

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM3.34/Target: RM3.30)

3Q22: Above Expectations, Improvement In All Business Segments

Year to 31 Dec	3Q22 (RMm)	qoq % chg	yoy % chg	9M22 (RMm)	yoy % chg	FY	EPS (sen)	PE (x)
Revenue	4,057.5	8.8	101.2	11,439.1	54.3	2022	34.4	9.7
- Auto	3,427.6	10.0	115.4	9,615.1	61.1	2023	27.2	12.3
- Equipment	394.4	7.6	24.8	1,132.7	19.4	2024	33.8	9.9
- M&E	252.8	11.4	129.2	705.7	41.1			
Associates & JV	72.8	(25.6)	(1,383.4)	267.1	149.5			
PBT	231.5	0.6	1305.5	677.8	220.1			
- Auto	184.0	(9.5)	579.8	592.3	185.9			
- Equipment	50.0	41.0	108.2	117.2	50.7			
- M&E	13.4	2.8	67.7	37.1	259.6			
PATAMI	100.7	(6.1)	310.2	309.1	993.6			
Core PATAMI	93.2	(4.9)	1,074.7	290.6	355.9			
Toyota Unit Sales	24,961	6.4	107.9	70,871	53.7			
Perodua Unit Sales	69,011	5.0	216.5	196,354	64.9			
PBT Margin	%	+/- ppts	+/- ppts	%	+/- ppts			
Overall	5.7	0.5	4.9	5.9	3.0			
Auto	5.4	(1.1)	3.7	6.2	2.7			
Equipment	12.7	3.0	5.1	10.4	2.2			
M&E	5.3	0.5	(2.0)	5.3	3.2			

Source: UMW Holdings, UOB Kay Hian

RESULTS

- 3Q22 results above expectations.** UMW reported a core net profit of RM93.2m (-4.9% qoq, +1074.7% yoy) bringing 9M22 profit to RM290.6m (+366% yoy). This accounts for 82% and 77% of our and consensus' full-year earnings expectations respectively after adjusting for exceptional items of RM7.5m. The strong earnings growth was supported by double-digit growth across all business segments; automobile (+580% yoy), equipment (+108% yoy) and manufacturing and engineering (M&E) (+68% yoy). The group benefitted from strong sales momentum following the resumption of economic activities as opposed to full movement control order (FMCO) in the previous year. We deem this above expectations as we expect auto sales for the rest of the year to remain strong, supported by high order backlog.
- The equipment division continued to grow.** 3Q22 revenue increased 7.6% qoq and 24.8% yoy to RM394.4m, mainly due to the improved demand for the segment's products and services in the local and international markets. In tandem with the increase in revenue, the segment's profit before tax and zakat (PBTZ) more than doubled from the previous year to RM50m. Following the transition to endemicity and the restart of construction and infrastructure operations in the nations that the equipment section operates, the equipment segment's growth outlook remains optimistic. In the meantime, the industrial equipment sub-segment will remain committed to increasing its forklift refurbishment business.
- Manufacturing and engineering (M&E).** Although the aerospace industry is still gradually recovering, segment revenue and PBTZ remained robust at RM252.8m (+11.4% qoq, +129% yoy) and RM13.4m (+2.8% qoq, +67.7% yoy). However, this is expected to improve in 2023 followed by the continuous growth in air passenger and cargo traffic, which will lead to higher demand for planes. Furthermore, the expected strong car sales momentum in 4Q22 will catalyse growth in the auto components sub-segment.

EARNINGS REVISION/RISKS

- Revise FY22 sales target.** We previously guided that UMW expects to sell 92,000 units in 2022. However, in 10M22, UMW had sold around 80,000 units, and expected to deliver 8,000-9,000 units monthly for the rest of the year. Meanwhile, Perodua recorded strong sales as of 30 Oct 22, at 222,203 units. In addition to the current strong order backlog (300,000 units for both Toyota and Perodua), we lift our Toyota and Perodua target to 95,000 units (vs initial target of 87,000 units) and 260,000 units (vs initial target of 245,000 units). Note that 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 the long waiting time (more than six months).
- Raise 2022-24 earnings forecasts by 3-13%.** We are forecasting earnings growth of 13%, 4% and 3% in 2022-24 respectively, as we raise our sales target to account for the strong order backlog that will cushion the deliveries of cars for the next 5-6 months (Nov 22-Mar 23).

VALUATION/RECOMMENDATION

- Maintain HOLD with a higher target price of RM3.30 (from RM3.10).** This is 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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