

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM3.06/Target: RM3.10)

2Q22: Automobile Segment Maintains Strong Performance

2Q22 RESULTS

Year to 31 Dec	2022 (RMm)	qoq % chg	yoy % chg	1H22 (RMm)	yoy % chg	FY	EPS (sen)	PE (x)
Revenue	3,730.8	2.2	52.6	7,381.6	36.7	2022	30.3	10.1
- Auto	3,114.4	1.5	57.3	6,187.5	41.3	2023	26.2	11.7
- Equipment	366.6	(1.4)	22.2	738.4	16.8	2024	32.9	9.3
- M&E	226.4	(0.3)	41.6	453.5	16.2			
Associates & JV	97.8	1.3	287.5	194.3	72.4			
PBT	230.0	6.4	605.9	446.3	128.6			
- Auto	202.9	(1.4)	485.8	408.7	126.9			
- Equipment	35.4	11.6	11.4	67.2	25.0			
- M&E	13.1	22.8	315.4	23.7	922.3			
PATAMI	107.2	5.9	608.0	208.4	173.6			
Core PATAMI	98.0	(1.4)	790.0	197.4	169.3			
Toyota Unit Sales	23,463	4.5	38.3	45,910	34.6			
Perodua Unit Sales	65,719	6.6	66.9	127,343	30.9			
PBT Margin	%	+/- ppts	+/- ppts	%	+/- ppts			
- Overall	6.2	0.3	4.9	6.0	2.4			
- Auto	6.5	(0.2)	4.8	6.6	2.5			
- Equipment	9.7	1.2	(0.9)	9.1	0.6			
- M&E	5.8	1.1	9.6	5.2	4.6			

Source: UMW Holdings, UOB Kay Hian

RESULTS

- **Above expectations.** UMW Holdings (UMW) reported 2Q22 core net profit of RM98m (-1.4% qoq; +790% yoy), bringing 1H22 core net profit to RM197.4m (+169.3%). This accounts for 60% and 57% of our and consensus full-year estimates, respectively. Note that 2Q22 earnings have been adjusted for exceptional items such as: a) reversal of impairment on receivables of RM0.1m, b) gain on disposal of investments of RM0.1m, c) gain on disposal of property, plant and equipment of RM7.2m, d) reversal of inventories of RM2.0m, and e) property, plant and equipment being written off (RM0.02m). The automobile division continues to be the key earnings driver, contributing RM202.9m, or 88%, of the group's profit before tax and zakat (PBTZ) during the quarter, but down 1.4% qoq due to the lower share of profit from an associated company. We deem the results to be above expectations as we expect auto sales in 2H22 to remain robust, supported by high order backlog.
- **The equipment division's profitability continues to increase.** Despite revenue being marginally lower (-1.4% qoq) and affected by the political instability in Myanmar, the segment's PBTZ increased (+11.8% qoq) mainly due to various cost saving initiatives. Separately, UMW expects the division's earnings to improve moving forward in tandem with economic recovery after the peak of the pandemic. The company also guided that high commodity prices and increased demand from construction activities are expected to contribute positively.
- **Manufacturing and engineering (M&E) revenue continues to be dragged down** by the aerospace unit, following the lower delivery of fan cases to Rolls-Royce. This is expected to improve in 2H22 as management guided that the fan cases orders have doubled from 1H22 and to improve further in 2023 followed by the continuous growth in air passenger and cargo traffic. On the other hand, the ongoing higher demand for vehicles in 2H22 will catalyse the growth in the auto components sub-segment.

STOCK IMPACT

- **The company has revised their sales target of 92,000 units for 2022 vs our new forecast of 87,000.** We previously guided that UMW expects to sell 73,000 units in 2022. Due to strong sales in 1H22 and encouraging outstanding orders as of Aug 22 (300,000 units from both Toyota and Perodua), the company has revised their 2022 sales target. This prompted us to raise our 2022 forecast by 19% as the launches of new model gain positive traction, supported by a strong order backlog that will cushion the deliveries of cars at least for the next 6-8 months. Management clarified that the chip and component shortages would have minimal impact on the company's production as it has secured enough for 2022 production but we are still slightly conservative with our target as we have taken into consideration: a) a worse-than-expected shortage of chips and components, and b) cancellation of orders due to long waiting time (more than six months).

EARNINGS REVISION/RISKS

- **Adjust 2022-24 earnings forecasts higher by 4-8%.** We are forecasting earnings growth of 8%, 6% and 4% in 2022-24 respectively, as we raise our sales target to account for strong order backlog that will cushion the deliveries of cars for the next 6-8 months (Aug 22-Mar 23).

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM3.10 from RM3.00.** This is still based on 12x 2023F target PE (which is the sector's five-year mean). We expect car sales to be supported by its first locally-assembled hybrid EV (Toyota Corolla Cross) and Toyota Camry new facelift. Meanwhile, volume in 2023 would be supported by: a) the newly-launched Toyota Veloz, which replaces the now-discontinued Toyota Avanza, and b) the introduction of the all-new Perodua Alza which is gaining traction at a faster-than-expected rate.

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