



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

29 Aug 2022

Cost-saving initiatives bearing fruit

BUY

(Maintained)

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Rationale for report: Company results

Price	RM3.06
Fair Value	RM4.65
52-week High/Low	RM3.48/RM2.77

Key Changes

Fair value	f
EPS	f

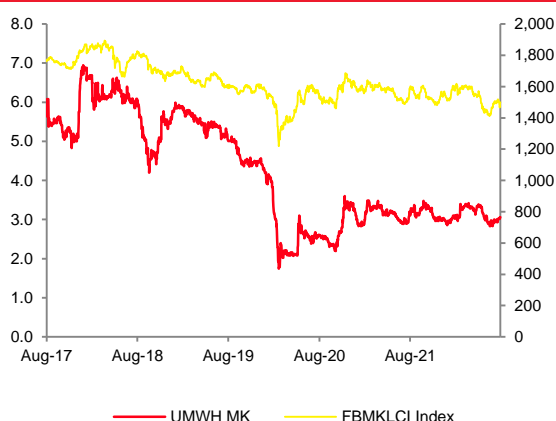
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	11,060.8	14,530.0	14,570.0	14,883.0
Core net profit (RM mil)	259.2	404.0	390.5	401.5
FD Core EPS (sen)	22.2	34.6	33.4	34.4
FD Core EPS growth (%)	(9.0)	55.9	(3.3)	2.8
Consensus Net Profit (RM mil)	-	343.4	362.6	378.0
DPS (sen)	5.8	10.0	8.0	8.5
PE (x)	13.8	8.8	9.2	8.9
EV/EBITDA (x)	5.4	3.6	3.9	3.6
Div yield (%)	1.9	3.3	2.6	2.8
ROE (%)	6.7	9.5	8.6	8.3
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RM mil)	3,575.0
Book Value (RM/share)	3.52
P/BV (x)	0.9
ROE (%)	6.7
Net Gearing (%)	-

Major Shareholders	Amanah Saham Nasional (53.5%) Employees Provident Fund (12.6%) Kumpulan Wang Persaraan Diperbadankan (8.8%)
Free Float	28.7
Avg Daily Value (RM mil)	0.6

Price performance	3mth	6mth	12mth
Absolute (%)	(8.1)	(1.3)	(1.6)
Relative (%)	(5.3)	5.8	4.3



Investment Highlights

- Maintain BUY on UMW Holdings (UMWH) with a slightly higher sum-of-parts (SOP) derived fair value of RM4.65/share (from RM4.60/share) after rolling forward our valuation base year to FY23F from FY22F. Our FV implies FY23 PE of 13.9x, near the stock's 4-year mean. No change in our neutral 3-star ESG rating.
- UMWH's 1HFY22 core earnings of RM215mil exceeded expectations, accounting for 58% of our previous FY22F earnings and 63% of consensus. As a comparison, 1H accounted for 40%–54% of pre-pandemic FY17–FY19 core earnings.
- The positive variance was mainly attributed to stronger-than-expected earnings contribution from the automotive division. Hence we increase the FY22 earnings forecast by 11% after raising the automotive division's sales (Exhibit 4) and margin assumptions. However, we trim FY23F–24F earnings by 3–4% to reflect a lower margin due to a weaker MYR assumption of RM4.20/US\$1 vs. RM4.05/US\$1 previously.
- 2QFY22 core net profit of RM107mil slid 1% QoQ but turned around from a loss of RM11mil in 2QFY21. The automotive division's PBT was largely sustained at RM203mil (-1% QoQ), supported by stronger sales volume from Toyota (+5% QoQ) and Perodua (+7% QoQ).
- The automotive division's PBT margin (after stripping out associate contribution) declined marginally (-0.2% point QoQ) as price hikes and cost-savings exercises managed to mostly offset the impact of a stronger US dollar against the MYR.
- Given the robust demand (60,000 bookings to date) and easing supply chain disruptions, UMW Toyota revised upwards its 2022F sales target to 80,000 from 73,000 units. Currently, both of its Bukit Raja and Shah Alam plants are running at full capacity to fulfil outstanding orders.
- Meanwhile, Perodua's sales are expected to be underpinned by its robust order book (>240,000 bookings as of end-July), including deliveries of the all-new Perodua Alza which received a positive response from consumers after collecting 39,000 bookings to date.
- For UMWH's other businesses, both the equipment and manufacturing/engineering segments posted sequential PBT improvement in 2QFY22 despite recording lower revenue as the group's cost-saving initiatives bore fruit. The group also recognised revenue from the sale of Serendah industrial plots which helped to narrow losses of its "others" segment.
- The stock currently trades at an undemanding FY23F PE of 9x vs. its 4-year average of 14x.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	2,445.1	3,650.8	3,730.8	2.2	52.6	5,399.3	7,381.6	36.7
Operating Profit	20.7	145.8	140.8	(3.4)	>100	110.5	286.6	>100
Finance Costs	(25.7)	(39.0)	(25.4)	(34.9)	(1.2)	(53.1)	(64.4)	21.3
Investment Income	12.4	13.0	16.8	29.8	35.7	25.2	29.8	18.3
Share of Profits of Associates & JV	25.2	96.5	97.8	1.3	>100	112.7	194.3	72.4
Profit before tax	32.6	216.3	230.0	6.4	>100	195.3	446.3	>100
Tax	(11.1)	(43.5)	(56.5)	30.0	>100	(50.4)	(100.0)	98.4
Profit after tax	21.5	172.8	173.5	0.4	>100	144.9	346.3	>100
Less: Minority interest	7.8	54.1	49.0	(9.5)	>100	33.9	103.1	>100
Less: Holders of perpetual sukuk	17.4	17.5	17.4	(0.6)	(0.3)	34.8	34.8	(0.0)
Net profit - Continuing operations	(3.7)	101.2	107.2	5.9	n.m.	76.2	208.4	>100
Non-core adjustments	6.9	(7.0)	0.0			(2.9)	(7.0)	
Core net profit	(10.6)	108.2	107.2	(0.9)	n.m.	79.1	215.4	>100
Margins								
EBIT margin	0.8%	4.0%	3.8%			2.0%	3.9%	
PBT Margin	1.3%	5.9%	6.2%			3.6%	6.0%	
Net profit margin	-0.2%	2.8%	2.9%			1.4%	2.8%	
Core net profit margin	-0.4%	3.0%	2.9%			1.5%	2.9%	

Source: UMWH, AmlInvestment Bank

EXHIBIT 2: RESULTS SUMMARY – SEGMENTAL BREAKDOWN

FYE Dec (RM mil)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Segmental Breakdown								
Revenue								
Automotive	1,981.9	3,070.2	3,117.4	1.5	57.3	4,377.9	6,187.5	41.3
Equipment	299.9	371.8	366.6	(1.4)	22.2	632.4	738.4	16.8
Manufacturing & Engineering	159.9	227.1	226.4	(0.3)	41.6	390.2	453.5	16.2
Others	3.4	(18.3)	20.4	n.m.	>100	(1.1)	2.2	n.m.
Total	2,445.1	3,650.8	3,730.8	2.2	52.6	5,399.3	7,381.6	36.7
PBT								
Automotive	34.6	205.8	202.9	(1.4)	>100	180.2	408.7	>100
Equipment	31.8	31.8	35.4	11.6	11.4	53.8	67.2	25.0
Manufacturing & Engineering	(6.1)	10.6	13.1	22.8	n.m.	2.3	23.7	>100
Others	(27.8)	(31.9)	(21.3)	(33.2)	(23.3)	(40.9)	(53.3)	30.1
Total	32.6	216.3	230.0	6.4	>100	195.3	446.3	>100
Net profit								
Automotive	27.0	125.9	118.1	(6.2)	>100	122.0	244.0	100.0
Equipment	23.5	21.3	24.7	16.4	5.1	38.8	46.0	18.4
Manufacturing & Engineering	(7.7)	3.7	5.1	37.9	n.m.	(7.0)	8.8	(>100)
Others	(29.1)	(32.2)	(23.4)	(27.2)	(19.5)	(42.9)	(55.6)	29.5
Sub-total	13.7	118.7	124.6	5.0	>100	111.0	243.2	>100
Less: Holders of perpetual sukuk	17.4	17.5	17.4	(0.6)	(0.3)	34.8	34.8	(0.0)
Total	(3.7)	101.2	107.2	5.9	n.m.	76.2	208.4	>100
PBT Margin								
Automotive	1.7%	6.7%	6.5%			4.1%	6.6%	
Equipment	10.6%	8.5%	9.7%			8.5%	9.1%	
Manufacturing & Engineering	-3.8%	4.7%	5.8%			0.6%	5.2%	
Net Profit Margin								
Automotive	1.4%	4.1%	3.8%			2.8%	3.9%	
Equipment	7.8%	5.7%	6.7%			6.1%	6.2%	
Manufacturing & Engineering	-4.8%	1.6%	2.2%			-1.8%	1.9%	

Source: UMWH, AmlInvestment Bank

EXHIBIT 3: 2Q22 SALES VOLUME OF UMWH-RELATED BRANDS

FYE Dec (units)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Toyota/Lexus	16,960	22,447	23,463	4.5	38.3	34,111	45,910	34.6
- Passenger	13,038	14,631	17,019	16.3	30.5	23,638	31,650	33.9
- Commercial	3,922	7,816	6,444	(17.6)	64.3	10,473	14,260	36.2
Perodua	39,381	61,624	65,719	6.6	66.9	97,290	127,343	30.9
- Passenger	39,381	61,624	65,719	6.6	66.9	97,290	127,343	30.9
Total	56,341	84,071	89,182	6.1	58.3	131,401	173,253	31.9

Source: Malaysian Automotive Association

EXHIBIT 4: SALES ASSUMPTIONS

Units	2020	2021	2022F	2023F	2024F
Toyota (Current)	59,320	71,585	80,000	78,000	79,000
Toyota (Previous)	59,320	71,585	75,000	76,000	78,000
Perodua (Current)	220,154	190,291	245,000	250,000	255,000

Source: AmlInvestment Bank estimates

EXHIBIT 5: SOP VALUATION MATRIX

Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of shares
Automotive	220.6	51%	13.0	1,462.9	1.25	1,168.3
Equipment	88.9	91%	9.0	728.4	0.62	
Manufacturing & Engineering	36.4		10.0	364.2	0.31	
					2.19	
Add: Perodua	837.9	38%	13.0	4,139.0	3.54	
Add: Serendah land				1,073.0	0.92	
Add: Company net debt				-1,742.4	-1.49	
SOP discount (10%)				-343.5	-0.51	
Fair Value					4.65	

Source: UMWH, AmlInvestment Bank

EXHIBIT 6: PB BAND CHART



Source: AmlInvestment Bank

EXHIBIT 7: PE BAND CHART



EXHIBIT 8: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★			
Work site safety	★	★	★		
Shareholder accountability	★	★	★		
Social responsibility	★	★	★	★	
Pollution control	★	★			
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	9,554.6	11,060.8	14,530.0	14,570.0	14,883.0
EBITDA	632.5	617.8	866.9	754.2	731.8
Depreciation/Amortisation	(374.1)	(343.5)	(325.6)	(310.2)	(286.8)
Operating income (EBIT)	258.4	274.2	541.3	444.0	444.9
Other income & associates	204.1	268.0	397.3	398.4	408.1
Net interest	(61.1)	(59.5)	(62.9)	(56.8)	(49.9)
Exceptional items	-	-	-	-	-
Pretax profit	401.4	482.8	875.7	785.6	803.1
Taxation	(78.5)	32.9	(191.4)	(154.9)	(158.0)
Minorities/pref dividends	48.5	177.6	210.5	170.4	173.8
Net profit	204.8	268.2	404.0	390.5	401.5
Core net profit	284.9	259.2	404.0	390.5	401.5
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	2,463.0	2,531.4	2,325.8	2,215.6	2,048.8
Intangible assets	-	-	-	-	-
Other long-term assets	2,992.3	3,261.3	3,658.6	4,057.0	4,465.1
Total non-current assets	5,455.3	5,792.7	5,984.4	6,272.6	6,513.9
Cash & equivalent	2,050.9	2,941.4	3,104.4	3,301.6	3,541.5
Stock	1,439.3	1,752.2	2,301.7	2,308.1	2,357.6
Trade debtors	1,187.7	1,051.7	1,381.5	1,385.3	1,415.1
Other current assets	1,313.9	634.8	634.8	634.8	634.8
Total current assets	5,991.8	6,380.0	7,422.4	7,629.7	7,948.9
Trade creditors	2,156.2	2,284.8	3,001.4	3,009.7	3,074.3
Short-term borrowings	523.8	638.1	588.1	538.1	488.1
Other current liabilities	116.2	96.9	96.9	96.9	96.9
Total current liabilities	2,796.2	3,019.8	3,686.4	3,644.7	3,659.3
Long-term borrowings	1,942.3	2,095.0	2,095.0	2,095.0	2,095.0
Other long-term liabilities	291.5	295.4	295.4	295.4	295.4
Total long-term liabilities	2,233.7	2,390.4	2,390.4	2,390.4	2,390.4
Shareholders' funds	3,868.1	4,116.5	4,403.6	4,700.7	5,002.8
Minority interests	2,549.0	2,646.1	2,856.6	3,027.0	3,200.8
BV/share (RM)	3.31	3.52	3.77	4.02	4.28
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	401.4	482.8	875.7	785.6	803.1
Depreciation/Amortisation	374.1	343.5	325.6	310.2	286.8
Net change in working capital	460.0	(221.1)	(162.8)	(1.9)	(14.7)
Others	(289.2)	(343.5)	(525.8)	(496.5)	(516.2)
Cash flow from operations	946.3	261.6	512.8	597.4	559.1
Capital expenditure	(95.5)	(406.4)	(120.0)	(200.0)	(120.0)
Net investments & sale of fixed assets	(1,081.5)	(526.3)	(397.3)	(398.4)	(408.1)
Others	1,066.5	1,406.7	397.3	398.4	408.1
Cash flow from investing	(110.5)	474.0	(120.0)	(200.0)	(120.0)
Debt raised/(repaid)	(43.1)	267.0	(50.0)	(50.0)	(50.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(46.7)	(67.8)	(116.8)	(93.5)	(99.3)
Others	(147.7)	(159.8)	(62.9)	(56.8)	(49.9)
Cash flow from financing	(237.5)	39.4	(229.7)	(200.2)	(199.2)
Net cash flow	598.3	775.0	163.0	197.2	239.9
Net cash/(debt) b/f	1,350.9	1,901.4	2,533.0	2,696.1	2,893.2
Net cash/(debt) c/f	1,901.4	2,533.0	2,696.1	2,893.2	3,133.1
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(18.6)	15.8	31.4	0.3	2.1
EBITDA growth (%)	(19.1)	(2.3)	40.3	(13.0)	(3.0)
Pretax margin (%)	4.2	4.4	6.0	5.4	5.4
Net profit margin (%)	2.1	2.4	2.8	2.7	2.7
Interest cover (x)	4.2	4.6	8.6	7.8	8.9
Effective tax rate (%)	19.6	6.8	21.9	19.7	19.7
Dividend payout (%)	22.8	25.3	28.9	23.9	24.7
Debtors turnover (days)	50	37	31	35	34
Stock turnover (days)	58	53	51	58	57
Creditors turnover (days)	81	73	66	75	75

Source: Company, AmlInvestment Bank Bhd estimates

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