

UMW Holdings

In-line 2Q23; RM177mn gain from land sale

What's new

UMW reported 2Q23 Adj NP of RM120mn (+18% yoy, -15% qoq). 1H Adj NP of RM262mn makes up 60%/63% of our/Bloomberg consensus estimates. We deem earnings to be in line as we expect earnings to moderate slightly in the 2H following peak 1Q23 earnings due to the tax-free vehicle deliveries then.

Why it matters

What we liked: UMW booked a RM177mn extra-ordinary gain in 2Q23 for the sale of 140 acres of land in Serendah. Our Adj NP excludes this gain. This aside, UMW reported PBT growth across its three core segments for the 1H23 period. The auto segment's PBT grew 5% on the back of 12% growth in vehicle deliveries during the 1H period. The M&E division also reported a strong 87% PBT growth, as fan case deliveries more than doubled during the period.

What to expect: During the briefing, management guided that it has 40k/200k outstanding bookings for Toyota/Perodua vehicles as at end-June. This suggests that our FY23 volume forecasts of 95k/308k for Toyota/Perodua is achievable. After two years of losses, management is expecting a full year profitability for the aerospace unit (1H23: RM8mn PATAMI) thanks to robust demand for fan case deliveries. It expects stronger earnings in the 2H. As for Sime's proposed acquisition of UMW (see our report [here](#)), management said the purchasing party is yet to approach them for further discussion. Hence, it is yet to speak to its Japanese stakeholders (e.g. Toyota, Daihatsu, Komatsu) on the proposed merger. In our view, the approval of Japanese stakeholders could be a key hurdle to the proposed merger.

What now

We maintain our Outperform rating. Our TP implies 14x FY24 target PE - which is at parity with its 6-year mean. UMW has been trading at 9x PE since 2020 and 18% spread to consensus TP since 2018. Click [here](#) for more company reports and detailed risks.

Figure 1 - Results Summary

MYR mn	2Q22	1Q23	2Q23	YoY %	QoQ %	1H22	1H23	YoY %
Revenue	3,731	4,380	4,485	20%	2%	7,382	8,864	20%
EBITDA	224	215	489	118%	128%	452	704	56%
EBIT	141	129	402	185%	212%	287	531	85%
Adj net profit	102	142	120	18%	-15%	212	261	23%
Adj EPS (sen)	8.7	12.2	10.3	18%	-15%	18.1	22.3	23%
		MQ est.				Consensus		
MYR mn	1H23	FY23E	1H23/E			1H23	FY23E	1H23/E
Revenue	8,864	16,497	54%			8,864	14,980	59%
EBITDA	704	931	76%			704	937	75%
EBIT	531	547	97%			531	556	95%
Adj net profit	261	435	60%			261	414	63%

Source: Company data, Bloomberg, Macquarie Research, August 2023

Automobiles & Components ASEAN



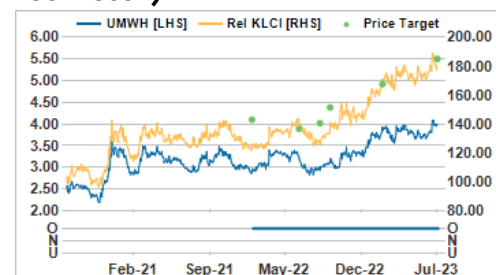
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UMWH MK	Outperform
Price (at 29 Aug 2023)	MYR4.68
12-month target	MYR5.50
12 month TSR (%)	20.5
Volatility Index	Low
Market Cap (Local) (m)	5,468
Market Cap (USD) (m)	1,175
Free Float (%)	30
30-day avg turnover (USD)(m)	0.7

Investment Fundamentals

Year end 31 Dec	2022E	2023E	2024E	2025E
Revenue (m)	15,814	16,497	17,640	18,788
Revenue growth (%)	43.0	4.3	6.9	6.5
EBIT (m)	605.5	547.1	576.2	619.3
EBIT growth (%)	120.8	(9.6)	5.3	7.5
Reported profit (m)	459.9	427.5	453.8	487.5
Adjusted profit (m)	415.0	435.1	453.8	487.5
EPS rep [MYR]	0.4	0.4	0.4	0.4
EPS rep growth (%)	56.0	(7.1)	6.2	7.4
EPS adj [MYR]	0.4	0.4	0.4	0.4
EPS adj (€)	0.4	0.4	0.4	0.4
EPS adj growth (%)	54.8	4.8	4.3	7.4
Net debt/equity (%)	(16.8)	(8.2)	(6.4)	(4.9)
ROA (%)	4.9	4.3	4.3	4.4
ROE (%)	7.8	7.9	7.8	8.0
PER rep (x)	11.9	12.8	12.0	11.2
PER adj (x)	13.2	12.6	12.0	11.2
EV/EBITDA (x)	2.9	2.9	2.7	2.5
P/BV (x)	1.0	1.0	0.9	0.9
Total div yield (%)	2.4	2.6	2.8	3.0

UMWH MK rel KLCI performance, & rec history



Source: FactSet, Macquarie Research, Aug 2023 (all figures in MYR unless noted, TP in MYR)

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Recommendation definitions	Volatility index definition	Financial definitions
<p>Macquarie - Asia and USA Outperform - expected return >10% Neutral - expected return from -10% to +10% Underperform - expected return <-10%</p> <p>Macquarie - Australia/New Zealand Outperform - expected return >10% Neutral - expected return from 0% to 10% Underperform - expected return <0%</p> <p>During periods of share price volatility, recommendations and target prices may occasionally and temporarily be inconsistent with the above definitions.</p> <p>Recommendations - 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high - highest risk - Stock should be expected to move up or down 60-100% in a year - investors should be aware this stock is highly speculative.</p> <p>High - stock should be expected to move up or down at least 40-60% in a year - investors should be aware this stock could be speculative.</p> <p>Medium - stock should be expected to move up or down at least 25-40% in a year.</p> <p>Low - stock should be expected to move up or down at least 15-25% in a year. * Applicable to select stocks in Asia/Australia/NZ</p> <p>Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions for quarter ending 30 June 2023

	AU/NZ	Asia	USA	
Outperform	56.88%	63.90%	63.89%	(for global coverage by Macquarie, 2.58% of stocks followed are investment banking clients)
Neutral	36.88%	23.06%	33.33%	(for global coverage by Macquarie, 1.22% of stocks followed are investment banking clients)
Underperform	6.25%	13.04%	2.78%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

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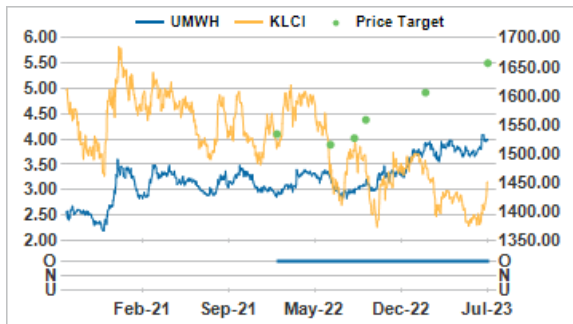
Company Name	Disclosure
UMW Holdings (UMWH MK) Outperform 12-month target: MYR5.50 - Sum of Parts Valuation: MYR 3.20 - DCF (WACC 8.8%, beta 0.9, ERP 7.2%, RFR 5.3%, TGR 1.0%) Price: MYR4.68	None

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Recommendation history

Company name	Date	Recommendation	Target price
UMW Holdings (UMWH MK)	28-Jul-2023	Outperform	MYR 5.50
	16-Feb-2023	Outperform	MYR 4.92
	14-Sep-2022	Outperform	MYR 4.38
	15-Aug-2022	Outperform	MYR 4.02
	14-Jun-2022	Outperform	MYR 3.89
	26-Jan-2022	Outperform	MYR 4.10



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