UMW Holdings

A Soft Patch at Key Associate

OUTPERFORM ↔

Price:	**RM3.95**
Target Price:	**RM4.70 ↓**

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UMW's FY22 results disappointed due to a weak showing by manufacturing associate Perusahaan Otomobil Kedua Sdn Bhd on higher input costs. However, cost pressures should gradually ease towards 2QFY23 as commodities and key components prices soften. We cut our FY23F net profit by 6%, reduce our TP by 5% to RM4.70 (from RM4.95) but maintain our OUTPERFORM call.

UMW's FY22 core net profit missed our forecast by 7% and consensus estimate by 11%. The key variance against our forecast came from a weak showing by manufacturing associate Perusahaan Otomobil Kedua Sdn Bhd due to cost pressures.

It declared a final interim NDPS of 11.2 sen (ex-date: 17 Apr; payment date: 18 Apr 2023) in 4QFY22 vs. 5.8 sen paid in 4QFY21, bringing its FY22 total NDPS to 14.2 sen (FY21: 5.8 sen) which is above our forecast of 6.0 sen.

YoY, FY22 revenue rose 43% driven by: (i) strong sales from automotive division (+47%) due to robust demand for Toyota/Lexus (+40% to 101,035 units) and Perodua (+49% to 282,019 units) vehicles as the economy reopened, (ii) strong automotive sales which boosted its manufacturing & engineering division (+36%) especially the demand for its OEM products (i.e. Toyota & Perodua engine lubricants) while its aerospace (Rolls-Royce fan cases) segment rode on the reopening of international borders, and (iii) the recovery in equipment division (+16%) as construction and manufacturing activities resumed. The share of profit from associates rose sharply (+25%) driven by strong car sales (such as Bezza, Alza, Axia, Myvi, Ativa and Aruz) at Perusahaan Otomobil Kedua Sdn Bhd.

Core net profit rose by a larger 77%, due to better margins at: (i) vehicle dealerships driven by high-margin new models, i.e. Toyota Corolla Cross, Toyota Hilux, and Perodua Alza, and (ii) manufacturing division (which produce auto parts, lubricant and aero engine fan casing) due to reduced competition amidst supply constraints in various industries.

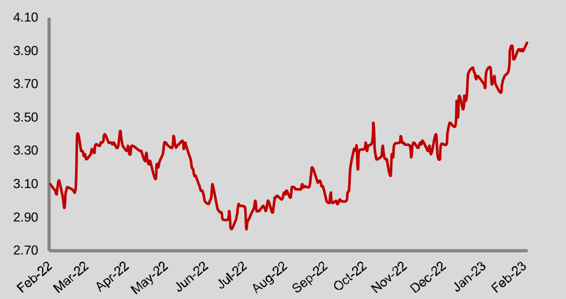
QoQ, 4QFY22 revenue rose 8% driven by: (i) strong demand for Toyota/Lexus (+21% to 29,909 units) and Perodua (+24% to 85,665 units) with the easing of supply chain disruption, and (ii) improved M&E segment (+10%) with accelerated recovery in aviation sector. Meanwhile, its equipment sales were flattish (+0.2%). The share of profit from associates, however, fell 7% due to the rising production cost at Perusahaan Otomobil Kedua Sdn Bhd despite record quarterly unit sales.

Core net profit rose by a larger 12% mainly due to a lower effective tax rate of 21.3% vs. 31.2% in 3QFY22 owing to the recognition of investment tax allowance.

The key takeaways from the results briefing are as follows:

1. UMW guided for Toyota/Lexus unit sales target of 93k units (-8%) in FY23. We bring our assumption down by 2% to 93k units to match its target. For FY24, our unit sales assumption is at 95k units (+2%). It guided for five all-new Toyota models in 2023 (all-new Vios, Toyota GR86 and GR Corolla launched in Feb with the remaining two during the later part of the year). UMW's booking backlog for Toyota/Lexus vehicles currently stands at 60k units.

Share Price Performance



KLCI	1,455.50
YTD KLCI chg	-2.7%
YTD stock price chg	13.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK EQUITY
Market Cap (RM m)	4,614.8
Shares Outstanding	1,168.3
52-week range (H)	4.04
52-week range (L)	2.77
3-mth avg daily vol:	835,682
Free Float	29%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	55.2%
Employees Provident Fund	10.2%
KWAP	9.1%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	15,814.4	15,706.2	17,121.9
EBIT	946.1	1,161.3	1,225.8
PBT	896.5	747.6	791.4
Net Profit	**415.0**	**420.1**	**448.1**
Core net profit	**394.0**	**420.1**	**448.1**
Consensus NP	-	392.5	399.7
Earnings Revision	-	-6%	NEW
Core EPS (sen)	33.7	36.0	38.4
C.EPS growth (%)	76.5	6.6	6.7
NDPS (sen)	14.2	15.0	15.0
BVPS (RM)	3.72	3.93	4.17
Core PER (x)	11.7	11.0	10.3
PBV (x)	1.1	1.0	0.9
Net Gearing (x)	N.cash	N.cash	N.cash
Net Div. Yield (%)	3.6	3.8	3.8

2. UMW concurs with Perodua's sales target of 314k units (+11.3%) in 2023 backed by Perodua's annual production capacity of 320k units (Our forecasts for UMW and MBMR (OP; TP: RM4.60) are based on unit sales assumptions for Perodua of 314k and 320k in 2023 and 2024, respectively). Perodua's current booking backlog stands at 220k units.
3. UMW believes the worst of Perusahaan Otomobil Kedua Sdn Bhd's margin squeeze is over as: (i) the high-cost inventories are run down over the next 3-6 months as production is ramped up to full capacity, and (ii) prices of commodities and key components have since softened.
4. UMW shared that their manufacturing & engineering (auto parts, lubricant and aero-engine fan casing) divisions are enjoying overwhelming orders due to reduced competition amidst supply constraints in the various industries. UMW guided that its new smart lubricant plant will start operating in the 2H of the year, adding 70% more capacity to 60m litres/year which could expand the profit contribution of the segment from the current 13%, to 20% of group profit. This will enable UMW to capture new markets (various climate markets, other than focusing on tropical-based market) with improving margin on reduced costs and variation of products lines.
5. UMW mentioned that a dividend payout ratio of >40% in FY22 (vs. an average of only about 30% in recent years) should be sustainable.

Forecasts. We cut our FY23F net profit by 6% to reflect: (i) slightly lower Toyota/Lexus unit sales assumption for FY23 as mentioned, and (ii) a 5% reduction in our FY23F earnings from associate mainly for Perusahaan Otomobil Kedua Sdn Bhd. We also introduce our FY24F numbers.

Correspondingly, we reduce our TP by 5% to RM4.70 (from RM4.95) based on 13x FY23F PER, 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 5).

We like UMW for: (i) the mass-market marques under its automotive business, i.e. Toyota and Perodua, but not without high-margin models such as Toyota Vios and Perodua Alza, (ii) the strong earnings visibility at its automotive 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. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). **Maintain OUTPERFORM.**

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

FYE Dec (RM m)	4Q FY22	3Q FY22	QoQ Chg	4Q FY21	YoY Chg	12M FY22	12M FY21	YoY Chg
Revenue	**4,375.4**	**4,057.5**	**8%**	**3,645.1**	**20%**	**15,814.4**	**11,060.8**	**43%**
Associates and JV	67.8	72.8	-7%	160.9	-58%	334.9	268.0	25%
EBIT	247.0	252.8	-2%	300.7	-18%	1,010.6	590.9	71%
PBT	218.6	231.5	-6%	271.0	-19%	896.5	482.8	86%
Taxation and Zakat	(46.5)	(72.1)	36%	109.3	-143%	(217.6)	32.9	-761%
Net Profit	**106.0**	**100.7**	**5%**	**240.0**	**-56%**	**415.0**	**268.2**	**55%**
Core Net Profit	**103.7**	**93.0**	**12%**	**250.9**	**-59%**	**394.0**	**223.2**	**77%**
Core EPS (sen)	8.9	8.0	12%	21.5	-59%	33.7	19.1	76%
DPS (sen)	11.2	3.0		5.8		14.2	5.8	
EBIT margin	5.6%	6.2%		8.2%		6.4%	5.3%	
PBT margin	5.0%	5.7%		7.4%		5.7%	4.4%	
Core NP margin	2.4%	2.3%		6.9%		2.5%	2.0%	
Effective tax rate	21.3%	31.2%		-40.3%		24.3%	-6.8%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	4Q FY22	3Q FY22	QoQ Chg	4Q FY21	YoY Chg	12M FY22	12M FY21	YoY Chg
Revenue	**4,375.4**	**4,057.5**	**8%**	**3,645.1**	**20%**	**15,814.4**	**11,060.8**	**43%**
Automotive	3,694.9	3,424.6	8%	3,061.6	21%	13,307.0	9,030.3	47%
Equipment	395.3	394.4	0%	365.1	8%	1,528.0	1,313.4	16%
M&E	278.5	252.2	10%	225.9	23%	984.2	726.3	36%
Others	6.7	(13.6)	N/A	(7.5)	N/A	(4.7)	(9.3)	N/A
Segment PBT/(LBT)	**218.6**	**231.5**	**-6%**	**271.0**	**-19%**	**896.5**	**482.8**	**86%**
Automotive	182.6	183.6	0%	269.2	-32%	774.9	476.7	63%
Equipment	35.7	50.0	-29%	28.9	23%	152.8	107.0	43%
M&E	29.2	13.4	118%	11.7	150%	66.3	22.2	199%
Others	(28.9)	(15.5)	N/A	(38.8)	N/A	(97.6)	(123.2)	N/A
Segment Margin								
Automotive	4.9%	5.4%		8.8%		5.8%	5.3%	
Equipment	9.0%	12.7%		7.9%		10.0%	8.1%	
M&E	10.5%	5.3%		5.2%		6.7%	3.1%	

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.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.13	2.65	24.41%	2,472.9	Y	04/2023	16.7	18.3	24.7%	9.4%	12.7	11.6	3.1	26.2%	11.7	5.5%
DRB-HICOM BHD	MP	1.47	1.60	8.84%	2,841.5	Y	12/2022	17.3	18.5	10.1%	6.8%	8.5	8.0	0.3	3.8%	2.0	1.4%
MBM RESOURCES BHD	OP	3.91	4.60	17.65%	1,528.4	Y	12/2022	65.6	67.7	14.5%	3.2%	6.0	5.8	0.7	12.0%	26.0	6.6%
SIME DARBY BHD	OP	2.29	2.60	13.54%	15,574.3	Y	06/2023	17.3	19.0	-1.8%	10.1%	13.3	12.0	1.0	7.3%	12.0	5.2%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.15	0.850	-26.09%	772.8	N	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	3.95	4.70	18.99%	4,614.8	Y	12/2022	35.9	38.3	6.6%	6.7%	11.0	10.3	1.0	9.4%	15.0	3.8%
SECTOR AGGREGATE					**27,804.7**					**4.5%**	**9.1%**	**11.8**	**10.8**	**0.8**	**6.4%**		**4.2%**

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating
GENERAL	Earnings Sustainability & Quality	★ ★ ★ ★
	Community Investment	★ ★ ★ ★
	Workers Safety & Wellbeing	★ ★ ★
	Corporate Governance	★ ★ ★
	Anti-Corruption Policy	★ ★ ★
	Emissions Management	★ ★ ★
SPECIFIC	Electric & Hybrid Vehicles Availability	★ ★ ★
	Supply Chain Management	★ ★ ★ ★
	Energy Efficiency	★ ★ ★
	Effluent & Water Management	★ ★ ★
	Training & Education	★ ★ ★ ★
	OVERALL	★ ★ ★

☆ 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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