

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: RM3.85

Previously: RM3.55

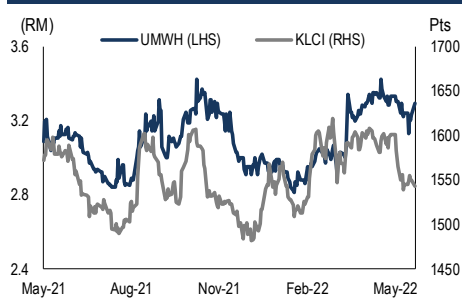
Current Price: RM3.35

Capital upside	14.9%
Dividend yield	1.8%
Expected total return	16.7%

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	1.5	8.1	3.1
Relative	5.4	12.3	6.2

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,914
3-mth average volume ('000)	317
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

Permodalan Nasional Berhad	60.5%
Employees Provident Fund	12.4%
Kumpulan Wang Persaraan	8.8%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	149	404	382
EPS - core (sen)	12.8	34.6	32.7
P/E (x)	26.2	9.7	10.2

UMW Holdings

Good start for the year

Reported core 1QFY22 PATMI RM112.2m (-18.4% QoQ; +22.2% YoY). We deem the results above HLIB's forecast (31.0%) and consensus (35.6%). The strong 1QFY22 was mainly attributed to strong sales volume and margins for automotive segment. 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 +11.6% and +0.7% respectively and introduce FY24 at RM454.4m. Maintain BUY with higher adjusted TP: RM3.85 (from RM3.55) based on 10% discount to SOP: RM4.29.

Above expectations. UMW reported core PATMI of RM112.2m for 1QFY22 (-18.4% QoQ; +22.2% YoY). We deem the result above HLIB's FY22 forecast (31.0%) and consensus (35.6%). -RM11.0m EIs were adjusted for 1QFY22, mainly consisting of fair value loss on derivative and net unrealised forex loss.

Dividend. None.

QoQ. Core PATMI declined -18.4% to RM112.2m in 1QFY22, mainly due to lower core contribution from associate Perodua, following lower car sales of -13.4% QoQ.

YoY. Core PATMI improved +22.2%, mainly driven by stronger contribution from automotive segment on higher sales volume of Toyota, Lexus and Perodua. Equipment segment also saw improvement in sales revenue with increasing demand from both local and foreign markets, resulting to higher profits.

Automotive. Management is expecting continued strong automotive performance in subsequent quarters of FY22, leveraging onto the extended SST exemption to Jun 2022 (potentially extend to end 2022) and on-going strong demand for its models. The group's order backlog was over 100k units, indicating 3-4 months waiting period. Toyota is likely to outperform its sales target of 73k units (subject to additional supply from principal UMW Japan) for FY22, while Perodua is on track for its target of 247.8k units. Management guided the supply of chips have been secured for their targeted sales volume. With regards to the depreciating RM against USD and increasing raw material costs, management guided Toyota is sufficiently secured until Aug 2022, after which they would assess the best approach to manage the situation (on-going engagement with principal).

Equipment. While Myanmar market remains uncertain in 2022, management expects gradual demand recovery from Malaysia, Singapore, Vietnam, China and Papua New Guinea. Heavy equipment will leverage onto the pump-priming infrastructure stimulus spending and surge in global commodity prices. Demand for its industrial equipment remains healthy, leveraging onto the growing e-commerce platform.

M&E. Both automotive parts (Kayaba) and lubricant will leverage onto the strong domestic automotive recovery. Kayaba has already completed its expansion (+30% capacity) while lubricant new plant will commence by early 2023 (+70% capacity). Aerospace manufacturing has been gaining traction and expected to breakeven in FY22.

Forecast. Adjusted earnings for FY22 by +11.6% and FY23 by +0.7%, introduce FY24 earnings at RM454.4m.

Maintain BUY, TP: RM3.85. Maintain BUY with higher adjusted TP: RM3.85 (from RM3.55), based on unchanged discount of 10% to SOP of RM4.29. UMW will continue to leverage onto the anticipated economic recovery in FY22 and SST exemption until Jun 2022.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	2,051	2,941	3,190	3,438	3,839
Receivables	1,439	1,752	1,668	1,645	1,813
Inventories	1,059	904	1,269	1,218	1,343
PPE	2,463	2,545	2,493	2,428	2,363
Others	4,435	4,030	4,200	4,363	4,189
Assets	11,447	12,173	12,821	13,091	13,548
Payables	1,236	648	1,125	1,255	1,504
Debt	3,564	3,831	3,655	3,469	3,283
Others	230	931	931	931	931
Liabilities	5,030	5,410	5,711	5,655	5,718
Shareholder's equity	3,868	4,005	4,317	4,617	4,977
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,451	1,660	1,694	1,721	1,755
Equity	6,417	6,763	7,109	7,436	7,830

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	401	483	784	710	860
D&A	374	347	352	351	350
Working capital	629	(746)	196	204	(44)
Taxation	(69)	(87)	(141)	(125)	(154)
Others	(332)	316	(341)	(326)	(347)
CFO	1,003	313	850	815	664
Capex	(221)	(406)	(300)	(285)	(285)
Asset disposal	57	76	0	0	0
Acquisitions	28	75	0	0	0
Others	(32)	589	170	163	521
CFI	(167)	333	(130)	(122)	236
Changes in debt	(43)	267	(176)	(186)	(186)
Shares issued	0	0	0	0	0
Dividends	(23)	(47)	(91)	(82)	(105)
Distribution to Perps	(70)	(70)	(70)	(70)	(70)
Others	(101)	(111)	(136)	(107)	(138)
CFF	(238)	39	(472)	(445)	(499)
Net cash flow	598	686	248	248	402
Forex	(3)	8	0	0	0
Others	(16)	197	(0)	0	0
Beginning cash	1,472	2,051	2,941	3,190	3,438
Ending cash	2,051	2,941	3,190	3,438	3,839

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	9,637	11,189	12,087	12,182	13,431
EBITDA	587	630	836	772	895
EBIT	213	283	484	421	546
Net finance cost	(87)	(77)	(41)	(37)	(33)
Associates & JV	204	268	341	326	347
Profit before tax	401	483	784	710	860
Tax	(78)	33	(141)	(125)	(154)
Operation net profit	323	516	643	585	706
Discontinued operation	0	0	0	0	0
Reported net profit	323	516	643	585	706
Minority interest	(48)	(178)	(170)	(133)	(172)
Perpetual sukuk	(41)	(157)	(154)	(113)	(145)
Reported PATMI	205	268	404	382	464
Exceptionals	(70)	(119)	0	0	0
Core PATMI	135	149	404	382	464
Concensus			315	351	370
HLIB/Concensus (%)			128.2%	108.9%	125.7%

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Reported EPS (sen)	17.5	23.0	34.6	32.7	39.8
Core EPS (sen)	11.5	12.8	34.6	32.7	39.8
Core P/E (x)	29.1	26.2	9.7	10.2	8.4
DPS (sen)	4.0	5.8	6.0	8.0	10.0
Dividend yield (%)	1.2%	1.7%	1.8%	2.4%	3.0%
BVPS (RM)	3.31	3.43	3.70	3.95	4.26
P/B (x)	1.0	1.0	0.9	0.8	0.8
EBITDA margin	6.1%	5.6%	6.9%	6.3%	6.7%
EBIT margin	2.2%	2.5%	4.0%	3.5%	4.1%
PBT margin	4.2%	4.3%	6.5%	5.8%	6.4%
Net margin	1.4%	1.3%	3.3%	3.1%	3.5%
ROE	3.6%	3.8%	9.7%	8.5%	9.7%
ROA	1.2%	1.3%	3.2%	2.9%	3.5%
Net gearing*	-5.9%	-7.2%	3.2%	12.4%	N.Cash

Assumptions

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Sales (Unit)					
Toyota	58,501	71,585	75,000	66,000	72,000
Lexus	819	809	800	800	800
Perodua	220,163	190,291	242,571	242,828	243,111

Average Price (RM)

UMW	97,246	99,292	101,874	111,043	114,707
Perodua	44,470	43,264	42,827	43,094	43,094

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	2,954.2	3,645.1	3,650.8	0.2%	23.6%
EBITDA	188.6	238.8	238.9	0.1%	26.7%
EBIT	106.8	146.6	157.3	7.3%	47.3%
Net finance expense	(19.6)	(18.5)	(26.5)	43.5%	35.0%
Associates	87.5	160.9	96.5	-40.0%	10.3%
Eis	(12.0)	(18.0)	(11.0)		
Reported PBT	162.7	271.0	216.3	-20.2%	32.9%
Tax	(39.3)	109.3	(43.5)	-139.8%	10.5%
Reported operation net profit	123.4	380.3	172.8	-54.6%	40.1%
Reported PATMI	79.9	240.0	101.2	-57.8%	26.7%
Eis & Sukuk Adjustments	12.0	(102.4)	11.0	-110.8%	-7.8%
Core PATMI	91.9	137.6	112.2	-18.4%	22.2%
Reported EPS (Sen)	6.8	20.5	8.7	-57.8%	26.7%
Core EPS (Sen)	7.9	11.8	9.6	-18.4%	22.2%
				pts	pts
EBITDA margin (%)	6.4%	6.6%	6.5%	(0.0)	0.2
EBIT margin (%)	3.6%	4.0%	4.3%	0.3	0.7
Core PATMI margin (%)	3.1%	3.8%	3.1%	(0.9)	(0.5)

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Figure #2 Quarterly results comparison by segment

	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Reported 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%
Total	2,958.7	3,652.6	3,669.0	0.4%	24.0%
Reported PATMI					
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	1035.8%	396.6%
Others	(31.2)	(48.3)	(49.6)	2.6%	59.1%
Total	79.9	240.0	101.2	-57.8%	26.7%
Core PATAMI	91.9	137.6	112.2	-18.4%	N.M.

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Figure #3 UMW automotive sales statistics

FYE Dec (RMm)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Toyota	16,990	26,024	22,270	-14.4%	31.1%
Lexus	161	252	177	-29.8%	9.9%
Perodua	57,909	71,198	61,624	-13.4%	6.4%
Total	75,060	97,474	84,071	-13.8%	12.0%

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Figure #4 **UMW sum-of-parts valuation**

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,767.5	4.08	FY23 PE 11x
Equipment	Various	775.0	0.66	FY23 PE 8x
Manufacturing & Engineering	Various	550.4	0.47	FY23 PE 18x
500 acres Serendah land	100.00	980.1	0.84	Based on RM45/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2021 Annual Report
Holding Co Net Debt		(958.3)	(0.82)	Based on 2021 Annual Report
Subtotal		5,016.8	4.30	
Holding Co Discount			10.0%	
Target Price			3.85	Implied FY22 PE 11.1x
* No of Shares		1,168.3		As at end FY2021

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