

28 November 2023

Consumer Cyclical | Auto & Autoparts

## UMW (UMWH MK)

**Neutral** (Maintained)

### Sime Darby's Offer Remains Attractive

Target Price (Return): MYR5 (2.0%)  
 Price (Market Cap): MYR4.90 (USD1,223m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 10.2m/2.17m

- **Still NEUTRAL, with MYR5 TP and 2% upside.** UMW's 3Q23 earnings exceeded our expectations, with stronger-than-expected manufacturing & engineering (M&E) and automotive segments. Toyota and Perodua's order backlogs further soften, supporting our expectation that 2024 will likely see dampening car sales. We remain NEUTRAL as we lack visibility on 2024's car sales, and as Sime Darby's (SIME MK, BUY, TP: MYR2.85) offer price of MYR5 to acquire UMW only has 2% upside.
- **Results beat expectations.** UMW's 3Q23 core net profit of MYR163m brought 9M23 core net profit to MYR401m, making up 89% of ours and Street's full-year estimate. The deviation was mainly due to stronger-than-expected M&E and automotive segments.
- **Results highlights.** Automotive PBIT rose 21% QoQ on the back of higher sales volumes of both Toyota and Perodua (+19% and 34%). Toyota's and Perodua's 9M23 sales volumes of 76.5k and 233.2k make up 77% and 73% of our FY23 volume assumptions. Its M&E unit, on the other hand, recorded an 18% QoQ increase in PBIT on the back of stronger contributions from auto-components, lubricants, and aerospace sub-segments.
- **Outlook.** Toyota's order backlog stands at 34k units (52k at end-May and 40k at end-Aug), while Perodua's is at 140k units (190k at end-May and 140k at end-Aug). Perodua has revised its sales goal to 325k (slightly above our 320k forecast) and hence, we anticipate a robust final push from the national carmaker in the next two months, which may spill over to early next year. However, further order backlogs' softening is anticipated, considering the lack of new catalysts to support such high levels.
- **We revise our FY23-FY25 forecasts higher by 3-14%.** We increased our car ASP forecasts for both Toyota and Perodua as well as M&E revenue growth assumptions, as we believe our previous assumptions were too conservative.
- **We maintain our call and TP,** based on 14x P/E on FY24F EPS which matches SIME's offer price to acquire UMW. We believe the offer price is attractive considering it is above UMW's historical mean P/E of 12x. 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 downside risks include** SIME's proposed acquisition falling through, and lower-than-expected orders, deliveries, and margins. The opposite represents upside risks.

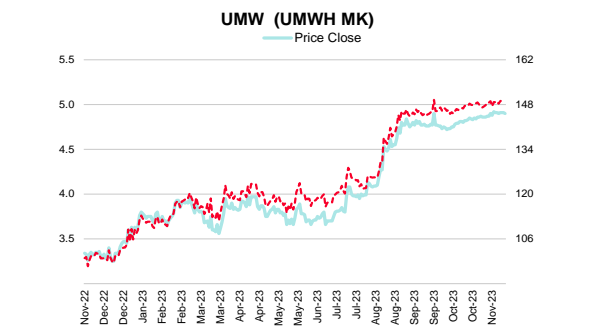
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	41.2	1.2	3.4	33.9	46.7
Relative	44.4	0.8	3.1	30.7	49.3
52-wk Price low/high (MYR)				3.25 – 4.92	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	11,061	15,814	17,469	14,876	14,975
Recurring net profit (MYRm)	226	399	514	416	408
Recurring net profit growth (%)	(20.6)	76.5	28.7	(19.0)	(2.0)
Recurring P/E (x)	25.29	14.33	11.14	13.75	14.03
P/B (x)	1.4	1.3	1.2	1.1	1.0
P/CF (x)	21.90	6.93	17.81	9.96	10.48
Dividend Yield (%)	1.2	2.9	3.1	2.8	2.8
EV/EBITDA (x)	27.32	3.76	3.18	3.56	3.00
Return on average equity (%)	(4.5)	9.9	11.2	8.3	7.5
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	0.44	0.36	0.35
Consumer Cyclical	DPS	0.06	0.14	0.15	0.14	0.14
<b>UMW</b>	BVPS	3.43	3.72	4.12	4.46	4.80
UMWH MK	Return on average equity (%)	(4.5)	9.9	11.2	8.3	7.5
Neutral						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	25.29	14.33	11.14	13.75	14.03
14.4x P/E on FY24F EPS; equivalent to Sime Darby's offer price to acquire UMW	P/B (x)	1.4	1.3	1.2	1.1	1.0
	FCF Yield (%)	(2.5)	5.6	(8.4)	3.1	2.6
	Dividend Yield (%)	1.2	2.9	3.1	2.8	2.8
	EV/EBITDA (x)	27.32	3.76	3.18	3.56	3.00
	EV/EBIT (x)	na	5.88	4.92	5.83	4.84
<b>Key drivers</b>						
i. Introduction of new Perodua and Toyota models;						
ii. Long-term growth potential from aerospace business.						
	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	11,061	15,814	17,469	14,876	14,975
i. Weaker-than-expected orders and deliveries;	Gross profit	1,194	2,806	3,218	2,651	2,704
ii. Softer-than-expected margins;	EBITDA	172	946	1,134	879	906
iii. Stronger-than-expected USDMYR	Depreciation and amortisation	(344)	(341)	(402)	(342)	(344)
	Operating profit	(171)	606	733	537	561
	Net interest	(108)	(114)	(93)	(93)	(93)
	Pre-tax profit	37	896	1,116	836	832
	Taxation	33	(219)	(282)	(161)	(168)
	Reported net profit	(177)	415	514	416	408
	Recurring net profit	226	399	514	416	408
<b>Company Profile</b>						
UMW is the largest company in the Malaysian automotive sector. Its 51%-owned subsidiary UMW-Toyota imports, assembles, and distributes Toyota and Lexus vehicles in Malaysia.						
	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(221)	0	(280)	47	(4)
	Cash flow from operations	261	825	321	575	546
	Capex	(406)	(507)	(800)	(400)	(400)
	Cash flow from investing activities	12	(507)	(416)	(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	2,508	2,795
	Net change in cash	(2)	122	(300)	287	230
	Ending balance cash	2,057	3,064	2,508	2,795	3,025
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	2,941	2,808	2,508	2,795	3,025
	Tangible fixed assets	2,545	2,706	2,965	2,961	2,958
	Total investments	2,524	2,655	2,655	2,655	2,655
	Total assets	12,173	12,417	12,898	12,635	12,878
	Short-term debt	655	225	225	225	225
	Total long-term debt	2,133	1,379	1,379	1,379	1,379
	Total liabilities	5,410	5,277	5,543	5,071	5,109
	Total equity	6,763	7,140	7,355	7,564	7,768
	Total liabilities & equity	12,173	12,417	12,898	12,635	12,878
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	15.8	43.0	10.5	(14.8)	0.7
	Recurrent EPS growth (%)	(20.6)	76.5	28.7	(19.0)	(2.0)
	Gross margin (%)	10.8	17.7	18.4	17.8	18.1
	Operating EBITDA margin (%)	1.6	6.0	6.5	5.9	6.0
	Net profit margin (%)	(1.6)	2.6	2.9	2.8	2.7
	Dividend payout ratio (%)	(38.2)	40.0	34.1	37.9	38.7
	Capex/sales (%)	3.7	3.2	4.6	2.7	2.7
	Interest cover (x)	(1.58)	5.31	7.87	5.77	6.03

Source: Company data, RHB

## Results At a Glance

Figure 1: Results review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
<b>Revenue</b>	<b>4,057</b>	<b>4,485</b>	<b>4,834</b>	<b>8</b>	<b>19</b>	<b>11,439</b>	<b>13,699</b>	<b>20</b>	Higher YoY due to better performances across all segments
EBIT	163	402	202	(50)	23	450	732	63	
Finance costs	(21)	(16)	(16)	(2)	(26)	(86)	(47)	(45)	
Investment income	17	21	25	16	49	46	74	60	
Associates	73	69	116	68	59	267	294	10	Higher YoY due to higher sales volumes by Perodua
<b>Pretax profit</b>	<b>231</b>	<b>476</b>	<b>326</b>	<b>(31)</b>	<b>41</b>	<b>678</b>	<b>1,053</b>	<b>55</b>	PBT increased by 3%, mainly lifted by Toyota's higher PBT, partially attributable to lower derivative mark-to-market losses.
Tax	(72)	(91)	(66)	(27)	(9)	(172)	(204)	18	
MI	(41)	(64)	(70)	8	69	(144)	(186)	29	
<b>Core net profit</b>	<b>96</b>	<b>115</b>	<b>163</b>	<b>42</b>	<b>69</b>	<b>294</b>	<b>401</b>	<b>36</b>	Due to increase in tax expenses and MI, core net profit fell 7%, despite a 3% increase in PBT.
<i>EBIT margin (%)</i>	<i>4.0</i>	<i>9.0</i>	<i>4.2</i>			<i>3.9</i>	<i>5.3</i>		
<i>Pretax margin (%)</i>	<i>5.7</i>	<i>10.6</i>	<i>6.7</i>			<i>5.9</i>	<i>7.7</i>		
<i>Eff tax rate (%)</i>	<i>(31.2)</i>	<i>(19.0)</i>	<i>(20.2)</i>			<i>(25.4)</i>	<i>(19.3)</i>		
<i>Net margin (%)</i>	<i>2.4</i>	<i>2.6</i>	<i>3.4</i>			<i>2.6</i>	<i>2.9</i>		

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Automotive	3,428	3,417	4,023	18	17	9,615	11,067	15	Higher YoY due to higher sales volumes
Equipment	394	456	452	(1)	15	1,133	1,343	19	
Manufacturing & engineering	252	300	364	21	44	706	987	40	Higher YoY mainly due to higher sales of lubricants (+34% YoY)
Others	(17)	312	28	(91)	(266)	(14)	334	>100	Lifted by the MYR305m proceeds from the Serendah land sale in 2Q23.
<b>Revenue</b>	<b>4,057</b>	<b>4,485</b>	<b>4,834</b>	<b>8</b>	<b>19</b>	<b>11,439</b>	<b>13,699</b>	<b>20</b>	
Automotive	184	213	258	21	40	592	687	16	In line with increase in revenue, due to higher sales volumes for both Toyota and Perodua
Equipment	50	49	56	13	11	117	156	33	
Manufacturing & engineering	13	22	26	18	91	37	70	88	Higher YoY likely due to higher contribution from the aerospace segment
Others	(15)	192	(12)	106	19	(69)	140	(303)	
<b>PBT</b>	<b>231</b>	<b>476</b>	<b>326</b>	<b>(31)</b>	<b>41</b>	<b>678</b>	<b>1,053</b>	<b>55</b>	
<b>PBT Margins</b>									
<i>Automotive</i>	<i>5.4</i>	<i>6.2</i>	<i>6.4</i>			<i>6.2</i>	<i>6.2</i>		
<i>Equipment</i>	<i>12.7</i>	<i>10.8</i>	<i>12.3</i>			<i>10.3</i>	<i>11.6</i>		
<i>Manufacturing &amp; engineering</i>	<i>5.3</i>	<i>7.3</i>	<i>7.1</i>			<i>5.3</i>	<i>7.1</i>		Likely due to higher aerospace contribution.

Source: Company data, RHB

**Figure 3: UMW's vehicle sales summary**

FYE Dec (units)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
<b>Toyota</b>	<b>24,961</b>	<b>23,440</b>	<b>27,852</b>	<b>18.8</b>	<b>11.6</b>	<b>70,871</b>	<b>76,511</b>	<b>8.0</b>	Toyota/Lexus' sales volume softened 7% QoQ due to a seasonally shorter quarter.
- Passenger	17,340	16,831	20,336	20.8	17.3	48,990	54,596	11.4	
- Commercial	7,621	6,609	7,516	13.7	(1.4)	21,881	21,915	0.2	
<b>Perodua</b>	<b>69,011</b>	<b>66,126</b>	<b>88,537</b>	<b>33.9</b>	<b>28.3</b>	<b>196,354</b>	<b>233,227</b>	<b>18.8</b>	Higher YoY as utilisation has increased to 94% in 9M23 (9M22: 78%)
- Passenger	69,011	66,126	88,537	33.9	28.3	196,354	233,227	18.8	
- Commercial	0	0	0			0	0		
<b>Total</b>	<b>93,972</b>	<b>89,566</b>	<b>116,389</b>	<b>29.9</b>	<b>23.9</b>	<b>267,225</b>	<b>309,738</b>	<b>15.9</b>	

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

## Emissions And ESG

### Trend analysis

In FY22, Scope 1 emissions increased to 8.1k tonnes of CO2 equivalents (FY21: 5.4k tonnes of CO2 equivalents) while Scope 2 increased to 46.3k tonnes of CO2 equivalents (FY21: 40.1k tonnes of CO2 equivalents)

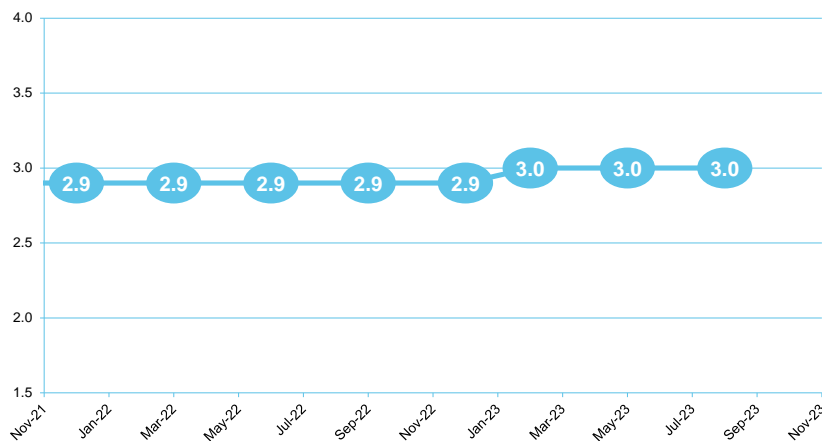
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	6,772	5,398	8,069
Scope 2	38,372	40,127	46,321
Scope 3	na	na	526
Total emissions	45,144	45,525	54,916

Source: Company data, RHB

## Latest ESG-Related Developments

- **Emission target:** UMW intends to reduce its emissions by 5% in comparison with 2019's consumption.
- **Waste management:** UMW adopts the practice of 3Rs through segregation and reducing hazardous waste through oil recovery, reducing paper usage, and digitalising its operations wherever possible.

## ESG Rating History



Source: 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

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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