

“Strong auto deliveries for 2022
but cautious outlook ahead”

Share price performance



	1M	3M	12M
Absolute (%)	4.2	18.0	27.1
Rel KLCI (%)	7.1	20.4	38.8

	BUY	HOLD	SELL
Consensus	11	3	-

Source: Bloomberg

Stock Data

Sector	Automotive
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	4603.1/1027.7
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	2.77-4.04
Est free float	29.0%
Stock Beta	0.83
Net cash/(debt) (RMm)	1,322.39
ROE (CY23E)	7.8%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	28.2 (0.0 yoy)

Key Shareholders

PNB	55.2%
EPF	10.2%
KWSP	9.1%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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UMW Holdings (UMWH MK)

SELL (downgrade)

Up/Downside: -12.6%

Price Target: RM3.45

Previous Target (Rating): RM3.45 (Hold)

Results below expectations

- **UMW's 2022 core net profit jumped by 131% yoy to RM370m on the back of strong auto deliveries made during the sales tax exemption period, but still fell below our and consensus estimates**
- **Sequentially, UMW's 4Q22 revenue showed an improvement of 7.8% qoq supported by continued growth momentum across all segments, with Automotive segment accounting for 85% of the total contribution**
- **Downgrade to SELL with an unchanged TP of RM3.45**

Strong end for the year, but results disappoint

UMW recorded 2022 core net profit of RM370.2m with a healthy growth of 131% yoy on the back of strong auto deliveries made during the sales tax exemption period. UMW benefitted from the all-time high sales volume of 282k achieved by Perodua (+48.2% yoy) and a strong rebound in Toyota sales volume of 101k (+39.6% yoy) in 2022. Core net profit of RM370m +131% yoy however fell short of expectations and accounted for only 81% and 84% of ours and street full-year forecasts. The earnings miss was due to a weaker than expected FY22 EBITDA margin of 5.7% vs our previous forecast of 6.9% which arose from an increase in raw material prices, resulting in higher-than-expected operating costs (+10.9% qoq, +22.4% yoy). DPS was nevertheless higher at 14.2 sen (2021: 5.8 sen) in view of the stronger earnings.

Weaker EBITDA margins in 4Q22 despite revenue improvement

Sequentially, 4Q22 revenue increased to RM4.4bn (+7.8% qoq) on the back of continued growth momentum across all segments, predominantly contributed by the Automotive segment (+7.8% qoq) which accounts for 85% of the total contribution for the current quarter. Despite this, 4Q22 EBITDA margin contracted 0.7ppts qoq. This was due to an increase in raw materials cost, translating to a higher operating cost of 7.6% qoq.

Downgrade from Hold to SELL with an unchanged TP of RM3.45

We tweak our 2023-24E EPS forecasts after incorporating the full year 2022 financial statements. We anticipate UMW to record weaker full year earnings in FY23 but initially supported by delivery of backlog orders by 1Q23 and recent launch of high-volume models from Perodua and Toyota. Nevertheless, we remain cautious of the earnings outlook due to declining consumption growth amidst a rising inflationary environment while stock price has done well Ytd with a gain of 14.5%. Hence, downgrading our rating on UMW from a Hold to SELL on valuations. Key upside risks: 1) higher-than-expected contribution from Perodua, 2) higher-than-expected car sales volumes and production and 3) improvement of microchips supply. *This note marks a transfer of analyst coverage.*

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	11,060.8	15,814.4	12,827.6	12,871.4	12,942.1
EBITDA (RMm)	649.6	901.3	718.9	719.7	744.3
Pretax profit (RMm)	482.8	896.5	716.4	718.8	724.5
Net profit (RMm)	268.2	415.0	342.8	337.8	340.5
EPS (sen)	23.0	35.5	29.3	28.9	29.1
PER (x)	14.5	11.1	13.5	13.7	13.6
Core net profit (RMm)	160.2	370.2	342.8	337.8	340.5
Core EPS (sen)	13.7	31.7	29.3	28.9	29.1
Core EPS growth (%)	(43.8)	131.0	(7.4)	(1.4)	0.8
Core PER (x)	24.4	12.5	13.5	13.7	13.6
Net DPS (sen)	5.8	14.2	5.0	5.2	5.5
Dividend Yield (%)	1.7	3.6	1.3	1.3	1.4
EV/EBITDA	5.7	4.0	5.1	5.4	5.5
Chg in Core EPS (%)			-1.8	-4.4	new
Affin/Consensus (x)			0.9	0.8	n/a

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	4Q21	3Q22	4Q22	QoQ % chg	YoY % chg	2021	2022	YoY % chg	Comments
Revenue	3,645.1	4,057.5	4,375.4	7.8	20.0	11,060.8	15,814.4	54.3	Predominantly contributed by Automotive segment (+7.8% qoq, +20.7 yoy)
Op costs	(3,430.8)	(3,786.7)	(4,112.7)	8.6	19.9	(10,411)	(14,913.2)	53.0	
EBITDA	214.3	270.8	262.7	(3.0)	22.6	649.6	901.3	75.4	
<i>EBITDA margin (%)</i>	<i>5.9</i>	<i>6.7</i>	<i>6.0</i>	<i>-0.7ppt</i>	<i>0.1ppt</i>	<i>5.9</i>	<i>5.7</i>	<i>0.8ppt</i>	Lower EBITDA margin due to higher operating cost – increase in cost of raw materials
Depn and amort	(92.2)	(89.1)	(86.3)	(3.1)	(6.4)	(343.5)	(340.6)	1.2	
EBIT	122.1	181.7	173.6	(50.9)	(26.9)	306.1	560.7	>100	
<i>EBIT margin (%)</i>	<i>3.3</i>	<i>4.5</i>	<i>4.0</i>	<i>-2.4ppt</i>	<i>-1.3ppt</i>	<i>2.8</i>	<i>3.5</i>	<i>1.9ppt</i>	
Int expense	(29.7)	(21.4)	(28.3)	32.7	(4.6)	(108.2)	(114.1)	9.3	
Int and other inc	14.3	16.6	23.8	43.8	66.3	48.7	70.2	34.8	
Associates & JV	160.9	72.8	67.8	(6.9)	(57.9)	268.0	334.9	>100	
EI	3.4	(18.2)	66.2	n.m.	n.m.	(31.8)	44.8	55.1	Largely fair value gains on derivatives and PPE, leased assets and right-of-use assets, accounting for RM61.4m of 4Q22 EI
Pretax Profit	271.0	231.5	218.6	(5.6)	(19.3)	482.8	896.5	>100	
Tax	109.3	(72.1)	(46.5)	(35.6)	n.m.	32.9	(218.6)	>100	Higher tax paid due to one-off special windfall tax 'Cukai Makmur'
<i>Tax rate (%)</i>	<i>(40.3)</i>	<i>31.2</i>	<i>21.3</i>	<i>-9.9ppt</i>	<i>61.6ppt</i>	<i>-6.8</i>	<i>24.4</i>	<i>-</i>	
MI & Sukuk	(140.2)	(58.7)	(64.3)	9.5	(54.1)	(247.4)	(262.8)	>100	
Net profit	240.2	100.7	107.9	7.2	(55.1)	268.2	415.0	>100	
EPS (sen)	20.6	8.6	9.2	7.2	(55.1)	23.0	35.5	>100	
Core net profit	97.0	118.9	126.1	6.1	30.1	160.2	370.2	>100	Below ours and streets' estimates

Source: Affin Hwang, Company

Fig 2: SOTP valuation

Segment	2023E target PER (x)	Equity Value (RMm)
Automotive*	7	2,856.6
Equipment	7	573.7
M&E	5	111.3
Serendah land		34.8
Equity Value (RMm)		3,576.3
Net cash/ (debt) (CY23E)		455.1
Issued shares (m)		1,168.3
Target price (RM/share)		3.45

Source: Affin Hwang forecasts

*includes associates & joint ventures

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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