

# UMW Holdings Berhad

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

**Maintain BUY**

## Upcycle reflecting in the numbers

**Revised Target Price: RM4.35**

(from RM4.20)

### KEY INVESTMENT HIGHLIGHTS

- **1Q22 result smashes estimates; earnings up +27%yoy driven by auto and equipment divisions**
- **>100K order backlog for UMW and Perodua combined, to last group well into 3Q22**
- **Equipment division primed to benefit from recovering business momentum, construction sector recovery and commodity upcycle**
- **Reaffirm BUY at higher TP of RM4.35 (from RM4.20)**

**Strong start.** UMW registered a net profit of RM101m (+27%yoy) for its 1Q22. This was ahead of our and consensus expectations accounting for 38% and 33% of full year estimates respectively. Outperformance against our projection was mainly due to slightly better than expected volumes at UMW Toyota (UMWT) and better than expected margins across all divisions.

**Autos and equipment drove earnings recovery.** Group PBT rose 33%yoy to RM216m in 1Q22 driven mainly by a 41%yoy growth at the auto division and a +45%yoy growth at the equipment division. The former was driven by a +31%yoy growth of UMWT sales volume, coupled with improvement in PBT margin and higher contribution from associates (+10%yoy, comprising mainly 38%-owned Perodua). Meanwhile, the equipment division saw revenue expand +12%yoy on stronger orders in both local and overseas markets given stronger momentum from reopening of businesses, recovering construction activities and strong commodity prices. Margins expanded driven by cost optimization and lower unrealised forex losses from the Myanmar operations.

**M&E division showing improvements.** While the M&E division was still dragged by weak volumes at the aerospace sub-segment, the division (which also comprises lubricants and auto components) still managed to register a +27%yoy PBT growth due to improved margins from lower operating cost. Positively, the aerospace sub-segment is expected to see improved volumes from 2Q22 onwards and expects to breakeven in 2H22. Based on order guidance by Rolls Royce, FY22 volumes is expected to double FY21's and should return to pre-covid levels in the next 2 to 3 years driven by resumption of air travel.

**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 with potential upside 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 with little supply impact from the China lockdowns given UMWT's multi-sourcing strategy. UMWT's April numbers (and possibly May) were weaker given plant shutdowns in preparation of new models but this should be temporary – overall, management expects 2Q22 sales volume to match that of 1Q22.

### RETURN STATISTICS

Price @ 24 <sup>th</sup> May 2022 (RM)	3.35
Expected share price return (%)	+29.9
Expected dividend yield (%)	+1.4
<b>Expected total return (%)</b>	<b>+31.3</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.6	4.5
3 months	1.8	15.3
12 months	6.7	9.9

### KEY STATISTICS

FBM KLCI	1,531.30
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	28.83
Market Capitalisation (RM'm)	3,913.78
52-wk price range	RM2.85 - RM3.48
Beta vs FBM KLCI (x)	1.39
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.32
3-mth average daily value (RM'm)	1.04
Top Shareholders (%)	
Amanah Saham Nasional Bhd	53.45
Employees Provident Fund Board	12.39
Kumpulan Wang Persaraan	8.84

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## INVESTMENT STATISTICS

FYE Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	11,739.1	9,554.6	11,060.8	12,459.1	12,715.2
EBIT (RM'm)	332.6	257.7	274.2	375.5	405.5
Pre-tax Profit (RM'm)	754.8	400.7	482.8	552.9	582.6
Core net profit (RM'm)	266.3	240.9	196.8	284.9	306.4
FD EPS (sen)	22.8	20.6	16.8	24.4	26.2
EPS growth (%)	(22.1)	(9.5)	(18.3)	44.7	7.5
PER (x)	14.7	16.2	19.9	13.7	12.8
Net Dividend (sen)	6.0	4.0	5.8	4.9	5.2
Net Dividend Yield (%)	1.8	1.2	1.7	1.5	1.6

Source: Company, MIDFR

**Resilient order rates.** Outstanding orders at UMWT and Perodua combined is well above 100K units currently which can last the group well into 3Q22. Interestingly, despite the recent upward price revisions in April 2022 (to reflect pre-tax holiday pricing and cost pass on), order rates so far had not receded, which is a positive indicator of underlying demand momentum. However, UMWT is contemplating another price hike in the later part of the year should the USD remain strong (which could impact the group from August onwards), though this largely depends on the USD:Ringgit trends over the next few months and outcome of negotiations with its principal to buffer its effective CKD import cost.

**Earnings revision.** Given stronger than expected 1Q22 results, we revise up our FY22F/23F earnings marginally by 6.1%/6.4% to reflect higher UMWT sales volume of 76.4K (+5.6%yoy) and slightly better margin expectations, partly offset by stronger USD assumption of USD:RM4.15. Our revised FY22F projection imply a +45%yoy earnings growth to be primarily driven by the auto (Perodua: +26%yoy volume growth, UMWT: +5.6%yoy volume growth) and equipment divisions.

**Recommendation.** Re-affirm **BUY** at a higher SOP-derived **TP** of **RM4.35** (from RM4.20 previously) given the upward 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 recovering business momentum, higher construction activities and rising commodity demand. 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	337	PER	12	4,045	
Equipment	56	PER	11	615	
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%)
<b>Total value</b>				<b>5,098</b>	
No of shares (m)				1,168	
<b>Fair value (RM)</b>				<b>4.35</b>	

Source: Company, MIDFR

## UMW HOLDINGS: 1QFY22 RESULT SUMMARY

FYE Dec (RMm)	1Q21	4Q21	1Q22	YoY	QoQ
<b>Revenue</b>	<b>2,954.2</b>	<b>3,645.1</b>	<b>3,650.8</b>	<b>23.6%</b>	<b>0.2%</b>
EBITDA	171.6	217.7	227.5	32.5%	4.5%
<b>Operating Profit</b>	<b>89.8</b>	<b>125.5</b>	<b>145.8</b>	<b>62.3%</b>	<b>16.2%</b>
Finance Cost	(27.4)	(29.7)	(39.0)	42.5%	31.4%
Associates	87.5	160.9	96.5	10.3%	-40.0%
Investment Income / Other gains	12.8	14.3	13.0	1.5%	-9.4%
<b>Pretax Profit</b>	<b>162.7</b>	<b>271.0</b>	<b>216.3</b>	<b>32.9%</b>	<b>-20.2%</b>
Taxation	(39.3)	109.3	(43.5)		
Minorities / PERP	43.6	140.4	71.6		
Net Profit	79.8	240.0	101.2	26.8%	-57.8%
<b>Core net profit</b>	<b>79.8</b>	<b>146.1</b>	<b>101.2</b>	<b>26.8%</b>	<b>-30.7%</b>
Core EPS (FD, sen)	6.8	12.5	8.7		
DPS (sen)	0.0	5.8	0.0		
<b>Margins (%):</b>				<i>ppts</i>	<i>ppts</i>
Operating	3.0%	3.4%	4.0%	0.95	0.55
Pretax Profit	5.5%	7.4%	5.9%	0.42	-1.51
Core Net Profit	2.7%	4.0%	2.8%	0.07	-1.23
Tax Rate	24.2%	-40.3%	20.1%	-4.08	60.45
EBITDA	5.8%	6.0%	6.2%	0.42	0.26
<b>Segmental Breakdown (RMm)</b>	<b>1Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>YoY</b>	<b>QoQ</b>
Automotive	2,396.0	3,061.6	3,070.2	28.1%	0.3%
Equipment	332.5	365.1	371.8	11.8%	1.8%
Manuf & Eng	230.3	225.9	227.1	-1.4%	0.5%
Others	(4.5)	(7.5)	(18.3)	309.3%	142.8%
<b>Revenue</b>	<b>2,954.2</b>	<b>3,645.1</b>	<b>3,650.8</b>	<b>23.6%</b>	<b>0.2%</b>
Automotive	145.5	269.2	205.8	41.4%	-23.5%
Equipment	21.9	28.9	31.8	44.8%	9.8%
Manuf & Eng	8.4	11.7	10.6	26.9%	-9.0%
Others	(13.1)	(38.8)	(31.9)	143.0%	-17.6%
<b>Pretax profit</b>	<b>162.7</b>	<b>271.0</b>	<b>216.3</b>	<b>32.9%</b>	<b>-20.2%</b>
<b>Pretax margins</b>				<i>ppts</i>	<i>ppts</i>
Automotive	6.1%	8.8%	6.7%	0.63	-2.09
Equipment	6.6%	7.9%	8.5%	1.95	0.62
Manuf & Eng	3.6%	5.2%	4.7%	1.04	-0.49
Others	NA	NA	NA		
Perodua TIV (units)	57,909	71,198	61,624	6.4%	-13.4%
Toyota TIV (units)	16,990	26,024	22,270	31.1%	-14.4%
USD:RM (delayed by 3-months)	4.11	4.20	4.19	2.0%	-0.2%
<b>Net profit</b>	<b>79.8</b>	<b>240.0</b>	<b>101.2</b>		
Automotive	95.1	266.5	125.9	32.4%	-52.8%
Equipment	15.3	21.5	21.3	39.0%	-1.3%
Manuf & Eng	0.7	0.3	3.7	396.6%	1035.8%
PERP payment	(17.5)	(17.6)	(17.5)	0.0%	-0.8%
Others	(13.8)	(30.7)	(32.2)	132.6%	4.6%

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.
NEUTRAL	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