

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/BUY/RM3.10/Target: RM3.90)

1Q22: Automobile Segment Continued To Drive Earnings

Year to 31 Dec	1Q22 (RMm)	qoq % chg	yoy % chg	Comments	FY	EPS (sen)	PE (x)
Revenue	3,650.8	0.2	23.6	Slight improvement from all core business segments	2022	28.1	11.7
Auto	3,070.2	0.3	28.1	Supported by higher sales at UMW Toyota Motor	2023	32.2	10.2
Equipment	371.8	1.9	11.8		2024	24.1	13.7
M&E	227.1	0.5	(1.4)				
Associates & JV	96.5	(40.0)	10.3	Lower share of profit from an associated company			
PBT	216.3	(20.2)	32.9	Lower contribution from the automobile segment			
Auto	205.8	(23.5)	41.4				
Equipment	31.8	9.5	44.8				
M&E	10.6	(11.4)	26.9				
PATAMI	101.2	(57.8)	4.1				
Core PATAMI	103.0	(53.7)	17.7	Within expectation			
Toyota Unit Sales	22,447	(13.7)	30.9				
Perodua Unit Sales	61,624	(13.4)	6.4				
PBT Margin	%	+/- ppts	+/- ppts				
Overall	5.9	(20.3)	7.6				
Auto	6.7	(23.7)	10.4				
Equipment	8.5	7.5	29.5				
M&E	4.7	(11.9)	28.7				

Source: UMW Holdings Berhad, UOB Kay Hian

RESULTS

- **Within expectations.** UMW recorded 1Q22 core net profit of RM103m (-53.7% qoq; 17.7% yoy), which made up 31%/33% of our and consensus' full-year estimates respectively. We deem the results to be within expectations as we expect auto sales in 2H22 to normalise downward as the SST exemption period may not be extended. Note that 1Q22 earnings have been adjusted for exceptional items such as: a) reversal of impairment on receivables (RM1.0m); b) loss on disposal of investments (RM6.8m); c) gain on disposal of property, plant and equipment (RM9.5m); d) reversal of inventories (RM0.2m); and e) property, plant and equipment written off (RM0.1m). The automobile division continues to be the key earnings driver, contributing RM205.8m, or 95%, of the group's PBT during the quarter. The sequentially lower earnings were mainly due to the low base effect - vehicle sales were seasonally higher in 4Q21 due to aggressive promotions.
- **Manufacturing and engineering (M&E) profitability** continues to be dragged down by the aerospace unit, impacted by lower delivery of fan cases to Rolls-Royce. The opening of borders in Malaysia and globally will significantly increase the demand for fan cases from the aviation industry and this segment is expected to see some improvement in 2Q22 and improve further in 2H22 as management guided that the fan cases orders are double than in 2021. However, we should see very minimal impact to earnings as aerospace accounted about 1% of the group's total revenue in 2021.
- **The equipment division's revenue and profitability increased** despite the challenging business environment arising from the COVID-19 pandemic and the political situation in Myanmar. UMW expects the division's earnings to continue to improve in tandem with the reopening of the economy and higher commodity prices. The heavy equipment sub-segment may benefit from the anticipated increase in construction activity as infrastructure spending picks up. Meanwhile, the Industrial Equipment sub-segment will continue to focus on growth sectors, while it continues to expand its forklift refurbishment business.

STOCK IMPACT

- **Extension of the SST exemption.** In our view, extending the tax-free period will be a win-win situation for the industry and the government. The government's potential loss of SST income could be offset by the higher excise duty revenue from higher sales volume while the extension will help the industry to recover better from the pandemic. We feel that it is critical for the government to extend the SST exemption period in order to avoid impeding the industry's recovery. MAA has appealed to the government over the possibility of extending the SST exemption period beyond Jun 22.
- **Minimal impact on the chip shortage crisis.** Management clarified that the chip shortage would have minimal impact on the company's production. The company is confident of delivering its sales target of 73,000 units (Toyota) in 2022 as: a) it has pre-ordered its completely knocked-down kits and completely built-up models ahead of its principal announcement, and b) its current sales target has taken into account the SST exemption until Jun 22.

EARNINGS REVISION/RISKS

- **No changes to our earnings forecasts.**

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM3.90.** This is based on 14x 2022F PE, which is close to the industry's average 5-year historical PE. We are forecasting earnings growth of 34% in 2022 and we believe that earnings will be supported by the deliveries of its first locally-assembled hybrid EV (Toyota Corolla Cross) and Toyota Camry new facelift. The company's bottom line will be boosted by the potential introduction of Toyota Veloz, which will replace the now-discontinued Toyota Avanza, and all-new Perodua Alza.

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