



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

25 May 2022

Automotive division's outperformance boosts earnings

BUY

(Maintained)

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Rationale for report: Company results

Price	RM3.35
Fair Value	RM4.60
52-week High/Low	RM3.48/RM2.85

Key Changes

Fair value	↑
EPS	↑

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	11,060.8	12,790.0	13,120.0	13,400.0
Core net profit (RM mil)	259.2	368.6	396.6	417.7
FD Core EPS (sen)	22.2	31.5	33.9	35.8
FD Core EPS growth (%)	(9.0)	42.2	7.6	5.3
Consensus Net Profit (RM mil)	-	309.8	345.1	360.5
DPS (sen)	5.8	7.0	8.0	8.5
PE (x)	15.1	10.6	9.9	9.4
EV/EBITDA (x)	6.0	5.4	5.2	5.0
Div yield (%)	1.7	2.1	2.4	2.5
ROE (%)	6.7	8.7	8.7	8.6
Net Gearing (%)	nm	nm	nm	nm

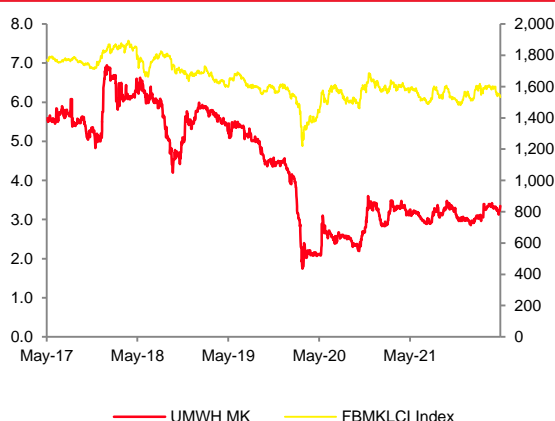
Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RM mil)	3,913.8
Book Value (RM/share)	3.52
P/BV (x)	1.0
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)	1.0

Price performance	3mth	6mth	12mth
Absolute (%)	10.9	4.7	6.7
Relative (%)	14.0	4.1	9.5



Investment Highlights

- Maintain BUY on UMW Holdings (UMWH) with a higher sum-of-parts (SOP) derived fair value of RM4.60/share (from RM4.00/share). We revise upwards 2022F–24F earnings by 11%–15% to reflect a higher contribution from the automotive (Exhibit 4) and manufacturing & engineering (M&E) divisions.
- UMW's 1QFY22 results exceeded our and street's expectations with a core net profit of RM108mil (-53% QoQ, +21% YoY), accounting for 34% of our previous FY22F earnings and 35% of consensus. The positive variance was mainly attributed to stronger-than-expected earnings contribution from the automotive and M&E divisions. The sequentially lower earnings were mainly due to the high base effect as 4QFY21 earnings included one-off RM140mil deferred tax assets related to an investment tax allowance.
- The automotive division is the quarter's star performer, propelling the group's profitability with a PBT of RM206mil (-24% QoQ, +41% YoY), fuelled by higher sales volume from Toyota and Perodua. Based on Malaysian Automotive Association data, UMWH-related brands' sales volume improved 12% YoY during the quarter (Exhibit 3).
- Demand for Toyota and Perodua cars remains robust, indicated by the combined backlogged orders of more than 100K units or 4 months of sales. We believe the demand is sustainable beyond the sales tax exemption period. UMW Toyota continues to see a healthy order rate even after it released updated prices for some of its models to include sales tax and price increases, starting 1 April. Separately, the introduction of the all-new Alza will provide an additional boost to Perodua's sales in 2H2022.
- On the recent weakening of the MYR against the US dollar, UMWH is not ruling out the possibility of further price increases to partially offset the impact. The impact of the weaker MYR is expected to be first reflected in July/August.
- The equipment segment posted sequential improvement (PBT: +10% QoQ) as we transitioned into the endemic phase which drove demand for heavy and industrial equipment. The M&E division's profitability improved due to lower operating costs. The aerospace unit is still loss-making in 1QFY22, but sales are expected to pick up starting 2QFY22 based on scheduled orders placed by Rolls-Royce.
- The stock currently trades at an attractive 2022F PE of 11x vs. its 4-year average of 14x and offers a decent dividend yield of 2%.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)
Revenue	2,954.2	3,645.1	3,650.8	0.2	23.6
Operating Profit	89.8	125.5	145.8	16.2	62.3
Finance Costs	(27.4)	(29.7)	(39.0)	31.4	42.5
Investment Income	12.8	14.3	13.0	(9.4)	1.5
Share of Profits of Associates & JV	87.5	160.9	96.5	(40.0)	10.3
Profit before tax	162.7	271.0	216.3	(20.2)	32.9
Tax	(39.3)	109.3	(43.5)	(139.8)	10.5
Profit after tax	123.4	380.3	172.8	(54.6)	40.1
Less: Minority interest	26.1	122.8	54.1	(55.9)	107.5
Less: Holders of perpetual sukuk	17.4	17.6	17.5	(0.8)	0.3
Net profit - Continuing operations	79.9	240.0	101.2	(57.8)	26.7
Non-core adjustments	(9.8)	11.7	(7.0)		
Core net profit	89.7	228.3	108.2	(52.6)	20.7
Margins					
EBIT margin	3.0%	3.4%	4.0%		
PBT Margin	5.5%	7.4%	5.9%		
Net profit margin	2.7%	6.6%	2.8%		
Core net profit margin	3.0%	6.3%	3.0%		

Source: UMWH, AmlInvestment Bank

EXHIBIT 2: RESULTS SUMMARY – SEGMENTAL BREAKDOWN

FYE Dec (RM mil)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)
Revenue					
Automotive	2,396.0	3,061.6	3,070.2	0.3	28.1
Equipment	332.5	365.1	371.8	1.8	11.8
Manufacturing & Engineering	230.3	225.9	227.1	0.5	(1.4)
Others	(4.5)	(7.5)	(18.3)	>100	>100
Total	2,954.2	3,645.1	3,650.8	0.2	23.6
PBT					
Automotive	145.5	269.2	205.8	(23.5)	41.4
Equipment	21.9	28.9	31.8	9.8	44.8
Manufacturing & Engineering	8.4	11.7	10.6	(9.0)	26.9
Others	(13.1)	(38.8)	(31.9)	(17.6)	143.0
Total	162.7	271.0	216.3	(20.2)	32.9
Net profit					
Automotive	95.1	266.5	125.9	(52.8)	32.4
Equipment	15.3	21.5	21.3	(1.3)	39.0
Manufacturing & Engineering	0.7	0.3	3.7	>100	>100
Others	(13.8)	(30.7)	(32.2)	4.6	132.6
Sub-total	97.3	257.6	118.7	(53.9)	22.0
Less: Holders of perpetual sukuk	17.4	17.6	17.5	(0.8)	0.3
Total	79.9	240.0	101.2	(57.8)	26.7
PBT Margin					
Automotive	6.1%	8.8%	6.7%		
Equipment	6.6%	7.9%	8.5%		
Manufacturing & Engineering	3.6%	5.2%	4.7%		
Net Profit Margin					
Automotive	4.0%	8.7%	4.1%		
Equipment	4.6%	5.9%	5.7%		
Manufacturing & Engineering	0.3%	0.1%	1.6%		

Source: UMWH, AmlInvestment Bank

EXHIBIT 3: 1Q22 SALES VOLUME OF UMWH-RELATED BRANDS

FYE Dec (units)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)
Toyota/Lexus	17,151	26,276	22,447	(14.6)	30.9
- Passenger	10,600	19,498	14,631	(25.0)	38.0
- Commercial	6,551	6,778	7,816	15.3	19.3
Perodua	57,909	71,198	61,624	(13.4)	6.4
- Passenger	57,909	71,198	61,624	(13.4)	6.4
Total	75,060	97,474	84,071	(13.8)	12.0

Source: Malaysian Automotive Association

EXHIBIT 4: SALES ASSUMPTIONS

Units	2020	2021	2022F	2023F	2024F
Toyota (Current)	59,320	71,585	75,000	76,000	78,000
Toyota (Previous)			72,000	73,000	78,000
Perodua (Current)	220,154	190,291	245,000	250,000	255,000
Perodua (Previous)			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	129.1	51%	13.0	855.8	0.73	1,168.3
Equipment	85.8	91%	9.0	702.6	0.60	
Manufacturing & Engineering	31.6		10.0	316.4	0.27	
					1.60	
Add: Perodua	835.0	38%	13.0	4,125.1	3.53	
Add: Serendah land				1,073.0	0.92	
Add: Company net debt				-1,742.4	-1.49	
Fair Value					4.60	

Source: UMWH, AmlInvestment Bank

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: AmInvestment Bank

EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	9,554.6	11,060.8	12,790.0	13,120.0	13,400.0
EBITDA	632.5	617.8	647.2	625.9	599.3
Depreciation/Amortisation	(374.1)	(343.5)	(325.6)	(297.9)	(273.6)
Operating income (EBIT)	258.4	274.2	321.6	328.0	325.7
Other income & associates	204.1	268.0	322.3	323.4	333.1
Net interest	(61.1)	(59.5)	(90.3)	(83.9)	(76.8)
Exceptional items	-	-	-	-	-
Pretax profit	401.4	482.8	553.6	567.5	582.0
Taxation	(78.5)	32.9	(92.5)	(73.2)	(64.7)
Minorities/pref dividends	48.5	177.6	92.5	97.7	99.5
Net profit	204.8	268.2	368.6	396.6	417.7
Core net profit	284.9	259.2	368.6	396.6	417.7
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	3,583.6	3,907.0	4,240.1
Total non-current assets	5,455.3	5,792.7	5,909.4	6,034.9	6,194.4
Cash & equivalent	2,050.9	2,941.4	3,072.9	3,282.7	3,478.0
Stock	1,439.3	1,752.2	2,026.1	2,078.4	2,122.7
Trade debtors	1,187.7	1,051.7	1,216.1	1,247.4	1,274.1
Other current assets	1,313.9	634.8	634.8	634.8	634.8
Total current assets	5,991.8	6,380.0	6,949.8	7,243.3	7,509.6
Trade creditors	2,156.2	2,284.8	2,642.0	2,710.2	2,768.0
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	3,327.0	3,345.1	3,353.0
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	4,403.3	4,706.4	5,024.8
Minority interests	2,549.0	2,646.1	2,738.6	2,836.3	2,935.8
BV/share (RM)	3.31	3.52	3.77	4.03	4.30
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	401.4	482.8	553.6	567.5	582.0
Depreciation/Amortisation	374.1	343.5	325.6	297.9	273.6
Net change in working capital	460.0	(221.1)	(81.1)	(15.5)	(13.1)
Others	(289.2)	(343.5)	(324.6)	(312.8)	(321.0)
Cash flow from operations	946.3	261.6	473.5	537.2	521.4
Capital expenditure	(95.5)	(406.4)	(120.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	(1,081.5)	(526.3)	(322.3)	(323.4)	(333.1)
Others	1,066.5	1,406.7	322.3	323.4	333.1
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)	(90.3)	(83.9)	(76.8)
Cash flow from financing	(237.5)	39.4	(222.1)	(227.3)	(226.1)
Net cash flow	598.3	775.0	131.5	209.9	195.3
Net cash/(debt) b/f	1,350.9	1,901.4	2,533.0	2,664.5	2,874.4
Net cash/(debt) c/f	1,901.4	2,533.0	2,664.5	2,874.4	3,069.7
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(18.6)	15.8	15.6	2.6	2.1
EBITDA growth (%)	(19.1)	(2.3)	4.8	(3.3)	(4.3)
Pretax margin (%)	4.2	4.4	4.3	4.3	4.3
Net profit margin (%)	2.1	2.4	2.9	3.0	3.1
Interest cover (x)	4.2	4.6	3.6	3.9	4.2
Effective tax rate (%)	19.6	6.8	16.7	12.9	11.1
Dividend payout (%)	22.8	25.3	22.2	23.6	23.8
Debtors turnover (days)	50	37	32	34	34
Stock turnover (days)	58	53	54	57	57
Creditors turnover (days)	81	73	70	74	75

Source: Company, AmlInvestment Bank Bhd estimates

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