UMW Holdings Berhad

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

***Maintain* BUY**

Cautiously optimistic

***Revised* Target Price: RM5.28**

(from RM5.00)

KEY INVESTMENT HIGHLIGHTS

- **FY22 result within ours but slightly behind consensus**
- **Dividends raised on improved earnings and balance sheet**
- **Cost pressure in 4QFY22 but relief in sight**
- **Strong orderbank for autos and aerospace recovery to drive FY23F growth**
- **FY23 earnings revised up by +12.6%**
- **Reaffirm BUY at higher TP of RM5.28**

Within ours but slightly behind consensus. UMW's FY22 result was within our estimate but fell slightly short of consensus. The group reported net profit of RM106m for its 4QFY22 (-28%yoy), which brought FY22 earnings to RM415m (+111%yoy), accounting for 105%/94% of our/consensus estimates respectively.

Dividend hike. UMW announced a significant increase in dividends with a final dividend of 11.2sen (ex-date 17th April 2023) declared, which brought total FY22 dividend to 14.2sen (FY21: 5.8sen). This is ahead of our earlier FY22F dividend of 13.5sen. The FY22 dividend imply a 40% payout (FY21: 25% payout) and 3.6% yield.

Margin pressure seen. 4QFY22 group PBT registered a -19%qoq contraction with the drag coming mainly from the equipment division (-29%qoq). However, this mainly reflects margin normalization as 3QFY22 was boosted by exceptionally strong margins from a favourable product mix. Autos held up well registering flattish PBT (-0.5%qoq) despite some margin pressure during the quarter due to a strong USD (reflects peak 3QFY22 USD:RM rate due to 3-month forward currency position) and higher raw material cost for Perodua. Positively: (1) UMW Toyota (UMWT) had since hedged its USD exposure up till March 2023, taking advantage of the USD weakness in the Dec22'-Jan23' period – this should relieve the pressure from forex, (2) Raw material price such as steel and aluminum has generally eased off their peak, (3) Higher FY23 volume target for Perodua (+11%yoy) could partly counter the impact of raw material and labor cost seen in FY22 – for context, Perodua registered lower margins in FY22 (vs. FY21) due to increased cost pressure but still managed to register a +25%yoy earnings growth due to higher volumes.

M&E earnings now exceeds pre-pandemic levels. Positively, the manufacturing & engineering (M&E) division reported a more than doubling in PBT (+118%qoq) primarily driven by higher contribution from the aerospace sub-segment following an increase in delivery of fan cases (+37%yoy) on the back of swift recovery in new aircraft orders and production resumption for backlog orders.

RETURN STATISTICS	
Price @ 27th Feb. 2023 (RM)	3.95
Expected share price return (%)	+33.7
Expected dividend yield (%)	+3.9
Expected total return (%)	**+37.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.2	6.3
3 months	12.4	19.4
12 months	25.8	37.8

KEY STATISTICS	
FBM KLCI	1,455.50
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	29.02
Market Capitalisation (RM'm)	4,556.35
52-wk price range	RM2.77 - RM4.04
Beta vs FBM KLCI (x)	0.83
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.84
3-mth average daily value (RM'm)	3.04
Top Shareholders (%)	
Amanah Saham Nasional Bhd	55.16
Employees Provident Fund Board	10.22
Kumpulan Wang Persaraan Diperbadan	9.12

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INVESTMENT STATISTICS

FYE Dec	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM'm)	9,554.6	11,060.8	15,814.4	15,316.3	15,523.2
Operating profit (RM'm)	257.7	274.2	605.5	591.8	583.3
Pre-tax Profit (RM'm)	400.7	482.8	896.5	858.6	848.3
Core net profit (RM'm)	240.9	196.8	415.0	447.5	443.8
FD EPS (sen)	20.6	16.8	35.5	38.3	38.0
EPS growth (%)	(9.5)	(18.3)	110.9	7.8	(0.8)
PER (x)	19.2	23.4	11.1	10.3	10.4
Net Dividend (sen)	4.0	5.8	14.2	15.3	15.2
Net Dividend Yield (%)	1.0	1.5	3.6	3.9	3.8

Source: Company, MIDFR

2023 Outlook. Perodua is targeting FY23F sales volume growth of +11%yoy, while UMWT conservatively expects FY23F sales volume to drop -8%yoy to 93K units off a high base in FY22. However, management is cognizant of the strong order bank and sees room to stretch sales, possibly to cross the 100K mark again this year (FY22: 101K units). Perodua is sitting on 220K of outstanding orders, making up 70% of its FY23F sales target while UMWT is sitting on >50K bookings, ~54% of FY23F sales target. The bulk of these outstanding bookings comprise post-tax holiday bookings. Sales is expected to be further supported by launch of the new Vios in March (UMWT's largest volume driver) and Perodua's new Axia in February (3rd largest volume driver for Perodua making up ~20% of sales). Meanwhile, the aerospace division is expected to see improved plant utilization to 70%-80% from ~50% in FY22 from significantly improved fan case demand.

Earnings revision. While FY22 result were in-line, we raise our FY23F net profit by +12.6% to reflect: (1) Higher Perodua TIV of 296K (+5%yoy), which is closer to Perodua's FY23F volume target and in-line with the recent upward revision for MBMR, (2) Higher UMWT sales volume target of 96K (-4.6%yoy) reflecting the still strong order bank, (3) Higher revenue and margin for the M&E division given improving outlook for the aerospace division.

Recommendation. We maintain our **BUY** call at higher **TP of RM5.28** (from RM5.00) following the upward earnings revision. We like UMW as it is a prime beneficiary of a strong recovery in auto demand given its dominant market share of ~52% (via 51%-owned UMW Toyota and 38%-owned Perodua). The equipment division, meanwhile, is a proxy to recovering business momentum, rising infrastructure projects and commodity demand, whereas aerospace is an indirect reopening play on the back of a recovery in global air travel. While aerospace currently makes up a small portion of our sum-of-parts, we see this as a strategic exposure with room for both horizontal and vertical growth from the expansion of its aero manufacturing capabilities and the strong platform it has as a Tier-1 supplier to Rolls Royce. Meanwhile, UMW's net cash position has grown to RM1.26b (RM1.08/share or 27% of market cap) which underpins a higher dividend payout and M&A potential. Valuations are undemanding at just 10.3x FY23F PER, at 43% discount to historical mean. 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	475	PER	11	5,225	
Equipment	47	PER	11	512	
Serendah land		RNAV		353	RNAV of Serendah land (500acres@RM16psf) (net of debt)
Aerospace		DCF		78	Equity value of 25-year Rolls Royce contract (WACC: 8.7%)
Total value				**6,168**	
No of shares (m)				1,168	
Fair value (RM)				**5.28**	

Source: Company, MIDFR

UMW: FY22 RESULT SUMMARY

FYE Dec (RMm)	4Q21	3Q22	4Q22	YoY	QoQ	FY21	FY22	YTD
Revenue	**3,645.1**	**4,057.5**	**4,375.4**	**20.0%**	**7.8%**	**11,060.8**	**15,814.4**	**43.0%**
EBITDA	217.7	252.5	241.7	11.0%	-4.3%	617.8	946.1	53.1%
Operating Profit	**125.5**	**163.5**	**155.4**	**23.9%**	**-4.9%**	**274.2**	**605.5**	**121%**
Finance Cost	(29.7)	(21.4)	(28.3)	-4.6%	32.7%	(108.2)	(114.1)	5.5%
Associates	160.9	72.8	67.8	-57.9%	-6.9%	268.0	334.9	25.0%
Investment Income/Other gains	14.3	16.6	23.8	66.3%	43.8%	48.7	70.2	44.1%
Pretax Profit	**271.0**	**231.5**	**218.6**	**-19.3%**	**-5.6%**	**482.8**	**896.5**	**85.7%**
Taxation	109.3	(72.1)	(46.5)			32.9	(218.6)	
Minorities / PERP	140.4	58.7	66.2			247.4	262.8	
Net Profit	240.0	100.7	106.0	-55.8%	5.2%	268.2	415.0	54.7%
Core net profit	**146.1**	**100.7**	**106.0**	**-27.5%**	**5.2%**	**196.8**	**415.0**	**110.9%**
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Core EPS (FD, sen)	12.5	8.6	9.1	-27.5%	5.2%	16.8	35.5	110.9%
DPS (sen)	5.8	3.0	11.2			5.8	14.2	
Margins (%):				***ppts***	***ppts***			***ppts***
Operating	3.4%	4.0%	3.6%	*0.11*	*-0.48*	2.5%	3.8%	*1.35*
Pretax Profit	7.4%	5.7%	5.0%	*-2.44*	*-0.71*	4.4%	5.7%	*1.30*
Core Net Profit	4.0%	2.5%	2.4%	*-1.59*	*-0.06*	1.8%	2.6%	*0.84*
Tax Rate	-40.3%	31.2%	21.3%	*61.60*	*-9.90*	-6.8%	24.4%	*31.20*
EBITDA	6.0%	6.2%	5.5%	*-0.45*	*-0.70*	5.6%	6.0%	*0.40*
Segmental Breakdown (RMm)	**4Q21**	**3Q22**	**4Q22**	**YoY**	**QoQ**	**FY21**	**FY22**	**YTD**
Automotive	3,061.6	3,427.6	3,694.9	20.7%	7.8%	9,030.3	13,310.0	47.4%
Equipment	365.1	394.4	395.3	8.3%	0.2%	1,313.4	1,528.0	16.3%
Manuf & Eng	225.9	252.2	278.5	23.3%	10.4%	726.3	984.2	35.5%
Others	(7.5)	(16.6)	6.7	-189.4%	-140.5%	(9.3)	(7.7)	-16.8%
Revenue	**3,645.1**	**4,057.5**	**4,375.4**	**20.0%**	**7.8%**	**11,060.8**	**15,814.4**	**43.0%**
Automotive	269.2	183.6	182.6	-32.1%	-0.5%	476.7	774.9	62.5%
Equipment	28.9	50.0	35.7	23.2%	-28.7%	107.0	152.8	42.8%
Manuf & Eng	11.7	13.4	29.2	150.2%	117.7%	22.2	66.3	199.2%
Others	(38.8)	(15.5)	(28.9)	-25.5%	86.7%	(123.2)	(97.6)	-20.8%
Pretax profit	**271.0**	**231.5**	**218.6**	**-19.3%**	**-5.6%**	**482.8**	**896.5**	**85.7%**
Pretax margins				***ppts***	***ppts***			***ppts***
Automotive	8.8%	5.4%	4.9%	*-3.85*	*-0.41*	5.3%	5.8%	*0.54*
Equipment	7.9%	12.7%	9.0%	*1.09*	*-3.65*	8.1%	10.0%	*1.86*
Manuf & Eng	5.2%	5.3%	10.5%	*5.32*	*5.17*	3.1%	6.7%	*3.69*
Others	NA	NA	NA			NA	NA	
Perodua TIV (units)	71,198	69,020	85,666	20.3%	24.1%	190291	282,029	48.2%
Toyota TIV (units)	26,024	24,683	29,909	14.9%	21.2%	71,585	100,041	39.8%
Net profit	**240.0**	**100.7**	**106.0**	**-55.8%**	**5.2%**	**268.2**	**415.0**	**54.7%**
Automotive	266.5	97.3	112.0	-58.0%	15.1%	395.9	453.3	14.5%
Equipment	21.5	34.7	25.0	16.1%	-28.0%	77.3	105.7	36.8%
Manuf & Eng	0.3	4.3	19.3	5853.4%	350.5%	(8.6)	32.3	-476.6%
PERP payment	(17.6)	(17.4)	(17.6)	0.0%	1.1%	(69.9)	(69.9)	0.0%
Others	(30.7)	(18.2)	(32.7)	6.4%	79.6%	(126.5)	(106.5)	-15.8%

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