

30 November 2022

# UMW Holdings

## Benefitting from Economy Reopening

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UMW's 9MFY22 results met expectations. It chalked up strong sales (as the economy reopened) and robust margins (due to high-margin new models and better pricing power at its equipment and manufacturing division amidst supply constraints in various industries). UMW is optimistic about Toyota and Perodua sales in 2022 hitting new records, at 90k-97k units and 270k-290k units, respectively. We maintain our forecasts, TP of RM4.80 and OUTPERFORM call.

**Within expectations.** UMW's 9MFY22 results came in at 68% of our, and 77% of consensus, full-year estimate. We deemed the results within our forecast though beating market expectations as we expect a bumper 4Q as the final quarter is seasonally the strongest quarter, buoyed by year-end stock clearance promotional efforts.

**YoY,** 9MFY22 revenue rose 54% driven by: (i) strong sales from automotive division (+61%) due to robust demand for Toyota (+54% to 70,872 units) and Perodua (+65% to 196,354 units) as the economy reopened, (ii) strong automotive sales which boosted its manufacturing & engineering division (+41%) 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 (+19%) as construction and manufacturing activities returned to normalcy. The share of profit from associates rose sharply (+150%) driven by strong car sales (Bezza, Alza, Axia, Myvi, Ativa and Aruz) at Perusahaan Otomobil Kedua Sdn Bhd. 9MFY22 core net profit turned to the black at RM290.3m compared to net loss of RM27.7m last year, due to better margins at both vehicle dealerships (due to high-margin new models, i.e. Toyota Corolla Cross, Toyota Hilux, 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).

**QoQ,** 3QFY22 revenue rose 9% driven by: (i) strong demand for Toyota (+6% to 24,961 units) and Perodua (+5% to 69,011 units) with the easing of supply chain disruption, (ii) recovery in construction sector which benefitted equipment sales (+8%), and (iii) improved M&E segment (+11%) with accelerated recovery in aviation sector. The share of profit from associates fell 26% due to rising costs on unfavourable forex but was maintained at the manageable level. Effective tax rate was higher at 31.2% vs. 24.6% from higher recognition of prosperity tax. Consequentially, 3QFY22 core net profit was lower by 5%.

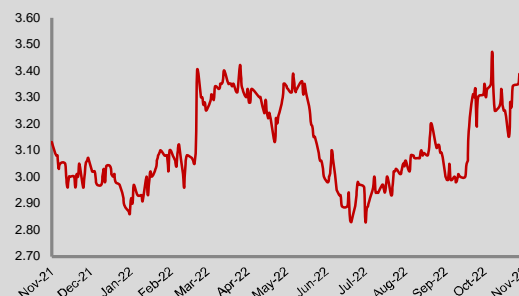
The key takeaways from the results briefing are as follows:

1. UMW guided for Toyota 2022 sales of 90k-97k units which translate to 24%-31% YoY growth, surpassing its official target of 80,000 units. We are keeping our Toyota TIV assumptions of 90,000 units and 91,000 units for FY22 and FY23, respectively. Currently, order backlog for Toyota vehicles remain strong at 60k units.
2. UMW echoed MBMR's guidance for Perodua 2022 sales of 270k-290k units which translate to a 42%-52% YoY growth, surpassing Perusahaan Otomobil Kedua Sdn Bhd's official target of 247,800 units. We are keeping our Perodua TIV assumptions of 270,000 units and 280,000 units for FY22 and FY23, respectively. Currently, order backlog for Perodua vehicles remain strong at >200k units.

# OUTPERFORM ↔

Price: **RM3.33**  
Target Price: **RM4.80** ↔

### Share Price Performance



KLCI	1,476.96
YTD KLCI chg	-5.8%
YTD stock price chg	12.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK EQUITY
Market Cap (RM m)	3,890.4
Shares Outstanding	1,168.3
52-week range (H)	3.48
52-week range (L)	2.77
3-mth avg daily vol:	468,609
Free Float	30%
Beta	0.9

### Major Shareholders

Amanah Saham Nasional	53.5%
Employees Provident Fund	11.6%
KWAP	8.8%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Revenue	11,060.8	15,260.1	16,057.0
EBIT	934.4	1,028.8	1,171.0
PBT	482.8	738.1	752.9
<b>PATAMI</b>	<b>268.2</b>	<b>424.9</b>	<b>433.3</b>
<b>Core net profit</b>	<b>223.2</b>	<b>424.9</b>	<b>433.3</b>
Consensus NP	-	379.4	358.2
Earnings Revision	-	-	-
Core EPS (sen)	19.1	36.4	37.1
C.EPS growth (%)	-2.9	90.4	2.0
NDPS (sen)	5.8	6.0	6.0
BVPS (RM)	3.52	3.83	4.14
Core PER (x)	17.4	9.2	9.0
PBV (x)	0.9	0.9	0.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.7	1.8	1.8

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3. Both UMW and Perusahaan Otomobil Kedua Sdn Bhd are committed to a gradual transition towards electric vehicles. UMW shared that their Corolla Cross hybrid launched in January 2022 received overwhelming responses from the market, and together with Perusahaan Otomobil Kedua Sdn Bhd, it will gradually increase localisation ecosystem of hybrid and electric vehicles to make them more affordable in the local market.

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 >250k units of vehicles, and (iii) it being a reopening play, given the pickup seen in its heavy/industrial equipment business and manufacturing of aero engine fan cases.

**Forecasts.** We maintain our forecasts and TP of RM4.80 based on an ascribed 13x FY23F PER, 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.

**Result Highlight**

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	4,057.5	3,730.8	9%	2,016.4	101%	11,439.1	7,415.7	54%
Associates and JV	72.8	97.8	-26%	(5.7)	1383%	267.1	107.1	150%
EBIT	252.8	255.5	-1%	41.8	505%	763.6	290.2	163%
PBT	231.5	230.0	1%	16.5	1305%	677.8	211.8	220%
Taxation and Zakat	(72.1)	(56.5)	-28%	(26.0)	-177%	(171.1)	(76.4)	-124%
<b>PATAMI</b>	<b>100.7</b>	<b>107.2</b>	<b>-6%</b>	<b>(47.9)</b>	<b>310%</b>	<b>309.1</b>	<b>28.3</b>	<b>994%</b>
<b>Core Net Profit</b>	<b>93.0</b>	<b>97.8</b>	<b>-5%</b>	<b>(77.2)</b>	<b>221%</b>	<b>290.3</b>	<b>(27.7)</b>	<b>1148%</b>
Core EPS (sen)	8.0	8.4	-5%	(6.6)	221%	24.8	(2.4)	1153%
DPS (sen)	3.0	-	-	-	-	3.0	-	-
EBIT margin	6.2%	6.8%		2.1%		6.7%	3.9%	
PBT margin	5.7%	6.2%		0.8%		5.9%	2.9%	
Core NP margin	2.3%	2.6%		-3.8%		2.5%	-0.4%	
Effective tax rate	31.2%	24.6%		158.0%		25.2%	36.1%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
<b>Revenue</b>	<b>4,057.5</b>	<b>3,730.8</b>	<b>9%</b>	<b>2,016.4</b>	<b>101%</b>	<b>11,439.1</b>	<b>7,415.7</b>	<b>54%</b>
Automotive	3,424.6	3,117.4	10%	1,590.8	115%	9,612.1	5,968.7	61%
Equipment	394.4	366.6	8%	316.0	25%	1,132.7	948.3	19%
M&E	252.2	226.4	11%	110.3	129%	705.7	500.5	41%
Others	(13.6)	20.4	N/A	(0.7)	N/A	(11.5)	(1.8)	N/A
<b>Segment PBT/(LBT)</b>	<b>231.5</b>	<b>230.0</b>	<b>1%</b>	<b>16.5</b>	<b>1305%</b>	<b>677.8</b>	<b>211.8</b>	<b>220%</b>
Automotive	183.6	202.9	-10%	27.4	570%	592.3	207.6	185%
Equipment	50.0	35.4	41%	24.3	106%	117.2	78.1	50%
M&E	13.4	13.1	3%	8.2	64%	37.1	10.5	254%
Others	(15.5)	(21.3)	N/A	(43.4)	N/A	(68.7)	(84.4)	N/A
<b>Segment Margin</b>								
Automotive	5.4%	6.5%		1.7%		6.2%	3.5%	
Equipment	12.7%	9.7%		7.7%		10.3%	8.2%	
M&E	5.3%	5.8%		7.4%		5.3%	2.1%	

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.
<b>Stocks Under Coverage</b>																	
BERMAZ AUTO BHD	OP	1.92	2.30	19.79%	2,229.1	Y	04/2023	14.1	16.1	5.1%	14.4%	13.6	11.9	3.2	24.4%	9.9	5.2%
DRB-HICOM BHD	OP	1.53	1.70	11.11%	2,957.5	Y	12/2022	15.7	20.6	44.4%	30.9%	9.7	7.4	0.3	3.3%	2.0	1.3%
MBM RESOURCES BHD	OP	3.36	4.45	32.44%	1,313.4	Y	12/2022	58.7	63.8	36.7%	8.6%	5.7	5.3	0.6	10.2%	22.0	6.5%
SIME DARBY BHD	OP	2.19	2.60	18.72%	14,894.2	Y	06/2023	17.3	19.0	-1.8%	10.1%	12.7	11.5	0.9	7.3%	12.0	5.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.14	0.850	-25.44%	766.1	Y	12/2022	(3.6)	(1.0)	-233.0%	-128.1%	N.A.	N.A.	0.3	-0.9%	3.0	2.6%
UMW HOLDINGS BHD	OP	3.33	4.80	43.71%	3,902.1	Y	12/2022	36.4	37.1	90.6%	1.9%	9.2	9.0	0.5	5.8%	6.0	1.8%
<b>Simple Average</b>								<b>23.1</b>	<b>25.9</b>	<b>-9.7%</b>	<b>-10.4%</b>	<b>10.2</b>	<b>9.0</b>	<b>1.0</b>	<b>8.3%</b>		<b>3.8%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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