

HLIB Research

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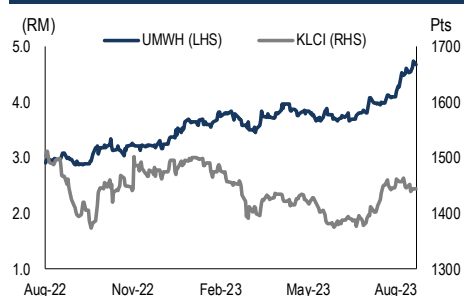
HOLD (Maintain)

Target Price: RM5.00
Previously: RM5.00
Current Price: RM4.80

Capital upside	4.2%
Dividend yield	0.0%
Expected total return	4.2%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


	1M	3M	12M
Absolute	20.3	28.7	58.9
Relative	20.0	23.6	65.2

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	5,608
3-mth average volume ('000)	2,047
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

Permodalan Nasional Berhad	60.6%
Kumpulan Wang Persaraan	9.1%
Employees Provident Fund	7.4%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	399	500	428
EPS - core (sen)	34.2	42.8	36.6
P/E (x)	14.1	11.2	13.1

UMW Holdings

To sustain into 2H

Reported core 2QFY23 PATMI RM115.2m (-12.2% QoQ; +11.5% YoY) and RM246.5m for 1HFY23 (+13.6% YoY), within HLIB's forecast (49.3%), but above consensus (59.2%). We expect sustaining 2HFY23 earnings ahead, leveraging onto the higher order backlog of the automotive segment and sustaining economic recovery. Maintain HOLD recommendation with an unchanged TP: RM5.00, based on Sime Darby's offered price. We advise shareholders to accept the MGO price of RM5.00, as it is above our SOP of RM3.85.

Within expectation. UMW reported core PATMI of RM115.2m for 2QFY23 (-12.2% QoQ; +11.5% YoY) and RM246.5m for 1HFY23 (+13.6% YoY). We deem the result within HLIB's FY23 forecast (49.3%), but above consensus (59.2%). RM191.6m EIs gain were adjusted for 1HFY23, mainly on RM177m disposal gain on land disposals in 2QFY23.

Dividend. None.

QoQ. Core PATMI declined -12.2% to RM115.2m in 2QFY23, mainly due to lower group's automotive car sales volume for both Toyota and Perodua, affected by shorter working quarter (long holidays), longer maintenance period and lower inventories level.

YoY & YTD. Core PATMI improved to +11.5% YoY to RM115.2m in 2QFY23 and +13.6% YTD to RM246.5m in 1HFY23, mainly driven by stronger contribution across all segments as the economy continued its recovery trend since full reopening in 2022. Automotive segment recorded higher YTD sales volume of Toyota, Lexus and Perodua. Similarly, both Equipment and Manufacturing segments (especially Aerospace segment turned profitable) also saw improvement in sales revenue with higher demand from both local and foreign markets.

Automotive. Post a slower 2QFY23 (affected shorter working quarter), we expect an improved performance in 2HFY23, leverage onto the strong order backlogs of over 40k units for Toyota and 200k units for Perodua. Toyota has a sales target to 93k units for FY23 (achieved 48.1k units), while Perodua's sales target is at 314.0k units (achieved 144.7k units). Management has guided for an improvement in supply chain situation in 2HFY23. The negative impact of depreciating RM/USD and higher raw material costs, should be partly cushioned by the strong sales volume and continuous costs efficiency.

Equipment. Management expects the segment to improve in tandem with the economic recovery post pandemic in the region (except Myanmar). Heavy equipment will leverage onto the resumption of infrastructure and construction projects. Demand for its industrial equipment remains as supply chain improves.

M&E. Both automotive parts (Kayaba) and lubricants will leverage onto the strong domestic automotive demand. Kayaba has seen slight improvement (+1.7%) in units sold, while lubricants saw +4.5% improvement in volume sold in 1HFY23. Aerospace manufacturing continued to gain traction with increasing production rate – as global airlines reinstate flying capacity – with RM8m profit in 1HFY23 and this is expected to be stronger in 2HFY23.

Forecast. Unchanged.

Maintain HOLD, TP: RM5.00. Maintain HOLD with an unchanged TP: RM5.00, based on Sime Darby's offer price. We are overall positive with the offer price and advise shareholders to accept the offer, which is higher than our existing SOP: RM3.85.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	3,545	3,004	3,118	3,339	3,131
Receivables	904	1,124	1,196	1,124	1,142
Inventories	1,752	2,046	1,914	1,686	1,712
PPE	2,545	2,706	2,691	2,633	2,579
Others	3,427	3,537	3,736	3,913	4,098
Assets	12,173	12,417	12,655	12,694	12,662
Payables	1,216	1,742	1,796	1,585	1,612
Debt	3,831	2,650	2,469	2,425	2,021
Others	363	885	885	885	885
Liabilities	5,410	5,277	5,150	4,895	4,518
Shareholder's equity	4,005	4,350	4,673	4,937	5,256
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,660	1,692	1,735	1,765	1,791
Equity	6,763	7,140	7,505	7,799	8,144

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	483	896	969	792	808
D&A	344	341	345	338	334
Working capital	(178)	12	114	90	(17)
Taxation	(81)	(158)	(185)	(146)	(148)
Others	(255)	175	(332)	(295)	(309)
CFO	313	1,266	911	779	668
Capex	(406)	(500)	(330)	(280)	(280)
Asset disposal	76	62	0	0	0
Acquisitions	75	0	0	0	0
Others	589	426	133	118	124
CFI	333	(11)	(197)	(162)	(156)
Changes in debt	267	(1,181)	(181)	(44)	(404)
Shares issued	0	0	0	0	0
Dividends	(47)	(103)	(178)	(164)	(140)
Distribution to Perps	(70)	(70)	(70)	(70)	(70)
Others	(111)	(181)	(171)	(119)	(105)
CFF	39	(1,535)	(600)	(397)	(719)
Net cash flow	686	(280)	114	221	(208)
Forex	8	12	0	0	0
Others	800	(272)	0	0	0
Beginning cash	2,051	3,545	3,004	3,118	3,339
Ending cash	3,545	3,004	3,118	3,339	3,131

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	11,061	15,814	15,950	14,047	14,269
EBITDA	635	952	985	841	838
EBIT	292	612	640	503	504
Net finance cost	(77)	(50)	(3)	(6)	(5)
Associates & JV	268	335	332	295	309
Profit before tax	483	896	969	792	808
Tax	33	(219)	(185)	(146)	(148)
Operation net profit	516	678	784	647	660
Discontinued operation	0	0	0	0	0
Reported net profit	516	678	784	647	660
Minority interest	(178)	(193)	(214)	(149)	(131)
Perpetual sukuk	(70)	(70)	(70)	(70)	(70)
Reported PATMI	268	415	500	428	459
Exceptionals	(123)	(16)	0	0	0
Core PATMI	145	399	500	428	459
Concensus			417	408	417
HLIB/Concensus (%)			120.1%	104.9%	110.0%

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Reported EPS (sen)	23.0	35.5	42.8	36.6	39.3
Core EPS (sen)	12.4	34.2	42.8	36.6	39.3
Core P/E (x)	38.6	14.1	11.2	13.1	12.2
DPS (sen)	5.8	14.2	14.0	12.0	14.0
Dividend yield (%)	1.2%	3.0%	2.9%	2.5%	2.9%
BVPS (RM)	3.43	3.72	4.00	4.23	4.50
P/B (x)	1.4	1.3	1.2	1.1	1.1
EBITDA margin	5.7%	6.0%	6.2%	6.0%	5.9%
EBIT margin	2.6%	3.9%	4.0%	3.6%	3.5%
PBT margin	4.4%	5.7%	6.1%	5.6%	5.7%
Net margin	1.3%	2.5%	3.1%	3.0%	3.2%
ROE	3.7%	9.6%	11.1%	8.9%	9.0%
ROA	1.2%	3.2%	4.0%	3.4%	3.6%
Net gearing	-7.2%	N.Cash	N.Cash	N.Cash	N.Cash

Assumptions

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Sales (Unit)					
Toyota	71,585	100,041	95,000	80,000	80,000
Lexus	809	993	900	800	800
Perodua	190,291	282,019	280,000	252,000	252,000

Average Price (RM)

UMW	99,292	104,189	104,189	104,189	104,189
Perodua	48,653	47,692	48,318	48,317	48,317

Figure #1 Quarterly results comparison

FYE Dec (RMm)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MY22	6MY23	YoY (%)
Revenue	3,730.8	4,379.6	4,484.9	2.4%	20.2%	7,381.6	8,864.5	20.1%
EBITDA	215.3	224.0	262.0	16.9%	21.7%	459.0	486.1	5.9%
EBIT	131.8	138.1	175.0	26.7%	32.8%	293.8	313.1	6.6%
Net finance expense	(9.3)	9.9	5.1	-48.3%	-154.7%	(40.6)	15.0	-136.9%
Associates	97.8	109.3	69.0	-36.9%	-29.5%	194.3	178.3	-8.3%
Eis	9.8	(6.5)	226.8			(1.2)	220.3	
Reported PBT	230.0	250.7	476.0	89.8%	106.9%	446.3	726.7	62.8%
Tax	(56.5)	(47.0)	(90.6)	92.6%	60.2%	(100.0)	(137.6)	37.6%
Reported operation net profit	173.5	203.7	385.4	89.2%	122.1%	346.3	589.1	70.1%
Reported PATMI	107.2	134.5	303.6	125.8%	183.2%	208.4	438.0	110.2%
Exceptionals	(3.9)	(3.2)	(188.3)	5720.6%	4781.4%	8.6	(191.6)	-2332.5%
Core PATMI	103.3	131.2	115.2	-12.2%	11.5%	217.0	246.5	13.6%
Reported EPS (Sen)	9.2	11.5	26.0	125.8%	183.2%	17.8	37.5	110.2%
Core EPS (Sen)	8.8	11.2	9.9	-12.2%	11.5%	18.6	21.1	13.6%
				%-pts	%-pts			%-pts
EBITDA margin (%)	5.8%	5.1%	5.8%	0.7	0.1	6.2%	5.5%	(0.7)
EBIT margin (%)	3.5%	3.2%	3.9%	0.7	0.4	4.0%	3.5%	(0.4)
Core PATMI margin (%)	2.8%	3.0%	2.6%	(0.6)	(1.0)	2.9%	2.8%	(1.2)

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Figure #2 Quarterly results comparison by segment

	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MY22	6MY23	YoY (%)
Reported Revenue								
Automotive	3,117.4	3,626.9	3,417.2	-5.8%	9.6%	6,187.5	7,044.1	13.8%
Equipment	366.6	434.9	456.2	4.9%	24.4%	738.4	891.1	20.7%
Manufacturing & Engineering	226.4	323.6	299.7	-7.4%	32.4%	453.5	623.3	37.4%
Others	20.4	(5.8)	311.7	-5483.8%	1425.3%	2.2	305.9	14030.8%
Total	3,730.8	4,379.6	4,484.9	2.4%	20.2%	7,381.6	8,864.5	20.1%
Reported PATMI								
Automotive	118.1	146.2	119.9	-18.0%	1.5%	244.0	266.1	9.0%
Equipment	24.7	36.0	34.3	-4.6%	38.7%	46.0	70.3	52.8%
Manufacturing & Engineering	5.1	10.6	14.4	35.8%	183.3%	8.8	25.0	185.2%
Others	(40.8)	(58.3)	134.9	-331.5%	-431.0%	(90.4)	76.6	-184.8%
Total	107.2	134.5	303.6	125.8%	183.2%	208.4	438.0	110.2%
Core PATMI	103.3	131.2	115.2	-12.2%	11.5%	217.0	246.5	13.6%

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Figure #3 UMW automotive sales statistics

FYE Dec (RMm)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MY22	6MY23	YoY (%)
Toyota	23,179	25,030	23,115	-7.7%	-0.3%	45,449	48,145	5.9%
Lexus	284	189	325	72.0%	14.4%	461	514	11.5%
Perodua	65,719	78,564	66,126	-15.8%	0.6%	127,343	144,690	13.6%
Total	89,182	103,783	89,566	-13.7%	0.4%	173,253	193,349	11.6%

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Figure #4 **UMW sum-of-parts valuation**

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,091.5	3.50	FY24 PE 10x
Equipment	Various	990.0	0.85	FY24 PE 8x
Manufacturing & Engineering	Various	1,076.6	0.92	FY24 PE 14x
500 acres Serendah land	100.00	980.1	0.84	Based on RM45/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2022 Annual Report
Holding Co Net Debt		(1,028.6)	(0.88)	Based on 2022 Annual Report
SOP		5,011.7	4.29	
Holding Co Discount			10.0%	
Target Price			3.85	Implied FY23 PE of 9.0
* No of Shares		1,168.3		As at end FY2022

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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