

28 February 2022

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

Order Backlogs Now Span Across Four Months

Target Price (Return):	MYR3.29 (6.1%)
Price (Market Cap):	MYR3.10 (USD862m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (MYR/USD)	0.69m/0.16m

- **Stay NEUTRAL, new MYR3.29 TP from MYR2.94, 6% upside with 2% yield.** FY21 core earnings beat our and consensus estimates on higher profits from associates and favourable tax rates. Building on the foundation in 2021's resilient performance, management remains cautiously optimistic in growing its business while improving cost efficiency. We think Perodua's sales target of 247,800 units is rather ambitious, while we highlight upside risk to Toyota's 73,000 sales target.
- **UMW posted a 4Q21 core net profit** of MYR240m (+27% YoY) from a 3Q21 MYR47.7m loss, which brought FY21 core profit to MYR259.2m (-9% YoY), ahead of our and Street's estimates at 191% and 151%. This deviation was mainly from higher-than-expected profits from associates and recognition of deferred tax of investment tax allowance (MYR140m), which lifted the effective tax rate into positive territory. A final DPS of 5.8 sen was declared (FY20: 4 sen), bringing FY21 DPR to 25.4%.
- **Pent-up 4Q21 demand.** Topline growth was mainly driven by higher automotive revenue (+93% QoQ, +15% YoY) following elevated Toyota vehicle sales – underpinned by the gradual reopening of the economy on the relaxation of movement restrictions. Contributions from associates (largely from Perodua) rebounded to MYR160.9m (c.+50% YoY) despite a 6% YoY drop in 4Q21 sales of 71,198 unit sales. UMW's equipment and manufacturing & engineering unit also saw QoQ recovery, with overall demand for product and services improving as business activities pick up.
- **Outlook.** Order backlogs for the two marques span across 4-5 months and management indicated there is sufficient supply of chips to cater for the FY21 sales targets set by both (Toyota: 73,000 units, Perodua: 247,800 units). Contrary to our view, management said sales momentum will likely be balanced for the two halves of FY22, as the prices of vehicles are not likely to vary much post the tax holiday.
- **Our FY22F-23F earnings adjusted by +17% and +1%.** We lift our Toyota sales assumption to 75,000 from 72,000 units. While we kept Perodua's target unchanged, we lift profit contributions from JV to account for higher margins assumptions. As a result, our TP is higher at MYR3.29, from MYR2.83 against an unchanged 13x FY22F target P/E on normalised FY22F EPS (ex-Cukai Makmur impact). This is close to UMW's 3-year mean. Our TP also reflects a 2% discount for its ESG score of 2.90 based on our in-house proprietary methodology. Downside risks: A COVID-19 resurgence may affect earnings in all segments while stiff competition in the sector might exert downwards pressure on bottomline. Slower-than-expected normalisation in demand post tax exemption and sustained disruptions in semiconductor chip supplies could also be risks to our earnings estimates. The opposite represents the upside risks.

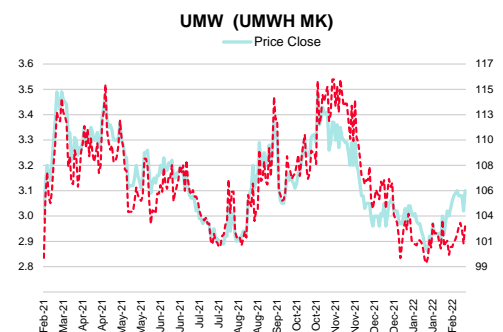
Analyst

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



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.4	8.4	(2.5)	(0.3)	7.6
Relative	2.9	2.9	(7.4)	(1.7)	7.0
52-wk Price low/high (MYR)	2.86 – 3.49				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	9,555	11,061	11,597	11,842	11,919
Recurring net profit (MYRm)	285	259	287	380	390
Recurring net profit growth (%)	11.7	(9.0)	10.5	32.6	2.7
Recurring P/E (x)	12.71	13.97	12.64	9.54	9.28
P/B (x)	0.9	0.9	0.8	0.7	0.7
P/CF (x)	3.83	13.84	9.19	7.33	7.01
Dividend Yield (%)	1.3	1.9	1.9	1.9	1.9
EV/EBITDA (x)	12.38	9.04	3.40	2.70	2.26
Return on average equity (%)	(2.6)	(1.9)	6.7	8.1	7.6
Net debt to equity (%)	7.6	net cash	net cash	net cash	net cash

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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.24	0.22	0.25	0.33	0.33
Consumer Cyclical	DPS	0.04	0.06	0.06	0.06	0.06
UMW	BVPS	3.31	3.52	3.83	4.22	4.61
UMWH MK	Return on average equity (%)	(2.6)	(1.9)	6.7	8.1	7.6
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	12.71	13.97	12.64	9.54	9.28
	P/B (x)	0.9	0.9	0.8	0.7	0.7
	FCF Yield (%)	20.0	(4.0)	(0.2)	2.6	3.2
	Dividend Yield (%)	1.3	1.9	1.9	1.9	1.9
	EV/EBITDA (x)	12.38	9.04	3.40	2.70	2.26
	EV/EBIT (x)	na	na	7.05	5.16	4.36
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	9,555	11,061	11,597	11,842	11,919
	Gross profit	1,418	1,609	2,032	2,123	2,149
	EBITDA	258	274	677	747	753
	Depreciation and amortisation	(374)	(344)	(350)	(356)	(362)
	Operating profit	(116)	(69)	327	391	391
	Net interest	(116)	(108)	(112)	(107)	(103)
	Pre-tax profit	27	139	540	636	648
	Taxation	(78)	33	(80)	(82)	(83)
	Reported net profit	(100)	(75)	287	380	390
	Recurring net profit	285	259	287	380	390
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	460	(221)	(44)	(17)	(5)
	Cash flow from operations	946	262	394	494	517
	Capex	(221)	(406)	(400)	(400)	(400)
	Cash flow from investing activities	(110)	12	(119)	(105)	(100)
	Dividends paid	(23)	(68)	(68)	(68)	(68)
	Cash flow from financing activities	(602)	(275)	(201)	(202)	(202)
	Cash at beginning of period	1,472	2,051	2,941	3,015	3,202
	Net change in cash	234	(2)	74	187	214
	Ending balance cash	1,703	2,057	3,015	3,202	3,417
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	2,051	2,941	3,015	3,202	3,417
	Tangible fixed assets	2,463	2,531	2,569	2,613	2,651
	Total investments	2,370	2,537	2,537	2,537	2,537
	Total assets	11,447	12,173	12,614	12,902	13,174
	Short-term debt	548	655	555	455	355
	Total long-term debt	1,990	2,133	2,133	2,133	2,133
	Total liabilities	5,030	5,410	5,596	5,537	5,450
	Total equity	6,417	6,763	7,018	7,366	7,724
	Total liabilities & equity	11,447	12,173	12,614	12,902	13,174
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(18.6)	15.8	4.8	2.1	0.7
	Recurrent EPS growth (%)	11.7	(9.0)	10.5	32.6	2.7
	Gross margin (%)	14.8	14.5	17.5	17.9	18.0
	Operating EBITDA margin (%)	2.7	2.5	5.8	6.3	6.3
	Net profit margin (%)	(1.0)	(0.7)	2.5	3.2	3.3
	Dividend payout ratio (%)	(46.9)	(90.0)	23.6	17.8	17.4
	Capex/sales (%)	2.3	3.7	3.4	3.4	3.4
	Interest cover (x)	(1.01)	(0.64)	2.93	3.64	3.79

The opposite represents the 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)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Revenue	3,242.3	2,016.4	3,645.1	80.8	12.4	9,554.6	11,060.8	15.8	FY21 YoY growth supported by higher revenue from both automotive and equipment segments.
EBIT	144.5	38.3	125.5	227.6	(13.1)	257.7	274.2	6.4	
<i>EBIT margin (%)</i>	<i>4.5</i>	<i>1.9</i>	<i>3.4</i>			<i>2.7</i>	<i>2.5</i>		
Finance costs	(29.1)	(25.4)	(29.7)	17.1	2.0	(115.5)	(108.2)	(6.4)	
Associates	107.6	(5.7)	160.9	(2,936.5)	49.5	204.1	268.0	31.3	Higher-than-expected contributions from Perodua.
Investment income	13.9	9.2	14.3	55.6	2.6	54.4	48.7	(10.5)	
Pre-tax profit	236.9	16.5	271.0	1,545.4	14.4	400.7	482.8	20.5	
<i>Pre-tax margin (%)</i>	<i>7.3</i>	<i>0.8</i>	<i>7.4</i>			<i>4.2</i>	<i>4.4</i>		
Tax	(26.3)	(26.0)	109.3	(520.1)	(515.4)	(77.7)	32.9	(142.3)	Recognition of investment tax allowance (MYR140m).
<i>Eff tax rate (%)</i>	<i>(11.1)</i>	<i>(158.0)</i>	<i>40.3</i>			<i>(19.4)</i>	<i>6.8</i>		
MI	(38.1)	(20.9)	(122.8)	486.7	222.0	(48.5)	(177.6)	266.3	
Core net profit	189.4	(47.7)	240.0	(603.1)	26.7	284.9	259.2	(9.0)	Ahead of our and consensus' expectations.
<i>Net margin (%)</i>	<i>5.8</i>	<i>(2.4)</i>	<i>6.6</i>			<i>3.0</i>	<i>2.3</i>		

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Automotive	2,668.2	1,590.8	3,061.6	92.5	14.7	7,483.7	9,030.3	20.7	Pent-up demand in 4Q2.
Equipment	317.9	316.0	365.1	15.6	14.8	1,137.3	1,313.4	15.5	Improved demand for the segment's products and services in most markets in 4Q21.
Manufacturing & engineering	244.2	110.3	225.9	104.9	(7.5)	918.3	726.3	(20.9)	Lower-than-expected delivery of fan cases in the aerospace sub-segment.
Others	12.0	(0.7)	(7.5)	1,054.4	(163.0)	15.3	(9.3)	(160.9)	
Revenue	3,242.3	2,016.4	3,645.1	80.8	12.4	9,554.6	11,060.8	15.8	
Automotive	191.0	27.4	269.2	882.0	40.9	334.6	476.7	42.5	
Equipment	18.5	24.3	28.9	19.0	56.4	102.9	107.0	4.0	
Manufacturing & engineering	22.7	8.2	11.7	42.9	(48.7)	61.6	22.2	(64.0)	
Others	4.6	(43.4)	(38.8)	10.7	937.6	(98.4)	(123.2)	25.1	
PBT	236.9	16.5	271.0	1,545.4	14.4	400.7	482.8	20.5	
PBT Margins									
<i>Automotive</i>	<i>7.2</i>	<i>1.7</i>	<i>8.8</i>			<i>4.5</i>	<i>5.3</i>		
<i>Equipment</i>	<i>5.8</i>	<i>7.7</i>	<i>7.9</i>			<i>9.1</i>	<i>8.1</i>		
<i>Manufacturing & engineering</i>	<i>9.3</i>	<i>7.4</i>	<i>5.2</i>			<i>6.7</i>	<i>3.1</i>		

Source: Company data, RHB

Figure 3: Key assumptions

FYE Dec	Dec-19	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Toyota/Lexus TIV (units) – current	70,009	59,320	72,394	75,000	76,000	76,000
Toyota/Lexus TIV (units) – previous				72,000	76,000	
Perodua TIV (units) – current	240,341	220,154	190,291	230,000	240,000	242,000
Perodua TIV (units) – previous				230,000	240,000	

Source: Company data, RHB

Recommendation Chart

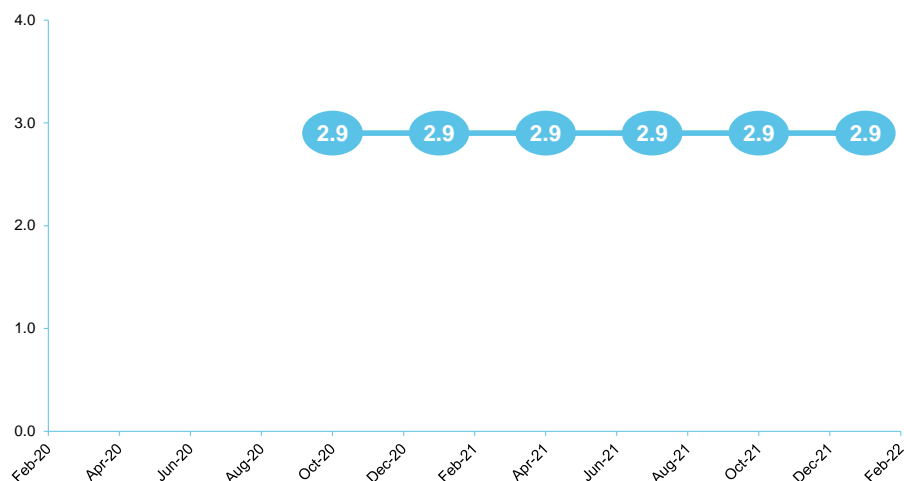


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-30	Neutral	2.83	3.08
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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