

25 May 2022

Consumer Cyclical | Auto & Autoparts

## UMW (UMWH MK)

## Neutral (Maintained)

### Robust Demand, Supply Still Catching Up

Target Price (Return):	MYR3.64 (8.7%)
Price (Market Cap):	MYR3.35 (USD890m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (MYR/USD)	0.95m/0.23m

- **Stay NEUTRAL, new MYR3.64 TP from MYR3.29, 9% upside with 2% yield.** 1Q22 net profit beat our and Street's expectations, mainly on the stronger-than-expected automotive segment and contributions from associate Perodua. Orders remain robust for both Toyota/Lexus and Perodua, while management pointed out that chip shortages are abating. We lift FY22 sales volume assumptions for both marques but retain our call on the stock, as we stay cautious on UMW's ability to pass on higher costs. This report marks the transfer of coverage to Jim Lim.
- **1Q22 core PATAMI** of MYR108m beat our and Street's expectations at 38% and 35% of full-year estimates. The deviation was on stronger-than-expected UMW Toyota (UMWT) and Perodua contributions – lifted by stronger-than-expected car sales. Other segments were in line.
- **Results highlights.** 1Q22 revenue jumped 24% YoY, lifted by the automotive segment (+28%). This was driven by a 31% YoY rise in Toyota units sold, fuelled by the continued Sales & Service Tax (SST) exemption and production resumption. Associates contribution rose 10% on Perodua's 6% increase in vehicles sold and against a soft 1Q21 that had movement restrictions. Despite the higher PBT, a higher minority interest weighed in, and core earnings rose by a relatively lower 15%.
- **Outlook.** We gathered that vehicle orders across both UMWT and Perodua remain strong with a combined backlog order of c.100,000 units. Inventory levels across both marques remain low, as supply continues to catch up with demand. There is limited exposure to China across both marques, as parts originating from there can be sourced elsewhere. Hence, UMW is relatively protected from a prolonged lockdown in China, in our view.
- **Inflation and strengthening USD.** To pass on some of the higher costs to customers, UMWT may consider raising car prices in 3Q22. It is encouraging that, despite minor price increases on 1 Apr, it continued to receive strong orders. However, we note that orders may have remained strong as customers rushed to take advantage of the SST exemption. In response to the strengthening USD/MYR, UMWT is negotiating with its principal and is reducing costs to mitigate the FX impact.
- **Forecast.** We lift FY22F earnings by 10% by raising Toyota/Lexus volumes to 78,000 units (UMWT: 73,000, maintained) and Perodua volumes to 240,000 units (Perodua: 247,800, maintained) for this year. The higher earnings lifts our TP to MYR3.64, which includes an ESG discount of 2% for its below-median score of 2.90. Our TP is based on an unchanged 13x FY22F target P/E on normalised FY22F EPS (ex-Cukai Makmur impact). We maintain our NEUTRAL rating on the stock despite our higher vehicle sales volume assumptions, as we are cautious of the possible impacts of costlier car parts on UMW's auto margins, given Toyota and Perodua's limited ability to pass on higher costs. Key upside risks: Shorter-than-expected supply chain disruptions and stronger-than-expected sales post tax-exemption. The opposites are key downside risks.

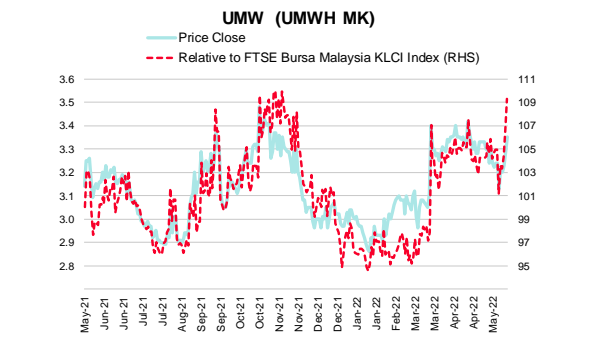
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.8	0.6	10.9	4.7	6.7
Relative	15.1	5.0	13.6	4.1	9.3
52-wk Price low/high (MYR)	2.86 – 3.48				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	9,555	11,061	13,298	11,842	11,919
Recurring net profit (MYRm)	285	259	314	380	390
Recurring net profit growth (%)	11.7	(9.1)	21.2	21.0	2.7
Recurring P/E (x)	13.74	15.11	12.47	10.30	10.03
P/B (x)	1.0	1.0	0.9	0.8	0.7
P/CF (x)	4.14	14.96	10.37	6.67	7.57
Dividend Yield (%)	1.2	1.7	1.7	1.7	1.7
EV/EBITDA (x)	5.51	10.10	3.18	3.00	2.56
Return on average equity (%)	7.3	(1.9)	7.3	8.0	7.5
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	0.27	0.33	0.33
Consumer Cyclical	DPS	0.04	0.06	0.06	0.06	0.06
<b>UMW</b>	BVPS	3.31	3.52	3.85	4.24	4.64
UMWH MK	Return on average equity (%)	7.3	(1.9)	7.3	8.0	7.5
Neutral						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	13.74	15.11	12.47	10.30	10.03
	P/B (x)	1.0	1.0	0.9	0.8	0.7
	FCF Yield (%)	18.5	(3.7)	(0.6)	4.8	3.0
	Dividend Yield (%)	1.2	1.7	1.7	1.7	1.7
	EV/EBITDA (x)	5.51	10.10	3.18	3.00	2.56
	EV/EBIT (x)	13.51	na	6.19	5.73	4.93
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total turnover	9,555	11,061	13,298	11,842	11,919
	Gross profit	1,500	1,609	2,396	2,123	2,149
	EBITDA	632	274	825	747	753
	Depreciation and amortisation	(374)	(344)	(402)	(356)	(362)
	Operating profit	258	(69)	423	391	391
	Net interest	(116)	(108)	(156)	(107)	(103)
	Pre-tax profit	401	139	603	636	648
	Taxation	(78)	33	(97)	(82)	(83)
	Reported net profit	274	(75)	314	380	390
	Recurring net profit	285	259	314	380	390
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	460	(221)	(128)	76	(5)
	Cash flow from operations	946	262	378	587	517
	Capex	(221)	(406)	(400)	(400)	(400)
	Cash flow from investing activities	(110)	12	(108)	(105)	(100)
	Dividends paid	(23)	(68)	(68)	(68)	(68)
	Cash flow from financing activities	(602)	(275)	(220)	(202)	(202)
	Cash at beginning of period	1,472	2,051	2,941	2,992	3,271
	Net change in cash	234	(2)	50	280	214
	Ending balance cash	1,703	2,057	2,992	3,271	3,486
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	2,051	2,941	2,992	3,271	3,486
	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	13,058	12,989	13,261
	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	6,031	5,614	5,528
	Total equity	6,417	6,763	7,027	7,374	7,732
	Total liabilities & equity	11,447	12,173	13,058	12,989	13,261
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(18.6)	15.8	20.2	(11.0)	0.7
	Recurrent EPS growth (%)	11.7	(9.1)	21.2	21.0	2.7
	Gross margin (%)	15.7	14.5	18.0	17.9	18.0
	Operating EBITDA margin (%)	6.6	2.5	6.2	6.3	6.3
	Net profit margin (%)	2.9	(0.7)	2.4	3.2	3.3
	Dividend payout ratio (%)	17.0	(90.0)	21.6	17.8	17.4
	Capex/sales (%)	2.3	3.7	3.0	3.4	3.4
	Interest cover (x)	2.23	(0.64)	2.71	3.64	3.79

Source: Company data, RHB

## Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>2,954.2</b>	<b>3,645.1</b>	<b>3,650.8</b>	<b>0.2</b>	<b>23.6</b>	1Q21 YoY growth supported by higher revenue from both automotive and equipment segments.
<b>EBIT</b>	<b>89.8</b>	<b>125.5</b>	<b>145.8</b>	<b>16.2</b>	<b>62.3</b>	
<i>EBIT margin (%)</i>	3.0	3.4	4.0			
Finance costs	(27.4)	(29.7)	(39.0)	31.4	42.5	
Investment Income	12.8	14.3	13.0	(9.4)	1.5	Higher-than-expected contributions from Perodua.
Associates	87.5	160.9	96.5	(40.0)	10.3	
<b>Pre-tax profit</b>	<b>162.7</b>	<b>271.0</b>	<b>216.3</b>	<b>(20.2)</b>	<b>32.9</b>	
<i>Pre-tax margin (%)</i>	5.5	7.4	5.9			
Tax	(39.3)	109.3	(43.5)	(139.8)	10.5	
<i>Eff tax rate (%)</i>	(24.2)	40.3	(20.1)			
MI	(26.1)	(122.8)	(54.1)	(55.9)	107.5	
<b>Core net profit</b>	<b>94.5</b>	<b>240.0</b>	<b>108.2</b>	<b>(54.9)</b>	<b>14.5</b>	Ahead of our and consensus' expectations.
<i>Net margin (%)</i>	3.2	6.6	3.0			

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Automotive	2,396.0	3,061.6	3,070.2	0.3	28.1	Customers continue to rush to take advantage of the SST exemption.
Equipment	332.5	365.1	371.8	1.8	11.8	Improved demand for the segment's products and services in most markets.
Manufacturing & engineering	230.3	225.9	227.1	0.5	(1.4)	Mainly due to the absence of contribution from a disposed subsidiary.
Others	(4.5)	(7.5)	(18.3)	142.8	309.3	
<b>Revenue</b>	<b>2,954.2</b>	<b>3,645.1</b>	<b>3,650.8</b>	<b>0.2</b>	<b>23.6</b>	
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)	
<b>PBT</b>	<b>162.7</b>	<b>271.0</b>	<b>216.3</b>	<b>(20.2)</b>	<b>32.9</b>	
<b>PBT Margins</b>						
<i>Automotive</i>	6.1	8.8	6.7			
<i>Equipment</i>	6.6	7.9	8.5			
<i>Manufacturing &amp; engineering</i>	3.6	5.2	4.7			

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	78,000	76,000	76,000
Toyota/Lexus TIV (units) – previous				75,000	76,000	
Perodua TIV (units) – current	240,341	220,154	190,291	240,000	240,000	242,000
Perodua TIV (units) – previous				230,000	240,000	

Source: Company data, RHB

## Recommendation Chart

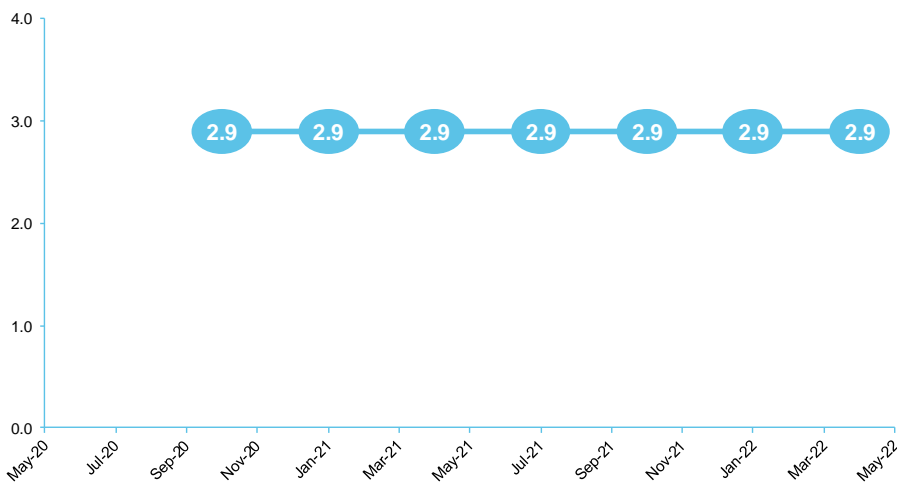


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-28	Neutral	3.29	3.07
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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Analyst	Company
-	-

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