

UMW Holdings



3Q23 - Strong outperformance from all divisions

What's new

- UMW reported 3Q23 adj NP of RM160mn (+34% YoY, +33% QoQ). 9M adj NP of RM421mn beat expectations at 97%/93% of our/Bloomberg consensus estimates. No dividends were declared as expected. Management did not host an analyst briefing this time.

Why it matters

- What we liked:** The strong earnings were driven by the strong performance of all three segments - auto, equipment, and M&E. Despite the end of tax-free deliveries in end-March, both Perodua/UMWT sales continue to exceed expectations with 19%/8% volume growth for the 9M period. Hence, auto PBT grew 16% for the 9M period. Higher equipment deliveries also led to a 33% PBT growth for the equipment division. The M&E division also reported an 88% earnings growth due to the doubling of fan case deliveries for its aerospace unit.
- What to expect:** We believe Perodua/UMWT sales are likely to beat our/management forecasts for the year due to year-end promotions. Sime's shareholders have given the green light for Sime to acquire 61.2% stake in UMW. Sime will launch a mandatory general offer of the remaining shares by Jan 2024, and plans to delist UMW in 1Q24. We believe the merger is likely to follow through with little obstacles (see our [report](#)).

What now

- We retain Outperform. UMW is trading close to the RM5.00 offer price by Sime Darby. We think Sime's general offer is fair. On completion of Sime-UMW merger, we believe the merged entity would be the best proxy to ride the EV transition wave (see our [Strategy report](#)) with BYD/BMW offerings in short term and potential Perodua EV in long term. Failure of the Sime-UMW merger is a key risk to our thesis, as this would lead to a negative knee-jerk reaction for both Sime and UMW's share prices.

UMW: 3Q23 results summary

MYR mn	3Q22	2Q23	3Q23	YoY %	QoQ %	9M22	9M23	YoY %
Revenue	4,057	4,485	4,834	19%	8%	11,439	13,699	20%
EBITDA	253	489	291	15%	-40%	704	995	41%
EBIT	163	402	202	23%	-50%	450	732	63%
Adj net profit	119	120	160	34%	33%	330	421	27%
Adj EPS (sen)	10.2	10.3	13.7	34%	33%	28.3	36.0	27%
	MQ est.			Consensus				
MYR mn	9M23	FY23E	9M23/E			9M23	FY23E	9M23/E
Revenue	13,699	16,497	83%			13,699	15,576	88%
EBITDA	995	931	107%			995	1,021	97%
EBIT	732	547	134%			732	588	125%
Adj net profit	421	435	97%			421	454	93%
DPS (sen)	0.0	12.0	0%			0.0	13.9	0%

Source: Company data, Bloomberg, Macquarie Research, November 2023

Automobiles & Components ASEAN



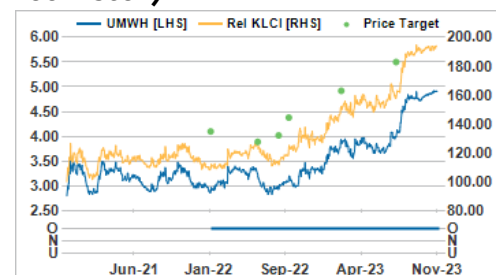
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UMWH MK	Outperform
Price (at 27 Nov 2023)	MYR4.90
12-month target	MYR5.50
12 month TSR (%)	15.2
Volatility Index	Low
Market Cap (Local) (m)	5,725
Market Cap (USD) (m)	1,222
Free Float (%)	30
30-day avg turnover (USD)(m)	0.7

Investment Fundamentals

Year end 31 Dec	2022A	2023E	2024E	2025E
Revenue (m)	15,814	16,497	17,640	18,788
Revenue growth (%)	43.0	4.3	6.9	6.5
EBIT (m)	605.5	547.1	576.2	619.3
EBIT growth (%)	120.8	(9.6)	5.3	7.5
Reported profit (m)	459.9	427.5	453.8	487.5
Adjusted profit (m)	415.0	435.1	453.8	487.5
EPS rep [MYR]	0.4	0.4	0.4	0.4
EPS rep growth (%)	56.0	(7.1)	6.2	7.4
EPS adj [MYR]	0.4	0.4	0.4	0.4
EPS adj growth (%)	54.8	4.8	4.3	7.4
Net debt/equity (%)	(16.8)	(8.2)	(6.4)	(4.9)
ROA (%)	4.9	4.3	4.3	4.4
ROE (%)	7.8	7.9	7.8	8.0
PER rep (x)	12.4	13.4	12.6	11.7
PER adj (x)	13.8	13.2	12.6	11.7
EV/EBITDA (x)	2.9	2.9	2.7	2.5
P/BV (x)	1.1	1.0	1.0	0.9
Total div yield (%)	2.3	2.4	2.7	2.9

UMWH MK rel KLCI performance, & rec history



Source: FactSet, Macquarie Research, Nov 2023 (all figures in MYR unless noted, TP in MYR)

Analysts

Max Koh

+601 2673 7359

max.koh@macquarie.com

Macquarie Capital Securities (Malaysia) Sdn. Bhd.

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Recommendation definitions	Volatility index definition	Financial definitions
<p>Macquarie - Asia and USA Outperform - expected return >10% Neutral - expected return from -10% to +10% Underperform - expected return <-10%</p> <p>Macquarie - Australia/New Zealand Outperform - expected return >10% Neutral - expected return from 0% to 10% Underperform - expected return <0%</p> <p>During periods of share price volatility, recommendations and target prices may occasionally and temporarily be inconsistent with the above definitions.</p> <p>Recommendations - 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high - highest risk - Stock should be expected to move up or down 60-100% in a year - investors should be aware this stock is highly speculative.</p> <p>High - stock should be expected to move up or down at least 40-60% in a year - investors should be aware this stock could be speculative.</p> <p>Medium - stock should be expected to move up or down at least 25-40% in a year.</p> <p>Low - stock should be expected to move up or down at least 15-25% in a year. * Applicable to select stocks in Asia/Australia/NZ</p> <p>Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions for quarter ending 30 September 2023

	AU/NZ	Asia	USA	
Outperform	55.31%	64.52%	63.21%	(for global coverage by Macquarie, 2.50% of stocks followed are investment banking clients)
Neutral	36.98%	21.69%	34.91%	(for global coverage by Macquarie, 0.64% of stocks followed are investment banking clients)
Underperform	7.72%	13.79%	1.89%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

Company-Specific Disclosures

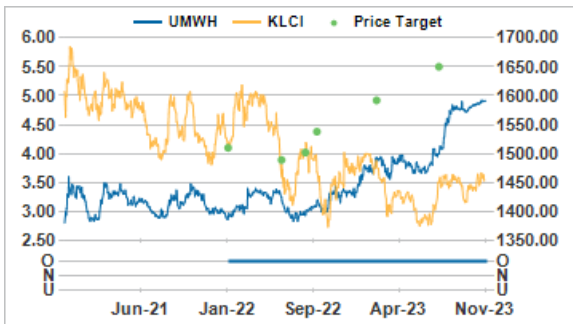
Company Name	Disclosure
UMW Holdings (UMWH MK) Outperform 12-month target: MYR5.50 - Sum of Parts Valuation: MYR 3.20 - DCF (WACC 8.8%, beta 0.9, ERP 7.2%, RFR 5.3%, TGR 1.0%) Price: MYR4.90	Macquarie Capital Securities (Malaysia) Sdn Bhd makes a market in the securities of UMW Holdings Bhd.
Sime Darby (SIME MK) Outperform 12-month target:MYR2.90 - Sum of Parts Valuation: MYR 2.90 - DCF (WACC 8.3%, beta 0.9, ERP 7.2%, RFR 3.5%, TGR 2.0%) Price:MYR2.37	Macquarie Capital Securities (Malaysia) Sdn Bhd makes a market in the securities of Sime Darby.

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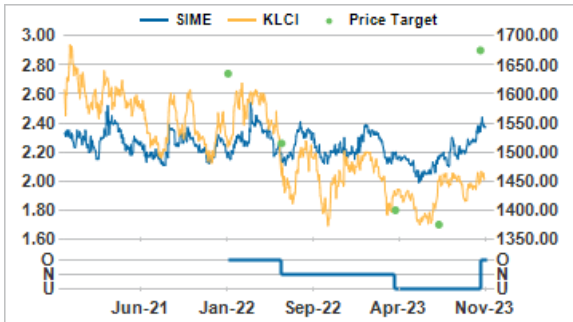
Recommendation history

Company name	Date	Recommendation	Target price
UMW Holdings (UMWH MK)	28-Jul-2023	Outperform	MYR 5.50
	16-Feb-2023	Outperform	MYR 4.92
	14-Sep-2022	Outperform	MYR 4.38



15-Aug-2022	Outperform	MYR 4.02
14-Jun-2022	Outperform	MYR 3.89
26-Jan-2022	Outperform	MYR 4.10

Sime Darby (SIME MK)



13-Nov-2023	Outperform	MYR 2.90
28-Jul-2023	Underperform	MYR 1.70
6-Apr-2023	Underperform	MYR 1.80
14-Jun-2022	Neutral	MYR 2.26
26-Jan-2022	Outperform	MYR 2.74

Sensitivity analysis:

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