

“Core net profit above our estimate”

### Share price performance



	1M	3M	12M
Absolute (%)	0.6	10.9	6.7
Rel KLCI (%)	5.2	14.0	9.5

	BUY	HOLD	SELL
Consensus	12	3	-

### Stock Data

Sector	Auto & Auto Parts
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	3,913.8/890.7
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	2.85-3.48
Est free float	28.8%
Stock Beta	1.39
Net cash/(debt) (RMm)	756.7
ROE (CY22E)	5.8%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	
ESG Rank	Top 25%
ESG Risk Rating	28.2 (+0.3 yoy)

### Key Shareholders

PNB	53.5%
EPF	12.4%
KWSP	8.8%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by SustainalyticsBursa

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## UMW Holdings (UMWH MK)

**HOLD (maintain)**

Up/Downside: +3.0%

**Price Target: RM3.45**

Previous Target (Rating): RM3.35 (Hold)

### Lower-than-expected operating costs

- UMW's 1Q22 core net profit of RM109.6 (+21% yoy, +13% qoq) came in above our estimate but within consensus due to lower-than-expected operating costs
- Revenue increased to RM3.7bn (+24% yoy) due to stronger sales from Automotive and Equipment operations
- Increasing EPS forecasts by 6-27% for FY22-24E. Maintain HOLD rating with higher 12-month TP of RM3.45 (from RM3.35) after rolling forward our SOP valuation base to CY23E

### Strong sales in Automotive and Equipment segments

Even though we expect results to be front-end-loaded, UMW's 1Q22 core net profit of RM109.6 (+20.8% yoy) came in above our estimate but broadly within the consensus estimate due to lower-than-expected operating costs. The core net profit accounted for 45% and 35% of the full-year forecasts, respectively. Revenue improved to RM3.7bn (+23.6% yoy) due to stronger sales from the Automotive (+28%) and Equipment (+12%) segments that were partially offset by lower sales from the M&E (-9%) segment. Pretax profit increased to RM216.3m (+32.9% yoy) on the back of higher revenue from the resumption of economic activities as Malaysia started treating Covid-19 as endemic.

### Weaker quarterly results

1Q22 revenue increased marginally by 0.2% qoq due to consistent sales momentum across all business segments as Malaysia entered the endemic phase of Covid-19. Despite that, pretax profit declined by 20.2% qoq due to a lower share of profit from its associate company Perodua due to a weaker auto sales volume. This was further dampened by higher operating costs from the M&E segment. No dividend was declared during the quarter under review.

### Maintain Hold with higher TP of RM3.45

We increase our EPS forecasts by 6.3-27.4% for FY22-24E after lowering our cost assumptions. We also roll forward our SOP valuation base to CY23E for a higher 12-month TP of RM3.45 (from RM3.35). Note that Perodua targets a sales volume of 247.8k units (+30.2% yoy) while UMW projects a sales volume of 73.0k units (+0.8% yoy) driven by the sales tax exemption and resumption of economic activities with new facelifts and launches. With regards to the shortage of microchips, management guided that the situation this year is better compared to last year. We maintain our HOLD rating. Key up/downside risks: i) higher/lower-than-expected contribution from Perodua, ii) higher/lower-than-expected car sales volumes and production and iii) increasing/decreasing chip supply.

### Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	9,554.6	11,060.8	11,559.5	11,703.3	11,842.9
EBITDA (RMm)	712.0	649.6	716.1	760.1	774.0
Pretax profit (RMm)	400.7	482.8	695.1	718.7	726.2
Net profit (RMm)	204.6	268.2	311.3	323.4	326.8
EPS (sen)	17.5	23.0	26.6	27.7	28.0
PER (x)	19.1	14.6	12.6	12.1	12.0
Core net profit (RMm)	284.9	160.2	311.3	323.4	326.8
Core EPS (sen)	24.4	13.7	26.6	27.7	28.0
Core EPS growth (%)	27.4	(43.8)	94.3	3.9	1.0
Core PER (x)	13.7	24.4	12.6	12.1	12.0
Net DPS (sen)	4.0	5.8	6.0	6.0	6.0
Dividend Yield (%)	1.2	1.7	1.8	1.8	1.8
EV/EBITDA	6.1	5.7	5.2	4.9	5.1

Chg in Core EPS (%)		+27.4	+17.6	+6.3
Affin/Consensus (x)		1.0	0.9	0.9

Source: Company, Affin Hwang forecasts

**Fig 1: Results Comparison**

FYE Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg	Comments
Revenue	2,954	3,645	3,651	0.2	23.6	yoy: Higher revenue from Automotive (+28%) and Equipment (+12%) segments partially offset by lower sales from M&E (-9%) segment
Op costs	(2,789)	(3,431)	(3,415)	(0.5)	22.4	qoq: Marginal increase in sales across all business segments due to consistent sales momentum as Malaysia enters endemic phase
<b>EBITDA</b>	<b>165.1</b>	<b>214.3</b>	<b>235.8</b>	<b>10.1</b>	<b>42.9</b>	
<i>EBITDA margin (%)</i>	<i>5.6</i>	<i>5.9</i>	<i>6.5</i>	<i>0.6 ppt</i>	<i>0.9 ppt</i>	
Depn and amort	(81.8)	(92.2)	(81.6)	(11.5)	(0.2)	
EBIT	83.3	122.1	154.2	26.3	85.1	
<i>EBIT margin (%)</i>	<i>2.8</i>	<i>3.3</i>	<i>4.2</i>	<i>0.9 ppt</i>	<i>1.4 ppt</i>	
Int expense	(27.4)	(29.7)	(39.0)	31.4	42.5	
Int and other inc	12.8	14.3	13.0	(9.4)	1.5	
Associates & JV	87.5	160.9	96.5	(40.0)	10.3	qoq: lower vehicle sales volume
EI	6.5	3.4	(8.4)	<i>n.m.</i>	<i>n.m.</i>	
<b>Pretax Profit</b>	<b>162.7</b>	<b>271.0</b>	<b>216.3</b>	<b>(20.2)</b>	<b>32.9</b>	
Tax	(39.3)	109.3	(43.5)	<i>n.m.</i>	10.5	
<i>Tax rate (%)</i>	<i>24.2</i>	<i>(40.3)</i>	<i>20.1</i>	<i>n.m.</i>	<i>-4.1 ppt</i>	
MI & Sukuk	(26.1)	(140.4)	(71.6)	(49.0)	>+100	
Net profit	97.3	240.0	101.2	(57.8)	4.1	
EPS (sen)	8.3	20.5	8.7	(57.8)	4.1	
<b>Core net profit</b>	<b>90.7</b>	<b>96.8</b>	<b>109.6</b>	<b>13.3</b>	<b>20.8</b>	Above our estimate but within consensus

Source: Affin Hwang, Company

**Fig 2: Sum-of-Parts Valuation**

Segment	CY23E PE (x)	Equity Value (RMm)
Automotive*	8.6	3,482.6
Equipment	5.0	423.6
M&E	7.0	99.2
Serendah land		54.5
Equity Value (RMm)		4,059.9
net cash/ (debt)		(27.1)
Issued shares (mn)		1,168.3
<b>Target price (RM/share)</b>		<b>3.45</b>

Source: Affin Hwang

\*includes associates & joint ventures

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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