

29 May 2023

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Buy (Maintained)

Order Backlog To Support Earnings; Keep BUY

Target Price (Return):	MYR5 (+37%)
Price (Market Cap):	MYR3.66 (USD929m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	2.44m/0.55m

- Keep BUY and MYR5 TP, 37% upside with c.4% yield.** UMW's 1Q23 results are within expectations. Despite a 10% drop in automotive volume in 1Q23, automotive PBT rose 19% QoQ. Its equipment and manufacturing and engineering (M&E) segments also saw revenue growth, but the latter's contribution fell by 23% QoQ mainly due to high costs from its lubricant sub-segment. Management remains confident on Toyota and Perodua sales reaching the targets of 93k and 314k, driven by its order backlogs of 49k and c.190k units.
- Within our expectations.** 1Q23 core net profit of MYR123m is in line, at 27% of our FY23 forecast (and 31% of the Street's full-year projection). No dividend was declared, as expected.
- Results highlights.** QoQ, 1Q23 earnings rose 17% despite the lack of revenue growth, mainly as the associate contribution rose by 61% because Perodua booked lower costs in 1Q23. Despite Toyota/Lexus' 16% QoQ decline in volume, we estimate that UMW Toyota's (UMWT) revenue only dipped by 1% QoQ – given its higher ASP and partially due to price hikes and product mix changes. UMW's PBT softened by 6%. Its equipment revenue rose 10% QoQ due to higher deliveries of industrial equipment, and a 2.8ppt margin expansion helped PBT to expand by 44%. Despite a 16% QoQ increase in M&E revenue – partially driven by contributions from its aerospace business – the segment's PBT fell by 23% QoQ. This is because the M&E segment's PBT margin softened by 3.6ppt to 6.9%, mainly due to higher costs from its lubricant business. Its aerospace unit's PBT margin was flat QoQ.
- Outlook.** Management remains confident that Toyota and Perodua will be able to achieve their sales targets of 93k and 314k units for 2023, especially with backlogs at 49k and c.190k units as of May. We expect UMW's automotive costs to remain stable and gradually trend down, along with easing raw material prices. While there are concerns of a slowdown in orders and deliveries, the current waiting periods of 3-7 months for Toyota and 2-12 months for Perodua indicate that demand continues to outpace supply. We believe that the strong demand is coming from down-trading and new model launches. We maintain our FY23-25 forecasts.
- Our unchanged MYR5 TP is based on 13x FY23F P/E,** which is close to its 5-year mean of 14x. Our TP includes 0% ESG adjustments, as our ESG score remains unchanged at 3.0. Still BUY this stock, as we think UMW will continue to deliver strong earnings in the subsequent quarters, supported by its existing order backlogs. Its current price implies an attractive FY23F 9.5x P/E. Downside risks include weaker-than-expected orders, deliveries and margins, and a stronger-than-expected USD/MYR rate.
- ESG framework update.** As there is now greater focus on the E pillar due to critical climate change issues, we have tweaked our ESG weightage. Henceforth, we assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note titled [Envisioning a Better Future](#).

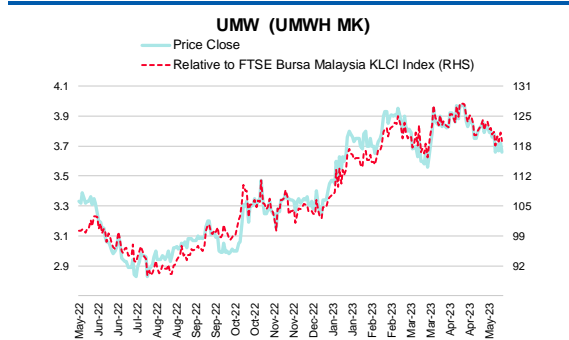
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.5	(5.2)	(6.2)	9.6	9.6
Relative	11.7	(4.4)	(2.5)	15.2	18.6
52-wk Price low/high (MYR)	2.83 – 3.97				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	11,061	15,814	15,191	14,583	14,664
Recurring net profit (MYRm)	226	399	450	405	393
Recurring net profit growth (%)	(20.6)	76.5	12.7	(10.0)	(3.0)
Recurring P/E (x)	18.89	10.71	9.50	10.55	10.88
P/B (x)	1.1	1.0	0.9	0.8	0.8
P/CF (x)	16.36	5.18	15.97	8.28	8.14
Dividend Yield (%)	1.6	3.9	4.1	3.7	3.7
EV/EBITDA (x)	18.92	2.23	2.66	2.22	1.74
Return on average equity (%)	(4.5)	9.9	9.9	8.2	7.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

UMW has taken the effort to monitor and improve its environmental standing, especially with regards to energy consumption, carbon emissions, and water management. Its carbon footprint increased 2.36% in FY19.

S: GOOD

Aside from having up-to-date health & safety policies and guidelines, UMW is also consistent in its CSR participation – achieving 9,241 volunteer hours in 2019. It recorded average training hours of 12.36 hours per employee in FY19.

G: GOOD

Management regularly engages with the market and media, while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.19	0.34	0.39	0.35	0.34
Consumer Cyclical	DPS	0.06	0.14	0.15	0.14	0.14
UMW	BVPS	3.43	3.72	4.07	4.40	4.72
UMWH MK	Return on average equity (%)	(4.5)	9.9	9.9	8.2	7.4
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
13x P/E on forward earnings	Recurring P/E (x)	18.89	10.71	9.50	10.55	10.88
	P/B (x)	1.1	1.0	0.9	0.8	0.8
	FCF Yield (%)	(3.4)	7.4	(12.4)	2.7	2.9
	Dividend Yield (%)	1.6	3.9	4.1	3.7	3.7
	EV/EBITDA (x)	18.92	2.23	2.66	2.22	1.74
	EV/EBIT (x)	na	3.48	4.50	3.66	2.84
Key drivers	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Introduction of new Perodua and Toyota models;	Total turnover	11,061	15,814	15,191	14,583	14,664
ii. Long-term growth potential from the aerospace business.	Gross profit	1,194	2,806	2,653	2,584	2,627
	EBITDA	172	946	856	850	868
	Depreciation and amortisation	(344)	(341)	(349)	(335)	(337)
	Operating profit	(171)	606	507	514	531
	Net interest	(108)	(114)	(93)	(92)	(92)
	Pre-tax profit	37	896	874	814	802
	Taxation	33	(219)	(152)	(154)	(159)
	Reported net profit	(177)	415	450	405	393
	Recurring net profit	226	399	450	405	393
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Weaker-than-expected orders and deliveries;	Change in working capital	(221)	0	(234)	6	(4)
ii. Softer-than-expected margins;	Cash flow from operations	261	825	268	516	525
iii. Stronger-than-expected USD/MYR rate.	Capex	(406)	(507)	(800)	(400)	(400)
	Cash flow from investing activities	12	(507)	(432)	(100)	(129)
	Dividends paid	(68)	(166)	(175)	(158)	(158)
	Cash flow from financing activities	(275)	(196)	(205)	(188)	(188)
	Cash at beginning of period	2,051	2,941	2,808	2,438	2,667
	Net change in cash	(2)	122	(370)	228	209
	Ending balance cash	2,057	3,064	2,438	2,667	2,875
Company Profile	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
UMW is the largest company in Malaysia's automotive sector. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia.	Total cash and equivalents	2,941	2,808	2,438	2,667	2,875
	Tangible fixed assets	2,545	2,706	2,965	2,961	2,958
	Total investments	2,524	2,655	2,642	2,626	2,612
	Total assets	12,173	12,417	12,326	12,395	12,599
	Short-term debt	655	225	217	217	217
	Total long-term debt	2,133	1,379	1,378	1,378	1,378
	Total liabilities	5,410	5,277	4,988	4,855	4,864
	Total equity	6,763	7,140	7,338	7,540	7,735
	Total liabilities & equity	12,173	12,417	12,326	12,395	12,599
Key metrics	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	15.8	43.0	(3.9)	(4.0)	0.6
	Recurrent EPS growth (%)	(20.6)	76.5	12.7	(10.0)	(3.0)
	Gross margin (%)	10.8	17.7	17.5	17.7	17.9
	Operating EBITDA margin (%)	1.6	6.0	5.6	5.8	5.9
	Net profit margin (%)	(1.6)	2.6	3.0	2.8	2.7
	Dividend payout ratio (%)	(38.2)	40.0	38.9	38.9	40.1
	Capex/sales (%)	3.7	3.2	5.3	2.7	2.7
	Interest cover (x)	(1.58)	5.31	5.46	5.57	5.75

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Dec	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
Revenue	3,651	4,375	4,380	0	20	Revenue remained unchanged QoQ as the equipment and M&E revenue increases were weighed down by the marginal decline in automotive revenue. YoY, the 20% increase was driven by sales and service tax-exempt deliveries.
EBIT	146	155	129	(17)	(12)	
Finance costs	(39)	(28)	(15)	(46)	(61)	
Investmt income	13	24	28	18	116	
Associates	97	68	109	61	13	The associate contribution was mainly boosted by Perodua, despite it posting an 8% QoQ decline in volume. Perodua's higher contribution was boosted by lower costs. Perodua also faced higher taxes in 4Q22, due to the one-off prosperity tax.
Pretax Profit	216	219	251	15	16	
Tax	(43)	(46)	(47)	1	8	
MI	(54)	(49)	(52)	7	(4)	
Core Net Profit	99	106	123	17	24	Rose 17% QoQ, mainly thanks to the higher associate contribution. Within our estimate, at 27% of FY23F earnings (it made up 31% of the Street full-year forecast).
<i>EBIT margin (%)</i>	<i>4.0</i>	<i>3.6</i>	<i>2.9</i>			
<i>Pretax margin (%)</i>	<i>5.9</i>	<i>5.0</i>	<i>5.7</i>			
<i>Eff tax rate (%)</i>	<i>(20.1)</i>	<i>(21.3)</i>	<i>(18.7)</i>			
<i>Net Margin (%)</i>	<i>2.7</i>	<i>2.4</i>	<i>2.8</i>			

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
Automotive	3,070	3,695	3,627	(2)	18	UMW Toyota's revenue remained resilient despite a 16% QoQ decline in volume, supported by higher average selling price – due to higher prices and product mix.
Equipment	372	395	435	10	17	Due to higher deliveries of industrial equipment.
Manufacturing & engineering	227	279	324	16	42	Due to higher aerospace sub-segment contribution.
Others	(18)	7	(6)	(186)	(68)	
Revenue	3,651	4,375	4,380	0	20	
Automotive	206	183	217	19	5	QoQ 19% increase was boosted by Perodua's contribution. We estimate Toyota's PBT contribution to have declined 6% QoQ.
Equipment	32	36	51	44	62	
Manufacturing & engineering	11	29	22	(23)	111	Mainly due to higher lubricant sub-segment costs. Aerospace margins were flat QoQ.
Others	(32)	(29)	(40)	(39)	(25)	
PBT	216	219	251	15	16	
PBT Margins						
<i>Automotive</i>	<i>6.7</i>	<i>4.9</i>	<i>6.0</i>			
<i>Equipment</i>	<i>8.5</i>	<i>9.0</i>	<i>11.8</i>			
<i>Manufacturing & engineering</i>	<i>4.7</i>	<i>10.5</i>	<i>6.9</i>			

Source: Company data, RHB

Figure 3: Key assumptions

FYE Dec	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Toyota/Lexus TIV (units)	70,009	59,320	72,394	101,034	100,000	90,000	85,000
Perodua TIV (units)	240,341	220,154	190,291	282,019	320,000	250,000	230,000

Source: Company data, RHB

Recommendation Chart

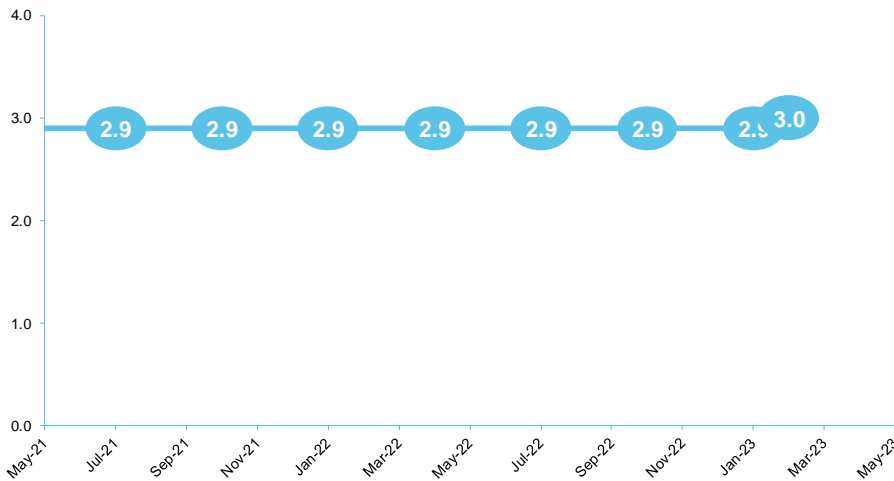


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-28	Buy	5.00	3.90
2023-02-17	Buy	5.10	3.85
2022-11-30	Neutral	3.35	3.26
2022-08-28	Neutral	3.10	3.06
2022-07-15	Neutral	2.90	2.83
2022-05-25	Neutral	3.64	3.35
2022-03-15	Neutral	3.29	3.06
2022-02-28	Neutral	3.29	3.07
2021-11-30	Neutral	2.83	3.08
2021-08-27	Neutral	2.94	3.11
2021-07-27	Neutral	2.94	2.91
2021-05-25	Neutral	3.43	3.25
2021-04-22	Neutral	3.40	3.38
2021-02-26	Neutral	2.98	2.99
2020-11-26	Neutral	2.65	2.78

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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