

30 August 2023

UMW Holdings

1HFY23 Results Become Academic

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UMW's 1HFY23 results met expectations. The results have become academic assuming SIME's takeover of the company is to proceed and a Mandatory General Offer (MGO) is to be extended to all minority shareholders. We maintain our earnings forecasts, TP of RM5.00 and ACCEPT OFFER call.

UMW's 1HFY23 core net profit of RM197m (excluding one-off disposal gain of industrial lands at Serendah amounting at RM218.1m), met expectations at 48% of both our full-year forecast and the full-year consensus estimate.

YoY, UMW's 1HFY23 revenue rose 20% driven by: (i) strong sales from automotive division (+14%) due to robust demand for Toyota/Lexus (+6% to 48,659 units) and Perodua (+14% to 144,690 units) vehicles as the economy reopened, (ii) strong automotive sales which boosted its manufacturing & engineering division (+37%) especially the demand for its OEM products (i.e. Toyota & Perodua engine lubricants) while its aerospace (Rolls-Royce fan cases) segment rode on the reopening of international borders, and (iii) the recovery in equipment division (+21%) as construction and manufacturing activities resumed.

Its core net profit, however, only rose marginally dragged down by the weaker share of profit from associates (-8%) due to shorter working months in 2QFY23, especially at Perusahaan Otomobil Kedua Sdn Bhd.

QoQ, UMW's 2QFY23 revenue rose 2% as weaker sales from automotive (-6%) and manufacturing & engineering division (-7%) due to shorter working months, was offset by the stronger equipment sales (+5%) from increased in construction and manufacturing activities.

However, its core net profit, plunged 41% dragged by the weaker share of profit from associates (-8%) especially at Perusahaan Otomobil Kedua Sdn Bhd as it closed a week for each Eid-ul public holidays for schedule maintenance (-16% to 66,126 units).

The key takeaways from the results briefing are as follows:

- UMW reiterated sales guidance for Toyota/Lexus of 93k units (-8%) in FY23. No change to our assumption at 93k units for FY23 and 95k units (+2%) for FY24. It guided for five all-new Toyota models in 2023 (all-new Vios, Toyota GR86 and GR Corolla already launched in Feb, all-new Toyota Innova Zenix in June, and one new model during the later part of the year). UMW's booking backlog for Toyota/Lexus vehicles currently stands at 40k units.
- UMW works on the basis that Perodua's sales target of 314k units (+11.3%) in 2023 will be achievable, backed by Perodua's annual production capacity of 320k units (our forecasts for UMW and MBRM (OP; TP: RM4.70) are based on unit sales assumptions for Perodua of 314k and 320k in 2023 and 2024, respectively). Perodua's current booking backlog stands at 200k units. Perodua has consistently achieved more than the monthly targeted production level, despite the shorter working months on the back of consecutive public holidays in Apr and Jun 2023

ACCEPT OFFER ↔

Price: RM4.80
Target Price: RM5.00 ↔

Share Price Performance



KLCI	1,454.44
YTD KLCI chg	-2.7%
YTD stock price chg	38.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK EQUITY
Market Cap (RM m)	5,607.8
Shares Outstanding	1,168.3
52-week range (H)	4.88
52-week range (L)	2.92
3-mth avg daily vol:	2,047,473
Free Float	32%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	53.7%
KWAP	9.1%
Employees Provident Fund	7.4%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	15,814.4	15,706.2	17,121.9
EBIT	946.1	1,151.9	1,215.8
PBT	896.5	738.2	781.4
Net Profit	415.0	414.7	442.4
Core net profit	394.0	414.7	442.4
Consensus NP	-	414.5	407.2
Earnings Revision	-	-	-
Core EPS (sen)	33.7	35.5	37.9
C.EPS growth (%)	76.5	5.3	6.7
NDPS (sen)	14.2	15.0	15.0
BVPS (RM)	3.72	3.93	4.16
Core PER (x)	14.2	13.5	12.7
PBV (x)	1.3	1.2	1.2
Net Gearing (x)	N.cash	N.cash	N.cash
Net Div. Yield (%)	3.0	3.1	3.1

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3. UMW said that its M&E division (auto parts, lubricant and aero-engine fan casing) continued to enjoy strong orders as supply constraints in various industries affected its competitors' productivity. UMW guided that its new smart lubricant plant has started production in April 2023, and will add 70% additional capacity, increasing its total capacity to 60m litres/year. This could expand the profit contribution of the segment from the current 13%, to 20% of group profit. This will enable UMW to capture new markets (various climate markets, other than focusing on tropical-based market) with improving margin on reduced costs and variation of products lines.

Forecasts. Maintained.

We also maintain our TP of RM5.00 which is the MGO price offered by SIME.

We like UMW for: (i) the mass-market marques under its automotive business, i.e. Toyota and Perodua, but not without high-margin models such as Toyota Vios and Perodua Alza, (ii) the strong earnings visibility at its automotive business backed by order backlogs of >240k units of vehicles, and (iii) it being a reopening play, given the pick-up seen in its heavy and industrial equipment business and manufacturing of aero-engine fan cases. However, we believe the MGO price is fair and hence maintain our **ACCEPT OFFER call**.

Risks to our call include: (i) failure of the proposed privatisation of UMW which could spark sell-down in its share price, (ii) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation, (iii) supply chain disruptions, (iv) escalating input costs, and (v) a global recession hurting demand for industrial/heavy equipment.

Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	4,484.9	4,379.6	2%	3,730.8	20%	8,864.5	7,381.6	20%
Associates and JV	69.0	109.3	-37%	97.8	-29%	178.3	194.3	-8%
EBIT	401.9	266.1	51%	255.5	57%	668.0	510.8	31%
PBT	492.1	250.7	96%	230.0	114%	742.9	446.3	66%
Taxation and Zakat	(90.6)	(47.0)	-93%	(56.5)	-60%	(137.6)	(99.0)	-39%
Net Profit	303.6	134.5	126%	107.2	183%	438.0	208.4	110%
Core Net Profit	73.0	123.9	-41%	97.8	-25%	196.8	197.2	0%
Core EPS (sen)	6.2	10.6	-41%	8.4	-25%	16.8	16.9	0%
DPS (sen)	-	-	-	-	-	-	-	-
EBIT margin	9.0%	6.1%		6.8%		7.5%	6.9%	
PBT margin	11.0%	5.7%		6.2%		8.4%	6.0%	
Core NP margin	1.6%	2.8%		2.6%		2.2%	2.7%	
Effective tax rate	18.4%	18.7%		24.6%		18.5%	22.2%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	4,484.9	4,379.6	2%	3,730.8	20%	8,864.5	7,381.6	20%
Automotive	3,417.2	3,626.9	-6%	3,117.4	10%	7,044.1	6,187.5	14%
Equipment	456.2	434.9	5%	366.6	24%	891.1	738.4	21%
M&E	299.7	323.6	-7%	226.4	32%	623.3	453.5	37%
Others	311.7	(5.8)	N/A	20.4	N/A	305.9	2.2	N/A
Segment PBT/(LBT)	492.1	250.7	96%	230.0	114%	742.9	446.3	66%
Automotive	212.8	217.0	-2%	202.9	5%	429.9	408.7	5%
Equipment	49.1	51.3	-4%	35.4	38%	100.4	67.2	49%
M&E	21.8	22.4	-3%	13.1	67%	44.2	23.7	87%
Others	208.4	(40.0)	N/A	(21.3)	N/A	168.4	(53.3)	N/A
Segment Margin								
Automotive	6.2%	6.0%		6.5%		6.1%	6.6%	
Equipment	10.8%	11.8%		9.7%		11.3%	9.1%	
M&E	7.3%	6.9%		5.8%		7.1%	5.2%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.23	3.10	39.0%	2,589.0	Y	04/2024	23.6	24.3	-9.7%	3.1%	9.4	9.2	3.2	34.6%	18.9	8.5%
DRB-HICOM BHD	MP	1.46	1.45	-0.7%	2,822.2	Y	12/2023	16.5	17.7	4.9%	7.2%	8.9	8.3	0.3	3.6%	2.0	1.4%
HIL INDUSTRIES BHD	UP	1.03	0.780	-24.3%	341.9	Y	12/2023	9.2	10.1	28.0%	9.5%	11.2	10.2	0.8	6.9%	2.0	1.9%
HONG LEONG INDUSTRIES BHD	OP	8.92	11.40	27.8%	2,924.9	Y	06/2023	95.1	103.0	7.3%	8.4%	9.4	8.7	1.3	16.5%	62.0	7.0%
MBM RESOURCES BHD	OP	4.10	4.70	14.6%	1,602.7	Y	12/2023	65.3	67.1	14.0%	2.7%	6.3	6.1	0.7	10.7%	46.0	11.2%
SIME DARBY BHD	OP	2.26	2.45	8.4%	15,370.3	Y	06/2023	17.7	17.9	4.4%	1.0%	12.8	12.6	0.9	8.4%	14.0	6.2%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.06	0.800	-24.5%	712.3	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.9%
UMW HOLDINGS BHD	ACCEPT	4.80	5.00	4.2%	5,607.8	Y	12/2023	35.5	37.9	5.3%	6.7%	13.5	12.7	1.2	9.3%	15.0	3.1%
SECTOR AGGREGATE					31,971.0					3.9%	4.5%	11.6	11.1	0.8	7.0%		5.1%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Electric & Hybrid Vehicles Availability	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★		
	Effluent & Water Management	★	★	★		
	Training & Education	★	★	★	★	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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