

24 May 2022

## Buy

**Price**  
 RM3.35

**Target Price**  
 RM4.05

### Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,914.0
52-week high/low (RM)	3.48 / 2.85
Avg daily turnover (RMm)	1.1
KLCI (pts)	1,531.3

Source: Bloomberg, KAF

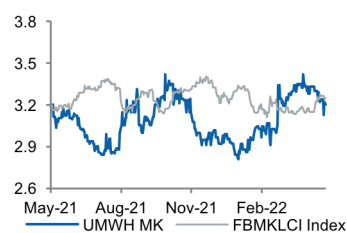
### Major Shareholder (%)

Skim Amanah Saham Bumiputera	(52.7%)
EPF	(13.1%)
Kumpulan Wang Persaraan	(8.7%)
Free Float	29.0

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	4.2	(1.8)	2.9
Rel Market (%)	7.8	(3.3)	4.6



Source: Bloomberg, KAF

### Analyst

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# UMW Holdings

## A good start

UMW's 1Q22 core earnings of RM110m were ahead of expectations, at 34% and 35% of ours and consensus full-year estimates, respectively. Earnings grew 25% from a year earlier, mainly due to stronger auto sales. Meanwhile, the equipment and M&E divisions saw margin improvements from demand recovery and cost optimization initiatives. Maintain Buy with a higher SOP based TP of RM4.05.

### Financial Highlights

FYE Dec	2019	2020	2021	2022F	2023F
Revenue (RMm)	11,739	9,555	11,061	11,907	12,407
Core net profit (RMm)	169	285	259	420	442
Core EPS (Sen)	14.5	24.4	22.2	36.0	37.8
EPS growth (%)	-48	69	-9	62	5
DPS (Sen)	6.0	4.0	5.8	6.0	6.0
Core PE (x)	31	14	15	9	9
Div yield (%)	1	1	2	2	2
ROE (%)	13	5	7	10	10
PBV(x)	1.4	1.0	1.0	0.9	0.8

Source: Company, KAF

### 1Q22 results summary

UMW Holding (UMW) reported 1Q22 core earnings of RM110m, ahead of ours and consensus full-year forecasts, at 34% and 35%, respectively. Earnings rose 25% from a year earlier on 24% top-line growth, mainly due to stronger auto sales.

### Strong auto performance

The auto division remains the key driver for the group on the back of a 28% YoY revenue growth, supported by higher car sales volume sold in 1Q22. Notably, UMW (Toyota and Lexus) delivered 22k units in 1Q (+31% from 17k units in 1Q21). Meanwhile, Perodua saw 6% sales volume growth YoY. PBT for the division improved 41% YoY to RM206m, while PBT margin improved by 1ppts to 7%.

### Margin improvements across equipment and M&E

The equipment division's PBT improved 45% YoY to RM32m on 12% top-line growth. This was mainly due to demand recovery following pick up in business activities from the transition into the endemic phase as well as cost optimization initiatives and lower unrealised forex losses from Myanmar operations. Meanwhile, the M&E division's PBT improved 27% despite a -1% top-line decline due to better cost management. PBT margins for the two divisions improved to 9% and 5% from 7% and 4% last year, respectively.

### Outlook – auto sales target intact

Looking ahead, management is targeting 248k sales for Perodua this year on the back of new models such as the Myvi, Aruz, and Axia facelifts, as well as the all-new Alza. Meanwhile, it targets Toyota and Lexus to sell 73k units (+1% from 72k units in FY21). In 1Q, best-selling models for Perodua were the Myvi, Axia and Bezza (73% of Perodua's total sales), while for Toyota, best-selling models were the Vios, Hilux and Corolla Cross (72% of Toyota's total sales). With regards to the ongoing global semiconductor chips shortage, management guided that impact is minimal as they continue to work closely with principals and vendors to manage and mitigate the issue.

### Earnings adjustment

Post-results, we raise our FY22-23F earnings by 31-30% from RM320-340m earlier, mainly to reflect stronger contribution from the auto division.

### Maintain Buy with higher TP

Reiterate our Buy recommendation with a higher SOP-based TP of RM4.05. We like UMW as a strong proxy to market leader Perodua and Toyota, which collectively hold 53% of TIV. The stock also offers a decent FY22-23F dividend yield of 2%. Further upside includes better contribution from its equipment and M&E segments, while a weakening MYR is a key downside risk. Our TP implies 11x PE.

**Exhibit 1: Results summary**

FYE 31 Dec	1Q21	2Q21	3Q21	4Q21	1Q22	qoq%	yoy %	FY22F	22/F
<b>Revenue</b>	<b>2,954</b>	<b>2,445</b>	<b>2,016</b>	<b>3,645</b>	<b>3,651</b>	<b>0%</b>	<b>24%</b>	<b>11,782</b>	<b>31%</b>
<b>Operating profit</b>	<b>90</b>	<b>21</b>	<b>38</b>	<b>125</b>	<b>146</b>	<b>16%</b>	<b>62%</b>	<b>376</b>	<b>39%</b>
Investment income	13	12	9	14	13	-9%	1%	65	20%
Finance cost	(27)	(26)	(25)	(30)	(39)	31%	42%	(129)	30%
JV & Associates	87	25	(6)	161	97	-40%	10%	309	31%
<b>Pretax profit</b>	<b>163</b>	<b>33</b>	<b>16</b>	<b>271</b>	<b>216</b>	<b>-20%</b>	<b>33%</b>	<b>621</b>	<b>35%</b>
Tax	(39)	(11)	(26)	109	(43)	-140%	11%	(118)	37%
<b>Profit after tax</b>	<b>123</b>	<b>22</b>	<b>(10)</b>	<b>380</b>	<b>173</b>	<b>-55%</b>	<b>40%</b>	<b>503</b>	<b>34%</b>
MI & perpetual sukuk holders	(44)	(43)	(38)	(140)	(72)	-49%	64%	(183)	39%
<b>Net profit</b>	<b>80</b>	<b>(21)</b>	<b>(48)</b>	<b>240</b>	<b>101</b>	<b>-58%</b>	<b>27%</b>	<b>320</b>	<b>32%</b>
<b>Core net profit</b>	<b>88</b>	<b>(39)</b>	<b>(73)</b>	<b>266</b>	<b>110</b>	<b>-59%</b>	<b>25%</b>	<b>320</b>	<b>34%</b>
EPS (sen)	6.8	(1.8)	(4.1)	20.5	8.7				
Core EPS (sen)	7.5	(3.3)	(6.3)	22.8	9.4				
Net DPS (sen)	0.0	0.0	0.0	5.8	0.0				
EBIT margin (%)	3%	1%	2%	3%	4%				
PBT margin (%)	6%	1%	1%	7%	6%				
PAT margin (%)	4%	1%	0%	10%	5%				
Net margin (%)	3%	-1%	-2%	7%	3%				
Core net margin (%)	3%	-2%	-4%	7%	3%				
Effective tax rate (%)	24%	34%	158%	-40%	20%				

Source: Company, KAF

**Exhibit 2: Segmental breakdown**

	1Q21	2Q21	3Q21	4Q21	1Q22	qoq %	yoy %	FY22F	22/F
Automotive	2,396	1,982	1,591	3,062	3,070	0%	28%	9,594	32%
Equipment	332	300	316	365	372	2%	12%	1,366	27%
Manufacturing	230	160	110	226	227	1%	-1%	832	27%
Others & Eliminations	(4)	3	(1)	(8)	(18)	nm	nm		
<b>Total Revenue (RM mil)</b>	<b>2,954</b>	<b>2,445</b>	<b>2,016</b>	<b>3,645</b>	<b>3,651</b>	<b>0%</b>	<b>24%</b>	<b>11,782</b>	<b>31%</b>
Automotive	146	35	27	269	206	-24%	41%	506	41%
Equipment	22	32	24	29	32	10%	45%	98	33%
Manufacturing	8	(6)	8	12	11	-9%	27%	45	24%
Others	(13)	(28)	(43)	(39)	(32)	-18%	nm		
<b>Total PBT (RM mil)</b>	<b>163</b>	<b>33</b>	<b>16</b>	<b>271</b>	<b>216</b>	<b>-20%</b>	<b>33%</b>	<b>621</b>	<b>35%</b>
Automotive PBT margin (%)	6%	2%	2%	9%	7%				
Equipment PBT margin (%)	7%	11%	8%	8%	9%				
Manufacturing PBT (%)	4%	-4%	7%	5%	5%				
<b>Total PBT margin (%)</b>	<b>6%</b>	<b>1%</b>	<b>1%</b>	<b>7%</b>	<b>6%</b>				

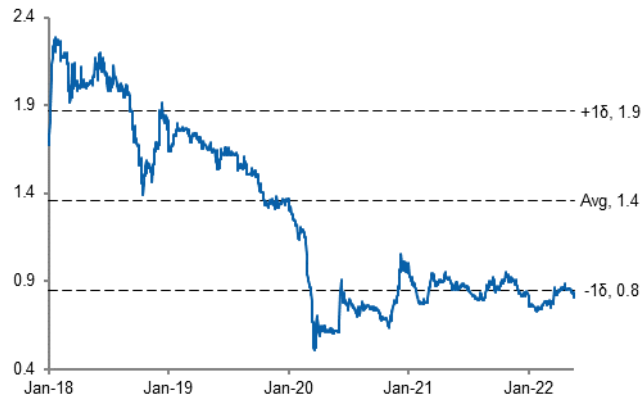
Source: Company, KAF

**Exhibit 3: Unit sales volume**

	1Q21	2Q21	3Q21	4Q21	1Q22	qoq %	yoy %	FY22F	22/F
Toyota & Lexus	17,151	16,960	12,007	26,276	22,447	-15%	31%	74,300	30%
Perodua	57,909	39,381	21,803	71,198	61,624	-13%	6%	230,000	27%
<b>Grand total</b>	<b>75,060</b>	<b>56,341</b>	<b>33,810</b>	<b>97,474</b>	<b>84,071</b>	<b>-14%</b>	<b>12%</b>	<b>304,300</b>	<b>28%</b>

Source: Company, KAF

**Exhibit 4: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 5: PE Band chart**



Source: Company, KAF, Bloomberg

## UMW Holdings

### Income Statement

FYE Dec (RMm)	2019	2020	2021	2022F	2023F
<b>Revenue</b>	<b>11,739</b>	<b>9,555</b>	<b>11,061</b>	<b>11,907</b>	<b>12,407</b>
<b>EBITDA</b>	<b>872</b>	<b>632</b>	<b>618</b>	<b>894</b>	<b>866</b>
Depreciation/Amortisation	-345	-374	-344	-393	-349
Operating income (EBIT)	<b>527</b>	<b>258</b>	<b>274</b>	<b>501</b>	<b>517</b>
Other income & associates	276	204	268	309	316
Net interest	-62	-61	-59	-64	-56
Exceptional items	0	0	0	0	0
<b>Pretax profit</b>	<b>741</b>	<b>401</b>	<b>483</b>	<b>746</b>	<b>777</b>
Taxation	-112	-78	33	-142	-148
Minorities/pref dividends	-174	-118	-247	-184	-188
<b>Net profit</b>	<b>455</b>	<b>205</b>	<b>268</b>	<b>420</b>	<b>442</b>
<b>Core net profit</b>	<b>169</b>	<b>285</b>	<b>259</b>	<b>420</b>	<b>442</b>

### Balance Sheet

FYE Dec (RMm)	2019	2020	2021	2022F	2023F
<b>Fixed assets</b>	<b>2,702</b>	<b>2,463</b>	<b>2,545</b>	<b>3,019</b>	<b>2,887</b>
Intangible assets	0	0	0	0	0
Other long-term assets	2,787	2,992	3,248	3,248	3,248
<b>Total non-current assets</b>	<b>5,488</b>	<b>5,455</b>	<b>5,793</b>	<b>6,267</b>	<b>6,135</b>
<b>Cash &amp; equivalent</b>	<b>1,472</b>	<b>2,051</b>	<b>2,941</b>	<b>3,586</b>	<b>4,102</b>
Stock	1,590	1,439	1,752	1,689	1,765
Trade debtors	1,449	1,188	1,052	1,044	1,084
Other current assets	1,082	1,314	628	528	918
<b>Total current assets</b>	<b>5,593</b>	<b>5,992</b>	<b>6,373</b>	<b>6,846</b>	<b>7,869</b>
Trade creditors	2,077	2,156	2,249	2,431	2,466
Short-term borrowings	386	524	638	681	731
Other current liabilities	138	116	133	133	133
<b>Total current liabilities</b>	<b>2,601</b>	<b>2,796</b>	<b>3,020</b>	<b>3,244</b>	<b>3,330</b>
Long-term borrowings	2,123	1,942	2,095	2,210	2,388
Other long-term liabilities	312	291	295	293	291
<b>Total long-term liabilities</b>	<b>2,436</b>	<b>2,234</b>	<b>2,390</b>	<b>2,503</b>	<b>2,679</b>
<b>Shareholders' funds</b>	<b>3,696</b>	<b>3,868</b>	<b>4,005</b>	<b>4,425</b>	<b>4,866</b>
Minority interests	<b>2,402</b>	<b>2,549</b>	<b>2,758</b>	<b>2,942</b>	<b>3,130</b>

### Cash flow Statement

FYE Dec (RMm)	2019	2020	2021	2022F	2023F
<b>Pretax profit</b>	<b>741</b>	<b>401</b>	<b>483</b>	<b>746</b>	<b>777</b>
Depreciation/Amortisation	346	374	344	393	349
Net change in working capital	-143	496	-186	253	-82
Others	-689	-325	-378	-482	-504
<b>Cash flow from operations</b>	<b>255</b>	<b>946</b>	<b>261</b>	<b>910</b>	<b>540</b>
Capital expenditure	-345	-221	-406	-850	-200
Net investments & sale of fixed assets	63	57	76	32	32
Others	712	53	715	707	56
<b>Cash flow from investing</b>	<b>430</b>	<b>-110</b>	<b>385</b>	<b>-111</b>	<b>-112</b>
Debt raised/(repaid)	-323	-43	267	231	234
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	-76	-23	-47	-68	-70
Others	-185	-171	-181	-76	-76
<b>Cash flow from financing</b>	<b>-584</b>	<b>-238</b>	<b>39</b>	<b>87</b>	<b>88</b>
<b>Net cash flow</b>	<b>101</b>	<b>598</b>	<b>686</b>	<b>886</b>	<b>516</b>
<b>Cash b/f</b>	<b>1,315</b>	<b>1,411</b>	<b>2,006</b>	<b>2,700</b>	<b>3,586</b>
<b>Cash c/f</b>	<b>1,411</b>	<b>2,006</b>	<b>2,700</b>	<b>3,586</b>	<b>4,102</b>

### Key Ratios

FYE Dec	2019	2020	2021	2022F	2023F
Revenue growth (%)	3.9	(18.6)	15.8	7.7	4.2
EBITDA growth (%)	6.9	(27.6)	(2.2)	44.7	(3.2)
Pretax margins (%)	(7.4)	(45.9)	20.5	54.5	4.1
Net profit margins (%)	(11.8)	(55.0)	31.1	56.6	5.1
Interest cover (x)	4.0	2.2	2.5	3.9	3.5
Effective tax rate (%)	15.2	19.4	(6.8)	19.0	19.0
Net dividend payout (%)	41.5	16.4	26.1	16.7	15.9
Debtors turnover (days)	34	44	32	32	32
Stock turnover (days)	19	30	25	25	25
Creditors turnover (days)	63	72	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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