



APEX SECURITIES BERHAD (47680-X)
(Formerly known as JF APEX SECURITIES BERHAD)

SELL

Maintained

UMW Holdings Bhd

Current Price RM 4.80
Target Price RM 5.00

“2Q23: Earnings boosted by land sale”

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Automobiles
Syariah Compliant status	Yes
S&P Global ESG Rank	49
FTSE4Good Index	No
ESG Rating	☆☆☆
Issued shares (m)	1168.29
Par Value (RM)	N/A
Market cap. (RM'm)	RM5607.81m
52-week price Range	RM2.92– RM4.88
Beta (against KLCI)	0.82
3-m Average Daily Volume	2.05m
3-m Average Daily Value	RM8.96m

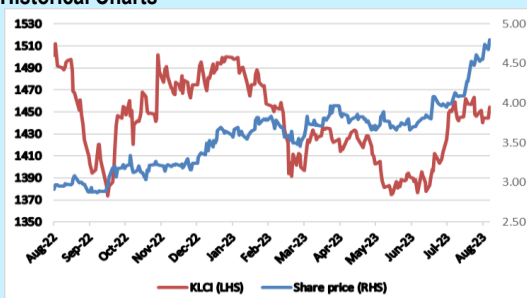
Share Performance

	1m	3m	12m
Absolute (%)	20.3	28.0	58.9
Relative (%-pts)	20.0	24.3	65.2

Major Shareholders

	%
Amanah Saham Nasional Berhad	53.70
Kumpulan Wang Persaraan Diperbadan	9.12
Employees Provident Fund Board	7.38

Historical Charts



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Results

- **UMW Holdings's 2Q23 net profit stood at RM303.6mil**, surging 125.8% QoQ and 183.2% YoY. Meanwhile, top line was recorded at RM4,513.4mil, reflecting growths of 2.3% QoQ and 20.3% YoY.
- **For 1H23**, the Group's earnings stood at RM438.0mil, indicating a remarkable growth of 110.2% YoY. Concurrently, the Group's revenue was recorded at RM8,923.3mil, rising 20.2% YoY.
- **However, core earnings growth remained moderate.** Excluding one-off gain of industrial land sale to Longi (RM218.1mil), the Group's 1H23 core earnings has only shown a modest growth of 6% YoY.
- **Results within expectation.** 1H23 core earnings have reached 50% of our full-year forecast and 53% of the consensus estimate thus far.

Comments

- **Automotive segment's 1H23 revenue rose by 13.8% YoY due to higher number of vehicle sales during the period.** The Group's automotive sales surged by 11.5% compared to the same period in the previous year, reaching a total of 193,349 units in the 1H23, in contrast to 173,254 units in 1H22. The segment continues to show robust growth despite the expiry of the SST tax exemption due to outstanding order backlog and introduction of new model. Consequently, PBT has shown a 5.2% YoY growth which is in line with this performance.
- **The Equipment segment continued to be a solid contributor to earnings.** The Equipment segment posted higher revenue and PBT at 20.7% YoY and 49.4% YoY respectively thanks to higher delivery of heavy equipment sales which was mainly driven by demand from construction, mining, and agriculture sector.
- **Excellent growth from the Manufacturing & Engineering segment.** The segment posted 1H23 revenue of RM623.3mil (37.4% YoY) and RM44.2mil PBT (86.6% YoY). PBT margin has expanded by 4.5ppts YoY due to higher contribution from all sub-segments. Notably, the aerospace subsegment returned to profitability led by strong demand for aircraft carrier with the reopening of borders. Management has expressed optimism about the sustainability of the aerospace segment's momentum throughout

Please read carefully the important disclosures at end of this publication

2H23.

- **Following the announcement of SIME DARBY merger proposal**, UMW share price has surged rapidly, closing at RM4.80 yesterday. According to management, the deal is currently in progress, although there hasn't been direct communication with the relevant stakeholders from Toyota and Komatsu thus far. Nevertheless, our viewpoint is that the deal still maintains a strong likelihood of materialising, primarily because it involves a straightforward transfer of ownership stake from PNB to Sime Darby.
- **Positive momentum building up for the auto segment for FY23.** The MAA has increased its total industry volume (TIV) target for FY23, moving from 650,000 units to 725,000 units. Despite the optimism, management has retained their initial sales target at 93,000 units for Toyota/Lexus and 314,000 units for Perodua.
- **Outstanding orderbook remained strong.** To date, total outstanding order backlog for both Toyota and Perodua brand stood at 40,000 units and 200,000 units respectively. Based on the backlog order, we believe management target for Perodua is highly achievable for FY23 as it already has sold 144,690 units in 1H23. On the other hand, Toyota/Lexus has only achieved 48,659 units sales in 1H23, slightly falling short of the full year target after taking into account the outstanding orderbook.

Earnings Outlook / Revision

- **No changes to our forecast for FY23. However, we decided to revise upwards our earnings forecast for FY24 to RM418.2mil (previously RM406.2mil)** after taking into consideration in the improvement of the aerospace segment as well as the stronger-than-expected demand from the automotive segment.

Valuation and Recommendation

- **We set our TP at RM5.00 (previous TP RM3.96) to match the offer price from Sime Darby.** Our valuation is now pegged at 13.8x PE multiple with FY24F EPS of 36.0 sen.
- We would recommend to **SELL** given that 1) the share price has surged to a new peak attributed to the acquisition premium and 2) there remains a potential risk that the deal could collapse if stakeholders are unable to come to a consensus.

Figure 1: Quarterly Result

MYR m	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YoY
Automotive	3117.4	3427.6	3694.8	3626.9	3417.2	9.6%	-5.8%	6187.5	7044.1	14%
Equipment	366.6	394.4	384.3	434.9	456.2	24.4%	4.9%	738.4	891.1	21%
Manufacturing & Engineering	226.4	252.2	201.4	323.6	299.7	32.4%	-7.4%	453.5	623.3	37.4%
Others	39.9	3.6	33.9	24.5	340.3	753.9%	1289.9%	42.9	364.8	750%
Total Revenues	3750.3	4077.7	4314.4	4409.9	4513.4	20.3%	2.3%	7422.4	8923.3	20.2%
EBITDA	339.0	341.9	336.0	352.0	406.2	19.8%	15.4%	676.0	931.2	38%
PBT	230.0	231.5	218.6	250.7	476.0	106.9%	89.8%	446.3	726.7	63%
PATAMI	107.2	100.7	106.0	134.5	303.6	183.2%	125.8%	208.4	438.0	110.2%
Core profit	107.2	100.7	106.0	134.5	85.5	-20.3%	-36.4%	208.4	219.9	6%
Margin (%)										
EBTIDA	9.0%	8.4%	7.8%	8.0%	9.0%			9.1%	10.4%	
PBT	6.1%	5.7%	5.1%	5.7%	10.5%			6.0%	8.1%	
PATAMI	2.9%	2.5%	2.5%	3.0%	6.7%			2.8%	4.9%	
Core profit	2.9%	2.5%	2.5%	3.0%	1.9%			2.8%	2.5%	

Source: UMWH, Apex Securities

Figure 2: Financial Summary

Income Statement (Year End Dec 31)	2022	2023E	2024E	2025E
MYR m				
Total Revenues	15,814	15,976	15,964	16,005
% growth	43%	1%	0%	0%
Cost of sales	13,598	13,737	13,726	13,762
Gross Profit	2,216	2,239	2,237	2,243
EBITDA	1,351	1,399	1,485	1,583
% growth	45%	4%	6%	7%
% margins	9%	9%	9%	10%
Depreciation & Amortization	341	362	475	556
EBIT	1,011	1,037	1,010	1,027
% growth	71%	3%	-3%	2%
% margins	6%	6%	6%	6%
Taxes	219	221	215	219
% effective rate	24%	24%	24%	24%
Net Income	415	438	418	431
% growth	55%	6%	-5%	3%
% margins	3%	3%	3%	3%
One-offs after tax	-	-	-	-
Core Net Income	415	438	418	431
% growth	55%	6%	-5%	3%

Source: UMWH, Apex Securities

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY :The stock's total returns* are expected to exceed 10% within the next 12 months.
HOLD :The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL :The stock's total returns* are expected to be below -10% within the next 12 months.
TRADING BUY :The stock's total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL :The stock's total returns* are expected to be below -10% within the next 3 months.

*capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT :The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
MARKETWEIGHT :The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT :The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

ESG RECOMMENDATIONS

☆☆☆☆ :Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
 ☆☆☆ :Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
 ☆☆☆ :Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
 ☆ :Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

Source: Bursa Malaysia and FTSE Russell

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