UMW Holdings (UMWH MK)

SELL (maintain)
Up/Downside: -5.9%

Price Target: RM3.50
Previous Target (Rating): RM3.45 (Sell)

"Local demand uptrend in EVs signals a worrying sign for Toyota"

Share price performance

	1M	3M	12M
Absolute (%)	-5.2	-6.2	9.6
Rel KLCI (%)	-4.4	-2.5	20.4

	BUY	HOLD	SELL
Consensus	11	3	1

Source: Bloomberg

Stock Data

Sector	Automotive
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	4276/923.6
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	2.77-4.04
Est free float	29.9%
Stock Beta	0.86
Net cash/(debt) (RMm)	1,400.11
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	9.3%
KWSP	9.2%

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

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Reaching its peak on strong auto deliveries

- **UMW's 1Q23 revenue grew by 20% yoy on higher contribution from strong auto deliveries during the final quarter of tax-exemption period**
- **1Q23 earnings were broadly in-line with our expectations yet the bulk of earnings are unlikely to sustain due to brought-forward car purchases and higher loan repayment rate for new buyers with the revised OPR of 3%**
- **Maintain SELL with a higher TP of RM3.50. Lowering FY24E – FY25E earnings by 13% as Toyota sales growth is possibly capped by a demand uptrend in EVs and foreseeable discounting as demand wanes**

Strong auto deliveries fuelled UMW's 1Q23 revenue by 20% yoy

UMW recorded a strong set of results – revenue grew by 20% yoy on higher contribution predominantly in the Automotive segment (+18.1% yoy) driven by the strong auto deliveries during the final quarter of the tax-exemption period. Meanwhile, the Equipment segment had a strong start of the year with sales growth of 42% yoy, on stronger demand from both local and overseas industrial markets. The Automotive segment remains as UMW's strongest portfolio, with 80% earnings contribution while its Equipment segment accounted for 20% of UMW's earnings.

Bulk of earnings unlikely to sustain – expecting a gloomy performance ahead

While we expected 1Q23 earnings to be front-end loaded, the results came in broadly in-line with our and consensus estimates, accounting for 41% and 36% of our and consensus full-year FY23 estimates. The earnings beat was due to; (i) stronger-than-expected profit margins from the Automotive and M&E segment and (ii) stronger-than-expected contribution from the Equipment segment and UMW's associate, Perodua. Yet, the bulk of its earnings will not continue its momentum in the upcoming quarters as we are of the view that car purchases were brought forward during the tax-exemption period and order books will be weaker ahead as loan repayment rates are more expensive for new buyers with the revised OPR of 3%.

Maintain SELL with a higher TP of RM3.50

We tweak our FY23E earnings after inputting the audited FY22 figures but cut FY24E - FY25E EPS forecasts by 12.5% - 12.7% as we believe that sales growth for Toyota is possibly capped by: (i) demand uptrend in EVs, and (ii) cost strains and foreseeable discounting activities by auto players as demand wanes. Key upside risks: (i) higher-than-expected contribution from Perodua, (ii) higher-than-expected car sales volumes and production and (iii) improvement of microchip supply. Maintain SELL rating with a higher SOTP-based TP of RM3.50 as we roll forward our valuation to FY24E EPS. At a FY24E PE of 14.7x, the stock is trading below its 3-year +1SD PE of 16.6x.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	11,060.8	15,814.4	14,073.8	13,240.8	13,300.8
EBITDA (RMm)	649.6	747.5	687.7	645.9	673.1
Pretax profit (RMm)	482.8	896.5	719.6	627.4	633.9
Net profit (RMm)	268.2	415.0	351.5	294.9	297.9
EPS (sen)	23.0	35.5	30.1	25.2	25.5
PER (x)	16.2	10.5	12.4	14.7	14.6
Core net profit (RMm)	160.2	370.2	351.5	294.9	297.9
Core EPS (sen)	13.7	31.7	30.1	25.2	25.5
Core EPS growth (%)	(43.8)	131.0	(5.1)	(16.1)	1.0
Core PER (x)	27.1	11.7	12.4	14.7	14.6
Net DPS (sen)	5.8	14.2	5.0	5.2	5.5
Dividend Yield (%)	1.6	3.8	1.3	1.4	1.5
EV/EBITDA	6.4	4.1	4.6	5.2	5.1
Chg in Core EPS (%)			+2.5	-12.7	-12.5
Affin/Consensus (x)			0.9	0.7	0.7

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Dec (RMm)	1Q22	4Q22	1Q23	QoQ %chg	YoY %chg	Comments
Revenue	3,650.8	4,375.4	4,379.6	0.1	20.0	Strong sales contribution from Automotives segment, up 18.1% yoy and Equipment segment +42% yoy
Op costs	(3,414.5)	(4,199.8)	(4,154.4)	(1.1)	21.7	
EBITDA	**236.3**	**175.5**	**225.1**	28.3	(4.7)	
EBITDA margin (%)	*6.5*	*4.0*	*5.1*	*1.1ppt*	*-1.3ppt*	Lower EBITDA margin due to higher operating cost – increase in cost of raw materials
Depn and amort	(81.6)	(86.3)	(85.9)	(0.4)	5.3	
EBIT	154.7	89.2	139.2	56.0	(10.0)	
EBIT margin (%)	*4.2*	*2.0*	*3.2*	*1.1ppt*	*-1.1ppt*	
Int expense	(39.0)	(28.3)	(15.3)	(45.7)	(60.6)	
Int and other inc	12.5	23.8	25.3	6.1	>100	
Associates & JV	96.5	67.8	109.3	61.3	13.2	
EI	(8.4)	66.2	(7.6)	n.m	(8.8)	Largely fair-value gains on derivatives and PPE, leased assets and right-of-use assets, accounting for RM61.4m of 4Q22 EI
Pretax Profit	**216.3**	**218.6**	**250.7**	14.7	15.9	
Tax	(43.5)	(46.5)	(47.0)	1.1	8.1	
Tax rate (%)	*20.1*	*21.3*	*18.7*	*-2.5ppt*	*-1.4ppt*	
MI & Sukuk	(71.6)	(64.3)	(69.3)	7.8	-3.3	
Net profit	101.2	107.9	134.5	24.6	32.9	
EPS (sen)	8.7	9.2	11.5	24.6	32.9	
Core net profit	**109.6**	**41.7**	**142.1**	>100	29.7	Broadly within our estimates

Source: Affin Hwang, Company

Fig 2: SOTP valuation

Segment	2024E target PER (x)	Equity Value (RMm)
Automotive*	7	2,203.4
Equipment	7	701.4
M&E	5	139.9
Serendah land		34.8
Equity Value (RMm)		3,079.4
Net cash/ (debt) (CY24E)		1,011.4
Issued shares (m)		1,168.3
Target price (RM/share)		**3.50**

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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