

30 November 2022

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

Ending 2022 With Momentum

Target Price (Return): MYR3.35 (+1%)
 Price (Market Cap): MYR3.33 (USD868m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.43m/0.31m

- **Stay NEUTRAL, with new MYR3.35 TP from MYR3.10, 1% upside.** 9M22 earnings beat our and Street's estimates, mainly on stronger-than-expected unit sales and revenue. While the USD/MYR has strengthened 6% in 3Q22, UMW Toyota's (UMWT) cost containment measures have helped it limit the impact. Despite car orders improving MoM and supply constraints easing, we maintain our cautious view on 2023's outlook.
- **Results beat.** 3Q22's MYR115m profit brought 9M22 earnings to MYR326m, exceeding expectations at 79% and 86% of our and Street's full-year estimates. The deviation was mainly on higher-than-expected unit sales and, hence, revenue. UMW pleasantly surprised with an interim DPS of 3 sen, signalling that it will strive to gradually increase its payout ratio. Hence, we lift our FY22F-24F DPS to 10-9 sen from 5.8 sen each.
- **Results highlights.** Revenue rose 9% QoQ, mainly on automotive revenue (+10%) due to a combination of higher volumes (+5%) and selling prices. Automotive's PBT margin softened 10% on UMWT's higher COGS (its PBT margin softened 0.2ppts on higher USD/MYR) and lower associate contributions – due to Perodua's higher materials and labour costs.
- **Perodua outlook.** Management has indicated that Perodua has secured sufficient chip and component supplies for the rest of 2022. Given that Perodua's October plant utilisation softened to 77% due to a week-long scheduled plant shutdown, we expect Perodua to continue operating at close to full capacity for the rest of the year to deliver outstanding Sales & Service Tax (SST)-exempt orders, which Perodua can likely fulfil before end Mar 2023. Since dipping in July, Perodua's orders have continued to recover MoM and it currently has an outstanding orderbook of 200k. In light of the robust orders, we revise 2022F-2024F unit sales to 265k-230k from 250k-220k. Separately, Perodua is striving to ramp up its exports but, given its limited supplies to cater to domestic demand and lack of major expansion plans, we think this will take some time to bear fruit. We believe the hot-selling Alza and its future 2023 model could support orders moving forward.
- **UMWT outlook.** UMWT has also secured sufficient supplies for 2022, which we think allows it to fulfil most SST-exempt orders before end Mar 2023. In October, 10M22 sales of 80,152 units surpassed its new target of 80k units. We also lift our 2022F unit sales to 98k from 88k.
- **Forecasts.** After accounting for higher automotive unit sales and revised USD/MYR assumptions (Figure 4), we lift FY22F-24F earnings by 8-9%. The higher earnings lift our TP to MYR3.35 based on an unchanged 12x FY23F P/E and 2% ESG discount. While we expect a strong 4Q22, we maintain NEUTRAL on UMW, as we are still cautious on softening UMWT and Perodua sales in FY23, especially given Perodua's disproportionate vulnerability to macroeconomic headwinds.
- **Key risks** include weaker-than-expected orders and deliveries, softer-than-expected margins, and stronger-than-expected USD/MYR. The converse represents the key upside risks.

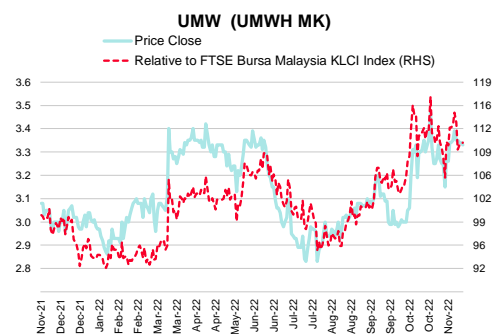
Analyst

Jim Lim Khai Xiang
 +603 9280 8683
jim.lim@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.1	0.0	10.3	0.0	8.1
Relative	17.9	(2.0)	11.9	4.5	10.3
52-wk Price low/high (MYR)	2.83 – 3.47				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	9,555	11,061	15,664	13,252	13,705
Recurring net profit (MYRm)	285	259	446	334	352
Recurring net profit growth (%)	11.7	(9.1)	72.1	(25.1)	5.5
Recurring P/E (x)	13.66	15.02	8.73	11.65	11.05
P/B (x)	1.0	0.9	0.8	0.8	0.7
P/CF (x)	4.11	14.87	16.21	6.84	9.14
Dividend Yield (%)	1.2	1.7	3.0	2.4	2.7
EV/EBITDA (x)	5.47	15.95	2.78	3.42	3.17
Return on average equity (%)	7.3	(4.4)	10.2	7.0	6.8
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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.24	0.22	0.38	0.29	0.30
Consumer Cyclical	DPS	0.04	0.06	0.10	0.08	0.09
UMW	BVPS	3.31	3.52	3.92	4.25	4.58
UMWH MK	Return on average equity (%)	7.3	(4.4)	10.2	7.0	6.8
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	13.66	15.02	8.73	11.65	11.05
12x P/E on forward earnings	P/B (x)	1.0	0.9	0.8	0.8	0.7
	FCF Yield (%)	18.6	(3.7)	(4.1)	4.3	0.7
Key drivers	Dividend Yield (%)	1.2	1.7	3.0	2.4	2.7
i. Introduction of attractive new car models;	EV/EBITDA (x)	5.47	15.95	2.78	3.42	3.17
ii. Long term growth potential from aerospace business.	EV/EBIT (x)	13.42	na	4.37	5.86	5.43
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	9,555	11,061	15,664	13,252	13,705
i. Weaker-than-expected orders and deliveries;	Gross profit	1,500	1,194	2,852	2,285	2,378
ii. Softer-than-expected margins;	EBITDA	632	172	994	732	756
iii. Stronger-than-expected USD/MYR.	Depreciation and amortisation	(374)	(344)	(360)	(305)	(315)
	Operating profit	258	(171)	634	427	440
Company Profile	Net interest	(116)	(108)	(124)	(107)	(103)
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.	Pre-tax profit	401	37	954	651	681
	Taxation	(78)	33	(228)	(90)	(94)
	Reported net profit	274	(177)	446	334	352
	Recurring net profit	285	259	446	334	352
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	460	(221)	(252)	136	(24)
	Cash flow from operations	946	262	240	569	426
	Capex	(221)	(406)	(400)	(400)	(400)
	Cash flow from investing activities	(110)	12	(4)	(125)	(113)
	Dividends paid	(23)	(68)	(117)	(93)	(105)
	Cash flow from financing activities	(602)	(275)	(358)	(281)	(299)
	Cash at beginning of period	1,472	2,051	2,941	2,820	2,983
	Net change in cash	234	(2)	(121)	163	14
	Ending balance cash	1,703	2,057	2,820	2,983	2,997
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	2,051	2,941	2,820	2,983	2,997
	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	13,519	13,176	13,426
	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	6,498	5,933	5,960
	Total equity	6,417	6,763	7,021	7,244	7,466
	Total liabilities & equity	11,447	12,173	13,519	13,176	13,426
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(18.6)	15.8	41.6	(15.4)	3.4
	Recurrent EPS growth (%)	11.7	(9.1)	72.1	(25.1)	5.5
	Gross margin (%)	15.7	10.8	18.2	17.2	17.4
	Operating EBITDA margin (%)	6.6	1.6	6.3	5.5	5.5
	Net profit margin (%)	2.9	(1.6)	2.8	2.5	2.6
	Dividend payout ratio (%)	17.0	(38.2)	26.2	28.0	29.9
	Capex/sales (%)	2.3	3.7	2.6	3.0	2.9
	Interest cover (x)	2.23	(1.58)	5.11	3.98	4.26

Source: Company data, RHB

Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	2,016	3,731	4,057	9	101	7,416	11,439	54	QoQ, revenue rose mainly lifted by higher automotive revenue.
EBIT	38	141	163	16	327	149	450	203	
Finance costs	(25)	(25)	(21)	(16)	(16)	(78)	(86)	9	
Investment income	9	17	17	(2)	80	34	46	35	
Associates	(6)	98	73	(26)	N.M.	107	267	150	
Pretax Profit	16	230	231	1	1,305	212	678	220	QoQ, due to softer automotive margins, PBT rose by a slower 1%.
Tax	(26)	(57)	(72)	28	177	(76)	(172)	125	
MI	(21)	(49)	(41)	(16)	97	(55)	(144)	163	
Core Net Profit	(80)	102	115	12	N.M.	(7)	326	N.M.	QoQ, after adjusting for non-core income and loss, core net profit rose 12%, above our and Street's expectations.
<i>EBIT margin (%)</i>	1.9	3.8	4.0			2.0	3.9		
<i>Pretax margin (%)</i>	0.8	6.2	5.7			2.9	5.9		
<i>Eff tax rate (%)</i>	(158.0)	(24.6)	(31.2)			(36.1)	(25.4)		
<i>Net Margin (%)</i>	(4.0)	2.7	2.8			(0.1)	2.9		

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Automotive	1,591	3,117	3,428	10	115	5,969	9,615	61	QoQ, higher revenue due to higher unit sales and average selling prices. YoY, higher revenue purely due to higher unit sales (+62%).
Equipment	316	367	394	8	25	948	1,133	19	QoQ, higher revenue due to higher contribution from the Industrial Equipment sub-segment.
Manufacturing & engineering	110	226	252	11	129	500	706	41	
Others	(1)	20	(17)	(181)	2,449	(2)	(14)	719	
Revenue	2,016	3,731	4,057	9	101	7,416	11,439	54	
Automotive	27	203	184	(10)	570	208	592	185	Despite earnings growth, PBT fell QoQ on higher USD/MYR costs, and lower associate contribution, as Perodua incurred higher labour and material costs in 3Q22.
Equipment	24	35	50	41	106	78	117	50	QoQ, higher PBT due to higher contribution from the Industrial Equipment sub-segment.
Manufacturing & engineering	8	13	13	3	64	10	37	254	
Others	(43)	(21)	(15)	27	64	(84)	(69)	(19)	
PBT	16	230	231	1	1,305	212	678	220	
PBT Margins									
<i>Automotive</i>	1.7	6.5	5.4			3.5	6.2		
<i>Equipment</i>	7.7	9.7	12.7			8.2	10.3		
<i>Manufacturing & engineering</i>	7.4	5.8	5.3			2.1	5.3		

Source: Company data, RHB

Figure 3: UMW's vehicle sales summary

FYE Dec (units)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21 YTD	9M22 YTD	YoY (%)	Comments
Toyota	12,007	23,463	24,961	6.4	107.9	46,118	70,871	53.7	QoQ improvement is thanks to the easing supply chain bottlenecks, allowing UMWT to fulfil more outstanding SST-exempt orders in 3Q22. YoY, 9M22 saw higher unit sales compared to a locked-down-9M21.
- Passenger	9,252	17,019	17,340	1.9	87.4	32,890	48,990	49.0	
- Commercial	2,755	6,444	7,621	18.3	176.6	13,228	21,881	65.4	
Perodua	21,803	65,719	69,011	5.0	216.5	119,093	196,354	64.9	QoQ, unit sales improved as Perodua's utilisation rate improved to 83% from 77%, thanks to easing supply chain bottlenecks. YoY, 9M22 saw higher unit sales compared to a locked-down-9M21.
- Passenger	21,803	65,719	69,011	5.0	216.5	119,093	196,354	64.9	
- Commercial	0	0	0			0	0		
Total	33,810	89,182	93,972	5.4	177.9	165,211	267,225	61.7	

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	98,000	80,000	83,000
Toyota/Lexus TIV (units) – previous				88,000	70,000	72,000
Perodua TIV (units) – current	240,341	220,154	190,291	265,000	220,000	230,000
Perodua TIV (units) – previous				250,000	210,000	220,000
USD/MYR (annual average) – current	4.14	4.20	4.15	4.42	4.68	4.50
USD/MYR (annual average) – previous				4.38	4.35	4.25

Source: Company data, RHB

Recommendation Chart

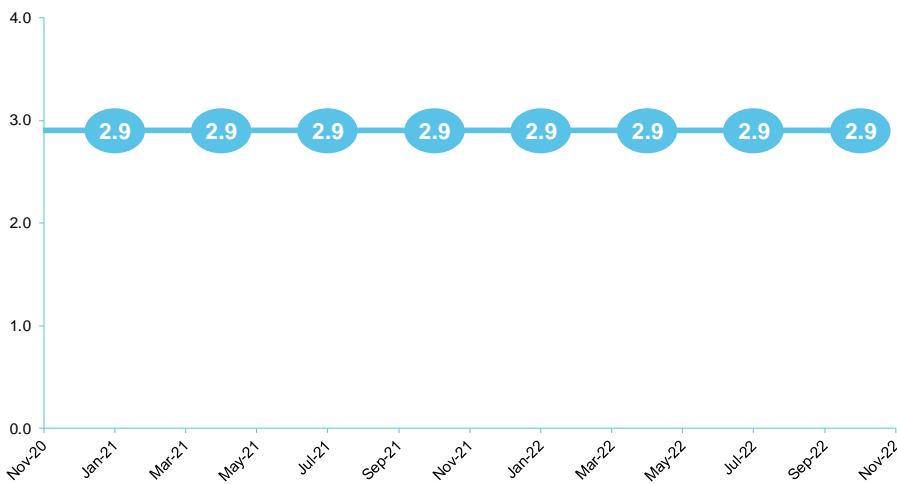


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-28	Neutral	3.10	3.06
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470