

29 August 2022

Consumer Cyclical | Auto & Autoparts

## UMW (UMWH MK)

## Neutral (Maintained)

### Racing Towards a Strong FY22

Target Price (Return): MYR3.10 (+1%)  
 Price (Market Cap): MYR3.06 (USD800m)  
 ESG score: 2.90 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.54m/0.12m

- **Stay NEUTRAL, with new MYR3.10 TP from MYR2.90, 1% upside.** 1H22 earnings beat our and Street estimates, mainly due to stronger-than-expected margins, as UMW's cost containment measures have cushioned the impact of a strengthening USD/MYR and costlier car parts. In light of the strong YTD UMW Toyota (UMWT) sales, management raised UMWT's target to 80k from 73k, and we lift our FY22F to 88k from 85k, given the easing supply chain issues. Still, softening FY23F sales are of concern.
- **Results beat.** 2Q22 profit of MYR102m brought 1H22 profit to MYR211m, exceeding expectations at 65% and 61% of our and Street full year estimates. The deviation is mainly due to stronger-than-expected margins, as revenue was in line. No dividends declared, as expected.
- **Results highlights.** QoQ, 2Q22 PBT grew 6% mainly driven by the recovery of its Equipment and Manufacturing & Engineering segments, which both saw margin recovery. Automotive revenue grew 1.5% but PBT slipped 1.4% as margin eased slightly, which we attribute to costlier car parts and a stronger USD/MYR during 2Q22. Despite that, a higher effective tax rate weighted and core profit fell 6% QoQ, all segments recovered strongly against a locked-down 2Q21.
- **Orders are gradually recovering MoM**, as August orders rose from July, when Perodua and UMWT orders fell by 20-30% from 1H22 average. Currently, UMWT has c.50k backlog orders, and Perodua c.250k. In July, Perodua had 24k new orders, with the Alza alone contributing 9k. Despite striking a cautious tone on 2023 due to macroeconomic headwinds, management thinks that UMW could benefit from downtrading, given the group's affordable options of Toyota Vios & Yaris, and all Perodua models.
- **Supply chain issues are easing**, as UMWT is currently running at close to 100% capacity, thanks to its alternative sources for parts. Perodua's vendors, on the other hand, are still facing foreign labour shortages.
- **Sales target.** UMWT raised its 2022 sales target to 80k units, from 73k. YTD-July, UMWT has sold 52.5k units, and aims to deliver 8k units each month for the remainder of 2022, which we think could help it achieve close to 90k units. Thus, we lift our UMWT target to 88k from 85k. We also lift Perodua's FY23-FY24 targets to 210k-220k from 200k-210k in light of the strong demand for the all-New Perodua Alza.
- **Forecasts.** We lift FY22F earnings by 27% on higher auto margin assumptions and stronger UMWT sales, as well as FY23F-FY24F earnings by 6-3% on higher Perodua sales. Higher FY23F earnings lift our TP to MYR3.10, from MYR2.90, based on an unchanged 12x FY23F P/E. Our TP includes a 2% ESG discount. Despite the strong results and an anticipated strong FY22, we remain cautious on the softening UMWT and Perodua sales in FY23F, especially given Perodua's disproportionate vulnerability to macroeconomic headwinds.
- **Key risks:** Weaker-than-expected orders and deliveries, softer-than-expected margins, and stronger-than-expected USD/MYR. The converse represents the key upside risks.

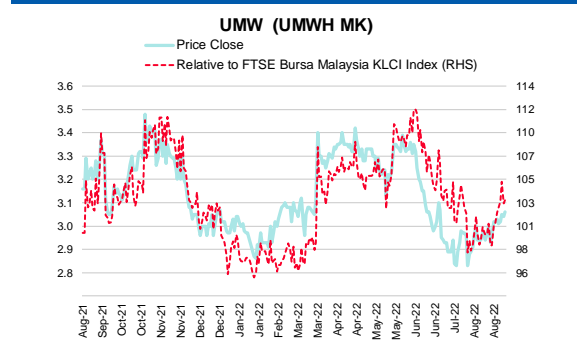
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.0	8.1	(8.4)	(1.3)	(4.4)
Relative	7.3	5.6	(5.7)	4.5	1.0
52-wk Price low/high (MYR)	2.83 – 3.48				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	9,555	11,061	14,457	12,027	12,362
Recurring net profit (MYRm)	285	259	415	306	323
Recurring net profit growth (%)	11.7	(9.1)	60.0	(26.2)	5.5
Recurring P/E (x)	12.55	13.80	8.62	11.69	11.08
P/B (x)	0.9	0.9	0.8	0.7	0.7
P/CF (x)	3.78	13.66	14.15	6.82	9.32
Dividend Yield (%)	1.3	1.9	1.9	1.9	1.9
EV/EBITDA (x)	4.98	14.12	2.63	3.20	2.96
Return on average equity (%)	7.3	(4.4)	9.5	6.4	6.2
Net debt to equity (%)	7.6	net cash	net cash	net cash	net cash

Source: Company data, RHB

### Overall ESG Score: 2.90 (out of 4)

#### E: GOOD

UMW has taken efforts to monitor and improve its environmental standing, especially with energy consumption, carbon emissions, and water management. Its carbon footprint increased 2.36% in FY19.

#### S: GOOD

Aside from the up-to-date health & safety policies and guidelines, UMW is also consistent in its CSR participation – achieving 9,241 volunteer hours in 2019. It recorded average training hours of 12.36 hours per employee in FY19.

#### G: GOOD

Management has held regular engagements with the market and media while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.24	0.22	0.35	0.26	0.28
Consumer Cyclical	DPS	0.04	0.06	0.06	0.06	0.06
<b>UMW</b>	BVPS	3.31	3.52	3.94	4.26	4.60
UMWH MK	Return on average equity (%)	7.3	(4.4)	9.5	6.4	6.2
Neutral						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	12.55	13.80	8.62	11.69	11.08
12x P/E on forward earnings	P/B (x)	0.9	0.9	0.8	0.7	0.7
	FCF Yield (%)	20.3	(4.0)	(4.1)	3.5	(0.5)
<b>Key drivers</b>	Dividend Yield (%)	1.3	1.9	1.9	1.9	1.9
i. Introduction of attractive new car models;	EV/EBITDA (x)	4.98	14.12	2.63	3.20	2.96
ii. Turnaround at various legacy non-core oil and gas businesses;	EV/EBIT (x)	12.20	na	4.16	5.46	5.05
iii. Long term growth potential from aerospace business.						
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	9,555	11,061	14,457	12,027	12,362
i. Weaker-than-expected orders and deliveries;	Gross profit	1,500	1,194	2,615	2,068	2,140
ii. Softer-than-expected margins;	EBITDA	632	172	906	669	687
iii. Stronger-than-expected USD/MYR.	Depreciation and amortisation	(374)	(344)	(333)	(277)	(284)
	Operating profit	258	(171)	574	393	403
	Net interest	(116)	(108)	(124)	(107)	(103)
<b>Company Profile</b>	Pre-tax profit	401	37	886	604	631
UMW is the largest company in the automotive sector. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia.	Taxation	(78)	33	(204)	(82)	(85)
	Reported net profit	274	(177)	415	306	323
	Recurring net profit	285	259	415	306	323
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	460	(221)	(188)	134	(18)
	Cash flow from operations	946	262	253	524	384
	Capex	(221)	(406)	(400)	(400)	(400)
	Cash flow from investing activities	(110)	12	(12)	(138)	(125)
	Dividends paid	(23)	(68)	(68)	(68)	(68)
	Cash flow from financing activities	(602)	(275)	(296)	(244)	(251)
	Cash at beginning of period	1,472	2,051	2,941	2,886	3,029
	Net change in cash	234	(2)	(55)	143	8
	Ending balance cash	1,703	2,057	2,886	3,029	3,037
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	2,051	2,941	2,886	3,029	3,037
	Tangible fixed assets	2,463	2,531	2,569	2,613	2,651
	Total investments	2,370	2,537	2,537	2,537	2,537
	Total assets	11,447	12,173	13,262	12,890	13,102
	Short-term debt	548	655	555	455	355
	Total long-term debt	1,990	2,133	2,133	2,133	2,133
	Total liabilities	5,030	5,410	6,211	5,607	5,577
	Total equity	6,417	6,763	7,051	7,283	7,525
	Total liabilities & equity	11,447	12,173	13,262	12,890	13,102
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(18.6)	15.8	30.7	(16.8)	2.8
	Recurrent EPS growth (%)	11.7	(9.1)	60.0	(26.2)	5.5
	Gross margin (%)	15.7	10.8	18.1	17.2	17.3
	Operating EBITDA margin (%)	6.6	1.6	6.3	5.6	5.6
	Net profit margin (%)	2.9	(1.6)	2.9	2.5	2.6
	Dividend payout ratio (%)	17.0	(38.2)	16.3	22.1	21.0
	Capex/sales (%)	2.3	3.7	2.8	3.3	3.2
	Interest cover (x)	2.23	(1.58)	4.63	3.65	3.90

Source: Company data, RHB

**Perodua currently has an order backlog of c.250k**, and it expects to deliver most of the sales and service tax-exempt orders before end-Mar 2023. At the moment, different Perodua models have varying wait times: 1-2 months for the Atila and Aroz; 4-5 months for the Axia, 5-6 months for the Myvi; 7-8 months for the Bezza. The all new Alza has the longest wait time – potentially up to a year, per our estimates, as there are currently more than 41,000 orders for it, with a current Alza production capacity of 3.5k a month. However, Perodua is looking to shift more production towards the Alza to cater to the strong demand.

**Perodua's first hybrid electric vehicle (HEV) potentially in 2024.** Currently, Perodua is studying the development of a hybrid model, with production potentially in 2024. MBM Resources' (MBM MK; NEUTRAL, TP: MYR3.00) management believes that with the current high cost of EV batteries, a fully-battery electric Perodua would be too expensive for Perodua's target customers. Thus, Perodua will slowly electrify its models by first exploring the more affordable hybrid options.

**Equipment, mechanical & engineering, and aerospace segments** all saw QoQ and YoY improvements following the broad reopening of the economy, which also led to margin recovery. Notably, the auto components and lubricants all saw higher demand in 1H22 given the strong demand for vehicles. Though the aerospace segment is still lagging behind as a result of low delivery of fan cases, it is expected to recover along with the resumption in air travel.

## Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
<b>Revenue</b>	<b>2,445</b>	<b>3,651</b>	<b>3,731</b>	<b>2</b>	<b>53</b>	<b>5,399</b>	<b>7,382</b>	<b>37</b>	2Q22 revenue rose QoQ mainly driven by the automotive segment, on higher car sales
EBIT	21	146	141	(3)	582	110	287	159	
Finance costs	(26)	(39)	(25)	(35)	(1)	(53)	(64)	21	
Investment income	12	13	17	30	36	25	30	18	
Associates	25	97	98	1	288	113	194	72	
<b>Pretax Profit</b>	<b>33</b>	<b>216</b>	<b>230</b>	<b>6</b>	<b>606</b>	<b>195</b>	<b>446</b>	<b>129</b>	2Q22 PBT rose 6% QoQ mainly driven by margin recovery at the equipment and manufacturing & engineering segments from cost saving initiatives, outweighing the decline in automotive margin
Tax	(11)	(43)	(57)	30	411	(50)	(100)	98	
MI	(8)	(54)	(49)	(10)	528	(34)	(103)	204	
<b>Core Net Profit</b>	<b>(20)</b>	<b>109</b>	<b>102</b>	<b>(6)</b>	<b>(602)</b>	<b>77</b>	<b>211</b>	<b>175</b>	2Q22 core profit slipped 6% QoQ mainly due to higher effective tax rate. 1H22 core profit of MYR211m exceeded our and Street estimates
EBIT margin (%)	0.8	4.0	3.8			2.0	3.9		
Pretax margin (%)	1.3	5.9	6.2			3.6	6.0		
Eff tax rate (%)	(34.0)	(20.1)	(24.6)			(25.8)	(22.4)		
Net Margin (%)	(0.8)	3.0	2.7			1.4	2.9		

Source: Company data, RHB

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Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
Automotive	1,982	3,070	3,117	2	57	4,378	6,188	41	QoQ, revenue was higher due to higher car sales and sale of parts
Equipment	300	372	367	(1)	22	632	738	17	QoQ, revenue was marginally lower due to the lower contribution from the industrial equipment sub-segment
Manufacturing & engineering	160	227	226	(0)	42	390	454	16	QoQ, revenue was marginally lower due to lower contribution from the aerospace sub-segment, following the lower delivery of fan cases
Others	3	(18)	20	(212)	510	(1)	2	(294)	YTD, YoY, revenue rose most notably from the auto-components and lubricants sub-segments
<b>Revenue</b>	<b>2,445</b>	<b>3,651</b>	<b>3,731</b>	<b>2</b>	<b>53</b>	<b>5,399</b>	<b>7,382</b>	<b>37</b>	
Automotive	35	206	203	(1)	486	180	409	127	Despite the higher revenue, PBT softened QoQ due to lower margins, which we attribute to costlier car parts and a stronger USD/MYR
Equipment	32	32	35	12	11	54	67	25	Increased QoQ due to margin recovery from various cost saving initiatives
Manufacturing & engineering	(6)	11	13	23	(315)	2	24	922	Increased QoQ due to margin recovery from various cost saving initiatives
Others	(28)	(32)	(21)	33	23	(41)	(53)	30	
<b>PBT</b>	<b>33</b>	<b>216</b>	<b>230</b>	<b>6</b>	<b>606</b>	<b>195</b>	<b>446</b>	<b>129</b>	
<b>PBT Margins</b>									
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		

Source: Company data, RHB

Figure 3: UMW's vehicle sales summary

FYE Dec (units)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21 YTD	1H22 YTD	YoY (%)	Comments
<b>Toyota</b>	<b>16,960</b>	<b>22,447</b>	<b>23,463</b>	<b>4.5</b>	<b>38.3</b>	<b>34,111</b>	<b>45,910</b>	<b>34.6</b>	QoQ growth as there was a rush to deliver orders in June
- Passenger	13,038	14,631	17,019	16.3	30.5	23,638	31,650	33.9	YoY recovery as 1H22 saw COVID-19 related lockdowns
- Commercial	3,922	7,816	6,444	(17.6)	64.3	10,473	14,260	36.2	
<b>Perodua</b>	<b>39,381</b>	<b>61,624</b>	<b>65,719</b>	<b>6.6</b>	<b>66.9</b>	<b>97,290</b>	<b>127,343</b>	<b>30.9</b>	QoQ growth as there was a rush to deliver orders in June, and as 1Q22 saw some supply chain disruptions due to Dec 2021 flash floods
- Passenger	39,381	61,624	65,719	6.6	66.9	97,290	127,343	30.9	YoY recovery as 1H22 saw COVID-19 related lockdowns
- Commercial	0	0	0			0	0		
<b>Total</b>	<b>56,341</b>	<b>84,071</b>	<b>89,182</b>	<b>6.1</b>	<b>58.3</b>	<b>131,401</b>	<b>173,253</b>	<b>31.9</b>	

Source: Company data, RHB

Figure 4: Key assumptions

FYE Dec	Dec-19	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Toyota/Lexus TIV (units) – current	70,009	59,320	72,394	88,000	70,000	72,000
Toyota/Lexus TIV (units) – previous				85,000		
Perodua TIV (units) – current	240,341	220,154	190,291	250,000	210,000	220,000
Perodua TIV (units) – previous				200,000	210,000	210,000

Source: Company data, RHB

## Recommendation Chart

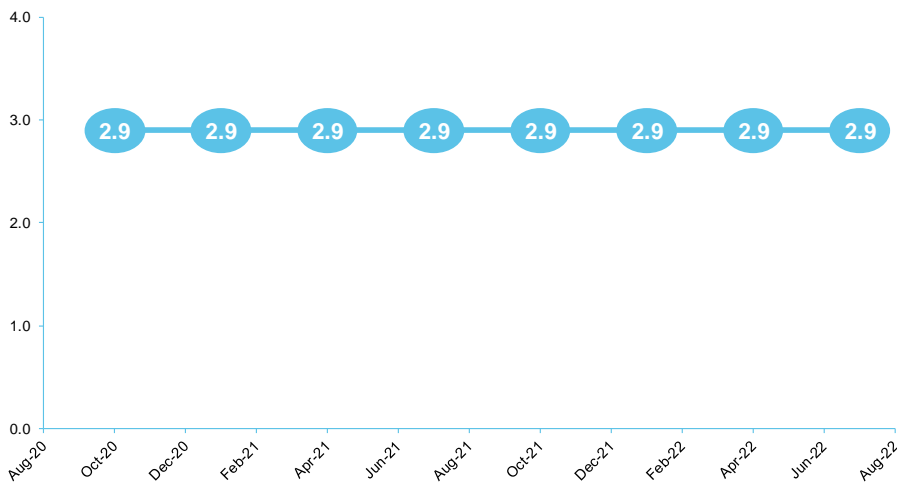


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-07-15	Neutral	2.90	2.83
2022-05-25	Neutral	3.64	3.35
2022-03-15	Neutral	3.29	3.06
2022-02-28	Neutral	3.29	3.07
2021-11-30	Neutral	2.83	3.08
2021-08-27	Neutral	2.94	3.11
2021-07-27	Neutral	2.94	2.91
2021-05-25	Neutral	3.43	3.25
2021-04-22	Neutral	3.40	3.38
2021-02-26	Neutral	2.98	2.99
2020-11-26	Neutral	2.65	2.78
2020-08-28	Neutral	2.40	2.60
2020-06-08	Neutral	2.65	2.89
2020-03-27	Neutral	2.40	2.34
2020-02-28	Sell	2.90	3.16

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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