

30 August 2023

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

Softening Order Backlog Points To Soft 2024

Target Price (Return): MYR5 (4.2%)
 Price (Market Cap): MYR4.80 (USD1,207m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 8.72m/1.89m

- **Still NEUTRAL, with TP of MYR5 and 4% upside.** UMW's 2Q23 earnings came within our expectations, with core net profit easing mainly due to lower associate contributions caused by Perodua's higher costs. Toyota and Perodua's order backlogs continue to soften, supporting our thesis that 2024 will likely see softening car sales. We remain NEUTRAL as we lack visibility on 2024's car sales, and as Sime Darby's (SIME MK, BUY, TP: MYR2.50) offer price of MYR5 to acquire UMW only has 4% upside.
- **Within our expectations.** 2Q23 core net profit of MYR115m brought 1H23 core net profit to MYR238m, making up 53% of our full-year estimate – within our expectations – and 57% of Street's estimate. Note that the reported PAT of MYR304m includes a one-off gain on disposal of land in Serendah. The sale fetched MYR305m revenue, MYR218m PBT, and MYR177m PATAMI for UMW. As expected, no dividend was declared.
- **Results highlights.** 2Q23 saw softer car sales due to a seasonally shorter quarter and scheduled plant shutdowns. Despite Perodua's sales volume only falling 16%, UMW's associate contribution fell 37% QoQ as Perodua faced higher labour costs (bonuses), local parts prices, and depreciation expenses from new models. On the other hand, Toyota's revenue fell 6% but we estimate its margin to have expanded. Management attributes this to lower derivative losses QoQ. Within the M&E segment, we believe higher aerospace contributions negated lower car parts earnings.
- **Outlook.** Toyota's order backlog stands at 40k units (50k at end-Feb and 52k at end-May), while Perodua's is at 155k units (220k at end-Feb and 190k at end-May). The softening of the order backlogs is largely expected, given that: i) the numbers were boosted by new car launches earlier in the year, and ii) lack of new catalysts to sustain such high levels of order backlog. Management is confident that Toyota and Perodua will achieve the 93k and 314k sales volume targets this year. While 2023 is set to be another record-breaking year (2023F TIV: 725k), the softening order backlog suggests 2024 could see softening car sales.
- **SIME's proposed acquisition of UMW** is currently pending shareholders' approval. UMW's management said it has yet to engage with its principals on the proposal and would only do so after shareholders approve the deal.
- **We maintain our FY23-FY25 forecasts**, as earnings came in-line.
- **We maintain our NEUTRAL call and MYR5 TP**, based on 14.4x P/E on FY24F EPS, which matches SIME's offer price to acquire UMW. Our TP includes 0% ESG adjustments. We are NEUTRAL on UMW as the FY24 outlook remains uncertain, and SIME's offer price has less than 10% upside from the current share price. Key risks include SIME's proposed acquisition falling through, and lower-than-expected orders, deliveries, and margins.

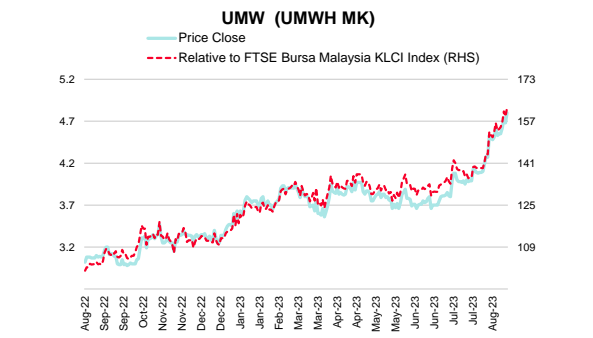
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|------|------|------|------|
| Absolute | 38.3 | 20.3 | 28.7 | 23.1 | 58.9 |
| Relative | 41.1 | 20.0 | 25.2 | 23.1 | 62.0 |
| 52-wk Price low/high (MYR) | 2.98 – 4.80 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (MYRm) | 11,061 | 15,814 | 15,191 | 14,583 | 14,664 |
| Recurring net profit (MYRm) | 226 | 399 | 450 | 405 | 393 |
| Recurring net profit growth (%) | (20.6) | 76.5 | 12.7 | (10.0) | (3.0) |
| Recurring P/E (x) | 24.78 | 14.04 | 12.46 | 13.84 | 14.27 |
| P/B (x) | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 |
| P/CF (x) | 21.45 | 6.79 | 20.95 | 10.87 | 10.68 |
| Dividend Yield (%) | 1.2 | 3.0 | 3.1 | 2.8 | 2.8 |
| EV/EBITDA (x) | 26.65 | 3.64 | 4.22 | 3.78 | 3.27 |
| Return on average equity (%) | (4.5) | 9.9 | 9.9 | 8.2 | 7.4 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

UMW has taken efforts to monitor and improve its environmental standing, especially with energy consumption, carbon emissions, and water management. Its carbon footprint increased 2.36% in FY19.

S: GOOD

Aside from the up-to-date health & safety policies and guidelines, UMW is also consistent in its CSR participation – achieving 9,241 volunteer hours in 2019. It recorded average training hours of 12.36 hours per employee in FY19.

G: GOOD

Management has held regular engagements with the market and media while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

Financial Exhibits

| Asia | Financial summary (MYR) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|-------------------|-------------------------------------|--------|--------|---------|---------|---------|
| Malaysia | Recurring EPS | 0.19 | 0.34 | 0.39 | 0.35 | 0.34 |
| Consumer Cyclical | DPS | 0.06 | 0.14 | 0.15 | 0.14 | 0.14 |
| UMW | BVPS | 3.43 | 3.72 | 4.07 | 4.40 | 4.72 |
| UMWH MK | Return on average equity (%) | (4.5) | 9.9 | 9.9 | 8.2 | 7.4 |
| Neutral | | | | | | |
| | Valuation metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Recurring P/E (x) | 24.78 | 14.04 | 12.46 | 13.84 | 14.27 |
| | P/B (x) | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 |
| | FCF Yield (%) | (2.6) | 5.7 | (9.5) | 2.1 | 2.2 |
| | Dividend Yield (%) | 1.2 | 3.0 | 3.1 | 2.8 | 2.8 |
| | EV/EBITDA (x) | 26.65 | 3.64 | 4.22 | 3.78 | 3.27 |
| | EV/EBIT (x) | na | 5.68 | 7.13 | 6.25 | 5.35 |
| | Income statement (MYRm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Total turnover | 11,061 | 15,814 | 15,191 | 14,583 | 14,664 |
| | Gross profit | 1,194 | 2,806 | 2,653 | 2,584 | 2,627 |
| | EBITDA | 172 | 946 | 856 | 850 | 868 |
| | Depreciation and amortisation | (344) | (341) | (349) | (335) | (337) |
| | Operating profit | (171) | 606 | 507 | 514 | 531 |
| | Net interest | (108) | (114) | (93) | (92) | (92) |
| | Pre-tax profit | 37 | 896 | 874 | 814 | 802 |
| | Taxation | 33 | (219) | (152) | (154) | (159) |
| | Reported net profit | (177) | 415 | 450 | 405 | 393 |
| | Recurring net profit | 226 | 399 | 450 | 405 | 393 |
| | Cash flow (MYRm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Change in working capital | (221) | 0 | (234) | 6 | (4) |
| | Cash flow from operations | 261 | 825 | 268 | 516 | 525 |
| | Capex | (406) | (507) | (800) | (400) | (400) |
| | Cash flow from investing activities | 12 | (507) | (432) | (100) | (129) |
| | Dividends paid | (68) | (166) | (175) | (158) | (158) |
| | Cash flow from financing activities | (275) | (196) | (205) | (188) | (188) |
| | Cash at beginning of period | 2,051 | 2,941 | 2,808 | 2,438 | 2,667 |
| | Net change in cash | (2) | 122 | (370) | 228 | 209 |
| | Ending balance cash | 2,057 | 3,064 | 2,438 | 2,667 | 2,875 |
| | Balance sheet (MYRm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Total cash and equivalents | 2,941 | 2,808 | 2,438 | 2,667 | 2,875 |
| | Tangible fixed assets | 2,545 | 2,706 | 2,965 | 2,961 | 2,958 |
| | Total investments | 2,524 | 2,655 | 2,642 | 2,626 | 2,612 |
| | Total assets | 12,173 | 12,417 | 12,326 | 12,395 | 12,599 |
| | Short-term debt | 655 | 225 | 217 | 217 | 217 |
| | Total long-term debt | 2,133 | 1,379 | 1,378 | 1,378 | 1,378 |
| | Total liabilities | 5,410 | 5,277 | 4,988 | 4,855 | 4,864 |
| | Total equity | 6,763 | 7,140 | 7,338 | 7,540 | 7,735 |
| | Total liabilities & equity | 12,173 | 12,417 | 12,326 | 12,395 | 12,599 |
| | Key metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| | Revenue growth (%) | 15.8 | 43.0 | (3.9) | (4.0) | 0.6 |
| | Recurrent EPS growth (%) | (20.6) | 76.5 | 12.7 | (10.0) | (3.0) |
| | Gross margin (%) | 10.8 | 17.7 | 17.5 | 17.7 | 17.9 |
| | Operating EBITDA margin (%) | 1.6 | 6.0 | 5.6 | 5.8 | 5.9 |
| | Net profit margin (%) | (1.6) | 2.6 | 3.0 | 2.8 | 2.7 |
| | Dividend payout ratio (%) | (38.2) | 40.0 | 38.9 | 38.9 | 40.1 |
| | Capex/sales (%) | 3.7 | 3.2 | 5.3 | 2.7 | 2.7 |
| | Interest cover (x) | (1.58) | 5.31 | 5.46 | 5.57 | 5.75 |

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

| FYE Dec (MYRm) | 2Q22 | 1Q23 | 2Q23 | QoQ (%) | YoY (%) | 1H22 | 1H23 | YoY (%) | Comments |
|--------------------------|--------------|--------------|--------------|------------|-----------|--------------|--------------|-----------|--|
| Revenue * | 3,731 | 4,380 | 4,180 | (5) | 12 | 7,382 | 8,864 | 20 | 2Q23 revenue had been adjusted for the revenue of MYR305m from the land sale. Revenue softened 5% QoQ mainly due to the 6% QoQ decline in automotive revenue. |
| EBIT | 141 | 129 | 402 | 212 | 185 | 287 | 531 | 85 | |
| Finance costs | (25) | (15) | (16) | 5 | (36) | (64) | (32) | (51) | |
| Investment income | 17 | 28 | 21 | (24) | 26 | 30 | 49 | 66 | |
| Associates | 98 | 109 | 69 | (37) | (29) | 194 | 178 | (8) | Associate contribution fell 37% due to: i) Perodua's higher labour, input, and depreciation expenses and ii) Lower contribution from Toyota Capital. |
| Pretax profit * | 230 | 251 | 258 | 3 | 12 | 446 | 727 | 63 | PBT increased by 3%, mainly lifted by Toyota's higher PBT, partially attributable to lower derivative mark-to-market losses. |
| Tax * | (57) | (47) | (50) | 5 | (12) | (100) | (138) | 38 | |
| MI | (49) | (52) | (64) | 24 | 32 | (103) | (116) | 13 | |
| Core net profit * | 98 | 123 | 115 | (7) | 17 | 197 | 238 | 21 | Due to increase in tax expenses and MI, core net profit fell 7%, despite a 3% increase in PBT. |
| EBIT margin (%) | 3.8 | 2.9 | 9.6 | | | 3.9 | 6.0 | | |
| Pretax margin (%) | 6.2 | 5.7 | 6.2 | | | 6.0 | 8.2 | | |
| Eff tax rate (%) | (24.6) | (18.7) | (19.2) | | | (22.4) | (18.9) | | |
| Net margin (%) | 2.6 | 2.8 | 2.7 | | | 2.7 | 2.7 | | |

Source: Company data, RHB

* Revenue, PBT, Tax, and Core Net Profit are adjusted figures, reflecting the one-off gain from the sale of industrial land in Serendah.

Figure 2: Earnings review – segmental breakdown

| FYE Dec (MYRm) | 2Q22 | 1Q23 | 2Q23 | QoQ (%) | YoY (%) | 1H22 | 1H23 | YoY (%) | Comments |
|-----------------------------|--------------|--------------|--------------|-----------|------------|--------------|--------------|-----------|---|
| Automotive | 3,117 | 3,627 | 3,417 | (6) | 10 | 6,188 | 7,044 | 14 | Revenue fell 6% QoQ as Toyota/Lexus' sales fell 7% QoQ. |
| Equipment | 367 | 435 | 456 | 5 | 24 | 738 | 891 | 21 | |
| Manufacturing & engineering | 226 | 324 | 300 | (7) | 32 | 454 | 623 | 37 | M&E revenue fell 7% mainly due to lower car parts sales, in tandem with lower car sales. |
| Others | 20 | (6) | 312 | (5,484) | 1,425 | 2 | 306 | 14,031 | Lifted by the MYR305m proceeds from the Serendah land sale. |
| Revenue | 3,731 | 4,380 | 4,485 | 2 | 20 | 7,382 | 8,864 | 20 | |
| Automotive | 203 | 217 | 213 | (2) | 5 | 409 | 430 | 5 | Despite Perodua's softer earnings contribution, the stronger contribution from UMW Toyota supported the automotive PBT, which only fell by 2%. |
| Equipment | 35 | 51 | 49 | (4) | 38 | 67 | 100 | 49 | |
| Manufacturing & engineering | 13 | 22 | 22 | (3) | 67 | 24 | 44 | 87 | Despite a 7% decline in revenue, the M&E segment's profitability improved, likely due to higher contribution from aerospace, in place of the softer contribution from auto parts. |
| Others | (21) | (40) | 192 | 581 | 1,001 | (53) | 152 | (386) | |
| PBT | 230 | 251 | 476 | 90 | 107 | 446 | 727 | 63 | |
| PBT Margins | | | | | | | | | |
| Automotive | 6.5 | 6.0 | 6.2 | | | 6.6 | 6.1 | | |
| Equipment | 9.7 | 11.8 | 10.8 | | | 9.1 | 11.3 | | |
| Manufacturing & engineering | 5.8 | 6.9 | 7.3 | | | 5.2 | 7.1 | | Likely due to higher aerospace contribution. |

Source: Company data, RHB

Note: Revenue and PBT figures here have not been adjusted for the Serendah land sale.

Figure 3: UMW's vehicle sales summary

| FYE Dec (units) | 2Q22 | 1Q23 | 2Q23 | QoQ (%) | YoY (%) | 1H22 | 1H23 | YoY (%) | Comments |
|-----------------|---------------|----------------|---------------|---------------|--------------|----------------|----------------|-------------|--|
| Toyota | 23,463 | 25,219 | 23,440 | (7.1) | (0.1) | 45,910 | 48,659 | 6.0 | Toyota/Lexus' sales volume softened 7% QoQ due to a seasonally shorter quarter. |
| - Passenger | 17,019 | 17,429 | 16,831 | (3.4) | (1.1) | 31,650 | 34,260 | 8.2 | |
| - Commercial | 6,444 | 7,790 | 6,609 | (15.2) | 2.6 | 14,260 | 14,399 | 1.0 | |
| Perodua | 65,719 | 78,564 | 66,126 | (15.8) | 0.6 | 127,343 | 144,690 | 13.6 | Perodua's sales volume softened QoQ mainly due to 2Q's seasonality. There were scheduled plant shut downs in April after strong March production, and in June, due to <i>Aidiladha</i> festival. |
| - Passenger | 65,719 | 78,564 | 66,126 | (15.8) | 0.6 | 127,343 | 144,690 | 13.6 | |
| - Commercial | 0 | 0 | 0 | | | 0 | 0 | | |
| Total | 89,182 | 103,783 | 89,566 | (13.7) | 0.4 | 173,253 | 193,349 | 11.6 | |

Source: Company data, RHB

Figure 4: Key assumptions

| FYE Dec | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Toyota/Lexus TIV (units) – current | 70,009 | 59,320 | 72,394 | 101,034 | 100,000 | 90,000 | 85,000 |
| Perodua TIV (units) – current | 240,341 | 220,154 | 190,291 | 282,019 | 320,000 | 250,000 | 230,000 |

Source: Company data, RHB

Recommendation Chart

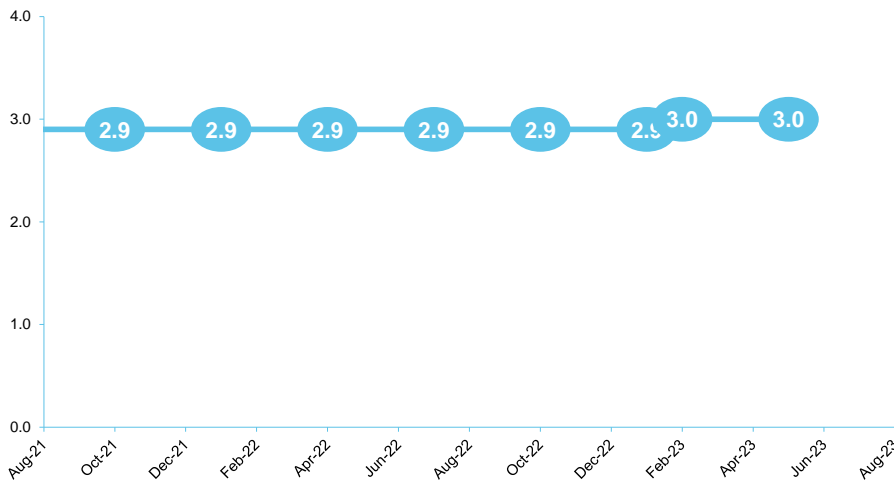


Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2023-08-25 | Neutral | 5.00 | 4.74 |
| 2023-06-01 | Neutral | 3.80 | 3.89 |
| 2023-02-28 | Buy | 5.00 | 3.90 |
| 2023-02-17 | Buy | 5.10 | 3.85 |
| 2022-11-30 | Neutral | 3.35 | 3.26 |
| 2022-08-28 | Neutral | 3.10 | 3.06 |
| 2022-07-15 | Neutral | 2.90 | 2.83 |
| 2022-05-25 | Neutral | 3.64 | 3.35 |
| 2022-03-15 | Neutral | 3.29 | 3.06 |
| 2022-02-28 | Neutral | 3.29 | 3.07 |
| 2021-11-30 | Neutral | 2.83 | 3.08 |
| 2021-08-27 | Neutral | 2.94 | 3.11 |
| 2021-07-27 | Neutral | 2.94 | 2.91 |
| 2021-05-25 | Neutral | 3.43 | 3.25 |
| 2021-04-22 | Neutral | 3.40 | 3.38 |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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| | |
|---------------------|--|
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| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
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