

28 Feb 2022

Buy

Price
 RM3.02

Target Price
 RM4.00 (from RM3.80)

Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,528.3
52-week high/low (RM)	3.50 / 2.85
Avg daily turnover (RMm)	0.7
KLCI (pts)	1,573.9

Source: Bloomberg, KAF

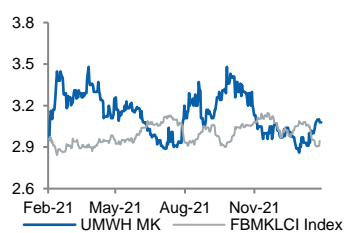
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(53.5%)
EPF	(12.6%)
Kumpulan Wang Persaraan	(8.8%)
Free Float	28.6

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(5.6)	(2.3)	5.2
Rel Market (%)	(8.7)	(3.5)	4.1



Source: Bloomberg, KAF

Analyst

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UMW Holdings

4Q rebounds, sets for recovery

UMW's 4Q earnings returned to the black to RM266m from RM73m core losses in 3Q, contributed by higher vehicle sales following lifting of the full movement control order (FMCO) since mid-Aug 2021, as well as a one-off recognition of deferred tax assets of RM140m. This brings to a total of RM259m core earnings for the year. Declared 5.8 sen dividend. Management is targeting 73k unit sales for Toyota and Perodua is targeting 248k unit sales in 2022, implying a 1% and 30% yoy growth respectively. Maintain Buy.

Financial Highlights

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue (RMm)	9,555	11,061	11,782	12,279	12,739
Core net profit (RMm)	285	259	320	340	358
Core EPS (Sen)	24.4	22.2	27.4	29.1	30.6
EPS growth (%)	69	(9)	23	6	5
DPS (Sen)	4.0	5.8	6.0	6.0	6.0
Core PE (x)	12	14	11	10	10
Div yield (%)	1	2	2	2	2
ROE (%)	5	7	7	7	7
Net Gearing (%)	11	Net cash	Net cash	Net cash	Net cash
PBV(x)	0.9	0.9	0.8	0.7	0.7

Source: Company, KAF

4Q rebounds. UMW returned to the black to RM266m core earnings, compared to RM73m losses in 3Q. This was on the back of 81% top-line qoq growth. The strong performance is attributed to the auto sales rebound following the lifting of the FMCO which hit sales in 3Q. It is also contributed by a one-off recognition of deferred tax assets of RM140m in relation to investment tax allowance approved in the quarter. This brings to a total of RM259m core earnings for the year, which make up 93% of our and 151% of consensus forecasts. A final 5.8 sen DPS was declared – which was within estimate.

Strong UMW and Perodua sales. It was a strong 4Q for UMW with 26k units sold in 4Q, up 119% qoq (3Q 2021: 12k) and 20% yoy (4Q 2020: 22k). Perodua sales volume also grew 227% qoq (3Q 2021: 23k) but down 5% yoy (4Q 2020: 75k) to 71k units sold in 4Q. The strong performance of the auto segment in 4Q brings the division to a full year 21% revenue growth and 42% PBT growth, which made the segment to be the highest contributing segment to the group i.e., making up 99% of the group PBT in FY21, with the rest from its equipment (22%), manufacturing and engineering (M&E) (5%) and other (-26%) segments.

Equipment and M&E improved in 4Q, outlook dependent on business recovery. Despite the continued disruption in Myanmar, its 4Q results improved along with business recovery from the Covid-19 pandemic, which brings to a full year of 15% revenue growth and 4% PBT growth for the segment. Equipment growth this year is expected to be underpinned by growth in the Malaysian and Papua New Guinea's market. Revenue and PBT of M&E segment also improved in 4Q, but for the FY21, its revenue and PBT down 21% and 64% respectively, mainly due to lower demand for its fan cases supply to the aerospace sector.

Outlook – healthy auto orderbook. Management is targeting 73k unit sales for Toyota, grow marginally by 1% this year. As it is, 1M sales of 7.5k has made up to 10% of its target. It currently also has approx. 30k bookings with 4 months waiting period, which averaged out to 7.5k in a month. As for the ongoing semiconductor shortage issues, the management guided that its best-selling models i.e. Vios and Yaris are relatively safe from the disruptions; its newly launched Corolla Cross, which is expected to contribute significantly in FY22 sales is also expected to face lower impact (with different chips used) from the chip shortage as compared to its Camry. Management also guided that it may review its target again in May 2022. Meanwhile for Perodua, it is targeting 248k unit sales in 2022, at 30% growth. Perodua sales is expected to be supported by its all-new Alza, Aruz facelift and Axia facelift this year.

Minor adjustments on earnings forecasts. Following the release of 4Q results, we tweak FY22 and FY23 earnings marginally upwards by 0.6% and 1.1% respectively as we factor in actual FY21 performance into our financial model,

Maintain Buy. We maintain our Buy with a revise SOP-derived TP of RM4.00 (from RM3.80). Our TP implies 15x FY22 PE. UMW remains a strong proxy to market leader Perodua and Toyota. Its performance is expected to be supported by its recent and upcoming launches (e.g. Corolla Cross, Camry facelift, Vios facelift, Yaris facelift, all-new Alza, Aruz facelift and Axia facelift) as well extension of sales tax exemption to Jun 2022. Upsides include better contribution from its equipment and M&E segments, while downside risks being prolonged disruptions from semiconductor chip shortage.

Exhibit 1: Quarterly results summary

FYE Dec (RMm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	% chg	FY21F	FY21/F
Revenue	3,243	2,016	3,645	81%	12%	9,555	11,061	16%	10,064	110%
Operating profit	144	38	125	228%	-13%	258	274	6%	375	73%
Investment income	14	9	14	56%	3%	54	49	-10%	55	89%
Finance costs	(29)	(25)	(30)	17%	2%	(116)	(108)	-6%	(116)	93%
JV & associates	108	(6)	161	-2937%	50%	204	268	31%	244	110%
Pretax profit	237	16	271	1545%	14%	401	483	20%	559	86%
Tax	(26)	(26)	109	-520%	-515%	(78)	33	-142%	(106)	-31%
Profit after tax	211	(10)	380	-4079%	81%	323	516	60%	453	114%
MI & perpetual sukuk holders	(73)	(38)	(140)	266%	92%	(118)	(247)	109%	(175)	142%
Net profit	137	(48)	240	-601%	75%	205	268	31%	278	96%
Core net profit	189	(73)	266	-462%	41%	285	259	-9%	278	93%
Reported EPS (sen)	11.8	(4.1)	20.5			17.5	23.0			
Core EPS (sen)	16.2	(6.3)	22.8			24.4	22.2			
Net DPS (sen)	4.0	0.0	5.8			4.0	5.8			
BV (RM)	3.25	3.31	3.52			3.25	3.5			
EBIT margin (%)	4%	2%	3%			3%	2%		4%	
PBT margin (%)	7%	1%	7%			4%	4%		6%	
PAT margin (%)	6%	0%	10%			3%	5%		4%	
Net margin (%)	4%	-2%	7%			2%	2%		3%	
Core net margin (%)	6%	-4%	7%			3%	2%		3%	
Effective tax rate (%)	11%	158%	-40%			19%	-7%		19%	

Source: Company, KAF

Exhibit 2: Segmental breakdown

	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	% chg	FY21F	FY21/F
Automotive	2,668	1,591	3,062	92%	15%	7,484	9,030	21%	8,078	112%
Equipment	318	316	365	16%	15%	1,137	1,313	15%	1,160	113%
Manufacturing	244	110	226	105%	-7%	918	726	-21%	811	90%
Others & Eliminations	12	(1)	(8)	1054%	-163%	15	(9)	-161%		
Total Revenue (RMm)	3,242	2,016	3,645	81%	12%	9,555	11,061	16%	10,064	110%
Automotive	191	27	269	882%	41%	335	477	42%	448	106%
Equipment	19	24	29	19%	56%	103	107	4%	151	71%
Manufacturing	23	8	12	43%	-49%	62	22	-64%	43	52%
Others & Eliminations	5	(43)	(39)	-11%	-938%	(98)	(123)	25%		
Total PBT (RMm)	237	16	271	1545%	14%	401	483	20%	559	86%
<i>Automotive PBT margin (%)</i>	7%	8%	8%			4%	5%		6%	
<i>Equipment PBT margin (%)</i>	6%	12%	12%			9%	8%		13%	
<i>Manufacturing PBT margin (%)</i>	9%	9%	5%			7%	3%		5%	
Total PBT margin (%)	7%	8%	7%			4%	4%		6%	
Unit sales	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	% chg	FY21F	FY21/F
Toyota & Lexus	21,981	12,007	26,276	119%	20%	59,320	72,394	22%	63,800	113%
Perodua	75,151	21,803	71,198	226%	-5%	220,163	190,291	-14%	204,000	93%
Grand total	97,132	33,810	97,474	188%	0%	279,483	262,685	-6%	267,800	98%

Source: Company, KAF

UMW Holdings

Income Statement

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Revenue	9,555	11,061	11,782	12,279	12,739
EBITDA	632	615	769	738	750
Depreciation/Amortisation	(374)	(344)	(393)	(349)	(354)
Operating income (EBIT)	258	271	376	389	395
Other income & associates	204	268	309	316	323
Net interest	(61)	(56)	(64)	(56)	(44)
Exceptional items	0	0	0	0	1
Pretax profit	401	483	621	649	675
Taxation	(78)	33	(118)	(123)	(128)
Minorities/pref dividends	(118)	(247)	(183)	(186)	(188)
Net profit	205	268	320	340	358
Core net profit	285	259	320	340	358

Balance Sheet

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Fixed assets	2,463	2,531	2,994	2,851	2,702
Intangible assets	0	0	0	0	0
Other long-term assets	2,992	3,261	3,261	3,261	3,261
Total non-current assets	5,455	5,793	6,256	6,112	5,963
Cash & equivalent	2,051	2,941	3,439	3,726	4,047
Stock	1,439	1,752	1,689	1,765	1,827
Trade debtors	1,188	1,052	1,044	1,084	1,117
Other current assets	1,314	635	122	399	692
Total current assets	5,992	6,380	6,294	6,974	7,682
Trade creditors	2,156	2,249	2,422	2,457	2,489
Short-term borrowings	524	638	530	523	519
Other current liabilities	116	133	133	133	133
Total current liabilities	2,796	3,020	3,085	3,113	3,140
Long-term borrowings	1,942	2,095	1,906	1,892	1,879
Other long-term liabilities	291	295	293	291	288
Total long-term liabilities	2,234	2,390	2,199	2,183	2,167
Shareholders' funds	3,868	4,116	4,436	4,776	5,135
Minority interests	2,549	2,646	2,829	3,015	3,203

Cash flow Statement

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Pretax profit	401	483	621	649	675
Depreciation/Amortisation	374	344	393	349	354
Net change in working capital	496	(175)	245	(82)	(63)
Others	(325)	(389)	(466)	(487)	(511)
Cash flow from operations	946	262	792	428	456
Capital expenditure	(221)	(406)	(850)	(200)	(200)
Net investments & sale of fixed assets	57	76	76	76	76
Others	53	805	794	144	145
Cash flow from investing	(110)	474	20	20	20
Debt raised/(repaid)	(43)	267	(18)	(15)	(11)
Equity raised/(repaid)	0	0	0	0	1
Dividends paid	(23)	(47)	(68)	(70)	(70)
Others	(171)	(181)	(76)	(76)	(76)
Cash flow from financing	(238)	39	(162)	(161)	(156)
Net cash flow	598	775	649	287	320
Cash b/f	1,411	2,006	2,790	3,439	3,726
Cash c/f	2,006	2,790	3,439	3,726	4,047

Key Ratios

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue growth (%)	(18.6)	15.8	6.5	4.2	3.7
EBITDA growth (%)	(27.6)	(2.7)	25.1	(4.0)	1.6
Pretax margins (%)	(45.9)	20.5	28.6	4.5	4.0
Net profit margins (%)	(55.0)	31.1	19.3	6.1	5.4
Interest cover (x)	2.2	2.5	2.9	2.7	2.7
Effective tax rate (%)	19.4	(6.8)	19.0	19.0	19.0
Net dividend payout (%)	16.4	26.1	21.9	20.6	19.6
Debtors turnover (days)	44	32	32	32	32
Stock turnover (days)	30	25	25	25	25
Creditors turnover (days)	72	61	61	61	61

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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