UMW Holdings Berhad (UMW MK)

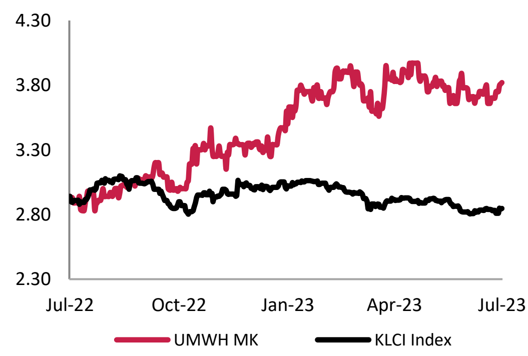
Compelling Business Segments

- **We favor UMW Holdings (UMW) due to its diversified business model that includes automotive, equipment and manufacturing & engineering.**
- **The potential for earnings growth appears to be cautiously optimistic, driven by favourable automobile demand, strong consumer sentiment, and increasing demand for products and services across various sectors.**
- **We re-initiate coverage on UMW with a BUY call and Target Price of RM4.57, pegged at 13.9x PER to FY23F EPS of 32.9sen. The attractive total return, including a dividend yield of 4.1%, at our target price amounts to 24%.**

BUY

Share Price	**RM3.81**
Target Price	**RM4.57 +19.9%**

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	0.8	2.4	34.6
vs FBM KLCI	(0.2)	2.0	33.9

Stock Data	
ESG	3.9
Mkt Cap (RM)	4,462.9
Free float (%)	26.2
Issued shares (m)	1,168.3
Adj. Beta	0.845
52w H/L (RM)	4.04 / 2.77
3m avg daily volume (m)	562,519

Major Shareholders (%)	
ASNB	55.2
EPF	9.4
KWAP	9.3

FYE Dec (RM mn)	FY21	FY22	FY23F	FY24F	FY25F
Turnover	11,061	15,814	14,000	13,371	13,628.
EBITDA	644	991	875	878	892
EBIT	301	650	575	578	592
Pretax Profit	483	896.5	819	827	846
Taxation	33	(219)	(188)	(190)	(194)
Core Profit	268.2	415.0	384	388	397
Consensus NP			**420.5**	**407.2**	**422.5**
EPS (sen)	23.0	35.5	32.9	33.3	34.0
PER (x)	15.9	10.3	11.6	11.5	11.2
DPS (sen)	5.8	14.2	15.5	15.5	15.5
D. Yield (%)	1.6	3.9	4.1	4.1	4.1

Key Ratios (%)					
ROE	6.7	9.5	8.4	8.2	8.0
EBITDA margin	5.8	6.3	6.2	6.6	6.5
Pretax margin	4.4	5.7	5.8	6.2	6.2
Net margin	2.4	2.6	2.7	2.9	2.9

Source: Bloomberg, BIMB Securities

Pragmatic Prospects

We favour UMW due to its diversified conglomerate business model, which spans across various sectors including automotive, equipment and, manufacturing & engineering. The group operates through a network of subsidiaries and associates, serving a global clientele with renowned brands and extensive geographical coverage. The business outlook for UMW appears highly promising, driven by several key factors, namely 1) a robust backlog of orders for vehicles, indicating strong demand in the market, 2) the anticipated recovery of the Chinese economy that is expected to further bolster UMW's prospects, 3) the projected improvements in commodity prices, 4) an anticipated increase in demand for auto parts and lubricants, aligning with the higher sales of vehicles, and 5) the reopening of international borders which is likely to result in a rise in air travel.

Cautiously Optimistic on Outlook

The presence of unfavourable factors such as subdued consumer sentiment, an elevated interest rate environment, and volatility in foreign exchange, has the potential to pose risks to our earnings forecast. Consequently, these factors could result in a subdued growth outlook for UMW's various business segments.

Dividend Payout

We anticipate that UMW to pay a DPS of 15.5 sen for FY23 to FY25, reflecting a payout ratio of 40% of PATAMI. This projection is in line with the dividend payout ratio in FY22 which resulted in a dividend yield of 3.7% based on the current market price.

Re-initiate Coverage with a 'BUY' call and TP of RM4.57

We re-initiate coverage on UMW with a **BUY** call and TP of **RM4.57**, pegged at 5-year average PER of 13.9x to FY23F's EPS of 32.9sen. Our assumption is based on the expectation that UMW's earnings will gradually recover to pre-pandemic levels, reaching approximately to RM384.7mn in FY23F. With a total return of 24%, inclusive of a dividend yield of 4.1%, UMW presents a compelling opportunity for investors, in our view, considering the increasing demand for the company's diverse range of manufacturing & engineering products and services, and equipment despite the expected normalization of vehicle demand post FY23.

Research Team

bimbresearch@bimbsec.com.my

(603) 2613 1742

Company background

- UMW Holdings Berhad (UMW) operates across various business segments, particularly focus on automotive, equipment and manufacturing & engineering. Within these segments, the group places significant emphasis on maintaining renowned brand names while conducting its core business activities. Moreover, UMW has successfully expanded its regional footprint, offering services in multiple countries, including:
    - i) Malaysia: Providing automotive, equipment, and manufacturing & engineering services,
    - ii) Singapore: Offering equipment services,
    - iii) China: Delivering equipment, manufacturing, and engineering solutions,
    - iv) Vietnam: Catering to equipment services,
    - v) Myanmar: Extending equipment service,
    - vi) Brunei: Providing equipment services, and
    - vii) Papua New Guinea: Offering equipment services.

  By establishing its presence in these diverse markets, UMW has positioned itself as a prominent player in the automotive, manufacturing, and engineering sectors across the region.

Table 1: UMW's Core Segments

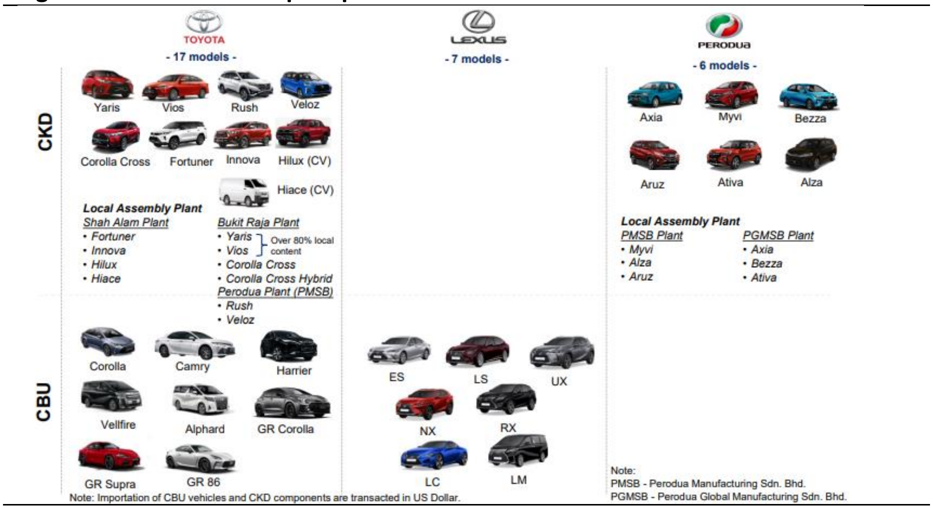
Automotive	Equipment	M & E	Aerospace
• Manufacture	• Distribution	• Manufacture automotive components	• Manufacture and assemble fan cases
• Assembly	• Lease	• Blend and distribute lubricants	
• Distribution	• After-sales Services		
• After-sales Services			

Source: Company, BIMB Securities

- **Automotive Segment: Strong Backlog Orders Still Viable.** UMW's automotive segment plays an important role in its overall revenue, particularly propelled by its 51% ownership of UMW Toyota Motor Sdn. Bhd. (UMWT) and its 38% stake in Perusahaan Otomobil Kedua Sdn. Bhd. (Perodua). This segment alone contributes over 84% of the total revenue generated by the company. Notably, the automotive segment encompasses renowned brands such as Perodua, Toyota, and Lexus - with Perodua and Toyota playing significant roles in driving the overall sales volume of units sold. (Chart 2).

  To recap, in 2022, the automotive industry experienced a highly successful year with the Total Industry Volume (TIV) reaching an unprecedented record high of circa 720,000 units. This achievement marks the highest level ever recorded in the industry's history. To address the decline in consumer demand resulting from the impact of the Covid-19 pandemic, the government implemented several strategic initiatives during the years 2020-2021. Notably, the Penjana stimulus package played a crucial role by providing a sales and service tax (SST) exemption on completely knocked down (CKD) and completely built-up (CBU) vehicles. Furthermore, the government extended the delivery period for vehicle purchases until March 31, 2023. These measures were instrumental in stimulating consumer demand and revitalizing the automotive market during challenging times.

Figure 1: Products line-up map

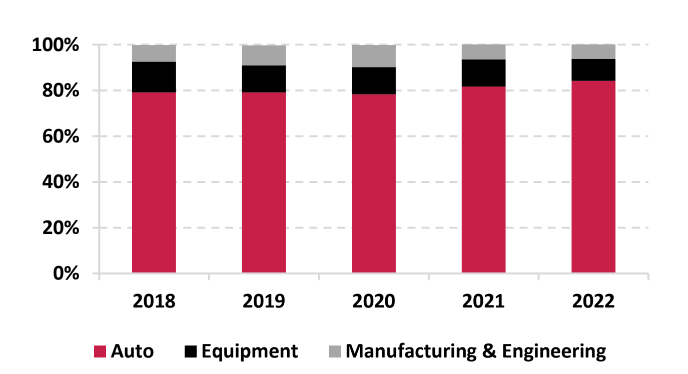


Source: Company, BIMB Securities

Currently, Perodua and Toyota still have a strong backlog order of approximately 192,000 and 50,000 units respectively as of end May 2023. Moreover, the total units sold for both brands, Perodua and Toyota increased by 15% and 8% respectively compared to the previous year mainly supported by the rush delivery of SST exemption. Despite the absence of government incentives like SST exemption, the company's sales volume has been growing, thanks to the continuous launch of new models. Both marques continue to roll out new models and variants in a bid to increase their market share.

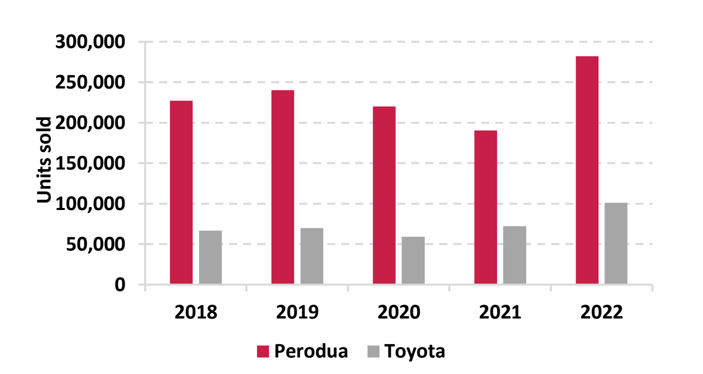
Note that the group's total market share, encompassing all marques, reached 53.1% in 2022, showing a 1.5-ppts increase from 51.6% in 2021. UMWT has recently introduced multiple new models and variants, including the All-new Vios 2023, GR and GR Sport Models (GR Corolla, GR86, Supra MT, Hilux GR Sport, and Corolla Cross GR-S) (Figure 1). On the other hand, Perodua has launched its A-segment car, the All-new Axia. The rollout will continue, with an emphasis on advancing electric vehicle (EV)-related technology in preparation for significant and impactful launches.

Chart 1: % of Core Segments



Source: Company, BIMB Securities

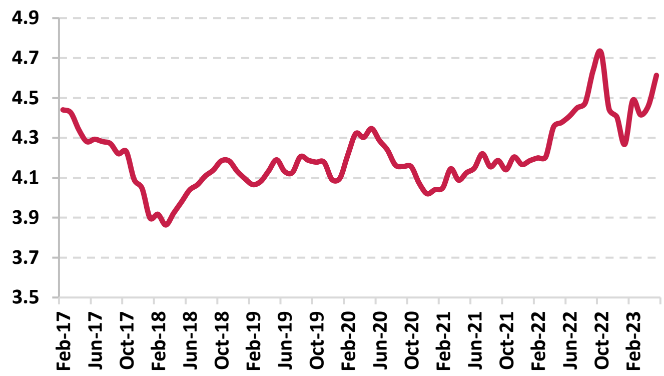
Chart 2: Perodua & Toyota Units Sold



Source: Company, BIMB Securities

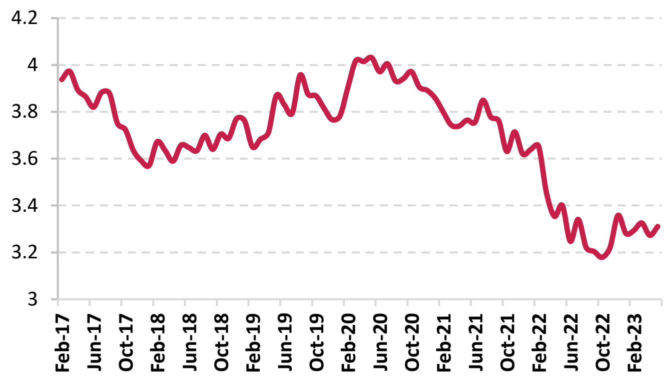
Moving forward, we anticipate that the demand for vehicles will normalize, with the projected Total Industry Volume (TIV) reaching 649k, in line with the forecast by the MAA, i.e., lower than 2022. Our justification is based on the gradual recovery of monthly units sold, which are progressively approaching pre-pandemic levels observed in 2019. Nevertheless, it is important to acknowledge the presence of risk factors, such as an elevated interest rate environment, chip shortages, and foreign exchange volatility, which have the potential to dampen demand. Despite these risks, the current outlook remains viable, in our view.

Chart 3: USD/MYR



Source: Bloomberg, BIMB Securities

Chart 4: JPY/MYR

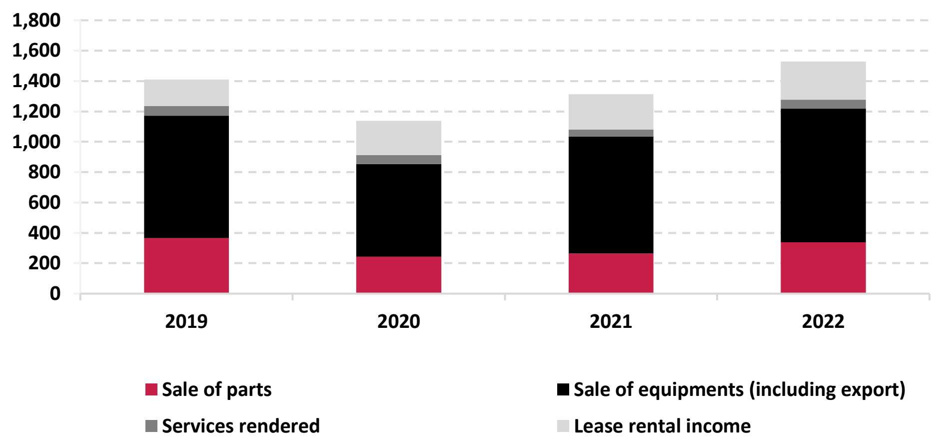


Source: Bloomberg, BIMB Securities

- **Equipment Segment: Recovering Steadily.** The UMW Equipment division comprises three different segments. i.e., heavy equipment, industrial equipment, and industrial power services. These segments offer an extensive range of services, encompassing warehousing, logistics, construction, mining, and agriculture. Moreover, the division provides specialized solutions and customized services in compression, power generation, and marine propulsion. With a broad geographical presence, the group has established a strong foothold in various regions, including Singapore, Vietnam, and China. This wide-ranging presence allows UMW to leverage its capabilities and capitalize on opportunities in these markets.

The equipment segment constituted approximately 10% of the total revenue in 2022. This segment faced challenges due to the adverse impact of the COVID-19 pandemic and subsequent lockdowns in 2021, leading to an 17.6% YoY decline in segmental revenue in 2020. However, positive indications of recovery began to surface in 2021 and continued into 2022. These developments were further supported by the reopening of economies worldwide, the resumption of delayed projects, and the initiation of new infrastructure projects.

Chart 5: Equipment Sale of Services



Source: Company, BIMB Securities

Moving forward, our projections indicate that the industrial and heavy sub-segment will maintain its stability, benefiting from advancements in the construction sector. Additionally, the reopening of the Chinese economy is anticipated to stimulate growth in the logistics and warehousing sectors. Besides, the increasing adoption of electrification is expected to drive demand for electric forklifts, while higher commodity prices will support the utilization of heavy machinery in the recovering mining and plantation sectors. It is important to acknowledge the management's outlined plans and growth strategies, as indicated in (Table 2) - where these strategies will play a crucial role in shaping the future direction of the UMW Equipment division.

Table 2: Equipment Segment's Growth Strategy

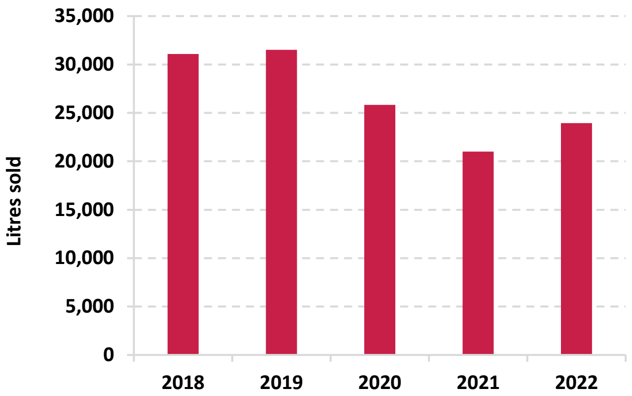
Industrial Equipment	Heavy Equipment
Promotion of 'Go Green' project - to convert to battery / electric trucks through rental / buy-back and generate volume for refurbishment program.	Further expansion into agriculture sector for replanting segment.
Establish refurbishment regional hub – close to 500 units have been refurbished.	Project and sector-based market coverage to tap on recovery in the construction sector as well as favourable commodity prices.
Expansion of automation business (AGV, Cobot, Key Carts, Radio Shuttle) and system integration.	Promotion of new equipment through new products launch and introduction of hybrid hydraulic excavators.
Expansion of Logistic Solution business to cater to different needs of customers.	Parts & Service sales expansion through after market activities.

Source: Company, BIMB Securities

- **Manufacturing & Engineering: On an Upward Trend.** The Manufacturing & Engineering segment comprises several core businesses, including automotive components, lubricant technology, the aerospace segment, and green technology. The group operates through various subsidiaries, namely: i) UMW M&E Sdn Bhd, ii) KYB-UMW Malaysia Sdn Bhd, and iii) UMW Aerospace Sdn Bhd. These subsidiaries are involved in the manufacturing, trading, and assembly of goods and services within their respective business. The auto components division is involved in the manufacturing of shock absorbers and suspension kits under the KYB brand, catering to both the automotive and motorcycle sectors. Overall sales, including Original Equipment Manufacturer (OEM) sales for both four-wheel (4W) and two-wheel (2W) vehicles, REM sales, and exports, increased by 24% YoY to 7.8mn units sold in FY22, thanks to higher sales volume.

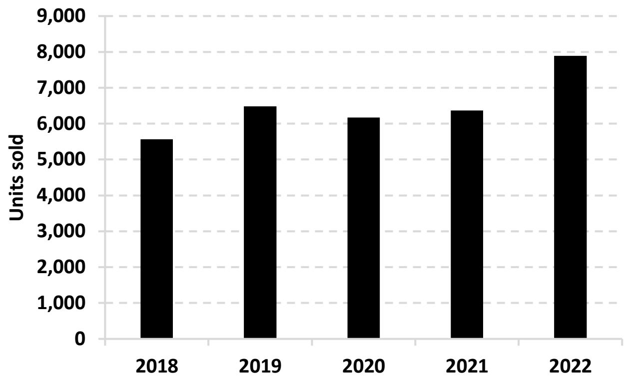
  On the other hand, the lubricants sub-segment comprises various in-house brands such as Grantt, and others like Penzoil, and Repsol. Currently, these brands are present in several countries, including Malaysia, Singapore, China, Brunei, Myanmar, Vietnam, and Cambodia. The lubricants segment experienced the adverse effects of the Covid-19 pandemic and the implemented measures throughout 2020 and 2021, which resulted in reduced demand and sales. Therefore, there was a notable decline in lubricant sales volume, with decreases by 18% in 2020 and 19% in 2021. However, positive indications of recovery emerged in 2022, as lubricant sales exhibited improvement with a growth of 14% compared to the previous year.

Chart 5: Auto Components (KYB-UMW – units sold)



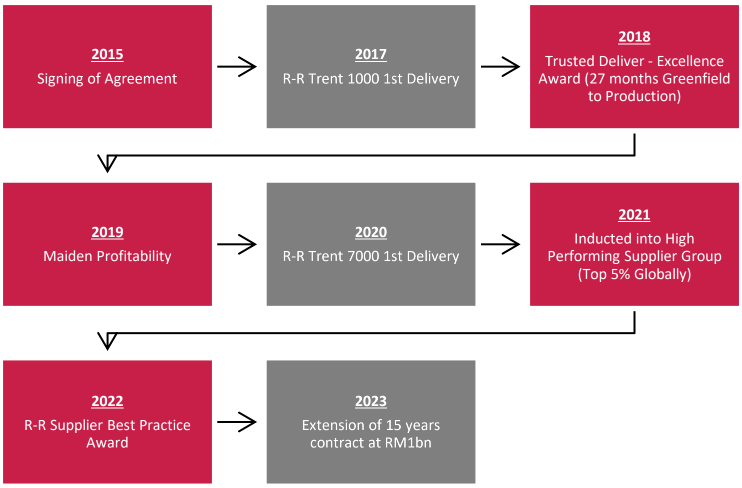
Source: Company, BIMB Securities

Chart 6: Lube Group (litres sold)



Source: Company, BIMB Securities

Chart 7 : Aerospace Segment's Achievements



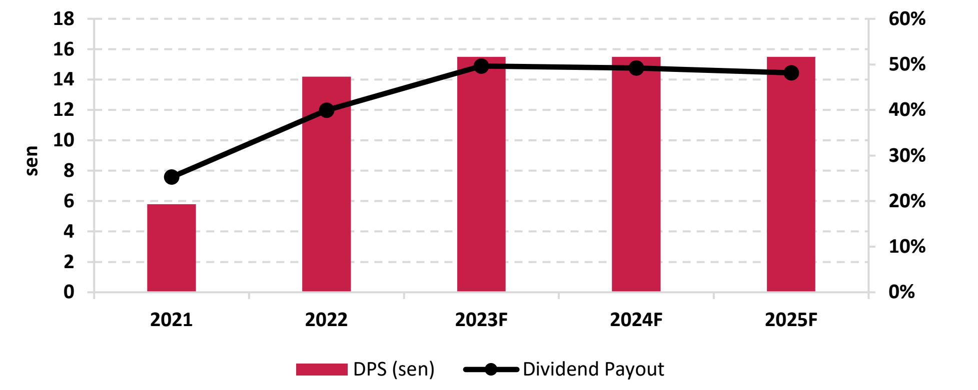
Source: Company, BIMB Securities

Within the same segment, UMW Aerospace is involved in the manufacturing and assembly of fan cases for Rolls-Royce engines, specifically the Trent 1000 and Trent 7000 engines. UMW has achieved significant milestones as a Tier-1 engine component manufacturer, as highlighted in the chart 7. Recently, UMW Aerospace received a new contract to manufacture rear cases from Rolls-Royce, valued at RM1b for 15 years. This contract further solidifies UMW's position and highlights its expertise in the aerospace industry.

We anticipate that both the auto component and lubricants sub-segments will continue to improve as the demand for vehicles enters a recovery phase, as mentioned earlier. This improvement is supported by the increasing demand from Original Equipment Manufacturer (OEM) and REM customers. We note that the higher volume of fan cases is influenced by the healthy backlog orders, primarily supplied to major players in the industry such as Airbus and Boeing. This positive trend is further reinforced by the reopening of international borders and the subsequent rise in air travel, which provides support to the aerospace segment.

- **Dividend payout policy.** We anticipate that UMW to pay dividend per share (DPS) of 15.5 sen for the forecasted period of 2023 to 2025, which is equivalent to a payout ratio of 40% from PATAMI - similar to the dividend payout ratio in 2022.

Chart 8: Dividend Per Share (2021 – 2025F)



Source: Company, BIMB Securities

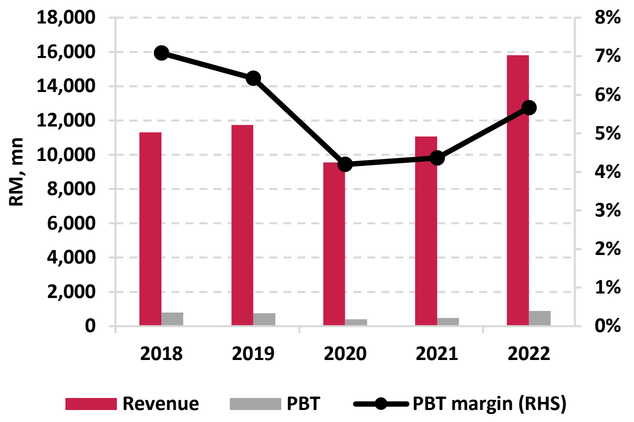
Financial Highlight

- **Revenue Growth.** UMW achieved a commendable revenue expansion at a CAGR of 10.4% from FY20 to FY22. The automotive segment accounted for over 80% of the total revenue, while the remaining 20% was contributed by the equipment, manufacturing, and engineering segment. Note that UMW's FY22 revenue exhibited a substantial increase, soaring by 43% YoY to reach RM15.8bn. This impressive growth can be attributed to several factors, including: i) the reopening of the economy following the pandemic, leading to increased economic activity, ii) the surge in vehicle sales, driven by tax incentives and other beneficial measures, iii) the growing demand for UMW's equipment products and services, iv) the heightened sales volume of auto components and lubricants, v) the greater delivery of fan cases, and vi) the elevated sales performance of UMW Development. These positive drivers collectively contributed to the remarkable revenue performance of UMW in FY22.

- **Profit trend.** Despite the global disruptions by COVID-19 and high inflationary environment, UMW's PBT improved in FY21 and FY22 at RM11.0bn and RM15.8bn respectively. This improvement can be attributed to the company's PBT margin, which ranged between 4% to 6%.

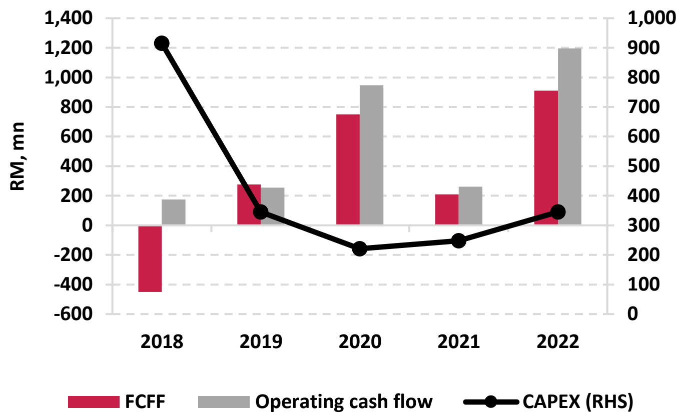
- **Latest quarterly earnings result.** In 1Q23, UMW top-line increased or by 20% YoY driven by improved contribution from all segments namely automotive (+18%), Equipment (+17%) and Manufacturing & Engineering (+42.5%). This is in tandem with PBT and PATAMI which improved by 16% and 33% respectively, due to similar reason aforementioned as well as lower interest expenses. We noted that the positive contribution from its core segment were mainly attributed from i) higher vehicles sales as the rush delivery for SST exemption ended in March 2023, ii) stronger demand from local and overseas market on its equipment segment, iii) higher sales from Auto components and lubricants, and iv) increasing delivery of airplane fan cases and others contribution from sales of UMW developments.

Chart 9: Revenue vs. Core PAT vs. PBT margin



Source: Company, BIMB Securities

Chart 10: FCF generation



Source: Company, BIMB Securities

- **Earnings Forecast.** Based on our projections, we anticipate UMW's earnings to grow at a 2-year CAGR of 1.9% over 2023F – 2025F, post exceptional year in 2022, as the automotive industry has shown tremendous growth. This is further supported by i) continuous debut of new models and variants to excite existing and new customer interest, ii) recovery in macro conditions and demand for its products and services, and iii) favourable currency movement.

Table 3: Earnings Outlook

FYE Dec (RM' m)	FY21	FY22	FY23F	FY24F	FY25F
Turnover	11,061	15,814	14,000	13,370	13,628
EBITDA	644.3	990.9	874.8	877.6	891.6
EBIT	300.8	650.3	574.8	577.6	591.6
PBT	483	896.5	819	827	846
PATAMI	**268.2**	**415.0**	**384.7**	**388.6**	**397.8**

Source: Company, BIMB Securities

Key Risks

- **Unfavourable forex movement.** The Group's earnings could be impacted by unfavourable forex movement, hence diminishing its margin.
- **Persistent disruption in chips supply.** Chip shortages can lead to manufacturing delays and decreased production output for manufacturers, coupled with the potential for increased prices as manufacturers may need to pay a premium to secure the necessary chips.

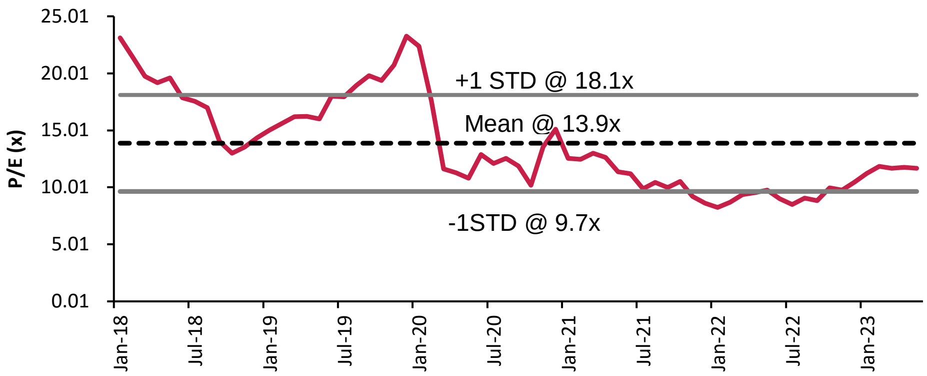
Key Catalyst

- **Improved sales volume with positive customer sentiment.** With improving customer sentiment and the introduction of new models and variants, we anticipate continued growth in volume and demand for the auto parts and lubricants sub-segments. This is further supported by strong backlog orders and an overall improvement in consumer sentiment.
- **Recovery in the macro environment.** The anticipation of favourable macroeconomic conditions, including the recovery of the Chinese economy and the reopening of international borders, is expected to result in increased air travel and higher commodity prices in the mining and plantation sectors. These developments are likely to positively influence the industrial, heavy sub-segment, and aerospace sub-segments, ultimately driving an upsurge in demand.

Re-initiate with a BUY; TP of RM4.57

We re-initiate coverage on UMW with a **BUY** recommendation and TP of **RM4.57**, pegged at 5-year average PER of 13.9x and FY23F EPS of 32.9 sen. Our assumptions are based on the expectation that UMW's earnings will gradually recover to pre-pandemic levels, reaching approximately RM384.7mn in FY23F - which owing to i) the expected moderation in economic growth in 2023, ii) the prevailing inflationary environment, and iii) the impact of higher interest rates, all of which have impacted consumer sentiment. With a total return of 24%, inclusive of a dividend yield of 4.1%, UMW presents a solid investment opportunity, in our view. This substantial return highlights the value proposition that UMW offers to investors, particularly considering the anticipated stabilization of vehicle demand, as well as the growing demand for equipment and the company's diverse range of manufacturing and engineering products and services.

Chart 11: 5-year forward PE



Source: Company, BIMB Securities

Table 4: Peers Comparison

Company	Rec.	RM		Mkt cap	EPS (sen)		PER (x)		PB (x)		ROE (%)		EBITDA margin (%)		Dividend yield (%)	
		TP	Price^	(RM m)	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY24	CY23	CY2
MBMR	BUY	4.80	3.55	1,388	66.6	64.6	5.3	5.5	0.6	0.5	10.3	9.4	2.6	2.4	8.5	8.7
BAUTO	BUY	2.68	2.30	2,685	20.7	20.7	11.1	11.1	2.7	2.4	24.4	21.8	9.0	8.9	4.8	4.8
UMW	BUY	4.57	3.81	4,451	32.9	33.3	11.6	11.5	0.6	0.6	5.1	4.8	6.2	6.6	4.1	4.1
Sector				**2,841**	**40.1**	**39.5**	**9.3**	**9.4**	**1.3**	**1.2**	**13.3**	**12.0**	**5.9**	**6.0**	**5.8**	**5.9**

Source: Bloomberg, BIMB Securities

BIMB's ESG Score for UMW Holdings Berhad

We have assessed UMW ESG's initiatives based on our framework which evaluate its overall ESG risk. Our final ESG rating score summarizes how well a company's ESG risks are being managed.

We have assigned UMW an overall ESG rating of 3.9 of 5 which falls in the rating band of "Good".

BAuto's ESG Rating

	Weight (%)	ESG Rating
Environment	33.33	1.2
Social	33.33	1.1
Governance	33.33	1.7
SUM	**100.0**	**3.9**

Source: Company, BIMB Securities

BIMB's ESG Rating Guide

Ratings	
4.5 -5.0	Excellent
4.0 – 4.4	Best
3.0 – 3.9	Good
2.0 – 2.9	Fair
1.0 – 1.9	Poor

Source: Company, BIMB Securities

Income Statement

FYE 31 Mar (RM mn)	2021	2022	2023F	2024F	2025F
Revenue	**11,061**	**15,814**	**14,000**	**13,370**	**13,628**
Net opex	(10,416.5)	(14,823.1)	(13,125.2)	(12,492.9)	(12,736.5)
EBITDA	**644.3**	**990.9**	**874.8**	**877.6**	**891.6**
Depreciation @ amortisation	(343.5)	(340.6)	(300.0)	(300.0)	(300.0)
EBIT	**300.8**	**650.3**	**574.8**	**577.6**	**591.6**
Net interest	(59.5)	(44.0)	(44.0)	(39.5)	(35.3)
Profit before tax	483	896.5	819	827	846
Income tax	33	(219)	(188.3)	(190.2)	(194.7)
PATAMI	**268.2**	**415.0**	**384.7**	**388.6**	**397.8**
Consensus			**397**	**414**	**423**

Balance Sheet

FYE 31 Dec (RM mn)	2021	2022	2023F	2024F	2025F
Non-Current Asset	5,792.7	6,051.7	6,332.7	6,607.7	6,868.0
Current Asset	6,373.4	6,320.8	6,122.1	6,161.7	6,426.4
Total Asset	**12,172.7**	**12,417.1**	**12,499.4**	**12,814.1**	**13,339.0**
Non-Current Liabilities	2,390.4	1,675.1	1,675.1	1,675.1	1,675.1
Current Liabilities	2,999.3	3,602.1	3,235.2	3,094.3	3,148.6
Total Liabilities	5,410.1	5,277.1	4,910.3	4,769.3	4,823.7
Total Equity	**6,762.5**	**7,140.0**	7,589.1	8,044.7	8,515.3
Total liabilities & equity	**12,172.7**	**12,417.1**	**12,499.4**	**12,814.1**	**13,339.0**

Cash Flow

FYE 31 Dec (RM mn)	2021	2022	2023F	2024F	2025F
Cash flow from operating activities (CFO)	**261.4**	**1195.3**	**493.4**	**480.2**	**516.5**
Cash flow from investing activities (CFI)	**384.8**	**59.6**	**(135.0)**	**(129.0)**	**(124.1)**
Cash flow from financing activities (CFF)	**39.4**	**(1534.6)**	**(181.1)**	**(181.1)**	**(181.1)**
Net change in cash & cash equivalent	**685.6**	**(279.7)**	**177.3**	**170.1**	**211.2**

Source: Company, BIMB Securities

DEFINITION OF RATINGS
BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings
The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

Printed and published by

BIMB SECURITIES

BIMB SECURITIES SB (290163-X)
A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,
No. 8 Jalan Munshi Abdullah,
50100 Kuala Lumpur
Tel: 03-2613 1600 Fax: 03-2613 1799
http://www.bimbsec.com.my

Noorhayati Maamor
Head of Research