

29 August 2022

UMW Holdings

Volume and Margin Boosts

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UMW's 1HFY22 results met expectations. It chalked up both strong sales (as the economy reopened) and margins (due to high-margin new models and reduced competition at its manufacturing division amidst supply constraints in various industries). Associate Perusahaan Otomobil Kedua Sdn Bhd also turned in excellent results thanks to strong car sales. We maintain our forecasts, TP of RM4.40 and OUTPERFORM call.

1HFY22 results met expectations with a core profit of RM197.2m (after adjusting one-off impairments of RM11.2m) making up 55% and 57% of FY22 forecasts of ours and the market's.

1HFY22 turnover rose 37% YoY driven by: (i) strong sales from automotive division (+41%) due to robust demand for Toyota (+35% to 45,911 units) and Perodua (+31% to 127,343 units) as the economy reopened, (ii) strong automotive sales which boosted its manufacturing & engineering division (+16%) especially demand for its OEM products (i.e. Toyota & Perodua engine oils) while its aerospace (Rolls-Royce fan cases) rode on the reopening of international borders, and (iii) the recovery in equipment division (+17%) as construction and manufacturing activities returned to normalcy. The share of profit from associates rose sharply (+72%) driven by strong car sales (particularly Myvi, Axia and Bezza) at Perusahaan Otomobil Kedua Sdn Bhd. Its core PATAMI almost tripled due to better margins at both vehicle dealerships (due to high-margin new models, i.e. Toyota Corolla Cross, Toyota Hilux, Perodua Ativa and Perodua Alza) as well as manufacturing division (auto parts, lubricant and aero engine fan casing due to reduced competition amidst supply constraints in various industries).

Outlook. We like UMW for: (i) the mass-market marques under its vehicle dealership business, i.e. Toyota and Perodua, but not without high-margin models such as Perodua Alza and Toyota Veloz, (ii) the strong earnings visibility at its vehicle dealership business backed by order backlogs of >300k units of vehicles, and (iii) it being a cyclical and recovery play as it is in the heavy/industrial equipment business, apart from manufacturing of aero engine fan cases.

Toyota and Perodua have sales targets of 80,000 units (+12%) and 247,800 units (+30%) for 2022, respectively. Perodua recently launched the all-new Alza to replace the older model. Thus far, it has clocked up order backlogs of 41k units with the waiting period extending beyond 12 months. Its equipment division will continue to work with partners Komatsu and TICO. It has also made a foray into the collaborative robot or cobots space (cobots are robots designed to work alongside human on the factory floor) with partner Universal Robot A/S, while UMW Aerospace will benefit from the resumption of air travel globally.

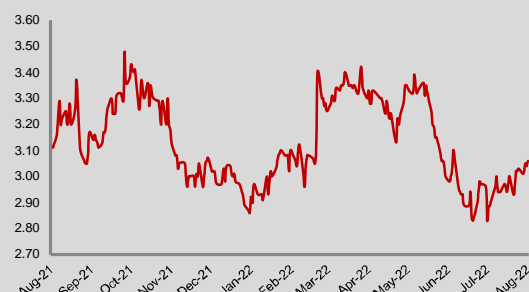
Forecasts. We maintain our forecasts and TP of RM4.40 based an ascribed 13x on FY23F, which is at a premium to the auto sector's average forward PER of 11x to reflect its dominant position in the auto industry with an aggregate (including those under its associates) market share of >50%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation, (ii) supply chain disruptions, (iii) escalating input costs, and (iv) a global recession hurting demand for industrial/heavy equipment.

OUTPERFORM ↔

Price: **RM3.06**
Target Price: **RM4.40** ↔

Share Price Performance



KLCI	1,500.29
YTD KLCI chg	-4.3%
YTD stock price chg	3.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK EQUITY
Market Cap (RM m)	3,575.0
Shares Outstanding	1,168.3
52-week range (H)	3.48
52-week range (L)	2.77
3-mth avg daily vol:	185,199
Free Float	29%
Beta	1.1

Major Shareholders

Amanah Saham Nasional	52.7%
Employees Provident Fund	12.4%
KWAP	8.9%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	11,060.8	11,849.6	12,790.2
EBIT	934.4	1,025.8	1,160.9
PBT	482.8	643.9	715.1
PATAMI	268.2	358.3	393.7
Core PATAMI	223.2	358.3	393.7
Consensus NP	-	343.4	362.6
Earnings Revision	-	-	-
Core EPS (sen)	19.1	30.7	33.7
C.EPS growth (%)	-2.9	60.5	9.9
NDPS (sen)	5.8	6.0	6.0
BVPS (RM)	3.52	3.77	4.05
Core PER (x)	16.0	10.0	9.1
PBV (x)	0.9	0.8	0.8
Net Gearing (x)	N.cash	N.cash	N.cash
Net Div. Yield (%)	1.9	2.0	2.0

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Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	3,730.8	3,650.8	2%	2,445.1	53%	7,381.6	5,399.3	37%
Associates and JV	97.8	96.5	1%	25.2	288%	194.3	112.7	72%
EBIT	255.5	255.3	0%	58.3	338%	510.8	248.4	106%
PBT	230.0	216.3	6%	32.6	606%	446.3	195.3	129%
Taxation and Zakat	(56.5)	(42.5)	N/A	(11.1)	N/A	(99.0)	(50.4)	N/A
PATAMI	107.2	101.2	6%	(3.6)	>100%	208.4	76.2	174%
Core PATAMI*	97.8	99.4	-2%	(12.9)	>100%	197.2	49.5	298%
Core EPS (sen)	8.4	8.5	-2%	(2.6)	422%	16.9	4.2	297%
DPS (sen)	-	-	-	-	-	-	-	-
EBIT margin	6.8%	7.0%		2.4%		6.9%	4.6%	
PBT margin	6.2%	5.9%		1.3%		6.0%	3.6%	
Core NP margin	2.6%	2.7%		N.M		2.7%	0.9%	
Effective tax rate	24.6%	19.6%		34.0%		22.2%	25.8%	

*1H22 Core PATAMI excludes: (i) net provision on receivables impairment (RM0.9m), (ii) net loss on investments disposal (RM6.7m), (iii) PPE gain on disposal (RM16.6m), and (iv) reversal of inventories (RM2.2m)

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	3,730.8	3,650.8	2.2%	2,445.1	52.6%	7,381.6	5,399.3	36.7%
Automotive	3,117.4	3,070.2	1.5%	1,981.9	57.3%	6,187.5	4,377.9	41.3%
Equipment	366.6	371.8	-1.4%	299.9	22.2%	738.4	632.4	16.8%
M&E	226.4	227.1	-0.3%	159.9	41.6%	453.5	390.2	16.2%
Others	20.4	(18.3)		3.4		2.2	(1.1)	
Segment PBT/(LBT)	230.0	216.3	6.4%	32.6	605.9%	446.3	195.3	128.6%
Automotive	202.9	205.8	-1.4%	34.6	485.8%	408.7	180.2	126.9%
Equipment	35.4	31.8	11.6%	31.8	11.4%	67.2	53.8	25.0%
M&E	13.1	10.6	22.8%	(6.1)	>100%	23.7	2.3	922.3%
Others	(21.3)	(31.9)		(27.8)		(53.3)	(40.9)	
Segment Margin								
Automotive	6.5%	6.7%		1.7%		6.6%	4.1%	
Equipment	9.7%	8.5%		10.6%		9.1%	8.5%	
M&E	5.8%	4.7%		N.M		5.2%	0.6%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	1.76	2.30	30.68%	2,043.4	Y	04/2023	14.1	16.1	5.1%	14.4%	12.5	10.9	2.9	24.4%	8.5	4.8%
DRB-HICOM BHD	MP	1.41	1.55	9.93%	2,725.5	Y	12/2022	4.8	8.3	-55.8%	73.1%	29.3	16.9	0.3	1.0%	2.0	1.4%
MBM RESOURCES BHD	OP	3.39	4.10	20.94%	1,325.2	Y	12/2022	50.0	58.3	16.5%	16.6%	6.8	5.8	0.6	8.7%	20.0	5.9%
SIME DARBY BHD	OP	2.35	2.60	10.64%	15,982.4	Y	06/2023	17.7	19.5	0.5%	10.6%	13.3	12.0	1.0	7.4%	12.0	5.1%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.14	1.00	-12.28%	766.1	Y	12/2022	1.9	2.9	-31.3%	54.4%	N/A	N/A	0.3	0.5%	0.0	0.0%
UMW HOLDINGS BHD	OP	3.06	4.40	43.79%	3,575.0	Y	12/2022	30.7	33.7	60.5%	9.9%	10.0	9.1	0.5	4.9%	6.0	2.0%
Simple Average								19.9	23.1	-0.8%	29.8%	14.4	11.0	0.9	7.8%		3.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Electric Vehicles Initiatives	★	★	★		
	Energy Efficient Vehicles Initiatives	★	★	★	★	
	Renewable Energy	★	★	★		
	Occupational Health and Safety	★	★	★	★	
	Waste Management /Recycling	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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