

SHARIAH GEMS CONFERENCE HIGHLIGHTS

UMW Holdings (UMWH MK)

Upshifting Gears For A Smoother Ride

While a base normalisation from UMW's automobile segment could be in sight for 2H23 with the absence of SST exemption, the group's strong orderbook backlog alongside an attractive launch pipeline could cushion the earnings impact. Meanwhile, the recovering aerospace segment could be the new growth driver with the group recently securing its second contract with earnings visibility for the next 15 years. Maintain **HOLD**. Target price: RM3.80.

WHAT'S NEW

- Automobile: Orderbook remains strong to cushion a base normalisation in 2H23.** Note that 2022 has been an exceptionally good year for UMW's automobile segment with both its flagship marques Perodua and Toyota registering record-high sales of 282,000 and 101,000 respectively (collectively garnered 54% of TIV market share). Moving into 2023, while the Sales and Services Tax (SST) has officially ended since end-Jun 22, the government has allowed the SST exemption to apply for any car booked before the deadline as long as it is registered before 31 Mar 23. On this silver lining, UMW's backlog remains solid with outstanding orders for Toyota and Perodua at about 50,000 units and 200,000 units respectively (delivery within 2-8 months). We believe this could partially cushion the slowdown from the base normalisation.
- New models launching and ASP hike to ride through earnings volatility.** For the new model pipelines, we gather that the group has launched its signature Toyota 3GR and 2GR sports model in Malaysia alongside all-new Vios (B-segment volume driver) to augment sales momentum in 2023. The group is also looking to launch its second Hybrid Electric Vehicle (HEV) to move towards green mobility. While UMW is keeping its initial sales target of 93,000 for Toyota, the group sees upside bias in 2H23 which might prompt it to revise its initial target. On the forex front, while the weakening of MYR vs USD could impact its earnings adversely given the import content cost, management noted the hedging policy is in place with an option to revise prices to safeguard its margins.
- Aerospace: On the mend.** While 2022 was a gestation period for UMW's aerospace segment, we believe the group could be charting for a breakeven based on the encouraging projection production numbers for 2023. Being the Tier 1 supplier for fan case kits for Rolls Royce, UMW has recently received a new contract (15 years and valued at RM1b) to manufacture rear cases for Rolls Royce's Trent 1000 and Trent 7000 aero engines. Note that the commercial production is expected to commence in 2025. Meanwhile, the group is also exploring other business opportunities with other OEMs in the aerospace sector to drive up utilisation.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	11,061	15,814	12,509	13,364	14,038
EBITDA	618	952	942	977	1,000
Operating profit	274	611	563	606	636
Net profit (rep./act.)	268	415	369	418	443
Net profit (adj.)	245	394	369	418	443
EPS (sen)	21.0	33.7	31.6	35.8	37.9
PE (x)	18.1	11.2	12.0	10.6	10.0
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	10.5	6.8	6.9	6.6	6.5
Dividend yield (%)	1.1	1.8	1.7	1.9	2.0
Net margin (%)	2.4	2.6	3.0	3.1	3.2
Net debt/(cash) to equity (%)	(4.1)	(23.1)	3.4	1.0	(1.4)
Interest cover (x)	10.4	19.1	16.2	15.5	13.7
ROE (%)	5.3	7.9	6.6	7.1	7.1
Consensus net profit	-	-	400	409	415
UOBKH/Consensus (x)	-	-	0.92	1.02	1.07

Source: UMW Holdings, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.79
Target Price	RM3.80
Upside	+0.3%

COMPANY DESCRIPTION

UMW, through its 51%-owned subsidiary UMW-Toyota, imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. It also owns 38% stake in Perodua.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	4,427.8
Market cap (US\$m):	991.9
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

52-week high/low	RM3.97/RM2.83			
1mth	3mth	6mth	1yr	YTD
(1.0)	1.1	16.6	17.0	9.2

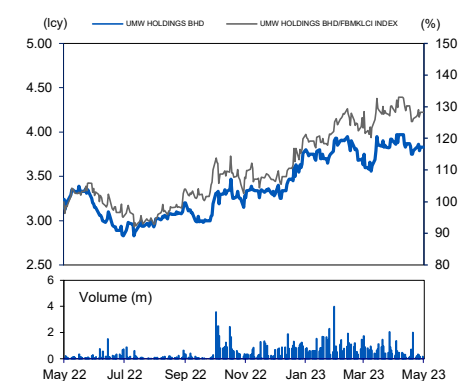
Major Shareholders

	%
Amanah Saham Nasional	55.2
EPF	9.3
Kumpulan Wang Persaraan Diperbadankan	9.3

FY23 NAV/Share (RM) 4.92

FY23 Net Debt/Share (RM) 0.17

PRICE CHART



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STOCK IMPACT

- Manufacturing & engineering segment is on the mend.** The outlook for this segment remains promising, with sales of auto components expected to continue being supported by new and outstanding orders for both the domestic and export markets. The aerospace sub-segment is expected to improve further in 2023, with management guiding for the sub-segment to achieve a 70-75% utilisation rate in 2023 compared with 40-50% in 2022. On the other hand, the full reopening of international borders has led to an increase in air travel which is expected to reach pre-pandemic levels in 2023 and will translate into growth prospects for the aerospace sub-segment.
- Equipment segment's profitability continues to improve.** Overall, revenue in 2022 has returned to pre-pandemic levels, achieving growth of 16% yoy to RM1.528b mainly due to growing demand for the segment's products and services in both the domestic and overseas markets. In tandem with higher revenue, the segment's profit before taxation and zakat of RM152.8m was 43% higher than in 2021. We expect the segment will continue to grow in 2023 as China's economy is expected to rebound after lifting pandemic restrictions. Concurrently, the heavy equipment sub-segment will continue to leverage on the improving construction industry and higher commodity prices.

EARNINGS REVISION/RISK

- None.

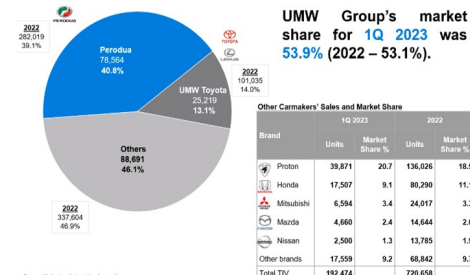
VALUATION/RECOMMENDATION

- Maintain HOLD with an unchanged target price of RM3.80** based on 12x 2023F target PE (which is the sector's five-year mean). While we believe earnings will moderate downwards in 2023 as we foresee declining consumption growth for car sales despite the new model launches (normalisation of order deliveries following the SST exemption expiry), the prospects are still decent, supported by the strong order backlog alongside a recovery in the equipment and M&E segments.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - Investing in renewable energy by installing solar panels at two of the group's operational sites, namely KYB-UMW and Aerospace plants. - Investing in nature-based solutions for CO2 sequestration and collaborating with key stakeholders in reforestation initiative (300,000 mangrove trees to be planted by 2023).
<ul style="list-style-type: none"> Social <ul style="list-style-type: none"> - Implementing community development initiatives that nurture future generations and equip youths with industry-ready skills, such as the PROTÉGÉ programme. - Contributed about RM10.8m in cash and in kind to communities.
<ul style="list-style-type: none"> Governance <ul style="list-style-type: none"> - Board composition. 30% requirement for female directors has long been met by the group, whereby 40% of UMW's Directors are female. - Established the three-year Integrity and Governance Unit (IGU) Blueprint 2021-23.

UMW AUTOMOBILE MARKET SHARE



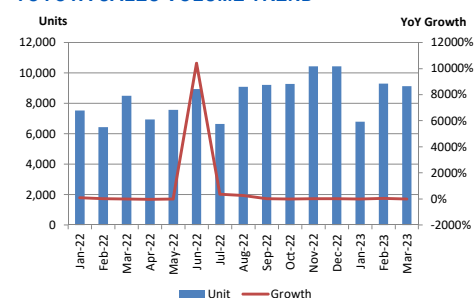
Source: UMW Holdings

PERODUA SALES VOLUME TREND



Source: MAA, UMW Holdings

TOYOTA SALES VOLUME TREND



Source: MAA, UMW Holdings

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	15,814	12,509	13,364	14,038
EBITDA	952	942	977	1,000
Deprec. & amort.	341	379	371	364
EBIT	611	563	606	636
Associate contributions	335	281	316	339
Net interest income/(expense)	(50)	(58)	(63)	(73)
Pre-tax profit	896	786	859	903
Tax	(219)	(174)	(185)	(195)
Minorities	(263)	(243)	(256)	(265)
Net profit	415	369	418	443
Net profit (adj.)	394	369	418	443

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	1,203	(419)	595	614
Pre-tax profit	896	786	859	903
Tax	(139)	(174)	(185)	(195)
Deprec. & amort.	341	379	371	364
Associates	(335)	(281)	(316)	(339)
Working capital changes	(346)	(1,067)	(72)	(57)
Other operating cashflows	786	(62)	(62)	(62)
Investing	49	(138)	(138)	(138)
Capex (growth)	(510)	(200)	(200)	(200)
Investments	409	0	0	0
Others	150	62	62	62
Financing	(1,533)	374	(84)	(89)
Dividend payments	(257)	(74)	(84)	(89)
Proceeds from borrowings	(1,276)	448	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(280)	(183)	374	387
Beginning cash & cash equivalent	2,081	1,870	1,687	2,061
Changes due to forex impact	68	0	0	0
Ending cash & cash equivalent	1,870	1,687	2,061	2,448

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,706	2,921	2,921	2,921
Other LT assets	3,346	3,627	3,942	4,282
Cash/ST investment	2,808	1,805	1,938	2,091
Other current assets	3,557	3,741	3,953	4,121
Total assets	12,417	12,093	12,754	13,415
ST debt	212	400	400	400
Other current liabilities	3,390	2,149	2,289	2,400
LT debt	1,340	1,600	1,600	1,600
Other LT liabilities	335	335	335	335
Shareholders' equity	5,448	5,743	6,078	6,432
Minority interest	1,692	1,866	2,052	2,247
Total liabilities & equity	12,417	12,093	12,754	13,415

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.0	7.5	7.3	7.1
Pre-tax margin	5.7	6.3	6.4	6.4
Net margin	2.6	3.0	3.1	3.2
ROA	3.4	3.0	3.4	3.4
ROE	7.9	6.6	7.1	7.1
Growth				
Turnover	43.0	(20.9)	6.8	5.0
EBITDA	54.1	(1.0)	3.8	2.3
Pre-tax profit	85.7	(12.3)	9.2	5.1
Net profit	54.7	(11.0)	13.2	6.0
Net profit (adj.)	61.0	(6.3)	13.2	6.0
EPS	61.0	(6.3)	13.2	6.0
Leverage				
Debt to total capital	17.9	20.8	19.7	18.7
Debt to equity	28.5	34.8	32.9	31.1
Net debt/(cash) to equity	(23.1)	3.4	1.0	(1.4)
Interest cover (x)	19.1	16.2	15.5	13.7

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