

29 May 2023

# UMW Holdings

## Firing on All Cylinders

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UMW's 1QFY23 results met expectations. Its recorded strong sales of Toyota, Lexus and Perodua vehicles, with additional earnings kicker coming from associate Perusahaan Otomobil Kedua Sdn Bhd on the back of higher vehicles production. Meanwhile, its manufacturing & engineering (M&E) and equipment segment also benefitted from the economy re-opening. We maintain our earnings forecasts, TP of RM4.80 and reiterate our OUTPERFORM call.

UMW's 1QFY23 core net profit of RM123.9m came in at 30% and 31% of our full-year forecast and the full-year consensus estimate, respectively. We deem the results within expectations as we expect a slightly slower 2QFY23 due to fewer working days and plant shutdown during the Hari Raya period for annual maintenance.

**YoY**, 1QFY23 revenue rose 20% driven by: (i) strong sales from automotive division (+18%) due to robust demand for Toyota/Lexus (+12% to 25,219 units) and Perodua (+27% to 78,564 units) vehicles as the economy reopened, (ii) strong automotive sales which boosted its manufacturing & engineering division (+42%) 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 (+17%) as construction and manufacturing activities resumed. The share of profit from associates rose sharply (+13%) driven by strong car sales (such as Bezza, Alza, Axia, Myvi, Ativa and Aruz) at Perusahaan Otomobil Kedua Sdn Bhd as well as lower cost of production.

Core net profit rose by a larger 25%, due to better margins at: (i) its vehicle dealerships driven by high-margin new models, i.e. Toyota Corolla Cross, Toyota Hilux, and Perodua Alza, and (ii) its manufacturing division (which produce auto parts, lubricant and aero engine fan casing) due to reduced competition amidst supply constraints in various industries.

**QoQ**, 1QFY23 revenue came in flat from a high base during the preceding quarter (on year-end promotions) with softer sales recorded by Toyota/Lexus (-16%) and Perodua (-8%), mitigated by the stronger sales at both M&E segment (+10%), and equipment sales (+16%) due to reasons as mentioned above. Nonetheless, the share of profit from associates rose 61%, mainly contributed by Perusahaan Otomobil Kedua Sdn Bhd with the ramp-up in production level for the all-new Perodua Axia, at significant reduction in costs as prices of commodities and key components softened. Coupled with lower effective tax rate of 18.7% vs. 21.3% in 4QFY22, core net profit rose by 19%.

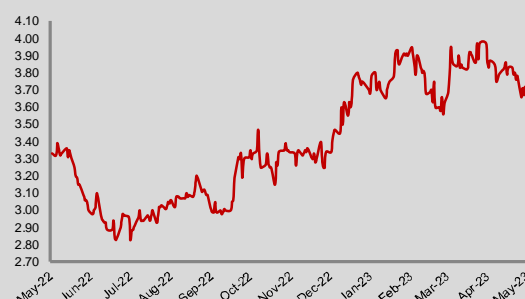
The key takeaways from the results briefing are as follows:

- UMW reiterated sales guidance for Toyota/Lexus of 93k units (-8%) in FY23. No change to our assumption at 93k units for FY23 and 95k units (+2%) for FY24. It guided for five all-new Toyota models in 2023 (all-new Vios, Toyota GR86 and GR Corolla already launched in Feb, all-new Toyota Innova Zenix in June, and one new model during the later part of the year). UMW's booking backlog for Toyota/Lexus vehicles currently stands at 50k units.

# OUTPERFORM ↔

Price: **RM3.66**  
Target Price: **RM4.80** ↔

### Share Price Performance



KLCI	1,402.98
YTD KLCI chg	-6.2%
YTD stock price chg	5.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	4,276.0
Shares Outstanding	1,168.3
52-week range (H)	4.04
52-week range (L)	2.77
3-mth avg daily vol:	685,280
Free Float	30%
Beta	0.9

### Major Shareholders

Amanah Saham Nasional	55.2%
Employees Provident Fund	9.3%
KWAP	9.2%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	15,814.4	15,706.2	17,121.9
EBIT	946.1	1,151.9	1,215.8
PBT	896.5	738.2	781.4
<b>Net Profit</b>	<b>415.0</b>	<b>414.7</b>	<b>442.4</b>
<b>Core net profit</b>	<b>394.0</b>	<b>414.7</b>	<b>442.4</b>
Consensus NP	-	397.7	412.7
Earnings Revision	-	-	-
Core EPS (sen)	33.7	35.5	37.9
C.EPS growth (%)	76.5	5.3	6.7
NDPS (sen)	14.2	15.0	15.0
BVPS (RM)	3.72	3.93	4.16
Core PER (x)	10.9	10.3	9.7
PBV (x)	1.0	0.9	0.9
Net Gearing (x)	N.cash	N.cash	N.cash
Net Div. Yield (%)	3.9	4.1	4.1

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- UMW works on the basis that Perodua’s sales target of 314k units (+11.3%) in 2023 will be achievable, backed by Perodua’s annual production capacity of 320k units (our forecasts for UMW and MBMR (OP; TP: RM4.70) are based on unit sales assumptions for Perodua of 314k and 320k in 2023 and 2024, respectively). Perodua’s current booking backlog stands at 190k units.
- UMW believes the worst of Perusahaan Otomobil Kedua Sdn Bhd’s margin squeeze is over as: (i) the prosperity tax recognition has ended, (ii) higher production level from all-new Perodua Axia helps to run down the high-cost inventories at a much faster rate, and (iii) prices of commodities and key components have since softened.
- UMW said that its M&E division (auto parts, lubricant and aero-engine fan casing) continues to enjoy strong orders as supply constraints in various industries have affected its competitors’ productivity. UMW guided that its new smart lubricant plant will start operating in the 2H 2023, and will add 70% additional capacity, increasing its total capacity to 60m litres/year. This 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.

**Forecasts.** Maintained.

We also maintained our Sum-of Parts (SOP) derived TP of RM4.80 (see page 3). 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 >240k units of vehicles, and (iii) it being a reopening play, given the pick-up 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								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	4,379.6	4,375.4	0%	3,650.8	20%	4,379.6	3,650.8	20%
Associates and JV	109.3	67.8	61%	96.5	13%	109.3	96.5	13%
EBIT	266.1	247.0	8%	255.3	4%	266.1	255.3	4%
PBT	250.7	218.6	15%	216.3	16%	250.7	216.3	16%
Taxation and Zakat	(47.0)	(46.5)	-1%	(42.5)	-11%	(47.0)	(42.5)	-11%
<b>Net Profit</b>	<b>134.5</b>	<b>106.0</b>	<b>27%</b>	<b>101.2</b>	<b>33%</b>	<b>134.5</b>	<b>101.2</b>	<b>33%</b>
<b>Core Net Profit</b>	<b>123.9</b>	<b>103.7</b>	<b>19%</b>	<b>99.4</b>	<b>25%</b>	<b>123.9</b>	<b>99.4</b>	<b>25%</b>
Core EPS (sen)	10.6	8.9	19%	8.5	25%	10.6	8.5	25%
DPS (sen)	-	11.2		-		-	-	
EBIT margin	6.1%	5.6%		7.0%		6.1%	7.0%	
PBT margin	5.7%	5.0%		5.9%		5.7%	5.9%	
Core NP margin	2.8%	2.4%		2.7%		2.8%	2.7%	
Effective tax rate	18.7%	21.3%		19.6%		18.7%	19.6%	

Source: Company, Kenanga Research

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Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
<b>Revenue</b>	<b>4,379.6</b>	<b>4,375.4</b>	<b>0%</b>	<b>3,650.8</b>	<b>20%</b>	<b>4,379.6</b>	<b>3,650.8</b>	<b>20%</b>
Automotive	3,626.9	3,694.9	-2%	3,070.2	18%	3,626.9	3,070.2	18%
Equipment	434.9	395.3	10%	371.8	17%	434.9	371.8	17%
M&E	323.6	278.5	16%	227.1	42%	323.6	227.1	42%
Others	(5.8)	6.7	N/A	(18.3)	N/A	(5.8)	(18.3)	N/A
<b>Segment PBT/(LBT)</b>	<b>250.7</b>	<b>218.6</b>	<b>15%</b>	<b>216.3</b>	<b>16%</b>	<b>250.7</b>	<b>216.3</b>	<b>16%</b>
Automotive	217.0	182.6	19%	205.8	5%	217.0	205.8	5%
Equipment	51.3	35.7	44%	31.8	62%	51.3	31.8	62%
M&E	22.4	29.2	-23%	10.6	111%	22.4	10.6	111%
Others	(40.0)	(28.9)	N/A	(31.9)	N/A	(40.0)	(31.9)	N/A
<b>Segment Margin</b>								
Automotive	6.0%	4.9%		6.7%		6.0%	6.7%	
Equipment	11.8%	9.0%		8.5%		11.8%	8.5%	
M&E	6.9%	10.5%		4.7%		6.9%	4.7%	

Source: Company, Kenanga Research

Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Basis
Group (ex-aerospace)	4,907	13x PER
UMW Aerospace	651	1x estimated BV
<b>Total</b>	<b>5,558</b>	
No. of shares	1,168	
<b>SOP/share (TP)</b>	<b>4.80</b>	

Source: Kenanga Research

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.				
<b>Stocks Under Coverage</b>																	
BERMAZ AUTO BHD	OP	2.14	2.90	35.51%	2,542.6	Y	04/2023	21.6	22.8	61.1%	5.6%	9.9	9.4	3.5	37.2%	15.1	7.1%
DRB-HICOM BHD	MP	1.35	1.45	7.41%	2,609.6	Y	12/2023	16.5	17.7	4.9%	7.2%	8.2	7.6	0.3	3.6%	2.0	1.5%
MBM RESOURCES BHD	OP	3.45	4.70	36.23%	1,379.9	Y	12/2023	65.6	67.7	14.5%	3.2%	5.3	5.1	0.6	12.0%	26.0	7.5%
SIME DARBY BHD	OP	2.06	2.40	16.50%	14,418.1	Y	06/2023	15.0	17.2	-14.6%	14.9%	13.7	11.9	0.9	6.3%	12.0	5.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.09	0.800	-26.61%	759.4	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.8%
UMW HOLDINGS BHD	OP	3.66	4.80	31.15%	4,416.2	Y	12/2023	35.5	37.9	5.3%	6.7%	10.3	9.7	0.9	9.3%	15.0	4.1%
<b>SECTOR AGGREGATE</b>					<b>26,125.7</b>					<b>-1.0%</b>	<b>11.0%</b>	<b>11.8</b>	<b>10.6</b>	<b>0.7</b>	<b>6.1%</b>		<b>4.6%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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