

HLIB Research

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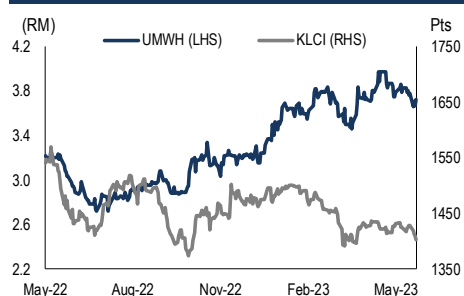
HOLD (from Buy)

Target Price: RM3.85
Previously: RM4.25
Current Price: RM3.66

Capital upside	5.2%
Dividend yield	3.8%
Expected total return	9.0%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


Historical return (%)	1M	3M	12M
Absolute	-4.4	-7.3	9.9
Relative	-3.6	-4.0	21.2

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	4,276
3-mth average volume ('000)	685
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

Permodalan Nasional Berhad	62.2%
Kumpulan Wang Persaraan	9.3%
Employees Provident Fund	9.2%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	399	500	428
EPS - core (sen)	34.2	42.8	36.6
P/E (x)	10.7	8.5	10.0

UMW Holdings

Starting strong 1QFY23

Reported a strong core 1QFY23 PATMI at RM131.2m (+92.1% QoQ; +15.5% YoY), within HLIB's forecast (27.8%), but above consensus (32.8%). We expect earnings to remain supported by stronger Equipment and M&E segments in tandem with the economic recovery, negating the slowdown in Automotive segment. Downgrade to HOLD (from Buy) with a lower adjusted TP of RM3.85 based on 10% discount to SOP (RM4.29), as we expect softer sentiment towards the automotive sector in coming quarters.

Within expectation. UMW reported core PATMI of RM131.2m for 1QFY23 (+92.1% QoQ; +15.5% YoY), in line with HLIB's FY22 forecast (27.8%), but slight above consensus (32.8%). +RM3.2m EIs were adjusted for 1QFY23 on PPE disposal gains.

Dividend. None.

QoQ. Revenue was flattish as the stronger Equipment and M&E segments were offset by weaker automotive segment. However, core PATMI improved by +92.1% to RM131.2m due to accelerated costs and charges in 4QFY22. We have seen stronger margins from UMW Toyota and contribution from associate Perodua, as well as Equipment segment.

YoY. Core PATMI rose +15.5%, mainly driven by stronger contribution across all segments as the economy fully reopened during the year (vs. various lockdowns SPLY). All segments recorded stronger revenue following higher sales volume, production volume and services provided.

Automotive. Backed by a strong backlog of 50k units for Toyota and 200k units for Perodua, we expect sustained performance in FY23. Toyota has achieved 31.7k unit sales for 4M23, inline with its target of 93k units for FY23, while Perodua has achieved 97.4k unit sales for 4M23, slightly behind its target of 314k units for FY23. Toyota has increased its average pricing by 2% since the start of the year while Perodua has been expanding sales volume (operational scale) and implementing cost optimization measures, which will negate the higher raw material costs and high RM/USD level. The current disruption of microchip supply is being addressed and is not expected to have a material impact to UMW. UMW has launched the new Toyota Vios and Perodua Axia, and is expecting a few facelift models in the coming months.

Equipment. The segment continued to improve in tandem with the economic recovery post pandemic in the region. Heavy equipment continues to leverage onto the recovery of construction and plantation sectors in Malaysia and Singapore. Industrial equipment remains healthy as UMW established a new refurbishment business model and expanded into logistics automation solution business.

M&E. Both automotive parts and lubricants are expected to continue leveraging onto the strong automotive sales in Malaysia and the ongoing vehicle and industrial growth in Malaysia and China in 2023. The lubricants biz has started to switch production to its new smart plant, commencing operations in 2H23. Aerospace manufacturing continues to recover in tandem with the normalization of aviation industry.

Forecast. Post updates from annual report FY22, we have adjusted our earnings for FY23 by +5.9% and FY24 by +1.4%. We also introduce FY25 earnings at RM458.9m.

Downgrade to HOLD, TP: RM3.85. We downgrade to HOLD (from BUY) with lower adjusted TP: RM3.85, based on discount of 10% to SOP (RM4.29), as we roll forward our valuation into FY24, which also reflects softer sentiment on the automotive sector in coming quarters.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	3,545	3,004	3,118	3,339	3,131
Receivables	904	1,124	1,196	1,124	1,142
Inventories	1,752	2,046	1,914	1,686	1,712
PPE	2,545	2,706	2,691	2,633	2,579
Others	3,427	3,537	3,736	3,913	4,098
Assets	12,173	12,417	12,655	12,694	12,662
Payables	1,216	1,742	1,796	1,585	1,612
Debt	3,831	2,650	2,469	2,425	2,021
Others	363	885	885	885	885
Liabilities	5,410	5,277	5,150	4,895	4,518
Shareholder's equity	4,005	4,350	4,673	4,937	5,256
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,660	1,692	1,735	1,765	1,791
Equity	6,763	7,140	7,505	7,799	8,144

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	483	896	969	792	808
D&A	344	341	345	338	334
Working capital	(178)	12	114	90	(17)
Taxation	(81)	(158)	(185)	(146)	(148)
Others	(255)	175	(332)	(295)	(309)
CFO	313	1,266	911	779	668
Capex	(406)	(500)	(330)	(280)	(280)
Asset disposal	76	62	0	0	0
Acquisitions	75	0	0	0	0
Others	589	426	133	118	124
CFI	333	(11)	(197)	(162)	(156)
Changes in debt	267	(1,181)	(181)	(44)	(404)
Shares issued	0	0	0	0	0
Dividends	(47)	(103)	(178)	(164)	(140)
Distribution to Perps	(70)	(70)	(70)	(70)	(70)
Others	(111)	(181)	(171)	(119)	(105)
CFF	39	(1,535)	(600)	(397)	(719)
Net cash flow	686	(280)	114	221	(208)
Forex	8	12	0	0	0
Others	800	(272)	0	0	0
Beginning cash	2,051	3,545	3,004	3,118	3,339
Ending cash	3,545	3,004	3,118	3,339	3,131

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	11,061	15,814	15,950	14,047	14,269
EBITDA	635	952	985	841	838
EBIT	292	612	640	503	504
Net finance cost	(77)	(50)	(3)	(6)	(5)
Associates & JV	268	335	332	295	309
Profit before tax	483	896	969	792	808
Tax	33	(219)	(185)	(146)	(148)
Operation net profit	516	678	784	647	660
Discontinued operation	0	0	0	0	0
Reported net profit	516	678	784	647	660
Minority interest	(178)	(193)	(214)	(149)	(131)
Perpetual sukuk	(70)	(70)	(70)	(70)	(70)
Reported PATMI	268	415	500	428	459
Exceptionals	(123)	(16)	0	0	0
Core PATMI	145	399	500	428	459
Concensus			400	409	415
HLIB/Concensus (%)			125.1%	104.5%	110.5%

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Reported EPS (sen)	23.0	35.5	42.8	36.6	39.3
Core EPS (sen)	12.4	34.2	42.8	36.6	39.3
Core P/E (x)	29.4	10.7	8.5	10.0	9.3
DPS (sen)	5.8	14.2	14.0	12.0	14.0
Dividend yield (%)	1.6%	3.9%	3.8%	3.3%	3.8%
BVPS (RM)	3.43	3.72	4.00	4.23	4.50
P/B (x)	1.1	1.0	0.9	0.9	0.8
EBITDA margin	5.7%	6.0%	6.2%	6.0%	5.9%
EBIT margin	2.6%	3.9%	4.0%	3.6%	3.5%
PBT margin	4.4%	5.7%	6.1%	5.6%	5.7%
Net margin	1.3%	2.5%	3.1%	3.0%	3.2%
ROE	3.7%	9.6%	11.1%	8.9%	9.0%
ROA	1.2%	3.2%	4.0%	3.4%	3.6%
Net gearing	-7.2%	N.Cash	N.Cash	N.Cash	N.Cash

Assumptions

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Sales (Unit)					
Toyota	71,585	100,041	95,000	80,000	80,000
Lexus	809	993	900	800	800
Perodua	190,291	282,019	280,000	252,000	252,000

Average Price (RM)

	FY21	FY22	FY23f	FY24f	FY25f
UMW	99,292	104,189	104,189	104,189	104,189
Perodua	48,653	47,692	48,318	48,317	48,317

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	3,650.8	4,375.4	4,379.6	0.1%	20.0%
EBITDA	243.6	163.7	224.0	36.9%	-8.0%
EBIT	162.0	77.4	138.1	78.4%	-14.7%
Net finance expense	(31.3)	(4.6)	9.9	-314.2%	-131.6%
Associates	96.5	67.8	109.3	61.3%	13.2%
Eis	(11.0)	78.1	(6.5)		
Reported PBT	216.3	218.6	250.7	14.7%	15.9%
Tax	(43.5)	(46.5)	(47.0)	1.1%	8.1%
Reported operation net profit	172.8	172.2	203.7	18.3%	17.9%
Reported PATMI	101.2	106.0	134.5	26.9%	32.9%
Exceptionals	12.4	(37.6)	(3.2)	-91.4%	-126.0%
Core PATMI	113.6	68.3	131.2	92.1%	15.5%
Reported EPS (Sen)	8.7	9.1	11.5	26.9%	32.9%
Core EPS (Sen)	9.7	5.8	11.2	92.1%	15.5%
				%-pts	%-pts
EBITDA margin (%)	6.7%	3.7%	5.1%	1.4	(1.6)
EBIT margin (%)	4.4%	1.8%	3.2%	1.4	(1.3)
Core PATMI margin (%)	3.1%	1.6%	3.0%	1.2	(1.4)

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Figure #2 Quarterly results comparison by segment

FYE Dec (RMm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Reported Revenue					
Automotive	3,070.2	3,694.9	3,626.9	-1.8%	18.1%
Equipment	371.8	395.3	434.9	10.0%	17.0%
Manufacturing & Engineering	227.1	278.5	323.6	16.2%	42.5%
Others	(18.3)	6.7	(5.8)	-186.1%	-68.3%
Total	3,650.8	4,375.4	4,379.6	0.1%	20.0%
Reported PATMI					
Automotive	125.9	112.0	146.2	30.6%	16.1%
Equipment	21.3	25.0	36.0	43.9%	69.2%
Manufacturing & Engineering	3.7	19.3	10.6	-45.1%	187.8%
Others	(49.6)	(50.3)	(58.3)	15.9%	17.5%
Total	101.2	106.0	134.5	26.9%	32.9%
Core PATMI	113.6	68.3	131.2	92.1%	15.5%

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Figure #3 UMW automotive sales statistics

FYE Dec (Units)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Toyota	22,270	29,909	25,030	-16.3%	12.4%
Lexus	177	254	189	-25.6%	6.8%
Perodua	61,624	85,665	78,564	-8.3%	27.5%
Total	84,071	115,828	103,783	-10.4%	23.4%

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Figure #4 **UMW sum-of-parts valuation**

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,091.5	3.50	FY24 PE 10x
Equipment	Various	990.0	0.85	FY24 PE 8x
Manufacturing & Engineering	Various	1,076.6	0.92	FY24 PE 14x
500 acres Serendah land	100.00	980.1	0.84	Based on RM45/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2021 Annual Report
Holding Co Net Debt		(1,028.6)	(0.88)	Based on 2021 Annual Report
SOP		5,011.7	4.29	
Holding Co Discount			10.0%	
Target Price			3.85	Implied FY23 PE of 9.0
* No of Shares		1,168.3		As at end FY2022

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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