

HLIB Research

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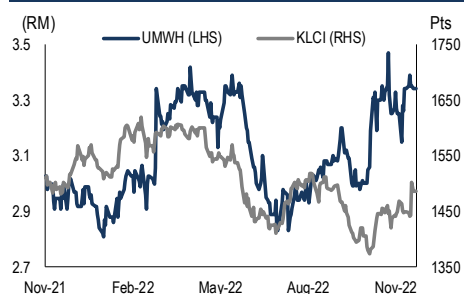
BUY (Maintain)

Target Price: RM3.85
Previously: RM3.85
Current Price: RM3.33

Capital upside	15.6%
Dividend yield	2.4%
Expected total return	18.0%

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


Historical return (%)	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)	3,890
3-mth average volume ('000)	469
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

Permodalan Nasional Berhad	60.5%
Employees Provident Fund	11.6%
Kumpulan Wang Persaraan	8.8%

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)	24.5	8.8	10.7

UMW Holdings

Sustaining momentum

Reported core 3QFY22 PATMI RM115.4m (vs. +15.5% QoQ; -RM75.0m YoY) and RM325.4m for 9MFY22 (vs. -RM7.0m YoY), within HLIB's forecast (74.0%), but above consensus (85.8%). We expect continued strong quarters ahead, leveraging onto the strong order backlogs of Automotive segment, on-going recovery of Equipment and M&E segments in tandem with the economic recovery. Maintain BUY with an unchanged TP: RM3.85 based on 10% discount to SOP: RM4.26.

Within expectation. UMW reported core PATMI of RM115.4m for 3QFY22 (vs. +15.5% QoQ; -RM75.0m YoY) and RM325.4m for 9MFY22 (vs. -RM7.0m YoY). We deem the result within HLIB's FY22 forecast (74.0%), but above consensus (85.8%). -RM16.3m EIs were adjusted for 9MFY22 – fair value loss on derivative, unrealised forex loss and PPE write-offs, partially offset by disposal gain of PPEs and reversal of impairments.

Dividend. Declared an interim dividend of 3 sen/share (ex-date: 29 Nov 2022).

QoQ. Core PATMI improved +15.5% to RM115.4m in 3QFY22, mainly due to higher contributions from Equipment segment (higher sales revenue) and lower losses from Others segment (lower operating costs).

YoY/YTD. Core PATMI turnaround to RM115.4m in 3QFY22 (vs. -RM75.0m SPLY) and RM325.4m in 9MFY22 (vs. -7.0m SPLY), mainly driven by stronger contribution across all segments as the economy fully reopened during the year (vs. various lockdowns SPLY). Automotive segment recorded higher sales and delivery volume. Similarly, both Equipment and Manufacturing segments also saw improvement in sales revenue with higher demand from both local and foreign markets.

Automotive. We continue to see strong performance in subsequent quarters, leveraging onto the strong order backlogs. Both Toyota and Perodua continues to push production in order to address the high order backlogs (over 60k units for Toyota and 200k units for Perodua). Supply chain has continued to improve over the quarters. Toyota is expected to set a similar sales target for 2023 as compare to 2022's c.90k units. However, the increased raw material costs and depreciated RM vs USD have affected the net margins as seen in 3QFY22 and cost-optimization measurements are in place to offset the negative impact. Toyota will focus more onto HEV models as EV costing is still out of reach for a large segment of the market.

Equipment. The segment has been improving in tandem with the economic recovery post pandemic in the region. Heavy equipment continues to leverage onto the resumption of construction and infrastructure activities. Industrial equipment remains healthy by leveraging onto manufacturing, F&B and logistics sectors.

M&E. Both automotive parts (Kayaba) and lubricants are riding on the strong domestic automotive recovery. Kayaba has seen improvement of +31.5% in 9MFY22, while lubricants will have its new smart plant commencing early 2023. Aerospace manufacturing continues to recover with higher demand for fan cases as airlines reinstate flying capacity and is expected to breakeven in FY22.

Forecast. Unchanged.

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 ride 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			379	358	370
HLIB/Concensus (%)			116.0%	101.1%	107.5%

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)	27.7	24.4	8.8	10.7	9.8
DPS (sen)	4.0	5.8	8.0	7.0	8.0
Dividend yield (%)	1.2%	1.7%	2.4%	2.1%	2.4%
BVPS (RM)	3.31	3.43	3.73	3.96	4.23
P/B (x)	1.0	1.0	0.9	0.8	0.8
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)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MY21	9MY22	YoY (%)
Revenue	2,016.4	3,730.8	4,057.5	8.8%	101.2%	7,415.7	11,439.1	54.3%
EBITDA	103.3	215.3	272.8	26.7%	164.1%	387.2	731.8	89.0%
EBIT	19.5	131.8	183.8	39.5%	843.3%	135.8	477.5	251.5%
Net finance expense	(20.5)	(9.3)	(5.0)	-46.1%	-75.4%	(58.4)	(45.6)	-21.9%
Associates	(5.7)	97.8	72.8	-25.6%	N.M.	107.1	267.1	149.5%
Eis	23.1	9.8	(20.1)			27.3	(21.2)	
Reported PBT	16.5	230.0	231.5	0.6%	1305.5%	211.8	677.8	220.1%
Tax	(26.0)	(56.5)	(72.1)	27.6%	177.1%	(76.4)	(172.1)	125.2%
Reported operation net profit	(9.6)	173.5	159.4	-8.2%	N.M.	135.3	505.7	273.7%
Reported PATMI	(47.9)	107.2	100.7	-6.1%	N.M.	80.5	309.1	283.9%
Exceptionals	(27.1)	(7.3)	14.7	N.M.	N.M.	(87.5)	16.3	N.M.
Core PATMI	(75.0)	99.9	115.4	15.5%	N.M.	(7.0)	325.4	N.M.
Reported EPS (Sen)	(4.1)	9.2	8.6	-6.1%	N.M.	2.4	26.5	993.6%
Core EPS (Sen)	(6.4)	8.6	9.9	15.5%	N.M.	(0.6)	27.9	N.M.
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	5.1%	5.8%	6.7%	1.0	1.6	5.2%	6.4%	1.2
EBIT margin (%)	1.0%	3.5%	4.5%	1.0	3.6	1.8%	4.2%	2.3
Core PATMI margin (%)	-3.7%	2.7%	2.8%	(0.7)	1.9	-0.1%	2.8%	1.0

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Figure #2 Quarterly results comparison by segment

FYE Dec (RMm)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MY21	9MY22	YoY (%)
Reported Revenue								
Automotive	1,590.8	3,117.4	3,427.6	10.0%	115.5%	5,968.7	9,615.1	61.1%
Equipment	316.0	366.6	394.4	7.6%	24.8%	948.3	1,132.7	19.4%
Manufacturing & Engineering	110.3	226.4	252.2	11.4%	128.7%	500.5	705.7	41.0%
Others	(0.7)	20.4	(16.6)	-181.3%	2449.2%	(1.8)	(14.5)	718.6%
Total	2,016.4	3,730.8	4,057.5	8.8%	101.2%	7,415.7	11,439.1	54.3%
Reported PATMI								
Automotive	7.4	118.1	97.3	-17.6%	1213.7%	129.4	341.4	163.7%
Equipment	16.9	24.7	34.7	40.4%	105.3%	55.7	80.7	44.8%
Manufacturing & Engineering	(1.9)	5.1	4.3	-15.6%	-321.3%	(8.9)	13.0	-246.4%
Others	(70.3)	(40.8)	(35.6)	-12.6%	-49.3%	(95.8)	(126.0)	31.6%
Total	(47.9)	107.2	100.7	-6.1%	N.M.	80.5	309.1	283.9%
Core PATMI	(75.0)	99.9	115.4	15.5%	N.M.	(7.0)	325.4	N.M.

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Figure #3 UMW automotive sales statistics

FYE Dec (Units)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MY21	9MY22	YoY (%)
Toyota	11,856	23,179	24,683	6.5%	108.2%	45,561	70,132	53.9%
Lexus	151	284	278	-2.1%	84.1%	557	739	32.7%
Perodua	21,803	65,719	69,011	5.0%	216.5%	119,093	196,354	64.9%
Total	33,810	89,182	93,972	5.4%	177.9%	165,211	267,225	61.7%

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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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Stock rating guide

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.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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