

# UMW Holdings (UMWH MK)

## 1Q23 results in line

### Maintain BUY and MYR5.30 TP

1Q23 earnings made up 32%/ 33% of ours/ consensus FY estimates, fueled by the auto division's operational strength. We expect UMW to enjoy relatively similar earnings performance in subsequent quarters, underpinned largely by the auto's strong backlog (Toyota & Perodua). Our TP is unchanged, pegged to FY23 PER of 15x (-0.5 SD valuation).

### Snapshot of 1Q23 results

UMW reported core net profit of MYR135m (+28% QoQ; +24% YoY) in 1Q23, 32% of our FY estimate. All divisions reported YoY strength (autos: +5%; equipment: +62%; manufacturing & engineering (M&E; incl aero): +111%). The auto division's (87% of the Group's PBT in 1Q23) performance was driven by the deliveries of the SST-exempted vehicles by end-Mar 2023 and new model launches. Both the Toyota and Perodua (38%-owned) marques enjoyed stellar sales, with vehicle sales up 12% YoY / 28% YoY to 25.2k units / 78.6k units respectively.

### Optimistic for FY23

Our earnings estimates are unchanged, on sequentially softer earnings expectation. The higher earnings for FY23-24E reflect improved earnings at all its divisions. Its Perodua ops continue to target record vehicle sales of 314k units (+11% YoY), backed by ~200k units backlog while Toyota has upped its vehicle sales estimate to 93k units (+3% QoQ) now. The latter's revision is conservative, in our view, for its order backlog remain solid, at 50k units. That said, we do not rule out Toyota matching its FY22 sales (101k units). Concurrently, its M&E (incl. aero) and equipment ops will continue to show growth post pandemic, driven by higher orders (fan cases) for its aerospace ops and equipment.

### Higher DPS outlook

UMW has alluded to a minimum 40% DPR. This is a positive, considering its stable financials. That said, we see ample room for a higher dividend payout, for the divestment of its non-core assets (Serendah land) is underway, with shareholders likely to be rewarded.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	11,061	15,814	15,569	15,979	16,137
EBITDA	506	952	852	932	997
Core net profit	156	421	424	439	456
Core EPS (sen)	13.4	36.0	36.3	37.5	39.0
Core EPS growth (%)	(45.2)	169.5	0.7	3.5	3.9
Net DPS (sen)	5.8	14.2	14.5	15.0	15.6
Core P/E (x)	22.2	9.6	10.1	9.8	9.4
P/BV (x)	0.9	0.9	0.9	0.9	0.8
Net dividend yield (%)	2.0	4.1	4.0	4.1	4.3
ROAE (%)	6.8	9.9	9.4	9.1	8.8
ROAA (%)	1.3	3.4	3.4	3.5	3.5
EV/EBITDA (x)	9.7	4.7	6.1	5.9	5.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	408	415	419
MIBG vs. Consensus (%)	-	-	3.8	5.8	8.7

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# BUY

Share Price	MYR 3.66
12m Price Target	MYR 5.30 (+45%)
Previous Price Target	MYR 5.30

### Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

### Statistics

52w high/low (MYR)	3.97/2.83
3m avg turnover (USDm)	0.6
Free float (%)	24.0
Issued shares (m)	1,168
Market capitalisation	MYR4.3B
	USD929M

### Major shareholders:

Permodalan Nasional Bhd.	42.5%
Employees Provident Fund	10.2%
Kumpulan Wang Persaraan	9.1%

### Price Performance



— UMW - (LHS, MYR) — UMW / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(5)	(6)	10
Relative to index (%)	(4)	(3)	20

Source: FactSet

## UMWH's quarterly results summary

FY Dec (MYR m)	Quarterly results				
	1Q23	4Q22	%QoQ	1Q22	%YoY
Turnover	4,379.6	4,375.4	0.1	3,650.8	20.0
EBIT	128.8	155.4	(17.1)	145.8	(11.7)
Interest expense	(15.4)	(28.3)	(45.7)	(39.0)	(60.6)
Associates	109.3	67.8	61.3	96.5	13.2
Investment Income	30.6	23.8	28.3	13.0	>100
<b>Pre-tax profit</b>	<b>250.7</b>	<b>218.6</b>	<b>14.7</b>	<b>216.3</b>	<b>15.9</b>
Taxation	(47.0)	(46.5)	1.1	(43.5)	8.1
Minority interest	(51.8)	(48.6)	6.6	(54.1)	(4.3)
Sukuk	(17.5)	(17.6)	(0.8)	(17.5)	0.0
<b>Net profit / (loss)</b>	<b>134.5</b>	<b>106.0</b>	<b>26.9</b>	<b>101.2</b>	<b>32.9</b>
Exceptional item	0.0	1.0	NM	(7.0)	NM
<b>Recurring net profit / (loss)</b>	<b>134.5</b>	<b>105.0</b>	<b>28.1</b>	<b>108.2</b>	<b>24.3</b>
	1Q23	4Q22	+/- ppt	1Q22	%YoY
EBIT margin (%)	2.9	3.6	(0.6)	4.0	(1.1)
Tax rate (%)	18.7	21.3	(2.5)	20.1	(1.4)
	1Q23	4Q22	%QoQ	1Q22	%YoY
<b>Revenue</b>	<b>4,379.6</b>	<b>4,375.4</b>	<b>0.1</b>	<b>3,650.8</b>	<b>20.0</b>
Automotive	3,626.9	3,694.9	(1.8)	3,070.2	18.1
Equipment	434.9	395.3	10.0	371.8	17.0
M&E	323.6	278.5	16.2	227.1	42.5
Others	(5.8)	6.7	NM	(18.3)	(68.3)
	1Q23	4Q22	%QoQ	1Q22	%YoY
<b>Pre-tax profit</b>	<b>250.7</b>	<b>218.6</b>	<b>14.7</b>	<b>216.3</b>	<b>15.9</b>
Automotive	217.0	182.6	18.8	205.8	5.4
Equipment	51.3	35.7	44.0	31.8	61.6
M&E	22.4	29.2	(23.4)	10.6	110.5
Others	(40.0)	(28.9)	38.5	(31.9)	25.2
	1Q23	4Q22	+/- ppt	1Q22	%YoY
<b>Pre-tax margins (%)</b>	<b>5.7</b>	<b>5.0</b>	<b>0.7</b>	<b>5.9</b>	<b>(0.2)</b>
Automotive	6.0	4.9	1.0	6.7	(0.7)
Equipment	11.8	9.0	2.8	8.5	3.3
M&E	6.9	10.5	(3.6)	4.7	2.2
	1Q23	4Q22	%QoQ	1Q22	%YoY
<b>Vehicle Unit Sales</b>					
Toyota	25,219	28,641	(11.9)	22,447	12.3
Perodua	78,564	91,728	(14.4)	61,624	27.5

Source: Company

## UMW: Vehicles sales

	2021	2022	2023F	2024F	2025F
Toyota	72,394	101,035	90,000	91,500	92,000
Perodua	190,291	282,019	314,000	316,500	317,000

Source: Company, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for UMW. Soft consumer sentiment and unattractive model launches are risks to its motors division. Forex volatility will affect its profitability and operational planning. Execution mishap, cost overruns and / or absence of new orders will cause adverse reaction. Acquisition of non-core assets or poor usage of capex will not be well received, particularly at this point of industry cycle.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	13.7	8.9	10.1	9.8	9.4
Core P/E (x)	22.2	9.6	10.1	9.8	9.4
P/BV (x)	0.9	0.9	0.9	0.9	0.8
P/NTA (x)	0.9	0.9	0.9	0.9	0.8
Net dividend yield (%)	2.0	4.1	4.0	4.1	4.3
FCF yield (%)	nm	20.1	nm	nm	nm
EV/EBITDA (x)	9.7	4.7	6.1	5.9	5.8
EV/EBIT (x)	30.4	7.3	10.4	10.5	10.7

**INCOME STATEMENT (MYR m)**

Revenue	11,060.8	15,814.4	15,569.1	15,979.2	16,137.4
EBITDA	505.6	952.1	851.5	931.9	997.4
Depreciation	(343.5)	(340.6)	(351.8)	(410.1)	(460.8)
EBIT	162.1	611.5	499.7	521.8	536.6
Net interest income / (exp)	(59.5)	(44.0)	(83.5)	(92.1)	(96.7)
Associates & JV	268.0	334.9	361.7	372.6	383.7
Exceptionals	112.1	(6.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	482.8	896.5	777.9	802.3	823.7
Income tax	32.9	(218.6)	(220.3)	(229.3)	(235.7)
Minorities	(177.6)	(193.0)	(63.8)	(64.2)	(62.2)
Perpetual securities	(69.9)	(69.9)	(69.9)	(69.9)	(69.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	268.2	415.0	423.9	438.9	455.9
Core net profit	156.1	421.0	423.9	438.9	455.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,941.4	2,808.1	2,379.9	2,151.6	1,971.7
Accounts receivable	1,051.7	1,231.5	1,214.1	1,243.3	1,254.5
Inventory	1,752.2	2,045.7	1,772.8	1,811.3	1,821.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,545.0	2,706.2	3,154.4	3,544.3	3,883.5
Intangible assets	0.0	0.8	0.8	0.8	0.8
Investment in Associates & JVs	2,248.5	2,441.0	2,660.1	2,890.1	3,131.3
Other assets	1,634.0	1,183.8	1,183.8	1,183.8	1,183.8
<b>Total assets</b>	<b>12,172.7</b>	<b>12,417.1</b>	<b>12,365.8</b>	<b>12,825.1</b>	<b>13,247.2</b>
ST interest bearing debt	638.1	212.3	212.3	212.3	212.3
Accounts payable	2,248.8	3,292.8	2,853.5	2,915.5	2,931.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,095.0	1,339.9	1,339.9	1,339.9	1,339.9
Other liabilities	428.0	432.0	432.0	432.0	432.0
<b>Total Liabilities</b>	<b>5,410.1</b>	<b>5,277.1</b>	<b>4,837.9</b>	<b>4,899.8</b>	<b>4,916.3</b>
Shareholders Equity	4,004.7	4,350.0	4,674.2	5,007.4	5,350.7
Minority Interest	1,660.0	1,692.1	1,755.9	1,820.1	1,882.3
<b>Total shareholder equity</b>	<b>5,664.7</b>	<b>6,042.1</b>	<b>6,430.1</b>	<b>6,827.5</b>	<b>7,233.0</b>
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
<b>Total liabilities and equity</b>	<b>12,172.7</b>	<b>12,417.1</b>	<b>12,365.8</b>	<b>12,825.1</b>	<b>13,247.2</b>

**CASH FLOW (MYR m)**

Pretax profit	482.8	896.5	777.9	802.3	823.7
Depreciation & amortisation	343.5	340.6	351.8	410.1	460.8
Adj net interest (income)/exp	(133.5)	(133.5)	(139.7)	(139.7)	(139.7)
Change in working capital	(232.4)	524.8	(148.9)	(5.7)	(5.0)
Cash taxes paid	(74.0)	(139.1)	(220.3)	(229.3)	(235.7)
Other operating cash flow	(150.3)	(305.3)	(278.2)	(280.5)	(287.1)
Cash flow from operations	236.1	1,183.9	342.6	557.2	616.9
Capex	(301.8)	(367.4)	(800.0)	(800.0)	(800.0)
Free cash flow	(65.7)	816.6	(457.4)	(242.8)	(183.1)
Dividends paid	(123.1)	(256.8)	(169.6)	(175.6)	(182.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	267.0	(1,180.8)	0.0	0.0	0.0
Other invest/financing cash flow	705.9	489.5	198.7	190.2	186.6
Effect of exch rate changes	8.2	11.7	0.0	0.0	0.0
Net cash flow	792.3	(119.8)	(428.3)	(228.3)	(178.9)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	15.8	43.0	(1.6)	2.6	1.0
EBITDA growth	(29.0)	88.3	(10.6)	9.4	7.0
EBIT growth	(52.0)	277.2	(18.3)	4.4	2.8
Pretax growth	20.5	85.7	(13.2)	3.1	2.7
Reported net profit growth	31.1	54.7	2.1	3.5	3.9
Core net profit growth	(45.2)	169.8	0.7	3.5	3.9
<b>Profitability ratios (%)</b>					
EBITDA margin	4.6	6.0	5.5	5.8	6.2
EBIT margin	1.5	3.9	3.2	3.3	3.3
Pretax profit margin	4.4	5.7	5.0	5.0	5.1
Payout ratio	25.3	40.0	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	2.4	2.6	2.7	2.7	2.8
Revenue/Assets (x)	0.9	1.3	1.3	1.2	1.2
Assets/Equity (x)	3.0	2.9	2.6	2.6	2.5
ROAE (%)	6.8	9.9	9.4	9.1	8.8
ROAA (%)	1.3	3.4	3.4	3.5	3.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	16.6	5.5	(3.2)	(1.2)	(1.3)
Days receivable outstanding	36.7	26.0	28.3	27.7	27.9
Days inventory outstanding	52.7	44.5	51.7	47.5	47.8
Days payables outstanding	72.7	65.0	83.2	76.4	77.0
Dividend cover (x)	4.0	2.5	2.5	2.5	2.5
Current ratio (x)	2.1	1.8	1.8	1.7	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.4	2.6	2.6	2.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	2.7	13.9	6.0	5.7	5.6
Debt/EBITDA (x)	5.4	1.6	1.8	1.7	1.6
Capex/revenue (%)	2.7	2.3	5.1	5.0	5.0
Net debt/ (net cash)	(208.3)	(1,255.9)	(827.6)	(599.3)	(419.5)

Source: Company; Maybank IBG Research

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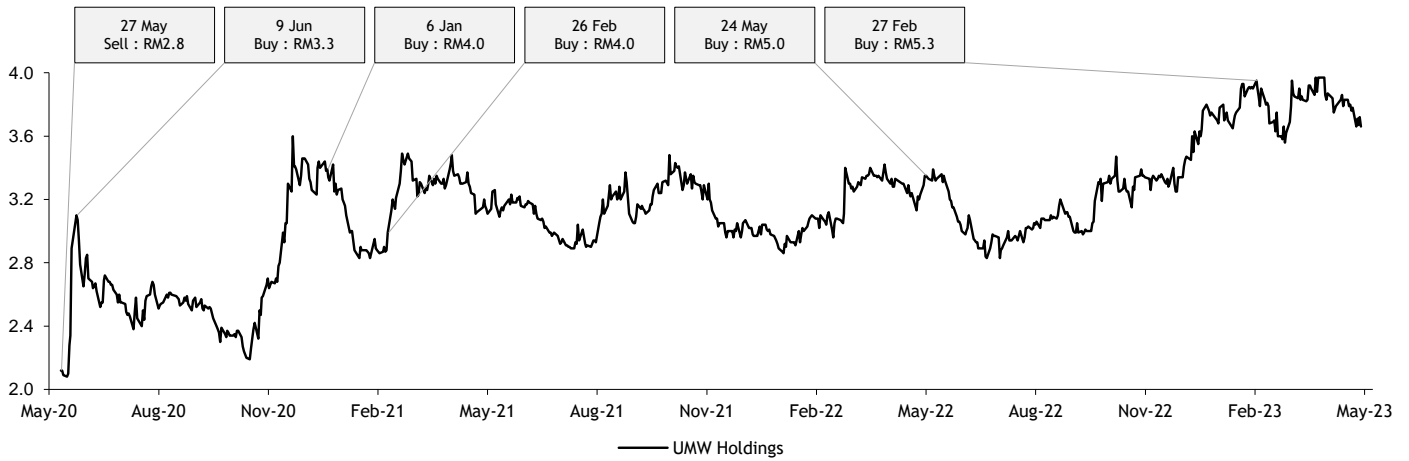
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