

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM3.95/Target: RM3.80)

4Q22: Within Expectations

Year to 31 Dec	4Q22 (RMm)	qoq % chg	yoy % chg	2022 (RMm)	yoy % chg	Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Revenue	4,375.4	7.8	20.0	15,814.4	41.0	Net Turnover	11,061	15,814	12,509	13,364
- Auto	3,694.9	7.8	20.7	13,310.0	47.4	EBITDA	618	952	942	977
- Equipment	395.3	0.2	8.3	1,528.0	16.4	Operating Profit	274	611	563	606
- M&E	278.5	10.4	23.2	984.2	35.6	Net Profit (Reported/Actual)	268	415	369	418
Associates & JV	67.8	(6.9)	(57.9)	334.9	25.0	Net Profit (Adjusted)	245	394	369	418
PBT	218.6	(5.6)	(19.3)	896.5	85.7	EPS (sen)	21.0	33.7	31.6	35.8
- Auto	182.6	(0.5)	(32.1)	774.9	62.5	PE (x)	18.8	11.7	12.5	11.0
- Equipment	35.7	(28.7)	22.9	152.8	42.8	P/B (x)	0.9	0.8	0.8	0.8
- M&E	29.2	117.7	143.4	66.3	201.4	EV/EBITDA (x)	10.8	7.0	7.1	6.8
PATAMI	106.0	5.2	(55.8)	415	54.9	Dividend Yield (%)	1.1	1.7	1.6	1.8
Core PATAMI	103.7	11.3	(53.4)	394.0	52.1	Net Margin (%)	2.4	2.6	3.0	3.1
Toyota Unit Sales	30,163	20.8	15.9	101,035	39.6	Net Debt/(Cash) to Equity (%)	(4.1)	(23.1)	3.4	1.0
Perodua Unit Sales	85,665	24.1	20.3	282,019	48.2	Interest Cover (x)	10.4	19.1	16.2	15.5
PBT Margin	(%)	+/- ppt	+/- ppt	(%)	+/- ppt	ROE (%)	5.3	7.9	6.6	7.1
Overall	5.0	(0.7)	(2.4)	5.8	1.4					
Auto	4.9	(0.5)	(3.9)	5.8	0.5					
Equipment	9.0	(3.7)	1.1	10.0	1.9					
M&E	10.5	5.2	5.2	6.7	3.7					

Source: UMW Holdings, UOB Kay Hian

RESULTS

- **Within expectations.** UMW Holdings (UMW) registered 4Q22 net profit of RM103.7m (11.3% qoq, -53.4% yoy). Cumulative 2022 earnings of RM394m grew 60.8% yoy. This is within our forecast but missed consensus expectations, representing 98%/89% of our/consensus estimates respectively after adjusting for exceptional items of RM21m. The big jump in core net profit was underpinned by double-digit growth of profit before tax and zakat (PBTZ) across all business segments: automobile (+62.5% yoy), equipment (+42.8% yoy) and manufacturing and engineering (M&E) (+199% yoy). The automobile division continues to be the key earnings driver, contributing RM774.9m, or 86.4%, of the group's PBTZ, achieving higher number of vehicles sold in 2022, thanks to the windfall from the sales & service tax (SST) exemption. UMW declared a final interim dividend of 14.2 sen and this represents a payout of 40%.
- **Equipment division's profitability continues to increase.** In overall, revenue in 2022 has returned to pre-pandemic level, achieving growth of 16.3% yoy to RM1,528b mainly due to the growing demand for the segment's products and services both in domestic and overseas markets. In tandem with the increase in revenue, the segment's PBTZ of RM152.8m was 42.8% higher than the prior year. We expect the segment will continue to grow as China's economy is expected to rebound after lifting pandemic restrictions. Concurrently, the heavy equipment sub-segment will continue to leverage on the improving construction industry and higher commodity prices.
- **M&E.** Revenue jumped 35.5% yoy due to higher contribution from all three sub-segments especially the auto components sub-segment, in line with the improved demand in the automobile sector. Consequently, the segment's PBTZ almost tripled compared with 2021. The outlook for this segment remains promising with sales for auto component expected to continue to be supported by new and outstanding orders for both the domestic and export markets. The aerospace sub-segment is expected to improve further in 2023 as management guided for the aerospace segment to achieve 70-75% utilisation rate in 2023 compared with 40-50% utilisation rate in 2022. On the other hand, the full reopening of international borders has led to an increase in air travel which is expected to reach pre-pandemic level in 2023 and will translate into growth prospect for the aerospace segment.

EARNINGS REVISION/RISKS

- **We lift our 2023-24 earnings by 16% and 5.8% respectively**, as we raised our sales target following the: a) stronger-than-expected outstanding orders, and b) higher average selling price.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM3.80 from RM3.30.** The target price is based on 12x 2023F target PE (which is the sector's five-year mean). We believe earnings will moderate downwards in 2023 as we foresee declining consumption growth for car sales despite the launches of new models, due to normalisation of order deliveries following the SST exemption expiry. Meanwhile, further strengthening of the US dollar vs the ringgit could erode its margins. Based on our earnings sensitivity analysis, a 1% strengthening/weakening of the ringgit against the US dollar could increase/decrease UMW's 2023-25 earnings by 3%.

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