

COMPANY RESULTS

UMW Holdings (UMWH MK)

1H23: Above Expectations On Higher Contribution Across Business Segments

1H23 results were above expectation on higher contribution across business segments. Prospects remain positive despite potential sales moderation in 2H23 for the main auto segment due to a high base but recovery in the equipment and M&E segment may offset this impact. We are positive on Sime Darby acquiring UMW as it will allow UMW to accelerate its transition to EVs using Sime Darby successful blueprint for distributing EVs for BMW and BYD. Maintain BUY. Target price: RM5.00.

2Q23 RESULTS

Year to 31 Dec	2Q23 (RMm)	1Q23 (RMm)	qoq % chg	yoy % chg	1H23 (RMm)	yoy % chg
Revenue	4,180.0	4,379.6	(4.6)	12.0	8,559.6	16.0
- Auto	3,417.2	3,626.9	(5.8)	9.6	7,044.1	13.8
- Equipment	456.2	434.9	4.9	24.4	891.1	20.7
- M&E	299.7	323.6	(7.4)	32.4	623.3	37.4
Associates & JV	69.0	109.3	(36.9)	(29.5)	178.3	(8.3)
PBT	257.9	266.1	(3.1)	12.1	524.0	17.4
PATAMI	126.6	134.5	(5.9)	18.1	261.0	25.2
Core PATAMI	138.5	122.6	13.0	41.4	261.2	32.3
PBT Margin (%)	(%)	(%)	+/- ppt	+/- ppt	(%)	+/- ppt
Overall	6.2	6.1	1.5	0.0	6.1	1.2
Auto	6.2	6.0	4.1	(4.3)	6.1	(7.6)
Equipment	10.8	11.7	(8.3)	11.2	11.2	23.4
M&E	7.3	6.8	7.0	26.2	7.0	34.6

Source: UMW Holdings Berhad, UOB Kay Hian

RESULTS

• **Above expectations.** UMW Holdings (UMW) came in with a PATMI of RM126.6m (-5.9% qoq, +18.1% yoy) and 2Q23 revenue of RM4.1b (-4.6% qoq, +12% yoy). This brought 1H23 PATMI to RM261m (+25% yoy), forming 66%/59% of full-year estimates. We note that the big jump in others' revenue contribution was mainly due to the completion of sale of industrial land in Serendah to Longi amounting to RM304.9m which we excluded from the top-line and bottom line. The key deviation against our forecasts was underpinned by double-digit growth of PBT across its equipment (+48.9% yoy) and manufacturing & engineering (+85% yoy) divisions. Its automotive segment slightly improved by 5% due to increased number of vehicles sold by 9% yoy in 1H23.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	11,061	15,814	14,735	13,364	14,038
EBITDA	618	952	1,079	977	1,000
Operating profit	274	611	699	606	636
Net profit (rep./act.)	268	415	444	418	443
Net profit (adj.)	245	394	444	418	443
EPS (sen)	21.0	33.7	38.0	35.8	37.9
PE (x)	22.9	14.2	12.6	13.4	12.7
P/B (x)	1.1	1.0	1.0	0.9	0.9
EV/EBITDA (x)	12.6	8.2	7.2	8.0	7.8
Dividend yield (%)	0.9	1.4	1.6	1.5	1.6
Net margin (%)	2.4	2.6	3.0	3.1	3.2
Net debt/(cash) to equity (%)	(4.1)	(23.1)	5.1	(0.4)	(2.8)
Interest cover (x)	10.4	19.1	18.6	15.5	13.7
ROE (%)	5.3	7.9	7.9	7.0	7.0
Consensus net profit	-	-	414	407	417
UOBKH/Consensus (x)	-	-	1.07	1.03	1.06

Source: UMW Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.80
Target Price	RM5.00
Upside	+4.2%

COMPANY DESCRIPTION

UMW, through its 51%-owned subsidiary UMW-Toyota, imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. It also owns 38% stake in Perodua.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	5,607.8
Market cap (US\$m):	1,207.0
3-mth avg daily t'over (US\$m):	1.9

Price Performance (%)

52-week high/low RM4.80/RM2.98

1mth	3mth	6mth	1yr	YTD
20.3	28.7	23.1	58.9	38.3

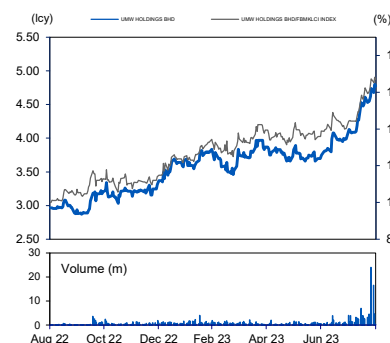
Major Shareholders

	%
Skim Amanah Saham Bumiputra	41.9
EPF	10.4
Permodalan Nasional Berhad	6.1

FY23 NAV/Share (RM) 4.97

FY23 Net Debt/Share (RM) 0.25

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Automotive segment.** The automotive segment reported 1H23 revenue of RM7b (+14% yoy) and PBT of RM429.8m (+5.2% yoy), driven by higher number vehicles sold ytd. This is attributable to the UMW Toyota's vehicle sales increasing by 6% to 48,659 units from 45,911 units. The current orderbook remains healthy for both Perodua (200,000 units) and Toyota (40,000 units). However, we maintain our view as we expect 2H23 demand and vehicles sold to drop from a high base, accounting for 670,000 units (-7% yoy) of TIV forecast. We prefer to remain conservative at this juncture, expecting a downturn in sales volume from a high base post SST exemption.
- Equipment segment.** Revenue for the equipment segment improved by 20% yoy due to higher delivery of equipment from industrial equipment and heavy equipment. We note that Malaysia is still the largest contributor to equipment sales, with 60% coming from the industrial sector and the remaining 40% from heavy equipment. Outlook for the segment remains positive, bolstered by the anticipated improvement in the supply chain and the company's plan to introduce new models in response to robust demand in the construction, mining and agriculture sectors.
- Manufacturing & Engineering segment.** The improved 1H23 performance with higher revenue of RM624m (+37% yoy) and PBT of RM44m (+87% yoy) was driven by higher contribution from all sub-segments. This includes the improvement in shock absorber sales and increase in lubricants sold within the lubricants sub-segment. With the commencement of a new smart lubricant plant boasting an annual production capacity of 60m litres and a current utilisation rate of 60%, we foresee this development providing substantial support and facilitating increased production moving forward.
- Aerospace segment.** The delivery of fan cases by UMW Aerospace surged by 100% yoy in 1H23 given the improvement in commercial aircraft deliveries of Airbus (+6% yoy) and Boeing (+23% yoy). The company stated that the second rear case production contract is on track and is expected to complete by end-23. Catalysts for the segment include: a) potential margin expansion through component localisation in the rear case product, b) higher utilisation on growing air travel demand, and c) more contracts being secured from other OEMs leading to higher utilisation.
- We are positive regarding the acquisition** of a 61.2% stake in UMW from PNB by Sime Darby, amounting to RM5.00 per share. We believe this move could enhance the value of UMW, particularly by expediting the shift towards EVs through the successful blueprint of Sime Darby. Moreover, given the similarity in business operations between Sime Darby and UMW, there exists the potential for synergies, system and policy harmonisation, and the alignment of organisational cultures between the two companies.

EARNINGS REVISION/RISK

- We lift our 2023 earnings by 11%, after factoring in higher revenue contribution from equipment as well as manufacturing and engineering segments.

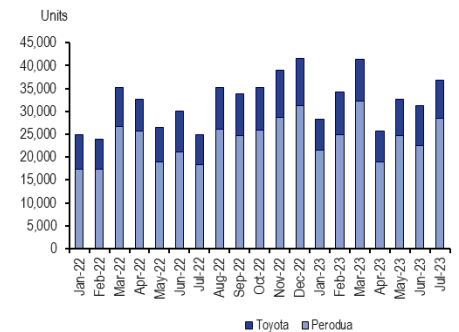
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of RM5.00, which implies 14x 2024F PE (UMW's five-year mean).** We deem the offer price of RM5.00 fair as this is in line with UMW's five-year mean PE.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

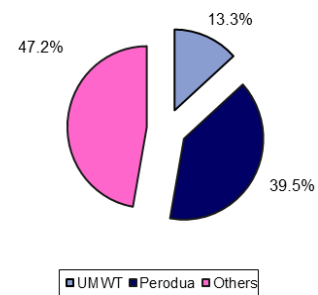
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Investing in renewable energy by installing solar panels at two of the group's operational sites, namely the KYB-UMW and Aerospace plants. Investing in nature-based solutions for CO2 sequestration and collaborating with key stakeholders in reforestation initiative (300,000 mangrove trees to be planted by 2023). Social <ul style="list-style-type: none"> Implementing community development initiatives that nurture future generations and equip youths with industry-ready skills, such as the PROTÉGÉ programme. Contributed about RM10.8m in cash and in kind to communities. Governance <ul style="list-style-type: none"> Board composition. 30% requirement for female directors has long been met by the group, whereby 40% of UMW's Directors are female. Established the three-year Integrity and Governance Unit (IGU) Blueprint 2021-23.
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PERODUA AND TOYOTA SALES VOLUME TREND



Source: MAA, UMW Holdings

UMW AUTOMOBILE MARKET SHARE



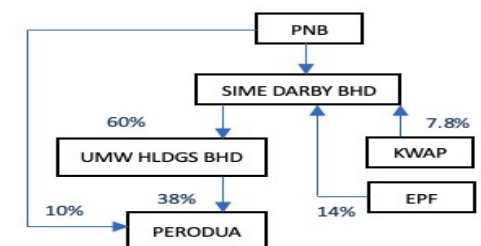
Source: MAA, UMW Holdings

UMW'S KEY ASSUMPTIONS

Year to 31 Dec	2023F	2024F	2024F
Sales Volume (units):			
Toyota/Lexus	82,931	87,090	91,432
Perodua	268,000	276,040	289,842
Forex:			
US\$/RM	4.40	4.40	4.40

Source: UOB Kay Hian

PROPOSED STRUCTURE FOR ACQUISITION



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	15,814	14,735	13,364	14,038
EBITDA	952	1,079	977	1,000
Deprec. & amort.	341	380	371	364
EBIT	611	699	606	636
Associate contributions	335	281	316	339
Net interest income/(expense)	(50)	(58)	(63)	(73)
Pre-tax profit	896	922	859	903
Tax	(219)	(206)	(185)	(195)
Minorities	(263)	(272)	(256)	(265)
Net profit	415	444	418	443
Net profit (adj.)	394	444	418	443

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,706	2,921	2,921	2,921
Other LT assets	3,346	3,627	3,942	4,282
Cash/ST investment	2,808	1,706	2,026	2,179
Other current assets	3,557	4,294	3,953	4,121
Total assets	12,417	12,547	12,842	13,503
ST debt	212	400	400	400
Other current liabilities	3,390	2,514	2,289	2,400
LT debt	1,340	1,600	1,600	1,600
Other LT liabilities	335	335	335	335
Shareholders' equity	5,448	5,803	6,137	6,492
Minority interest	1,692	1,894	2,081	2,276
Total liabilities & equity	12,417	12,547	12,842	13,503

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	1,203	(502)	783	614
Pre-tax profit	896	922	859	903
Tax	(139)	(206)	(185)	(195)
Deprec. & amort.	341	380	371	364
Associates	(335)	(281)	(316)	(339)
Working capital changes	(346)	(1,254)	115	(57)
Other operating cashflows	786	(62)	(62)	(62)
Investing	49	(138)	(138)	(138)
Capex (growth)	(510)	(200)	(200)	(200)
Investments	409	0	0	0
Others	150	62	62	62
Financing	(1,533)	359	(84)	(89)
Dividend payments	(257)	(89)	(84)	(89)
Proceeds from borrowings	(1,276)	448	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(280)	(281)	561	387
Beginning cash & cash equivalent	2,081	1,870	1,603	2,114
Changes due to forex impact	68	0	0	0
Ending cash & cash equivalent	1,870	1,603	2,114	2,501

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.0	7.3	7.3	7.1
Pre-tax margin	5.7	6.3	6.4	6.4
Net margin	2.6	3.0	3.1	3.2
ROA	3.4	3.6	3.3	3.4
ROE	7.9	7.9	7.0	7.0
Growth				
Turnover	43.0	(6.8)	(9.3)	5.0
EBITDA	54.1	13.3	(9.4)	2.3
Pre-tax profit	85.7	2.8	(6.8)	5.1
Net profit	54.7	6.9	(5.8)	6.0
Net profit (adj.)	61.0	12.6	(5.8)	6.0
EPS	61.0	12.6	(5.8)	6.0
Leverage				
Debt to total capital	17.9	20.6	19.6	18.6
Debt to equity	28.5	34.5	32.6	30.8
Net debt/(cash) to equity	(23.1)	5.1	(0.4)	(2.8)
Interest cover (x)	19.1	18.6	15.5	13.7

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