92.5%	14.7%	7,483.1	9,030.3	20.7%
Equipment	317.9	316.0	365.1	15.6%	14.8%	1,126.3	1,313.4	16.6%
Manufacturing & Engineering	244.2	110.3	225.9	104.8%	-7.5%	893.5	726.3	-18.7%
Total	3,230.4	2,017.0	3,652.6	81.1%	13.1%	9,503.0	11,070.1	16.5%
Reported PATMI								
Automotive	135.1	7.4	266.5	N.M.	97.2%	262.8	395.9	50.6%
Equipment	15.8	16.9	21.5	27.2%	36.0%	76.8	77.3	0.6%
Manufacturing & Engineering	10.2	(1.9)	0.3	N.M.	-96.8%	34.3	(8.6)	N.M.
Others	(23.7)	(70.3)	(48.3)	-31.2%	104.4%	(109.0)	(196.4)	80.2%
Total	137.4	(47.9)	240.0	N.M.	74.6%	265.0	268.2	1.2%
Core PATAMI	115.6	(61.1)	137.6	N.M.	19.1%	125.1	149.2	19.3%

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Figure #4 UMW automotive sales statistics

FYE Dec (RMm)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Toyota	21,667	11,856	26,024	119.5%	20.1%	58,501	71,585	22.4%
Lexus	314	151	252	66.9%	-19.7%	819	809	-1.2%
Perodua	75,151	21,803	71,198	226.6%	-5.3%	220,163	190,291	-13.6%
Total	97,132	33,810	97,474	188.3%	0.4%	279,483	262,685	-6.0%

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Figure #5 UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,877.1	4.17	FY22 PE 12x
Equipment	Various	853.1	0.73	FY22 PE 10x
Manufacturing & Engineering	Various	745.5	0.64	FY22 PE 18x
500 acres Serendah land	100.00	980.0	0.81	Based on RM45/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2020 Annual Report
Holding Co Net Debt		(1,742.4)	(1.49)	Based on 2020 Annual Report
Subtotal		4,550.2	3.95	
Holding Co Discount			10.0%	
Target Price			3.55	Implied FY22 PE 11.5x
* No of Shares		1,168.3		As at end FY2020

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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