

HLIB Research

PP 9484/12/2012 (031413)

Daniel Wong
kkwong@hlib.hongleong.com.my

(603) 2083 1720

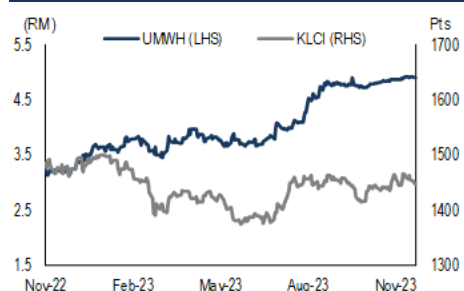
HOLD (Maintain)

Target Price: RM5.00
Previously: RM5.00
Current Price: RM4.90

Capital upside	2.0%
Dividend yield	0.0%
Expected total return	2.0%

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


Historical return (%)	1M	3M	12M
Absolute	1.2	3.4	46.7
Relative	0.8	3.1	50.6

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	5,725
3-mth average volume ('000)	2,633
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

Permodalan Nasional Berhad	60.6%
Employees Provident Fund	10.4%
Kumpulan Wang Persaraan	9.1%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	399	575	503
EPS - core (sen)	34.2	49.3	43.0
P/E (x)	14.3	9.9	11.4

UMW Holdings

Expecting a stronger 4Q

Reported core 3QFY23 PATMI RM159.5m (+38.4% QoQ; +40.2% YoY) and RM405.9m for 9MFY23 (+22.7% YoY), above HLIB's forecast (81.2%) and consensus (89.3%). We expect sustained 4QFY23 earnings ahead, leveraging onto the high order backlogs from the automotive segment and continued economic recovery. Maintain HOLD recommendation with an unchanged TP: RM5.00, based on Sime Darby's offer price. We advise shareholders to accept the MGO price of RM5.00, as it is above our SOP of RM3.85.

Above expectations. UMW reported core PATMI of RM159.5m for 3QFY23 (+38.4% QoQ; +40.2% YoY) and RM405.9m for 9MFY23 (+22.7% YoY). We deem the result above HLIB's FY23 forecast (81.2%) and consensus (89.3%). RM205.2m EIs were adjusted for 9MFY23, mainly on RM177m gain on land disposals in 2QFY23.

Dividend. None.

QoQ. Core PATMI surged +38.4% QoQ to RM159.4m in 3QFY23, mainly attributed to the strong group automotive car sales volume for both Toyota and Perodua, driven by strong order backlogs, sustain new orders and accelerated productions and deliveries as supply chain improved during the period.

YoY & YTD. Core PATMI improved +40.2% YoY to RM159.4m in 3QFY23 and +22.7% YTD to RM405.9m in 9MFY23, 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 turned profitable) also saw improvement in sales revenue with higher demand from both local and foreign markets.

Automotive. The segment is expected to continue perform into FY24, leveraging onto the strong order backlogs of over 40k units for Toyota and 140k units for Perodua. New order intake remains healthy, resulting to stable order backlogs. Management has guided for an improvement in the 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 management.

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 in Malaysia, Singapore and Papua New Guinea. Demand for its industrial equipment remains healthy as supply chains improve. UMW has entered into agreement to dispose 26% stake in UTMH to TICO for RM260m, which will result RM85.5m disposal gain in upcoming 4QFY23.

M&E. Both automotive parts (Kayaba) and lubricants will leverage onto the strong domestic automotive demand. Aerospace manufacturing continues to gain traction with increasing production rate – as global airlines reinstate capacity.

Forecast. We raised our earnings for FY23-25f by 15.0-17.6%, accounting for stronger automotive sales and earnings.

Maintain HOLD, TP: RM5.00. Maintain HOLD with an unchanged TP: RM5.00, based on Sime Darby's offer price. We are overall positive on the offer price and advise shareholders to accept the offer, which is higher than our existing SOP of 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	3,002	3,349	3,200
Receivables	904	1,124	1,353	1,206	1,224
Inventories	1,752	2,046	2,164	1,810	1,836
PPE	2,545	2,706	2,691	2,633	2,579
Others	3,427	3,537	3,769	3,970	4,179
Assets	12,173	12,417	12,978	12,968	13,019
Payables	1,216	1,742	2,040	1,698	1,725
Debt	3,831	2,650	2,469	2,425	2,021
Others	363	885	885	885	885
Liabilities	5,410	5,277	5,394	5,008	4,631
Shareholder's equity	4,005	4,350	4,748	5,087	5,482
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,660	1,692	1,739	1,775	1,808
Equity	6,763	7,140	7,585	7,960	8,388

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	483	896	1,077	925	941
D&A	344	341	345	338	334
Working capital	(178)	12	(49)	159	(17)
Taxation	(81)	(158)	(198)	(169)	(171)
Others	(255)	175	(387)	(335)	(350)
CFO	313	1,266	788	917	737
Capex	(406)	(500)	(330)	(280)	(280)
Asset disposal	76	62	0	0	0
Acquisitions	75	0	0	0	0
Others	589	426	155	134	140
CFI	333	(11)	(175)	(146)	(140)
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)	(187)	(146)	(132)
CFF	39	(1,535)	(615)	(424)	(746)
Net cash flow	686	(280)	(3)	348	(149)
Forex	8	12	0	0	0
Others	800	(272)	0	0	0
Beginning cash	2,051	3,545	3,004	3,002	3,349
Ending cash	3,545	3,004	3,002	3,349	3,200

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	11,061	15,814	18,036	15,081	15,303
EBITDA	635	952	1,039	933	930
EBIT	292	612	693	596	596
Net finance cost	(77)	(50)	(3)	(6)	(5)
Associates & JV	268	335	387	335	350
Profit before tax	483	896	1,077	925	941
Tax	33	(219)	(198)	(169)	(171)
Operation net profit	516	678	879	756	770
Discontinued operation	0	0	0	0	0
Reported net profit	516	678	879	756	770
Minority interest	(178)	(193)	(233)	(183)	(165)
Perpetual sukuk	(70)	(70)	(70)	(70)	(70)
Reported PATMI	268	415	575	503	535
Exceptionals	(123)	(16)	0	0	0
Core PATMI	145	399	575	503	535
Concensus			454	429	441
HLIB/Concensus (%)			126.6%	117.1%	121.3%

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Reported EPS (sen)	23.0	35.5	49.3	43.0	45.8
Core EPS (sen)	12.4	34.2	49.3	43.0	45.8
Core P/E (x)	39.4	14.3	9.9	11.4	10.7
DPS (sen)	5.8	14.2	14.0	12.0	14.0
Dividend yield (%)	1.2%	2.9%	2.9%	2.4%	2.9%
BVPS (RM)	3.43	3.72	4.06	4.35	4.69
P/B (x)	1.4	1.3	1.2	1.1	1.0
EBITDA margin	5.7%	6.0%	5.8%	6.2%	6.1%
EBIT margin	2.6%	3.9%	3.8%	3.9%	3.9%
PBT margin	4.4%	5.7%	6.0%	6.1%	6.1%
Net margin	1.3%	2.5%	3.2%	3.3%	3.5%
ROE	3.7%	9.6%	12.7%	10.2%	10.1%
ROA	1.2%	3.2%	4.5%	3.9%	4.1%
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	102,000	80,000	80,000
Lexus	809	993	1,500	1,000	1,000
Perodua	190,291	282,019	310,000	272,800	272,800

Average Price (RM)

UMW	99,292	104,189	116,691	116,691	116,691
Perodua	48,653	47,692	47,933	47,864	47,864

Figure #1 Quarterly results comparison Quarterly results comparison

FYE Dec (RMm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MY22	9MY23	YoY (%)
Revenue	4,057.5	4,484.9	4,834.0	7.8%	19.1%	11,439.1	13,698.4	19.8%
EBITDA	272.8	262.0	279.1	6.5%	2.3%	731.8	765.2	4.6%
EBIT	183.8	175.0	189.8	8.4%	3.3%	477.5	502.9	5.3%
Net finance expense	(5.0)	5.1	8.4	64.7%	N.M.	(45.6)	23.4	N.M.
Associates	72.8	69.0	115.6	67.6%	58.8%	267.1	293.9	10.0%
Eis	(20.1)	226.8	12.5			(21.2)	232.8	
Reported PBT	231.5	476.0	326.3	-31.4%	40.9%	677.8	1,053.0	55.3%
Tax	(72.1)	(90.6)	(65.9)	-27.2%	-8.6%	(172.1)	(203.5)	18.2%
Reported operation net profit	159.4	385.4	260.3	-32.4%	63.4%	505.7	849.4	68.0%
Reported PATMI	100.7	303.6	173.1	-43.0%	71.9%	309.1	611.1	97.7%
Exceptionals	13.1	(188.3)	(13.6)	-92.8%	N.M.	21.7	(205.2)	N.M.
Core PATMI	113.8	115.2	159.5	38.4%	40.2%	330.8	405.9	22.7%
Reported EPS (Sen)	8.6	26.0	14.8	-43.0%	71.9%	26.5	52.3	97.7%
Core EPS (Sen)	9.7	9.9	13.7	38.4%	40.2%	28.3	34.7	22.7%
				<u>%-pts</u>	<u>%-pts</u>			<u>%-pts</u>
EBITDA margin (%)	6.7%	5.8%	5.8%	(0.1)	(0.9)	6.4%	5.6%	(0.8)
EBIT margin (%)	4.5%	3.9%	3.9%	0.0	(0.6)	4.2%	3.7%	(0.5)
Core PATMI margin (%)	2.8%	2.6%	3.3%	(0.6)	(1.2)	2.9%	3.0%	(1.2)

Bursa, HLIB Research

Figure #2 Quarterly results comparison by segment

	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MY22	9MY23	YoY (%)
Reported Revenue								
Automotive	3,427.6	3,417.2	4,023.2	17.7%	17.4%	9,615.1	11,067.3	15.1%
Equipment	394.4	456.2	451.9	-0.9%	14.6%	1,132.7	1,343.1	18.6%
Manufacturing & Engineering	252.2	299.7	363.8	21.4%	44.3%	705.7	987.1	39.9%
Others	(16.6)	311.7	(4.9)	-101.6%	-70.3%	(14.5)	301.0	-2182.2%
Total	4,057.5	4,484.9	4,834.0	7.8%	19.1%	11,439.1	13,698.4	19.8%
Reported PATMI								
Automotive	97.3	119.9	160.7	34.0%	65.1%	341.4	426.8	25.0%
Equipment	34.7	34.3	34.6	0.7%	-0.5%	80.7	104.8	29.9%
Manufacturing & Engineering	4.3	14.4	11.4	-21.0%	165.3%	13.0	36.3	178.7%
Others	(35.6)	134.9	(33.5)	N.M.	-5.9%	(126.0)	43.1	N.M.
Total	100.7	303.6	173.1	-43.0%	71.9%	309.1	611.1	97.7%
Core PATMI	113.8	115.2	159.5	38.4%	40.2%	330.8	405.9	22.7%

Bursa, HLIB Research

Figure #3 UMW automotive sales statistics

FYE Dec (RMm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MY22	9MY23	YoY (%)
Toyota	24,683	23,115	27,253	17.9%	10.4%	70,132	75,398	7.5%
Lexus	278	325	599	84.3%	115.5%	739	1,113	50.6%
Perodua	69,011	66,126	88,537	33.9%	28.3%	196,354	233,227	18.8%
Total	93,972	89,566	116,389	29.9%	23.9%	267,225	309,738	15.9%

Bursa, HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 27 November 2023, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 27 November 2023, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

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.

Sector rating guide

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.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.