

UMW Holdings Berhad

(4588 | UMWK MK) Consumer Products & Services | Automotive & Parts

Maintain BUY

Primed to ride the upcycle

Revised Target Price: RM4.20

(from RM4.35)

KEY INVESTMENT HIGHLIGHTS

- **FY21 missed our estimate but well ahead of consensus**
- **4Q21 core earnings up +9%yoy on improved auto and equipment sales**
- **UMWT & Perodua sitting on 4-5 months order backlog**
- **Equipment division primed to benefit from commodity upcycle**
- **Maintain BUY albeit at revised TP of RM4.20 (from RM4.35)**

Core earnings missed estimates. UMW reported core earnings of RM167m for its 4Q21 (normalized for deferred tax asset recognition), which brought FY21 core earnings to RM197m. This is below our expectation but is ahead of consensus accounting for 92% and 114% of estimates respectively. The shortfall against our forecast is attributable to weaker than expected M&E earnings mainly.

Autos and equipment drove earnings recovery. 4Q21 core earnings rose +9%yoy to RM167m driven mainly by the auto division which saw core earnings (excluding deferred tax impact) improve by +44%yoy to RM195m on the back of strong recovery in Toyota production and sales. Meanwhile, the equipment division posted a +36%yoy increase in earnings to RM22m riding on demand recovery in local and overseas markets but the M&E division registered a -97%yoy drop to RM0.3m due to lower fan case volume in the aerospace sub-segment.

On a full year basis, group core earnings dropped -18%yoy given the drag from the M&E division, which dipped into a net loss of RM9m. The auto division was the key earnings driver for the group in FY21 (rising by +24%yoy excluding impact of deferred tax recognition) on the back of solid +22%yoy growth in Toyota TIV to 71,585 units (+22%yoy). The strong sales also led to Toyota regaining its lead in the non-national segment with a 14% market share, driven by swift production recovery post-lockdowns in 3Q21 and Toyota's dominant share in key segments of the commercial vehicle market which grew +16%yoy in FY21 (vs. a -3.7%yoy overall TIV contraction) as it benefitted from gradually improved business conditions.

UMW Toyota (UMWT) is aiming to maintain its FY21 performance with an FY22 target TIV of 73K units (inclusive of Lexus sales). We reckon this is a conservative target considering MAA's +18%yoy 2022 TIV growth projection. We also take comfort in the fact that supply has been secured for the entire 73K units targeted to be sold in FY22. Among key new launches this year are the CKD Corolla Cross hybrid and the CBU Camry facelift. The group is also aiming to kickstart BEV model launches from 4Q22. Order backlog currently stands at around 30K for UMWT, or about 4-5 months waiting list. Perodua is also understood to entail similar 4-5 months backlog orders.

RETURN STATISTICS

Price @ 25 th Feb 2022 (RM)	3.10
Expected share price return (%)	+35.5
Expected dividend yield (%)	+1.5
Expected total return (%)	+37.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	6.9	1.6
3 months	4.4	-5.8
12 months	3.7	2.8

KEY STATISTICS

FBM KLCI	1,591.72
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	28.59
Market Capitalisation (RM'm)	3,621.71
52-wk price range	RM2.85 - RM3.5
Beta vs FBM KLCI (x)	1.66
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.24
3-mth average daily value (RM'm)	0.73
Top Shareholders (%)	
Amanah Saham Nasional Bhd	53.45
Employees Provident Fund Board	12.64
Kumpulan Wang Persaraan	8.84

Analyst:
 Hafriz Hezry
 hafriz.hezry@midf.com.my
 03-2173 8392

INVESTMENT STATISTICS

FYE Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	11,739.1	9,554.6	11,060.8	12,173.2	12,416.3
EBIT (RM'm)	332.6	257.7	274.2	326.4	353.8
Pre-tax Profit (RM'm)	754.8	400.7	482.8	506.8	534.1
Core net profit (RM'm)	266.3	240.9	196.8	268.4	287.8
FD EPS (sen)	22.8	20.6	16.8	23.0	24.6
EPS growth (%)	(22.1)	(9.5)	(18.3)	36.3	7.2
PER (x)	13.6	15.0	18.4	13.5	12.6
Net Dividend (sen)	6.0	4.0	5.8	4.6	4.9
Net Dividend Yield (%)	1.9	1.3	1.9	1.5	1.6

Source: Company, MIDFR

Earnings revision. Given weaker than expected results, we trim our FY22F by 8% to RM268m to reflect weaker contribution from the M&E division. Despite the revision, we still expect UMW to register a +36%yoy growth to be driven by: (1) A +26%yoy recovery in Perodua TIV in FY22, (2) Higher demand for the equipment division riding on rising commodity prices and recovery in the construction sector, (3) Recovery in aviation component demand riding on gradual resumption of activities in the underlying airline sector. We also introduce our FY23F earnings at RM288m (+7%yoy).


Recommendation. Maintain **BUY** albeit at revised **TP** of **RM4.20** (from RM4.35 previously) given the earnings revision in this report. UMW is one of the prime beneficiaries of a cyclical recovery in autos given its dominant market share of 52% (via UMWT and Perodua). The equipment division meanwhile, is well positioned to benefit from rising commodity prices. Key catalysts: (1) RM270m investment in new Hybrid EV production with rollout from FY22 onwards, (2) Launch of maiden BEV model from 4Q22, (3) Sustained earnings improvement riding on underlying auto & equipment demand recovery. Key risk to our call is a weakening of the Ringgit, further lockdowns and a worse than expected global chip shortage situation. 

Exhibit 1: UMW Sum-of-Parts Valuation

Segments	FY22F adjusted net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	325	PER	12	3,906	
Equipment	53	PER	11	579	
Serendah land		RNAV		353	RNAV of Serendah land (500acres@RM16psf) (net of debt)
Aerospace		DCF		85	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Total value				4,923	
No of shares (m)				1,168	
Fair value (RM)				4.20	

Source: Company, MIDFR

UMW HOLDINGS: 4QFY21 RESULT SUMMARY

FYE Dec (RMm)	4Q20	3Q21	4Q21	YoY	QoQ	FY20	FY21	YTD
Revenue	3,242.3	2,016.4	3,645.1	12.4%	80.8%	9,554.6	11,060.8	15.8%
EBITDA	241.7	122.1	217.7	-9.9%	78.2%	631.7	617.8	-2.2%
Operating Profit	144.5	38.3	125.5	-13.1%	227.6%	257.7	274.2	6.4%
Finance Cost	(29.1)	(25.4)	(29.7)	2.0%	17.1%	(115.5)	(108.2)	-6.4%
Associates	107.6	(5.7)	160.9	49.5%	2936.5%	204.1	268.0	31.3%
Investment Income / Other gains	13.9	9.2	14.3	2.6%	55.6%	54.4	48.7	-10.5%
Pretax Profit	236.9	16.5	271.0	14.4%	1545.4%	400.7	482.8	20.5%
Taxation	(26.3)	(26.0)	109.3			(77.7)	32.9	
Minorities / PERP	55.7	38.3	140.4			118.3	247.4	
Net Profit	154.9	(47.9)	240.0	55.0%	601.0%	204.6	268.2	31.1%
Core net profit	154.9	(47.9)	168.6	8.9%	451.9%	240.9	196.8	-18.3%
Core EPS (FD, sen)	13.3	-4.1	14.4			20.6	16.8	
DPS (sen)	4.0	0.0	5.8			4.0	5.8	
Margins (%):								
Operating	4.5%	1.9%	3.4%			2.7%	2.5%	
Pretax Profit	7.3%	0.8%	7.4%			4.2%	4.4%	
Core Net Profit	4.8%	-2.4%	4.6%			2.5%	1.8%	
Tax Rate	11.1%	158.0%	-40.3%			19.4%	-6.8%	
EBITDA	7.5%	6.1%	6.0%			6.6%	5.6%	
Segmental Breakdown (RMm)	4Q20	3Q21	4Q21	YoY	QoQ	FY20	FY21	YTD
Automotive	2,668.2	1,590.8	3,061.6	14.7%	92.5%	7,483.7	9,030.3	20.7%
Equipment	317.9	316.0	365.1	14.8%	15.6%	1,137.3	1,313.4	15.5%
Manuf & Eng	244.2	110.3	225.9	-7.5%	104.9%	918.3	726.3	-20.9%
Others	12.0	(0.7)	(7.5)	-163.0%	1054.4%	15.3	(9.3)	-160.9%
Revenue	3,242.3	2,016.4	3,645.1	12.4%	80.8%	9,554.6	11,060.8	15.8%
Automotive	191.0	27.4	269.2	40.9%	882.0%	334.6	476.7	42.5%
Equipment	18.5	24.3	28.9	56.4%	19.0%	102.9	107.0	4.0%
Manuf & Eng	22.7	8.2	11.7	-48.7%	42.9%	61.6	22.2	-64.0%
Others	4.6	(43.4)	(38.8)	-937.6%	10.7%	(98.4)	(123.2)	-25.1%
Pretax profit	236.9	16.5	271.0	14.4%	1545.4%	400.7	482.8	20.5%
Pretax margins								
Automotive	7.2%	1.7%	8.8%			4.5%	5.3%	
Equipment	5.8%	7.7%	7.9%			9.1%	8.1%	
Manuf & Eng	9.3%	7.4%	5.2%			6.7%	3.1%	
Others	NA	NA	NA			NA	NA	
Toyota TIV (units)	21,667	11,856	26,024	20.1%	119.5%	58,501	71,585	22.4%
Net profit	154.9	(47.9)	240.0			204.6	268.2	
Automotive	135.1	7.4	266.5	97.2%	3497.0%	262.8	395.9	50.6%
Equipment	15.8	16.9	21.5	36.0%	27.2%	76.8	77.3	0.6%
Manuf & Eng	10.2	(1.9)	0.3	-96.8%	116.7%	34.3	(8.6)	-125.1%
PERP payment	(17.6)	(17.4)	(17.6)	0.0%	-1.1%	(69.9)	(69.9)	0.0%
Others	11.4	(52.9)	(30.7)	-370.4%	41.9%	(99.5)	(126.5)	-27.2%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology