UMW Holdings Berhad

(4588 | UMWH MK) Consumer Products & Services | Automotive & Parts

***Maintain* BUY**

Yet Another Beat

***Revised* Target Price: RM4.88**

(from RM4.78)

KEY INVESTMENT HIGHLIGHTS

- **Result beats expectations for the third consecutive quarter**
- **UMW Toyota raises FY22 volume target by 9.6% to 80K units**
- **Over 300K combined outstanding bookings for UMW Toyota and Perodua**
- **Aerospace division eyeing a doubling in volumes in 2HFY22**
- **Net cash has grown to 79sen/share i.e., a quarter of market cap – we see room for higher dividends**
- **Reaffirm BUY at higher TP of RM4.88**

Yet another beat. UMW beat expectations for the third consecutive quarter. The group reported a net profit of RM107m for its 2QFY22 which brought 1HFY22 earnings to RM208m accounting for 62% and 61% of our and consensus estimates respectively.

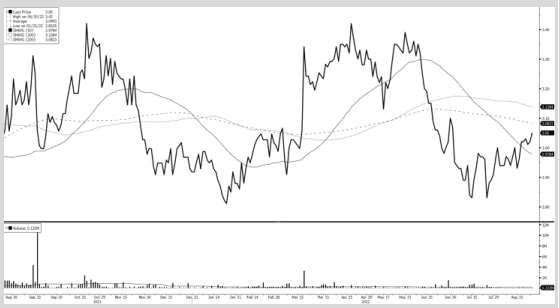
Key takeaways. UMW's 2QFY22 earnings is a significant improvement vs. the net loss of -RM21m in 2QFY21, which was impacted by the MCO from June-August 2021. Even on sequential basis, earnings were up +6%qoq, mostly driven by the equipment (+16%qoq) and M&E divisions (+38%qoq). For the 1HFY22, group earnings were up +174%yoy driven mainly by a +100%yoy growth for autos, +18%yoy for equipment and a turnaround to profits for the M&E division (to RM9m) from a net loss of RM7m in 1HFY21. The equipment division was driven by improving sales on the back of economic reopening, while margins benefitted from cost saving initiatives. M&E meanwhile, benefitted from improved demand for lubricants in the auto industry.

Higher sales target. UMW Toyota (UMWT) revised up its FY22F sales target to 80K (from 73K previously). As of 1HFY22, Toyota TIV has hit 45,449 units (+35%yoy), making up 62% of the earlier target and 57% of the revised target – the latter suggests there is still room for further upside to UMWT's target, particularly given higher production plan of 8K/month for 2HFY22 which implies >90K Toyota TIV. Current outstanding bookings for Toyota stand at >60K units, enough to last the group till early next year, on our estimates. Perodua has outstanding orders of up to 12-13 months.

No drying out. While new bookings in July (for UMWT) are on average 20% lower compared to the SST-exemption driven 1HFY22, it is a far cry from a complete drying out of the market. Essentially, new bookings placed from July onwards builds up the group's delivery bank from March 2023 onwards, further extending revenue visibility. We'd also bear in mind that while the SST-exemption brought forward new bookings, these bookings are not delivered (hence not recognized) in a single month, but rather are phased out over the next 4-7 months which will therefore sustain the current monthly TIV momentum.

RETURN STATISTICS	
Price @ 26th August 2022 (RM)	3.06
Expected share price return (%)	+59.3
Expected dividend yield (%)	+3.9
Expected total return (%)	**+63.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.7	1.0
3 months	-1.9	-6.7
12 months	-2.3	2.7

KEY STATISTICS	
FBM KLCI	1,500.29
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	29.50
Market Capitalisation (RM'm)	3,551.61
52-wk price range	RM2.77 - RM3.48
Beta vs FBM KLCI (x)	1.12
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.19
3-mth average daily value (RM'm)	0.56
Top Shareholders (%)	
Amanah Saham Nasional Bhd	52.72
Employees Provident Fund Board	12.42
Kumpulan Wang Persaraan Diperbadan	8.87

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INVESTMENT STATISTICS

FYE Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	11,739.1	9,554.6	11,060.8	12,076.4	12,183.1
EBIT (RM'm)	332.6	257.7	274.2	551.8	492.0
Pre-tax Profit (RM'm)	754.8	400.7	482.8	736.2	732.3
Core net profit (RM'm)	266.3	240.9	196.8	351.9	373.2
FD EPS (sen)	22.8	20.6	16.8	30.1	31.9
EPS growth (%)	(22.1)	(9.5)	(18.3)	78.8	6.0
PER (x)	13.4	14.8	18.2	10.2	9.6
Net Dividend (sen)	6.0	4.0	5.8	12.0	12.8
Net Dividend Yield (%)	2.0	1.3	1.9	3.9	4.2

Source: Company, MIDFR

Aerospace to double volumes in 2HFY22. Aerospace division has seen improvements on the back of recovery in air travel leading to resumption in aircraft orders. For 2HFY22, fan case supply volumes are expected to double that of 1HFY22 and is eyeing another 30%-40% increase in volumes in FY23. Resumption of Boeing 787 Dreamliner deliveries (fuselage safety issues faced by the model since early last year is now resolved) bodes well for UMW's fan case demand. Around 30% of B787's engines are Rolls Royce, which UMW supplies to. Malaysia Airlines' recent decision to acquire 20 A330 NEO for its widebody fleet renewal is also another catalyst as the A330 NEO utilizes 100% RR's T7000 engines which UMW supplies to.

Hybrids first, then EVs. UMW shared a brief update on its electrification plan. Perodua will first focus on hybrids with production of hybrid models expected to commence from FY24 onwards. Perodua is bringing in a hybrid variant of the Ativa this year, but for now, it is only available for subscription (lease). Still very high cost for EV batteries poses a challenge for Perodua to introduce BEV models given its focus on the affordable segment (which is also the main segment for Malaysian autos). This echoes our view in our last EV thematic *(see auto sector report dated 11th November 2021)*, which underlines the need to introduce BEVs within the mass market price points (of <RM90K) for a meaningful take-off and to translate this into local assembly & supply chain development. UMWT operates in the higher segments and as such will be introducing its BEV model in FY24, but so far there is no indication of local production yet. UMWT hopes for the CBU EV duty exemption to be extended beyond the current end-CY23 deadline.

Earnings revision. Given the 1HFY22 earnings outperformance, we raise our FY22F/23F net profit by 6%/4%. This is to reflect higher forecast for Toyota TIV of 84K/85K units (from 82.7K/83.7K units previously). Our forex assumption is maintained at USD:RM4.30.

Recommendation. We re-affirm our **BUY** call and raise our SOP-derived **TP to RM4.88** (from RM4.78) to reflect our revised earnings forecasts and as we rollover our valuation base to FY23F. UMW's net cash position has grown to RM925m (RM0.79/share, 26% of market cap) as of 2QFY22 and we see room for higher dividend payout. Valuations are undemanding at just 10x FY22F PER, at 44% discount to historical mean. UMW is a prime beneficiary of a cyclical recovery in autos given its dominant market share of 52% (via UMWT and Perodua). The equipment division meanwhile, is well positioned to benefit from recovering business momentum, higher construction activities and rising commodity demand while aerospace is an indirect reopening play on the back of swift recovery in air travel. Key risk to our call is a significant weakening of the Ringgit, further lockdowns and a worse than expected global chip shortage situation.

Exhibit 1: UMW Sum-of-Parts Valuation

Segments	FY23F adjusted net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	416	PER	11	4,581	
Equipment	62	PER	11	678	
Serendah land		RNAV		353	RNAV of Serendah land (500acres@RM16psf) (net of debt)
Aerospace		DCF		85	Equity value of 25-year Rolls Royce contract (WACC: 8.7%)
Total value				**5,697**	
No of shares (m)				1,168	
Fair value (RM)				**4.88**	

Source: Company, MIDFR

UMW HOLDINGS: 2QFY22 RESULT SUMMARY

FYE Dec (RMm)	2Q21	1Q22	2Q22	YoY	QoQ	1H21	1H22	YTD
Revenue	**2,445.1**	**3,650.8**	**3,730.8**	52.6%	2.2%	**5,399.3**	**7,381.6**	36.7%
EBITDA	106.4	227.5	224.4	111.0%	-1.4%	278.0	451.9	62.5%
Operating Profit	**20.7**	**145.8**	**140.8**	581.6%	-3.4%	**110.5**	**286.6**	159.4%
Finance Cost	(25.7)	(39.0)	(25.4)	-1.2%	-34.9%	(53.1)	(64.4)	21.3%
Associates	25.2	96.5	97.8	287.5%	1.3%	112.7	194.3	72.4%
Investment Income / Other gains	12.4	13.0	16.8	35.7%	29.8%	25.2	29.8	18.3%
Pretax Profit	**32.6**	**216.3**	**230.0**	605.9%	6.4%	**195.3**	**446.3**	128.6%
Taxation	(11.1)	(43.5)	(56.5)			(50.4)	(100.0)	
Minorities / PERP	42.6	71.6	66.3			68.7	137.9	
Net Profit	**2,445.1**	**3,650.8**	**3,730.8**	52.6%	2.2%	**5,399.3**	**7,381.6**	36.7%
Core net profit	**(21.1)**	**101.2**	**107.2**	-608%	5.9%	**76.2**	**208.4**	173.6%
Core EPS (FD, sen)	-1.8	8.7	9.2			6.5	17.8	
DPS (sen)	0.0	0.0	0.0			0.0	0.0	
Margins (%):				***ppts***	***ppts***			***ppts***
Operating	0.8%	4.0%	3.8%	*2.93*	*-0.22*	2.0%	3.9%	*1.84*
Pretax Profit	1.3%	5.9%	6.2%	*4.83*	*0.24*	3.6%	6.0%	*2.43*
Core Net Profit	-0.9%	2.8%	2.9%	*3.74*	*0.10*	1.4%	2.8%	*1.41*
Tax Rate	34.0%	20.1%	24.6%	*-9.39*	*4.46*	25.8%	22.4%	*-3.41*
EBITDA	4.3%	6.2%	6.0%	*1.66*	*-0.22*	5.1%	6.1%	*0.97*
Segmental Breakdown (RMm)	**2Q21**	**1Q22**	**2Q22**	**YoY**	**QoQ**	**1H21**	**1H22**	**YTD**
Automotive	1,981.9	3,070.2	3,117.4	57.3%	1.5%	4,377.9	6,187.5	41.3%
Equipment	299.9	371.8	366.6	22.2%	-1.4%	632.4	738.4	16.8%
Manuf & Eng	159.9	227.1	226.4	41.6%	-0.3%	390.2	453.5	16.2%
Others	3.4	(18.3)	20.4	510.1%	-211.8%	(1.1)	2.2	-294.3%
Revenue	**2,445.1**	**3,650.8**	**3,730.8**	**52.6%**	**2.2%**	**5,399.3**	**7,381.6**	**36.7%**
Automotive	34.6	205.8	202.9	485.8%	-1.4%	180.2	408.7	126.9%
Equipment	31.8	31.8	35.4	11.4%	11.6%	53.8	67.2	25.0%
Manuf & Eng	(6.1)	10.6	13.1	-315.4%	22.8%	2.3	23.7	922.3%
Others	(27.8)	(31.9)	(21.3)	-23.3%	-33.2%	(40.9)	(53.3)	30.1%
Pretax profit	**32.6**	**216.3**	**230.0**	**605.9%**	**6.4%**	**195.3**	**446.3**	**128.6%**
Pretax margins				***ppts***	***ppts***			***ppts***
Automotive	1.7%	6.7%	6.5%	*4.76*	*-0.20*	4.1%	6.6%	*2.49*
Equipment	10.6%	8.5%	9.7%	*-0.94*	*1.12*	8.5%	9.1%	*0.60*
Manuf & Eng	-3.8%	4.7%	5.8%	*9.55*	*1.08*	0.6%	5.2%	*4.63*
Others	NA	NA	NA			NA	NA	
Perodua TIV (units)	39,381	61,624	65,719	66.9%	6.6%	97,290	127,343	30.9%
Toyota TIV (units)	16,715	22,270	23,179	38.7%	4.1%	33,705	45,449	34.8%
Net profit	**154.6**	**101.2**	**107.2**			**76.2**	**208.4**	
Automotive	139.4	125.9	118.1	-15.2%	-6.2%	122.0	244.0	100.0%
Equipment	17.8	21.3	24.7	39.0%	16.4%	38.8	46.0	18.4%
Manuf & Eng	(14.8)	3.7	5.1	-134.3%	37.9%	(7.0)	8.8	-225.6%
PERP payment	0.0	(17.5)	(17.4)	#DIV/0!	-0.6%	(34.8)	(34.8)	0.0%
Others	12.2	(32.2)	(23.4)	-291.6%	-27.2%	(42.9)	(55.6)	29.5%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology