

HLIB Research

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BUY (Maintain)

Target Price: RM3.85
Previously: RM3.85
Current Price: RM3.06

Capital upside	25.8%
Dividend yield	2.6%
Expected total return	28.4%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


	1M	3M	12M
Absolute	6.3	-8.1	-1.6
Relative	5.7	-5.3	4.3

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,575
3-mth average volume ('000)	185
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

Permodalan Nasional Berhad	59.7%
Employees Provident Fund	12.4%
Kumpulan Wang Persaraan	8.9%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	159	440	362
EPS - core (sen)	13.6	37.7	31.0
P/E (x)	22.5	8.1	9.9

UMW Holdings

Expecting continued strong 2H

Reported core 2QFY22 PATMI RM99.9m (-9.3% QoQ; -RM20.3m YoY) and RM210.0m for 1HFY22 (+208.7% YoY), above HLIB's forecast (52.0%) and consensus (61.2%). We expect a stronger 2HFY22 ahead, leveraging onto the higher order backlog of the automotive segment and the anticipated economic recovery. Adjusted earnings for FY22-24 by +8.9% -5.2% and -14.4% respectively as we impute accelerated automotive sales volume into FY22. Maintain BUY with an unchanged TP: RM3.85 based on 10% discount to SOP: RM4.26.

Above expectations. UMW reported core PATMI of RM99.9m for 2QFY22 (-9.3% QoQ; -RM20.3m YoY) and RM210.0m for 1HFY22 (+208.7% YoY). We deem the result above HLIB's FY22 forecast (52.0%) and consensus (61.2%) as we expect stronger earnings in 2HFY22. RM1.6m EIs were adjusted for 1HFY22 – fair value loss on derivative and net loss on disposal of investments were offset by disposal gain of PPEs and inventory writebacks.

Dividend. None.

QoQ. Core PATMI declined -9.3% to RM99.9m in 2QFY22, mainly due to lower contribution from an associated automotive company.

YoY/YTD. Core PATMI improved to RM99.9m in 2QFY22 (vs. -RM20.3m SPLY) and RM210.0m in 1HFY22 (+208.7% vs SPLY), mainly driven by stronger contribution from across all segments on full months operation during current period (vs. lockdown in Jun 2021). Automotive segment recorded higher sales volume of Toyota, Lexus and Perodua. Similarly, both Equipment and Manufacturing segments also saw improvement in sales revenue with higher demand from both local and foreign markets.

Automotive. Management is expecting continued strong automotive performance in subsequent 2HFY22, leverage onto the strong order backlogs of over 60k units for Toyota and 240k units for Perodua. Toyota has increased its sales target to 80k units (from 73k units) for FY22, while Perodua is likely to revise up its current target of 247.8k units. Management has guided for an improvement in supply chain situation in 2HFY22. Both the improving sales volume and restructured costs efficiency, have been guided to cushion the negative impact of depreciating RM/USD and higher raw material costs.

Equipment. Management expects the segment to improve in line with the economic recovery post pandemic in the region (except Myanmar). Heavy equipment will leverage onto the pump-priming infrastructure stimulus spending and surge in global commodity prices. Demand for its industrial equipment remains healthy from manufacturing, food and beverages and logistics sectors.

M&E. Both automotive parts (Kayaba) and lubricants will leverage onto the strong domestic automotive recovery. Kayaba has seen improvements of +13% in 1HFY22, while lubricants has seen strong rebound in 2QFY22 as economic activities recover. Aerospace manufacturing has been gaining traction as airlines reinstate flying capacity and expected to breakeven in FY22.

Forecast. Adjusted earnings for FY22 by +8.9%, but cut FY23 by -5.2% and FY24 by -14.4%, as we imputed accelerated deliveries in FY22.

Maintain BUY, TP: RM3.85. Maintain BUY with an unchanged adjusted TP: RM3.85, based on discount of 10% to SOP of RM4.26. UMW will continue to leverage onto the higher automotive order backlogs and the anticipated economic recovery in coming quarters.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	3,337	3,545	3,798	3,978	3,964
Receivables	1,059	904	1,024	973	1,014
Inventories	1,439	1,752	1,608	1,460	1,521
PPE	2,463	2,545	2,522	2,478	2,432
Others	3,149	3,427	3,594	3,776	3,959
Assets	11,447	12,173	12,546	12,666	12,890
Payables	1,236	1,216	1,361	1,359	1,415
Debt	3,564	3,831	3,673	3,501	3,328
Others	230	363	363	363	363
Liabilities	5,030	5,410	5,397	5,222	5,106
Shareholder's equity	3,868	4,005	4,354	4,622	4,938
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,451	1,660	1,698	1,723	1,748
Equity	6,417	6,763	7,150	7,443	7,784

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	401	483	865	675	720
D&A	374	344	348	349	351
Working capital	629	(178)	169	196	(45)
Taxation	(64)	(81)	(163)	(119)	(129)
Others	(337)	(255)	(334)	(304)	(304)
CFO	1,003	313	884	798	593
Capex	(221)	(406)	(325)	(305)	(305)
Asset disposal	57	76	0	0	0
Acquisitions	28	75	0	0	0
Others	(32)	589	167	122	122
CFI	(167)	333	(158)	(183)	(183)
Changes in debt	(43)	267	(158)	(172)	(172)
Shares issued	0	0	0	0	0
Dividends	(23)	(47)	(91)	(93)	(82)
Distribution to Perps	(70)	(70)	(70)	(70)	(70)
Others	(101)	(111)	(154)	(100)	(99)
CFF	(238)	39	(473)	(435)	(423)
Net cash flow	598	686	254	180	(14)
Forex	(3)	8	0	0	0
Others	1,270	(486)	(0)	0	(0)
Beginning cash	1,472	3,337	3,545	3,798	3,978
Ending cash	3,337	3,545	3,798	3,978	3,964

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	9,555	11,061	14,622	12,167	12,673
EBITDA	658	635	1,011	842	883
EBIT	284	292	663	493	532
Net finance cost	(87)	(77)	(132)	(121)	(116)
Associates & JV	204	268	334	304	304
Profit before tax	401	483	865	675	720
Tax	(87)	33	(163)	(119)	(129)
Operation net profit	313	516	702	557	592
Discontinued operation	0	0	0	0	0
Reported net profit	313	516	702	557	592
Minority interest	(48)	(178)	(192)	(125)	(124)
Perpetual sukuk	(70)	(70)	(70)	(70)	(70)
Reported PATMI	195	268	440	362	397
Exceptionals	(55)	(109)	0	0	0
Core PATMI	140	159	440	362	397
Concensus			343	363	378
HLIB/Concensus (%)			128.1%	99.9%	105.1%

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Reported EPS (sen)	16.7	23.0	37.7	31.0	34.0
Core EPS (sen)	12.0	13.6	37.7	31.0	34.0
Core P/E (x)	25.5	22.5	8.1	9.9	9.0
DPS (sen)	4.0	5.8	8.0	7.0	8.0
Dividend yield (%)	1.3%	1.9%	2.6%	2.3%	2.6%
BVPS (RM)	3.31	3.43	3.73	3.96	4.23
P/B (x)	0.9	0.9	0.8	0.8	0.7
EBITDA margin	6.9%	5.7%	6.9%	6.9%	7.0%
EBIT margin	3.0%	2.6%	4.5%	4.0%	4.2%
PBT margin	4.2%	4.4%	5.9%	5.6%	5.7%
Net margin	1.5%	1.4%	3.0%	3.0%	3.1%
ROE	3.7%	4.0%	10.7%	8.1%	8.3%
ROA	1.2%	1.3%	3.7%	2.9%	3.1%
Net gearing	-5.9%	-7.2%	N.Cash	N.Cash	N.Cash

Assumptions

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Sales (Unit)					
Toyota	58,501	71,585	90,000	70,000	72,000
Lexus	819	809	900	800	800
Perodua	220,163	190,291	242,574	242,768	243,059
Average Price (RM)					
UMW	97,246	99,292	107,236	107,236	107,236
Perodua	41,749	43,537	43,537	42,441	42,783

Figure #1 Quarterly results comparison

FYE Dec (RMm)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MY21	6MY22	YoY (%)
Revenue	2,445.1	3,650.8	3,730.8	2.2%	52.6%	5,399.3	7,381.6	36.7%
EBITDA	95.5	243.6	215.3	-11.6%	125.5%	283.8	459.0	61.7%
EBIT	9.8	162.0	131.8	-18.7%	1243.2%	116.4	293.8	152.5%
Net finance expense	(18.3)	(31.3)	(9.3)	-70.2%	-49.0%	(37.9)	(40.6)	7.0%
Associates	25.2	96.5	97.8	1.3%	287.5%	112.7	194.3	72.4%
Eis	15.8	(11.0)	9.8			4.1	(1.2)	
Reported PBT	32.6	216.3	230.0	6.4%	605.9%	195.3	446.3	128.6%
Tax	(11.1)	(43.5)	(56.5)	30.0%	410.8%	(50.4)	(100.0)	98.4%
Reported operation net profit	21.5	172.8	173.5	0.4%	706.3%	144.9	346.3	139.1%
Reported PATMI	(3.6)	101.2	107.2	5.9%	N.M.	111.0	208.4	87.8%
Exceptionals	(16.7)	8.9	(7.3)	N.M.	-56.3%	(43.0)	1.6	N.M.
Core PATMI	(20.3)	110.1	99.9	-9.3%	N.M.	68.0	210.0	208.7%
Reported EPS (Sen)	(0.3)	8.7	9.2	5.9%	N.M.	6.5	17.8	173.6%
Core EPS (Sen)	(1.7)	9.4	8.6	-9.3%	N.M.	5.8	18.0	208.7%
				%-pts	%-pts			%-pts
EBITDA margin (%)	3.9%	6.7%	5.8%	(0.9)	1.9	5.3%	6.2%	1.0
EBIT margin (%)	0.4%	4.4%	3.5%	(0.9)	3.1	2.2%	4.0%	1.8
Core PATMI margin (%)	-0.8%	3.0%	2.7%	(1.8)	2.3	1.3%	2.8%	0.7

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Figure #2 Quarterly results comparison by segment

	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MY21	6MY22	YoY (%)
Reported 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.	510.1%	(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%
Reported PATMI								
Automotive	27.0	125.9	118.1	-6.2%	338.0%	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	N.M.
Others	(46.4)	(49.6)	(40.8)	-17.8%	-12.2%	(42.9)	(90.4)	110.7%
Total	(3.6)	101.2	107.2	5.9%	N.M.	111.0	208.4	87.8%
Core PATMI	(20.3)	110.1	99.9	-9.3%	N.M.	68.0	210.0	208.7%

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Figure #3 UMW automotive sales statistics

FYE Dec (RMm)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MY21	6MY22	YoY (%)
Toyota	16,715	22,270	23,179	4.1%	38.7%	33,705	45,449	34.8%
Lexus	245	177	284	60.5%	15.9%	406	461	13.5%
Perodua	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%

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Figure #4 **UMW sum-of-parts valuation**

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,849.2	4.15	FY23 PE 12x
Equipment	Various	760.5	0.65	FY23 PE 8x
Manufacturing & Engineering	Various	758.5	0.65	FY23 PE 18x
500 acres Serendah land	100.00	980.1	0.84	Based on RM45/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2021 Annual Report
Holding Co Net Debt		(1,268.2)	(1.09)	Based on 2021 Annual Report
Subtotal		4,982.2	4.26	
Holding Co Discount			10.0%	
Target Price			3.85	Implied FY23 PE 10.0x
* No of Shares		1,168.3		As at end FY2021

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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