

UMW Holdings (UMWH MK)

1H23 Excel

Results beat expectations; raised TP

1H23 earnings exceeded expectations, comprising 62% of our and consensus FY estimates, driven by the robust auto division. We've raised FY23E/24E/25E earnings by 19%/18%/18% on improved auto division margins, elevating TP to MYR6.02 (14x FY23E PER, previously 15x), in line with the latest 5Y hist. PER mean. Maintain BUY.

Robust growth across divisions

UMW's robust 1H core net profit (CNP) of MYR261m (+24% YoY, excluding one-offs which included a MYR177m gain from land sale) matched its revenue growth (+20% YoY). All op divisions posted strong double-digit revenue growth. Auto segment (+14% YoY revenue) saw increased vehicle sales (Toyota: +6%; P2: +14%). Equipment (eq) segment (+21% YoY rev.) delivered more heavy and industrial eq. M&E segment (+39% YoY rev.) thrived on OEM market demand and doubled fan case deliveries.

Key briefing highlights

Key highlights: (i) Vehicle backlog orders remain robust (Toyota: 40k; P2: 200k), while P2 margins improved on stabilized cost pressure (ie. raw mat costs) and favourable forex; (ii) M&E's profit rose as its aerospace segment returned to profitability (since 4Q22; aerospace is addressing supply challenges (Ti supply) with advance orders); (iii) M&E's new smart lubricant plant has been operational since Apr 2023 at 60% utilisation; (iv) re SIME's (SIME MK, HOLD, CP: MYR2.26, TP: MYR2.26) acquisition, management has yet to engage in any communication with SIME. No dividend was declared despite the gain from land sale in 1H23.

Positive on sustained strength and growth prospects

We are cautiously optimistic on UMW's outlook. Its robust auto division, fueled by a strong local brand presence, solid backlog orders, and enhanced supply chain, is expected to see earnings sustained. Demand in the eq segment will be upheld by infrastructure projects, while the M&E segment is projected to grow alongside the auto division driven by rising automotive product demand, initial contributions from the new smart lubricant plant, and increased utilization of its aerospace facility.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	11,061	15,814	15,601	16,012	16,170
EBITDA	506	952	1,013	1,095	1,160
Core net profit	156	421	503	519	537
Core EPS (sen)	13.4	36.0	43.0	44.4	45.9
Core EPS growth (%)	(45.2)	169.5	19.4	3.3	3.4
Net DPS (sen)	5.8	14.2	17.2	17.8	18.4
Core P/E (x)	22.2	9.6	11.2	10.8	10.4
P/BV (x)	0.9	0.9	1.2	1.1	1.0
Net dividend yield (%)	2.0	4.1	3.6	3.7	3.8
ROAE (%)	6.8	9.9	11.1	10.6	10.1
ROAA (%)	1.3	3.4	4.0	4.1	4.1
EV/EBITDA (x)	9.7	4.7	6.4	6.2	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	424	426	439
MIBG vs. Consensus (%)	-	-	18.6	22.1	22.4

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BUY

Share Price	MYR 4.80
12m Price Target	MYR 6.02 (+25%)
Previous Price Target	MYR 5.30

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

Statistics

52w high/low (MYR)	4.80/2.98
3m avg turnover (USDm)	1.9
Free float (%)	24.0
Issued shares (m)	1,168
Market capitalisation	MYR5.6B
	USD1.2B

Major shareholders:

Permodalan Nasional Bhd.	42.5%
Kumpulan Wang Persaraan	9.3%
Employees Provident Fund	7.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	20	29	59
Relative to index (%)	21	25	65

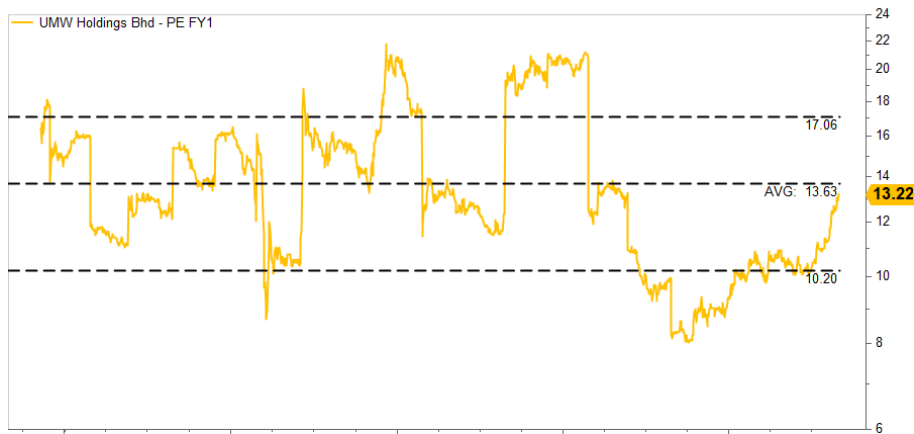
Source: FactSet

Figure 1: UMW results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	2Q22	1Q23	%QoQ	2Q22	%YoY	1H23	1H22	%YoY
Turnover	4,493.9	4,379.6	2.6	3,730.8	20.5	8,873.5	7,381.6	20.2
EBIT	380.3	128.8	195.4	140.8	>100	509.1	286.6	77.6
Interest expense	(16.2)	(15.4)	5.3	(25.4)	(36.3)	(31.6)	(64.4)	(51.0)
Associates	69.0	109.3	(36.9)	97.8	(29.5)	178.3	194.3	(8.3)
Investment Income	18.8	30.6	(38.5)	16.8	11.7	49.4	29.8	65.6
Pre-tax profit	476.0	250.7	89.8	230.0	>100	726.7	446.3	62.8
Taxation	(90.6)	(47.0)	92.6	(56.5)	60.2	(137.6)	(100.0)	37.6
Minority interest	(64.5)	(51.8)	24.5	(49.0)	31.7	(116.3)	(103.1)	12.8
Sukuk	(17.4)	(17.5)	(0.6)	(17.4)	0.0	(34.8)	(34.8)	0.0
Net profit	303.6	134.5	>100	107.2	>100	438.0	208.4	>100
One-offs	184.2	(7.6)	NM	5.3	>100	176.6	(3.1)	NM
Recurring net profit	119.3	142.1	(16.0)	101.9	17.1	261.4	211.5	23.6
	2Q22	1Q23	+/- ppt	2Q22	%YoY	1H23	1H22	+/- ppt
EBIT margin (%)	8.5	2.9	5.5	3.8	4.7	5.7	3.9	1.9
Tax rate (%)	19.0	18.7	0.3	24.6	(5.5)	18.9	22.4	(3.5)
	2Q22	1Q23	%QoQ	2Q22	%YoY	1H23	1H22	%YoY
Revenue	4,493.9	4,379.6	2.6	3,730.8	20.5	8,873.5	7,381.6	20.2
Automotive	3,417.2	3,626.9	(5.8)	3,117.4	9.6	7,044.1	6,187.5	13.8
Equipments	456.2	434.9	4.9	366.6	24.4	891.1	738.4	20.7
Manufacturing & Engineering	308.7	323.6	(4.6)	226.4	36.3	632.3	453.5	39.4
Others	311.7	(5.8)	NM	20.4	>100	305.9	2.2	>100
Pre-tax profit	476.0	250.7	89.8	230.0	106.9	726.7	446.3	62.8
Automotive	212.8	217.0	(1.9)	202.9	4.9	429.9	408.7	5.2
Equipments	49.1	51.3	(4.4)	35.4	38.4	100.4	67.2	49.4
Manufacturing & Engineering	21.8	22.4	(2.5)	13.1	67.1	44.2	23.7	86.6
Others	192.2	(40.0)	NM	(21.3)	NM	152.3	(53.3)	NM
	2Q22	1Q23	+/- ppt	2Q22	%YoY	1H23	1H22	+/- ppt
Pre-tax margins (%)	10.6	5.7	4.9	6.2	4.4	8.2	6.0	2.1
Automotive	6.2	6.0	0.2	6.5	(0.3)	6.1	6.6	(0.5)
Equipments	10.8	11.8	(1.0)	9.7	1.1	11.3	9.1	2.2
Manufacturing & Engineering	7.1	6.9	0.1	5.8	1.3	7.0	5.2	1.8
	2Q22	1Q23	%QoQ	2Q22	%YoY	1H23	1H22	%YoY
Vehicle Unit Sales (MAA data)								
Toyota	23,440	25,219	(7.1)	23,469	(0.1)	48,659	45,916	6.0
Perodua	66,126	78,564	(15.8)	65,719	0.6	144,690	127,343	13.6

Source: Company, Maybank IBG Research

Figure 2: UMW one-year rolling forward PE (currently trading at 13.2x)



Source: Factset, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for UMW. Soft consumer sentiment and unattractive model launches are risks to its motors division. Forex volatility will affect its profitability and operational planning. Execution mishap, cost overruns and / or absence of new orders will cause adverse reaction. Acquisition of non-core assets or poor usage of capex will not be well received, particularly at this point of industry cycle.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	13.7	8.9	11.2	10.8	10.4
Core P/E (x)	22.2	9.6	11.2	10.8	10.4
P/BV (x)	0.9	0.9	1.2	1.1	1.0
P/NTA (x)	0.9	0.9	1.2	1.1	1.0
Net dividend yield (%)	2.0	4.1	3.6	3.7	3.8
FCF yield (%)	nm	20.1	nm	nm	nm
EV/EBITDA (x)	9.7	4.7	6.4	6.2	6.0
EV/EBIT (x)	30.4	7.3	9.8	9.9	9.9

INCOME STATEMENT (MYR m)

Revenue	11,060.8	15,814.4	15,600.6	16,011.9	16,170.1
EBITDA	505.6	952.1	1,013.0	1,095.2	1,159.9
Depreciation	(343.5)	(340.6)	(351.8)	(410.1)	(460.8)
EBIT	162.1	611.5	661.2	685.1	699.1
Net interest income / (exp)	(59.5)	(44.0)	(83.5)	(90.4)	(93.0)
Associates & JV	268.0	334.9	361.7	372.6	383.7
Exceptionals	112.1	(6.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	482.8	896.5	939.4	967.2	989.8
Income tax	32.9	(218.6)	(253.7)	(263.5)	(270.2)
Minorities	(177.6)	(193.0)	(113.0)	(114.4)	(112.6)
Perpetual securities	(69.9)	(69.9)	(69.9)	(69.9)	(69.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	268.2	415.0	502.8	519.5	537.2
Core net profit	156.1	421.0	502.8	519.5	537.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,941.4	2,808.1	2,463.3	2,333.4	2,252.8
Accounts receivable	1,051.7	1,231.5	1,216.3	1,245.6	1,256.8
Inventory	1,752.2	2,045.7	1,755.1	1,793.5	1,803.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,545.0	2,706.2	3,154.4	3,544.3	3,883.5
Intangible assets	0.0	0.8	0.8	0.8	0.8
Investment in Associates & JVs	2,248.5	2,441.0	2,660.1	2,890.1	3,131.3
Other assets	1,634.0	1,183.8	1,183.8	1,183.8	1,183.8
Total assets	12,172.7	12,417.1	12,433.8	12,991.5	13,512.9
ST interest bearing debt	638.1	212.3	212.3	212.3	212.3
Accounts payable	2,248.8	3,292.8	2,825.0	2,886.8	2,903.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,095.0	1,339.9	1,339.9	1,339.9	1,339.9
Other liabilities	428.0	432.0	432.0	432.0	432.0
Total Liabilities	5,410.1	5,277.1	4,809.3	4,871.1	4,887.7
Shareholders Equity	4,004.7	4,350.0	4,721.5	5,103.0	5,495.2
Minority Interest	1,660.0	1,692.1	1,805.1	1,919.5	2,032.1
Total shareholder equity	5,664.7	6,042.1	6,526.6	7,022.5	7,527.3
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	12,172.7	12,417.1	12,433.8	12,991.5	13,512.9

CASH FLOW (MYR m)

Pretax profit	482.8	896.5	939.4	967.2	989.8
Depreciation & amortisation	343.5	340.6	351.8	410.1	460.8
Adj net interest (income)/exp	(133.5)	(133.5)	(139.7)	(139.7)	(139.7)
Change in working capital	(232.4)	524.8	(162.0)	(5.8)	(4.9)
Cash taxes paid	(74.0)	(139.1)	(253.7)	(263.5)	(270.2)
Other operating cash flow	(150.3)	(305.3)	(278.2)	(282.1)	(290.7)
Cash flow from operations	236.1	1,183.9	457.6	686.1	745.1
Capex	(301.8)	(367.4)	(800.0)	(800.0)	(800.0)
Free cash flow	(65.7)	816.6	(342.4)	(113.9)	(54.9)
Dividends paid	(123.1)	(256.8)	(201.1)	(207.8)	(214.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	267.0	(1,180.8)	0.0	0.0	0.0
Other invest/financing cash flow	705.9	489.5	198.7	191.8	190.2
Effect of exch rate changes	8.2	11.7	0.0	0.0	0.0
Net cash flow	792.3	(119.8)	(344.8)	(129.9)	(79.6)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	15.8	43.0	(1.4)	2.6	1.0
EBITDA growth	(29.0)	88.3	6.4	8.1	5.9
EBIT growth	(52.0)	277.2	8.1	3.6	2.0
Pretax growth	20.5	85.7	4.8	3.0	2.3
Reported net profit growth	31.1	54.7	21.1	3.3	3.4
Core net profit growth	(45.2)	169.8	19.4	3.3	3.4
Profitability ratios (%)					
EBITDA margin	4.6	6.0	6.5	6.8	7.2
EBIT margin	1.5	3.9	4.2	4.3	4.3
Pretax profit margin	4.4	5.7	6.0	6.0	6.1
Payout ratio	25.3	40.0	40.0	40.0	40.0
DuPont analysis					
Net profit margin (%)	2.4	2.6	3.2	3.2	3.3
Revenue/Assets (x)	0.9	1.3	1.3	1.2	1.2
Assets/Equity (x)	3.0	2.9	2.6	2.5	2.5
ROAE (%)	6.8	9.9	11.1	10.6	10.1
ROAA (%)	1.3	3.4	4.0	4.1	4.1
Liquidity & Efficiency					
Cash conversion cycle	16.6	5.5	(3.4)	(1.3)	(1.3)
Days receivable outstanding	36.7	26.0	28.2	27.7	27.9
Days inventory outstanding	52.7	44.5	51.9	47.5	47.8
Days payables outstanding	72.7	65.0	83.6	76.4	77.0
Dividend cover (x)	4.0	2.5	2.5	2.5	2.5
Current ratio (x)	2.1	1.8	1.8	1.8	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.4	2.6	2.7	2.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	2.7	13.9	7.9	7.6	7.5
Debt/EBITDA (x)	5.4	1.6	1.5	1.4	1.3
Capex/revenue (%)	2.7	2.3	5.1	5.0	4.9
Net debt/ (net cash)	(208.3)	(1,255.9)	(911.0)	(781.2)	(700.6)

Source: Company; Maybank IBG Research

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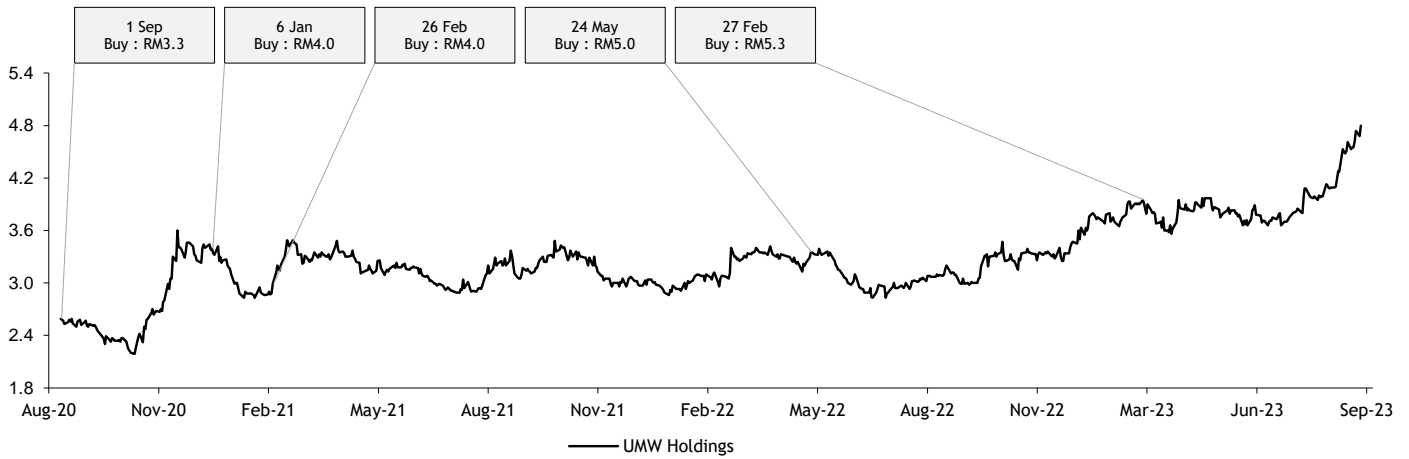
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