

28 February 2023

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Buy (Maintained)

Firing On All Cylinders; Stay BUY

Target Price (Return): MYR5 (+27%)
 Price (Market Cap): MYR3.95 (USD1,040m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.77m/0.63m

- **Stay BUY, new TP of MYR5 from MYR5.10, 27% upside.** UMW's 4Q22 results disappointed, mainly on weaker-than-expected associate contributions due to 38%-owned Perodua's high material and input costs. However, the aerospace unit turned around, with delivery volumes up 37% YoY. We think Perodua's 314k and Toyota's 93k sales targets for 2023, and a stronger aerospace segment, should bode well for UMW, while a higher dividend payout implies a decent 4% FY23F yield.
- **FY22 core earnings of MYR399m (4Q22: MYR106m)** are only at 86% and 90% of our and Street projections. Despite Perodua's higher volume (+24% QoQ), the associate contribution dropped by 7% QoQ, as higher material and labour (plus overtime) costs weighed down 4Q22 numbers. That said, management has guided that Perodua is now containing costs better. UMW's final DPS of 11.2 sen brings FY22 DPS to 14.2 sen (vs our 10 sen estimate). This represents a 40% DPR, a multi-year high, and a level that management is comfortable maintaining in the foreseeable future.
- **The aerospace segment returns.** While the aerospace operation is lumped under its manufacturing and engineering (M&E) segment, it beat our expectations with a stronger-than-expected PBT margin of 10.5%, which management has indicated is sustainable in the coming quarters, with the return in fan case volumes, boosted by the recovery of air travel. The utilisation of the aerospace plant averaged <40% in 2021, ranged 50-60% in 2022, and is expected to range between 70% and 75% in 2023.
- **Auto outlook.** Perodua's 220k orders is 94k units short of its 314k 2023 sales target. We think the continued popularity of the newly launched Axia, backed by its 330k production target, will allow it to hit a record-breaking year (320k unit sales). With a 93k unit sales target, UMW Toyota (UMWT) already has 50k orders in hand. Partially driven by the expected launch of the all-new Vios in March, we forecast UMWT to hit 100k unit sales in 2023.
- **We trim FY23F-24F earnings** by 3% each, mainly as we assume lower Perodua contributions due to elevated costs. We lift the ESG score to 3 from 2.9, as we upgraded its "Environmental" score to 3 from 2.7 for its greater reliance on solar energy, continued efforts to introduce more eco-friendly products across its businesses, and campaigns and initiatives to reduce waste and support reforestation.
- **Our TP drops to MYR5** after imputing the lower earnings and higher ESG score. Our TP reflects an unchanged 13x FY23F P/E, close to its 5-year mean of 14x. Maintain BUY on Toyota and Perodua's likely strong 2023, and for the aerospace unit's recovery prospects. UMW is trading at an attractive forward c.10x FY23F P/E. Downside risks include weaker-than-expected orders and deliveries, softer-than-expected margins, and a stronger-than-expected USD/MYR rate.

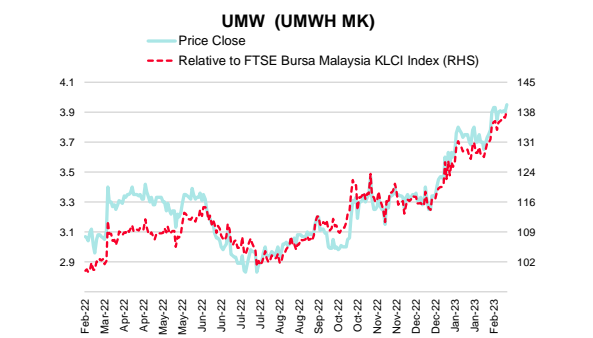
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.8	4.5	18.3	29.1	27.4
Relative	16.5	7.3	20.4	32.1	36.0
52-wk Price low/high (MYR)	2.83 – 3.95				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	11,061	15,814	15,191	14,583	14,664
Recurring net profit (MYRm)	226	399	450	405	393
Recurring net profit growth (%)	(20.6)	76.5	12.7	(10.0)	(3.0)
Recurring P/E (x)	20.39	11.55	10.25	11.39	11.74
P/B (x)	1.2	1.1	1.0	0.9	0.8
P/CF (x)	17.65	5.59	17.24	8.94	8.79
Dividend Yield (%)	1.5	3.6	3.8	3.4	3.4
EV/EBITDA (x)	20.88	2.59	3.06	2.62	2.13
Return on average equity (%)	(4.5)	9.9	9.9	8.2	7.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.00 (out of 4)

E: GOOD

UMW has taken efforts to monitor and improve its environmental standing, especially in 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 regular engages with the market and media while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.19	0.34	0.39	0.35	0.34
Consumer Cyclical	DPS	0.06	0.14	0.15	0.14	0.14
UMW	BVPS	3.43	3.72	4.07	4.40	4.72
UMWH MK	Return on average equity (%)	(4.5)	9.9	9.9	8.2	7.4
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	20.39	11.55	10.25	11.39	11.74
13x P/E on forward earnings	P/B (x)	1.2	1.1	1.0	0.9	0.8
	FCF Yield (%)	(3.1)	6.9	(11.5)	2.5	2.7
Key drivers	Dividend Yield (%)	1.5	3.6	3.8	3.4	3.4
i. Introduction of new Perodua and Toyota models;	EV/EBITDA (x)	20.88	2.59	3.06	2.62	2.13
ii. Long term growth potential from aerospace business.	EV/EBIT (x)	na	4.04	5.17	4.32	3.48
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	11,061	15,814	15,191	14,583	14,664
i. Weaker-than-expected orders and deliveries;	Gross profit	1,194	2,806	2,653	2,584	2,627
ii. Softer-than-expected margins;	EBITDA	172	946	856	850	868
iii. Stronger-than-expected USD/MYR.	Depreciation and amortisation	(344)	(341)	(349)	(335)	(337)
	Operating profit	(171)	606	507	514	531
Company Profile	Net interest	(108)	(114)	(93)	(92)	(92)
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	37	896	874	814	802
	Taxation	33	(219)	(152)	(154)	(159)
	Reported net profit	(177)	415	450	405	393
	Recurring net profit	226	399	450	405	393
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(221)	0	(234)	6	(4)
	Cash flow from operations	261	825	268	516	525
	Capex	(406)	(507)	(800)	(400)	(400)
	Cash flow from investing activities	12	(507)	(432)	(100)	(129)
	Dividends paid	(68)	(166)	(175)	(158)	(158)
	Cash flow from financing activities	(275)	(196)	(205)	(188)	(188)
	Cash at beginning of period	2,051	2,941	2,808	2,438	2,667
	Net change in cash	(2)	122	(370)	228	209
	Ending balance cash	2,057	3,064	2,438	2,667	2,875
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	2,941	2,808	2,438	2,667	2,875
	Tangible fixed assets	2,545	2,706	2,965	2,961	2,958
	Total investments	2,524	2,655	2,642	2,626	2,612
	Total assets	12,173	12,417	12,326	12,395	12,599
	Short-term debt	655	225	217	217	217
	Total long-term debt	2,133	1,379	1,378	1,378	1,378
	Total liabilities	5,410	5,277	4,988	4,855	4,864
	Total equity	6,763	7,140	7,338	7,540	7,735
	Total liabilities & equity	12,173	12,417	12,326	12,395	12,599
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	15.8	43.0	(3.9)	(4.0)	0.6
	Recurrent EPS growth (%)	(20.6)	76.5	12.7	(10.0)	(3.0)
	Gross margin (%)	10.8	17.7	17.5	17.7	17.9
	Operating EBITDA margin (%)	1.6	6.0	5.6	5.8	5.9
	Net profit margin (%)	(1.6)	2.6	3.0	2.8	2.7
	Dividend payout ratio (%)	(38.2)	40.0	38.9	38.9	40.1
	Capex/sales (%)	3.7	3.2	5.3	2.7	2.7
	Interest cover (x)	(1.58)	5.31	5.46	5.57	5.75

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
Revenue	3,645	4,057	4,375	8	20	11,061	15,814	43	Revenue rose 8% QoQ mainly lifted by higher automotive revenue, supported by a 23% QoQ increase in sales volumes.
EBIT	125	163	155	(5)	24	274	606	121	
Finance costs	(30)	(21)	(28)	33	(5)	(108)	(114)	6	
Investment income	14	17	24	44	66	49	70	44	
Associates	161	73	68	(7)	(58)	268	335	25	Despite 38%-owned Perodua's +24% QoQ volume, associate contribution fell 7% QoQ mainly weighed down by Perodua's high material and labor costs.
Pretax Profit	271	231	219	(6)	(19)	483	896	86	
Tax	109	(72)	(46)	(36)	(143)	33	(219)	(764)	
MI	(123)	(41)	(49)	18	(60)	(178)	(193)	9	
Core Net Profit	243	96	106	10	(56)	226	399	76	FY22 core net profit of MYR399m fell below our and street's expectations, at 86% and 90% of full-year forecasts.
<i>EBIT margin (%)</i>	<i>3.4</i>	<i>4.0</i>	<i>3.6</i>			<i>2.5</i>	<i>3.8</i>		
<i>Pretax margin (%)</i>	<i>7.4</i>	<i>5.7</i>	<i>5.0</i>			<i>4.4</i>	<i>5.7</i>		
<i>Eff tax rate (%)</i>	<i>40.3</i>	<i>(31.2)</i>	<i>(21.3)</i>			<i>6.8</i>	<i>(24.4)</i>		
<i>Net Margin (%)</i>	<i>6.7</i>	<i>2.4</i>	<i>2.4</i>			<i>2.0</i>	<i>2.5</i>		

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
Automotive	3,062	3,428	3,695	8	21	9,030	13,310	47	Supported by a 23% QoQ increase in volumes.
Equipment	365	394	395	0	8	1,313	1,528	16	
Manufacturing & engineering	226	252	279	10	23	726	984	36	QoQ increase in M&E revenue is partially due to the recovery of the aerospace segment.
Others	(8)	(17)	7	(140)	(189)	(9)	(8)	(17)	
Revenue	3,645	4,057	4,375	8	20	11,061	15,814	43	
Automotive	269	184	183	(0)	(32)	477	775	63	Despite the higher revenue, PBT was flat due to higher costs.
Equipment	29	50	36	(29)	23	107	153	43	29% QoQ decline in PBT contribution despite flat revenue, mainly due to normalisation in margins. 3Q22 saw a better-than-average favourable product mix, which led to wider margins.
Manufacturing & engineering	12	13	29	118	150	22	66	199	118% QoQ increase, mainly thanks to the recovery of the aerospace segment.
Others	(39)	(15)	(29)	(87)	26	(123)	(98)	(21)	
PBT	271	231	219	(6)	(19)	483	896	86	
PBT Margins									
<i>Automotive</i>	<i>8.8</i>	<i>5.4</i>	<i>4.9</i>			<i>5.3</i>	<i>5.8</i>		
<i>Equipment</i>	<i>7.9</i>	<i>12.7</i>	<i>9.0</i>			<i>8.1</i>	<i>10.0</i>		
<i>Manufacturing & engineering</i>	<i>5.2</i>	<i>5.3</i>	<i>10.5</i>			<i>3.1</i>	<i>6.7</i>		

Source: Company data, RHB

Figure 3: UMW's vehicle sales summary

FYE Dec (units)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
Toyota	26,276	24,961	30,163	20.8	14.8	72,394	101,034	39.6	FY22 unit sales exceeded UMWT's target of 80k units. YoY figure boosted by the expiry of sales and service tax (SST) exemption in Jun 2022.
- Passenger	19,498	17,340	21,700	25.1	11.3	52,388	70,690	34.9	
- Commercial	6,778	7,621	8,463	11.0	24.9	20,006	30,344	51.7	
Perodua	71,198	69,011	85,665	24.1	20.3	190,291	282,019	48.2	FY22 unit sales exceeded Perodua's initial target of 247,800 units. YoY figure boosted by the expiry of sales and service tax (SST) exemption in Jun 2022.
- Passenger	71,198	69,011	85,665	24.1	20.3	190,291	282,019	48.2	
- Commercial	0	0	0			0	0		
Total	97,474	93,972	115,828	23.3	18.8	262,685	383,053	45.8	YoY figure boosted by the expiry of sales and service tax (SST) exemption in June 2022.

Source: Company data, RHB

Figure 4: Key assumptions

FYE Dec	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Toyota/Lexus TIV (units) – current	70,009	59,320	72,394	101,034	100,000	90,000	85,000
Perodua TIV (units) – current	240,341	220,154	190,291	282,019	320,000	250,000	230,000

Source: Company data, RHB

Figure 5: All-new second generation 2023 Perodua Axia



Source: RHB

Recommendation Chart

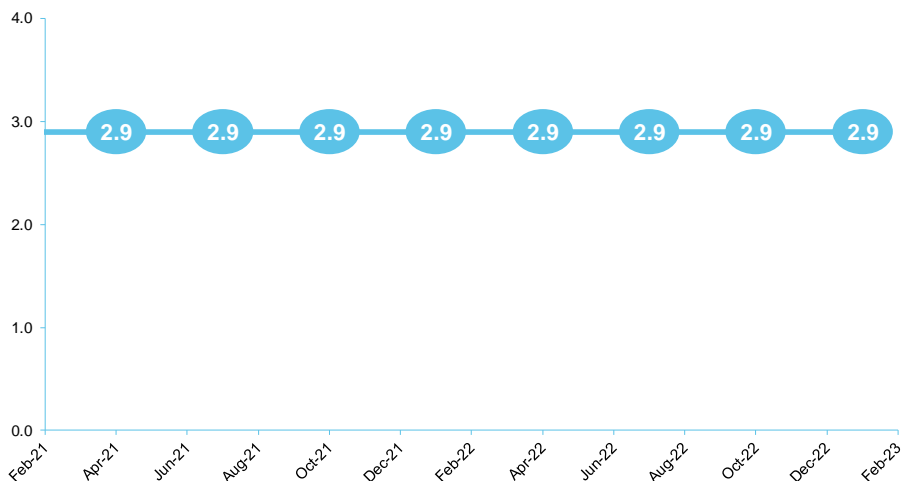


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-17	Buy	5.10	3.85
2022-11-30	Neutral	3.35	3.26
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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