UMW Holdings Berhad

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

***Maintain* BUY**

Strong backlog orders moving into FY23

***Revised* Target Price: RM5.00**

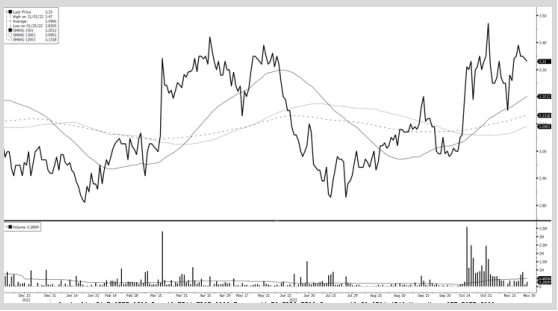
(from RM4.88)

KEY INVESTMENT HIGHLIGHTS

- **9M22 result beats expectations for 4th consecutive quarter**
- **Pretax earnings sustained sequentially despite stronger USD**
- **Positive surprise from maiden interim dividend**
- **Order backlog still elevated 5 months after tax holiday expiry**
- **Net cash has grown to 97sen/share i.e., almost a third of market cap**
- **Reaffirm BUY at higher TP of RM5.00**

RETURN STATISTICS	
Price @ 29th Nov. 2022 (RM)	3.33
Expected share price return (%)	+50.2
Expected dividend yield (%)	+4.0
Expected total return (%)	**+54.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.6	-1.7
3 months	11.4	10.7
12 months	8.1	10.8

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	29.66
Market Capitalisation (RM'm)	3,890.42
52-wk price range	RM2.77 - RM3.48
Beta vs FBM KLCI (x)	0.86
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.48
3-mth average daily value (RM'm)	1.57
Top Shareholders (%)	
Amanah Saham Nasional Bhd	53.45
Employees Provident Fund Board	11.61
Kumpulan Wang Persaraan	8.80

Yet another beat. UMW beat expectations for the fourth consecutive quarter. The group reported a net profit of RM101m for its 3QFY22 which brought 9MFY22 earnings to RM309m accounting for 88% and 82% of our and consensus' full year estimates respectively. The outperformance against our forecast came mainly from stronger than expected earnings at the auto and equipment divisions.

Surprise dividend. An interim dividend of 3sen/share was declared (11% payout). This is the 1st time in years, that UMW has declared an interim dividend - only final dividends are proposed usually. Management at its briefing yesterday committed to increasing dividends going forward (one interim and one final) on the back of its strong net cash position of RM1.13b (RM97sen/share).

Key takeaways. On a year-on-year basis, the group registered significantly stronger performance against losses in 3Q21 which was impacted by the Movement Control Order. Sequentially, pretax earnings registered marginal +0.6%qoq growth but net profit was -6%qoq due to higher effective tax rate. Lower pretax earnings from autos (-9.5%qoq to RM184m; impacted by the stronger USD and absence of ITA recognition for Perodua) was offset by stronger performance at the equipment division, which saw PBT expand +41%qoq to RM50m driven by higher contribution from industrial equipment. We highlight however, that despite the sequential easing of associate and auto earnings contribution, the 9M22 performance of these units still outperformed our earlier expectation.

Solid order backlog. Five months after expiry of the tax holiday in June 2022, UMW Toyota (UMWT) is still sitting on a sizeable order backlog of >60K units, which is largely similar to that from the last update in August. While outstanding SST-exempted orders have been progressively delivered, order backlog is still holding up due to sustained new booking replenishment – around half of the latest 60K backlog now comprise of post-tax holiday bookings. This 60K backlog is equivalent to 7-8 month of Toyota monthly TIV and should last the group well into FY23. Similar to the trends at UMWT, Perodua is also still sitting on a large order backlog of >200K units (similar to levels 3 months ago as Perodua's new booking momentum has largely been unchanged), which represents an estimated 9 months' worth of Perodua TIV.

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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	12,629.4	12,242.4
EBIT (RM'm)	332.6	257.7	274.2	649.0	522.7
Pre-tax Profit (RM'm)	754.8	400.7	482.8	852.1	772.5
Core net profit (RM'm)	266.3	240.9	196.8	393.5	397.4
FD EPS (sen)	22.8	20.6	16.8	33.7	34.0
EPS growth (%)	(22.1)	(9.5)	(18.3)	99.9	1.0
PER (x)	14.6	16.1	19.8	9.9	9.8
Net Dividend (sen)	6.0	4.0	5.8	13.5	13.6
Net Dividend Yield (%)	1.8	1.2	1.7	4.0	4.1

Source: Company, MIDFR

Supported by the huge order backlog, UMWT's preliminary target for FY23 is to more or less maintain its 2022 sales volume. Around five launches have been lined up for UMWT which includes full model changes and improvements. We note that the new Vios is already launched in Thailand in August and Indonesia in October. The eventual launch of this replacement model in the domestic market could be a strong catalyst, in our view - the Vios is one of UMWT's major volume models, which together with the Hilux and Corolla Cross, account for 69% of UMWT's sales volume.

Earnings revision. We revise up FY22F/23F net profit by +11.8%/+6.5% to reflect higher UMWT and Perodua sales volume as well as stronger than expected sales and margins for the equipment division. Our FY23F conservatively assumes a -5%yoy contraction in UMWT's sales volume off a high base in FY22F. There is upside risk if UMWT is indeed able to maintain the FY22 sales volume next year – for context, UMWT's current 60K order backlog makes up around 70% of our FY23F UMWT TIV. Our FY22F also factors in a downward revision in forex assumption to USD:RM4.40 (from USD:RM4.30 previously), while our FY23F forex assumption is maintained at USD:RM4.30. We expect a stronger RM trend next year to partly compensate for the lower sales volume expectation at UMWT, which will be coupled with stronger aerospace earnings from recovering fan case volumes.

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.

Recommendation. We re-affirm our **BUY** call and raise our SOP-derived **TP** to **RM5.00** (from RM4.88) to reflect our revised earnings forecasts. UMW's net cash position has grown to RM1.13b (RM0.97/share or 29% of market cap) as of 3QFY22 which underpins a higher dividend payout and potential acquisitive growth. Valuations are undemanding at just 9.8x FY23F PER, at 45% discount to historical mean. UMW is a prime beneficiary of a recovery in auto demand given its dominant market share of 52% (via UMWT and Perodua). The equipment division, meanwhile, is a proxy to recovering business momentum, rising infrastructure projects and commodity demand, while aerospace is an indirect reopening play on the back of a 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	436	PER	11	4,796	
Equipment	56	PER	11	614	
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				**5,848**	
No of shares (m)				1,168	
Fair value (RM)				**5.00**	

Source: Company, MIDFR

UMW HOLDINGS: 3QFY22 RESULT SUMMARY

FYE Dec (RMm)	3Q21	2Q22	3Q22	YoY	QoQ	9M21	9M22	YTD
Revenue	**2,016.4**	**3,730.8**	**4,057.5**	**101.2%**	**8.8%**	**7,415.7**	**11,439.1**	**54.3%**
EBITDA	122.1	224.4	252.5	106.8%	12.5%	400.1	704.4	76.0%
Operating Profit	**38.3**	**140.8**	**163.5**	**326.9%**	**16.1%**	**148.8**	**450.1**	**202.5%**
Finance Cost	(25.4)	(25.4)	(21.4)	-15.8%	-16.0%	(78.5)	(85.8)	9.3%
Associates	(5.7)	97.8	72.8	1383.4%	-25.6%	107.1	267.1	149.5%
Investment Income / Other gains	9.2	16.8	16.6	80.0%	-1.6%	34.4	46.4	34.8%
Pretax Profit	**16.5**	**230.0**	**231.5**	**1305.5%**	**0.6%**	**211.8**	**677.8**	**220.1%**
Taxation	(26.0)	(56.5)	(72.1)			(76.4)	(172.1)	
Minorities / PERP	38.3	66.3	58.7			107.1	196.6	
Net Profit	(47.9)	107.2	100.7	310.2%	-6.1%	28.3	309.1	993.6%
Core net profit	**(47.9)**	**107.2**	**100.7**	**310.4%**	**-6.1%**	**28.3**	**309.1**	**993.6%**
Core EPS (FD, sen)	-4.1	9.2	8.6	310.4%	-6.1%	2.4	26.5	993.6%
DPS (sen)	0.0	0.0	3.0	NA	NA	0.0	3.0	NA
Margins (%):				***ppts***	***ppts***			***ppts***
Operating	1.9%	3.8%	4.0%	*2.13*	*0.25*	2.0%	3.9%	*1.93*
Pretax Profit	0.8%	6.2%	5.7%	*4.89*	*-0.46*	2.9%	5.9%	*3.07*
Core Net Profit	-2.4%	2.9%	2.5%	*4.86*	*-0.39*	0.4%	2.7%	*2.32*
Tax Rate	158.0%	24.6%	31.2%	*-126.88*	*6.59*	36.1%	25.4%	*-10.70*
EBITDA	6.1%	6.0%	6.2%	*0.17*	*0.21*	5.4%	6.2%	*0.76*
Segmental Breakdown (RMm)	**3Q21**	**2Q22**	**3Q22**	**YoY**	**QoQ**	**9M21**	**9M22**	**YTD**
Automotive	1,590.8	3,117.4	3,427.6	115.5%	10.0%	5,968.7	9,615.1	61.1%
Equipment	316.0	366.6	394.4	24.8%	7.6%	948.3	1,132.7	19.4%
Manuf & Eng	110.3	226.4	252.2	128.7%	11.4%	500.5	705.7	41.0%
Others	(0.7)	20.4	(16.6)	2449.4%	-181.3%	(1.8)	(14.5)	718.6%
Revenue	**2,016.4**	**3,730.8**	**4,057.5**	**101.2%**	**8.8%**	**7,415.7**	**11,439.1**	**54.3%**
Automotive	27.4	202.9	183.6	569.7%	-9.5%	207.6	592.3	185.3%
Equipment	24.3	35.4	50.0	105.5%	41.0%	78.1	117.2	50.1%
Manuf & Eng	8.2	13.1	13.4	64.2%	2.8%	10.5	37.1	253.8%
Others	(43.4)	(21.3)	(15.5)	-64.4%	-27.5%	(84.4)	(68.7)	-18.5%
Pretax profit	**16.5**	**230.0**	**231.5**	**1305.5%**	**0.6%**	**211.8**	**677.8**	**220.1%**
Pretax margins				***ppts***	***ppts***			***ppts***
Automotive	1.7%	6.5%	5.4%	*3.63*	*-1.15*	3.5%	6.2%	*2.68*
Equipment	7.7%	9.7%	12.7%	*4.98*	*3.01*	8.2%	10.3%	*2.11*
Manuf & Eng	7.4%	5.8%	5.3%	*-2.09*	*-0.44*	2.1%	5.3%	*3.16*
Others	NA	NA	NA			NA	NA	
Perodua TIV (units)	21,803	65,719	69,020	216.6%	5.0%	119,093	196,363	64.9%
Toyota TIV (units)	11,856	23,179	24,683	108.2%	6.5%	45,561	70,132	53.9%
Net profit	**(47.9)**	**107.2**	**100.7**	**310.2%**	**-6.1%**	**28.3**	**309.1**	**993.6%**
Automotive	7.4	118.1	97.3	1213.7%	-17.6%	129.4	341.4	163.7%
Equipment	16.9	24.7	34.7	105.3%	40.4%	55.7	80.7	44.8%
Manuf & Eng	(1.9)	5.1	4.3	321.3%	-15.6%	(8.9)	13.0	246.4%
PERP payment	(17.4)	(17.4)	(17.4)	0.0%	0.3%	(52.2)	(52.2)	0.0%
Others	(52.9)	(23.4)	(18.2)	-65.6%	-22.2%	(95.8)	(73.8)	-23.0%

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