

"2Q23 earnings saw a big decline of 45% qoq from a high base during SST exemption scheme and weaker Perodua margin"

Share price performance



	1M	3M	12M
Absolute (%)	20.3	28.7	58.9
Rel KLCI (%)	19.9	24.2	64.0

	BUY	HOLD	SELL
Consensus	10	3	1

Source: Bloomberg

Stock Data

Sector	Automotive
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	5607.8/1207.5
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	2.92-4.88
Est free float	32.4%
Stock Beta	0.82
Net cash/(debt) (RMm)	1,181.7
ROE (CY23E)	7.8%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	28.1 (-0.1 yoy)

Key Shareholders

PNB	55.2%
KWSP	9.1%
EPF	7.5%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Afifah Ishak

T (603) 2146 7579

E Afifah.ishak@affingroup.com

UMW Holdings (UMWH MK)

HOLD (upgrade)

Up/Downside: +4.2%

Price Target: RM5.00

Previous Target (Rating): RM3.50 (Sell)

Broadly within expectations

- **UMW's 6M23 core net profit of RM220m was marginally higher by 4% yoy on improved revenue across all segments but partially offset by higher operating costs – broadly within our expectations**
- **Sequentially, UMW's 2Q23 earnings of RM78m saw a big decline of 45% qoq from a high base during the SST exemption period and weaker Perodua earnings due to cost pressures and discounting activities to boost sales**
- **Upgrade to HOLD with a higher TP of RM5.00 based on Sime Darby's takeover offer price of UMW, as we think the offer is fair. We revise Perodua and Toyota's 2023E TIV forecasts to 260k units and 80k units, and also tweak FY24E-FY25E earnings by 2% after factoring in the additional contribution from the Aerospace segment**

Within expectations – 6M23 earnings was marginally higher by 4% yoy

UMW reported a satisfactory set of results – 6M23 earnings of RM220.3m was marginally higher by 4.2% yoy on improved revenue across all segments by 20.1% yoy but partially offset by higher operating costs of 20.9% yoy. Overall, the results appear broadly within our estimate at 63% of our full-year FY23E estimate (52% of street's). However, we expect earnings momentum to be weaker in the subsequent quarter amidst weaker consumer sentiments and higher discounting activities that would adversely impact margins.

Sequentially, 2Q23 earnings declined by 45% qoq

Sequentially, 2Q23 earnings of RM78.2m saw a big decline by 45% from a high base due to vigorous delivery of backlog orders during the final quarter of SST exemption and lower share of profits from associates by 36.9% qoq. Besides, its core net profit margin was down by 1.5ppts qoq, mainly attributed to weaker Perodua earnings on cost pressure from rising auto parts prices and higher discounting activities to boost sales.

UMW to be acquired by Sime Darby (SIME) at a fair offer price of RM5/share

Separately, SIME has proposed to acquire a 61.2% equity stake in UMW from Permodalan Nasional Berhad (PNB) for RM3.6bn or RM5/share. Upon completion of the deal, SIME will extend a mandatory general offer (MGO) to the remaining stakeholders (38.8% stake) in UMW which will subsequently be delisted. At RM5/share, the MGO looks fair to us as (i) it represents an 8.2% premium to its pre-suspension price on 24 August of RM4.62 and (ii) 42.9% higher than our previous fair value on UMW of RM3.50.

Despite limited upside from the current price, we advise those with a short-term investment horizon to accept the MGO as an exit strategy as we foresee a challenging long-term outlook on UMW due to its limited strategy towards EV transition, risking its future sales over the long run.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	11,060.8	15,814.4	17,185.8	15,873.6	16,020.3
EBITDA (RMm)	649.6	747.5	961.1	623.6	655.3
Pretax profit (RMm)	482.8	896.5	1,167.5	642.5	649.3
Net profit (RMm)	268.2	415.0	352.2	302.0	305.2
EPS (sen)	23.0	35.5	30.1	25.8	26.1
PER (x)	20.9	13.5	15.9	18.6	18.4
Core net profit (RMm)	160.2	370.2	352.2	302.0	305.2
Core EPS (sen)	13.7	31.7	30.1	25.8	26.1
Core EPS growth (%)	(43.8)	131.0	(4.9)	(14.3)	1.1
Core PER (x)	35.0	15.1	15.9	18.6	18.4
Net DPS (sen)	5.8	14.2	5.0	5.2	5.5
Dividend Yield (%)	1.2	3.0	1.0	1.1	1.1
EV/EBITDA	8.3	5.0	3.9	6.2	6.1

Chg in EPS (%)

Affin/Consensus (x)

Source: Company, Bloomberg, Affin Hwang forecasts

+0.2

0.9

+2.4

0.7

+2.4

0.7

However, we expect some delays upon completing the acquisition

Nevertheless, we foresee a risk that the deal could experience delays on potential conflict of interests arising from competitive dynamics among existing partners of both SIME and UMW – SIME’s partners are primarily from China while UMW heavily relies on Japanese partners, thus could complicate the decision-making process upon completing this acquisition.

Upgrade to HOLD (from Sell) with a higher TP of RM5.00

We upgrade our call on UMW to HOLD (from Sell) with a higher TP of RM5.00 based on the acquisition price, on the basis that the deal will go through. Besides, we revise both Perodua and Toyota’s TIV forecasts to 260k units (from 220k units) and 80k units (from 75k units) on stronger-than-expected sales volumes and healthy backlog orders (Toyota: 40k units, Perodua: 200k units). However, we lower our margin assumptions for Perodua amid heightened cost pressure and higher discounting activities, and tweak FY24E-FY25E earnings by only 2% after pricing in the additional contribution of c.RM20m from the Aerospace segment.

Fig 1: 2Q23 Results Comparison

FYE Dec (RMm)	2Q22	1Q23	2Q23	QoQ	YoY	6M22	6M23	YoY	Comments
				%chg	%chg			%chg	
Revenue	3,730.8	4,379.6	4,484.9	2.4	20.2	7,381.6	8,864.5	20.1	Strong 2Q23 and 6M23 sales yoy across all segments
Op costs	(3,511.7)	(4,154.4)	(4,221.4)	1.6	20.2	(6,926.6)	(8,375.8)	20.9	
EBITDA	219.1	225.1	263.5	17.0	20.3	455.0	488.6	7.4	
<i>EBITDA margin (%)</i>	<i>5.9</i>	<i>5.1</i>	<i>5.9</i>	<i>0.7ppt</i>	<i>0ppt</i>	<i>6.2</i>	<i>5.5</i>	<i>-0.7ppt</i>	
Depn and amort	(83.6)	(85.9)	(87.0)	1.2	4.1	(165.2)	(172.9)	4.7	
EBIT	135.5	139.2	176.5	26.8	30.2	289.8	315.7	9.0	
<i>EBIT margin (%)</i>	<i>3.6</i>	<i>3.2</i>	<i>3.9</i>	<i>0.8ppt</i>	<i>0.3ppt</i>	<i>3.9</i>	<i>3.6</i>	<i>-0.4ppt</i>	
Int expense	(25.4)	(15.4)	(16.2)	5.3	-36.3	(64.4)	(31.6)	-51.0	
Int and other inc	16.8	25.3	21.3	-15.7	26.5	29.8	46.5	56.2	
Associates & JV	97.8	109.3	69.0	-36.9	-29.5	194.3	178.3	-8.3	Weaker 2Q23 Perodua earnings qoq and yoy on heightened cost pressure and discounting activities
EI	5.3	(7.6)	225.3	n.m	>100	(3.1)	217.7	>100	Profit gain of RM218.1m from sale of industrial land to Longi
Pretax Profit	230.0	250.7	476.0	89.8	>100	446.3	726.7	62.8	
Tax	(56.5)	(47.0)	(90.6)	92.6	60.2	(100.0)	(137.6)	37.6	
<i>Tax rate (%)</i>	<i>24.6</i>	<i>18.7</i>	<i>19.0</i>	<i>0.3ppt</i>	<i>-5.5ppt</i>	<i>22.4</i>	<i>18.9</i>	<i>-3.5ppt</i>	
MI & Sukuk	(66.3)	(69.3)	(81.8)	18.2	23.4	(137.9)	(151.1)	9.5	
Net profit	107.2	134.5	303.6	>100	>100	208.4	438.0	>100	
EPS (sen)	9.2	11.5	26.0	>100	>100	17.8	37.5	>100	
Core net profit	101.9	142.1	78.2	-45.0	-23.3	211.5	220.3	4.2	Above our estimates

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Copyright © 2021 Sustainalytics. All rights reserved.

This report contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third-Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

Level 32, Menara AFFIN,
Lingkaran TRX,
55188 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
ahib.researchteam@affingroup.com

www.affinhwang.com