

UMW Holdings Berhad

(4588 | UMWK MK) Main | Consumer Products & Services

Ahead of Estimates

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 results ahead of estimates**
- **Group 2QFY23 earnings up +18%yoy driven mainly by equipment and aerospace divisions**
- **FY23F/24F earnings raised +5.6%/+1.9%**
- **Fair value raised to RM4.84, recommend investors to accept buyout offer from Sime Darby at RM5.00**

Ahead of estimates. UMW's 1HFY23 result was ahead of expectations thanks to stronger than expected equipment demand and margins. The group reported 2QFY23 core net profit of RM127m (+18%yoy), which brought 1HFY23 core earnings to RM261m (+25%yoy) (normalised for one-off RM177m gain on land sale), accounting for 61%/63% of our/consensus estimates respectively.

Key takeaways. Group 2QFY23 core earnings were up +18%yoy driven mainly by the equipment (+38%yoy) and M&E divisions (+67%yoy). The former was driven by strong demand in both domestic and overseas markets, especially in the heavy equipment segment, while PBT margins remained resilient holding up at close to 11%. The M&E division was driven by the aerospace sub-segment given higher delivery of fan cases on the back of recovering aircraft orders at both Airbus and Boeing. The auto division meanwhile, saw fairly resilient earnings (+5%yoy) notwithstanding weaker associate earnings (-30%yoy) due to plant shutdowns during festivities and a weaker underlying Ringgit during the quarter, thanks to hedging gains.

Earnings estimates. We raise FY23F/24F net profit by +5.6%/+1.9% to factor in better than stronger equipment revenue and margins given the result outperformance.

Recommendation. Our SOP-derived **fair value** is raised to **RM4.84** (from RM4.60 previously). We stick to our recommendation for investors to **accept Sime Darby's buyout offer at RM5.00**. The offer values UMW at 13.1x FY24F PER, at a premium to UMW's 5-year historical mean of 12.9x and at 1.3x FY23F book value, which we believe is fair. Broadly, we believe UMW has had a good run since the trough of the auto demand cycle back in CY20. CY23 is expected to see TIV hit another record high of 725K (MAA's forecast) for the second year running mainly driven by Perodua. We see this buyout offer as good opportunity for UMW's minorities to exit at peak auto demand cycle.

ACCEPT OFFER

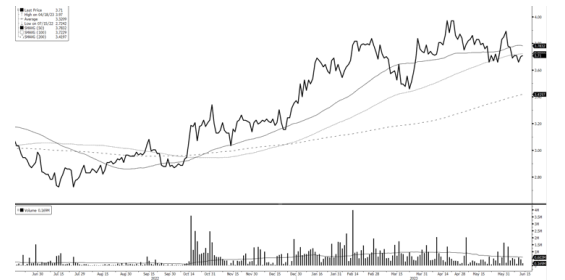
Offer Price: RM5.00

(Revised Fair Value: RM4.84)

RETURN STATISTICS

Price @ 29 th August 2023 (RM)	4.80
Expected share price return (%)	+4.17
Expected dividend yield (%)	3.23
Expected total return (%)	+7.40

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.8	4.2
3 months	-0.8	10.5
12 months	14.0	28.1

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	15,814.4	15,406.8	15,614.7
Operating Profit	605.5	581.2	576.4
Profit Before Tax	896.5	856.7	851.5
Core PATAMI	415.0	453.1	445.9
Core EPS (sen)	35.5	38.8	38.2
DPS (sen)	14.2	15.5	15.3
Dividend Yield (%)	2.96	3.23	3.18

KEY STATISTICS

FBM KLCI	1,454.44
Issue shares (m)	1168.29
Estimated free float (%)	29.88
Market Capitalisation (RM'm)	5607.79
52-wk price range	RM2.77-RM4.04
3-mth average daily volume (m)	0.69
3-mth average daily value (RM'm)	2.60
Top Shareholders (%)	
Amanah Saham Nasional Bhd	55.16
Kumpulan Wang Persaraan	9.26
Employees Provident Fund Board	9.18

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Table 1: UMW sum-of-parts valuation

Segments	Valuation Method	Multiple (x)	Value (RMm)	Comments
Automotive	PER	10	4,777.6	FY23F PER; 10x
Equipment	PER	11	1,073.7	FY23F PER; 11x
M&E	PER	8	301.2	FY23F PER; 8x
Aerospace	DCF		754.5	Equity Value of 25-year Rolls Royce contract (WACC: 8.7%)
Serendah Land	RNAV		871.2	RNAV of Serendah land (500acres@RM40psf) (net of debt)
Perpetual Sukuk			(1,097.9)	
Holding co net debt			(1,028.6)	
Total Value			5,651.7	
Shares out.			1,168.3	
Value/share (RM)			4.84	

Source: Company, MIDFR

UMW HOLDINGS: 1HFY23 RESULT SUMMARY

FYE Dec (RMm)	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Revenue	3,730.8	4,379.6	4,484.9	20.2%	2.4%	7,381.6	8,864.5	20.1%
EBITDA	224.4	214.7	401.9	79.1%	87.2%	451.9	530.6	17.4%
Operating Profit	140.8	128.8	401.9	185.4%	212.1%	286.6	530.6	85.1%
Finance Cost	(25.4)	(15.4)	(16.2)	-36.3%	5.3%	(64.4)	(31.6)	-51.0%
Associates	97.8	109.3	69.0	-29.5%	-36.9%	194.3	178.3	-8.3%
Investment Income / Other gains	16.8	28.1	21.3	26.5%	-24.2%	29.8	49.4	65.6%
Pretax Profit	230.0	250.7	476.0	106.9%	89.8%	446.3	726.7	62.8%
Taxation	(56.5)	(47.0)	(90.6)			(100.0)	(137.6)	
Minorities / PERP	66.3	69.3	81.8			137.9	151.1	
Loss from discontinued operations (UMWOG)	0.0	0.0	0.0			0.0	0.0	
Net Profit	107.2	134.5	303.6	183.2%	125.8%	208.4	438.0	110.2%
Core net profit	107.2	134.5	126.6	18.1%	-5.9%	208.4	261.0	25.2%
Core EPS (FD, sen)	9.2	11.5	10.8	18.1%	-5.9%	17.8	22.3	25.2%
DPS (sen)	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Margins (%):				ppts	ppts			ppts
Operating	3.8%	2.9%	9.0%	5.19	6.02	3.9%	6.0%	2.10
Pretax Profit	6.2%	5.7%	10.6%	4.45	4.89	6.0%	8.2%	2.15
Core Net Profit	2.9%	3.1%	2.8%	-0.05	-0.25	2.8%	2.9%	0.12
Tax Rate	24.6%	18.7%	19.0%	-5.54	0.28	22.4%	18.9%	-3.47
EBITDA	6.0%	4.9%	9.0%	2.95	4.06	6.1%	6.0%	-0.14
Segmental Breakdown (RMm)	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Automotive	3,117.4	3,626.9	3,417.2	9.6%	-5.8%	6,187.5	7,044.1	13.8%
Equipment	366.6	434.9	456.2	24.4%	4.9%	738.4	891.1	20.7%
Manuf & Eng	226.4	323.6	299.7	32.4%	-7.4%	453.5	623.3	37.4%
Others	39.9	24.5	340.3	753.9%	1289.9%	42.9	364.8	749.8%
Automotive	202.9	217.0	212.8	4.9%	-1.9%	408.7	429.9	5.2%
Equipment	35.4	51.3	49.1	38.4%	-4.4%	67.2	100.4	49.4%
Manuf & Eng	13.1	22.4	21.8	67.1%	-2.5%	23.7	44.2	86.6%
Others	(21.3)	(40.0)	192.2	-1001.5%	-580.7%	(53.3)	152.3	-385.8%
Pretax margins				ppts	ppts			ppts
Automotive	6.5%	6.0%	6.2%	-0.28	0.24	6.6%	6.1%	-0.50
Equipment	9.7%	11.8%	10.8%	1.09	-1.05	9.1%	11.3%	2.16
Manuf & Eng	5.8%	6.9%	7.3%	1.51	0.36	5.2%	7.1%	1.87
Others	NA	NA	NA			NA	NA	
Perodua TIV (units)	65,719	78,565	66,130	0.6%	-15.8%	127,343	144,695	13.6%
Toyota TIV (units)	23,179	25,030	23,115	-0.3%	-7.7%	45,449	48,145	5.9%

FINANCIAL SUMMARY

Income Statement (RMm)	2020	2021	2022	2023F	2024F
Revenue	9,554.6	11,060.8	15,814.4	15,406.8	15,614.7
Operating expenses	(10,423.7)	(10,547.1)	(15,031.0)	(14,825.6)	(15,038.3)
Operating profit	257.7	274.2	605.5	581.2	576.4
Net interest expense	(115.5)	(108.2)	(114.1)	(71.4)	(71.4)
Associates	204.1	268.0	334.9	347.0	346.5
PBT	400.7	482.8	896.5	856.7	851.5
Taxation	(77.7)	32.9	(218.6)	(127.4)	(126.2)
Minority Interest/PERP	118.3	247.4	262.8	276.2	279.3
Net profit	204.6	268.2	415.0	453.1	445.9
Core net profit	240.9	196.8	415.0	453.1	445.9
Balance Sheet (RMm)	2020	2021	2022	2023F	2024F
PPE	2,463.0	2,531.4	2,706.2	2,910.4	3,089.0
Investments in associate	2,015.9	2,170.6	2,362.3	2,709.3	3,055.8
Others	976.5	1,090.7	983.2	983.2	983.2
Non-current assets	5,455.3	5,792.7	6,051.7	6,602.9	7,128.1
Inventories	1,439.3	1,752.2	2,045.7	1,540.7	1,561.5
Receivables	1,059.1	904.2	1,124.3	1,287.3	1,304.7
Others	1,442.5	782.2	387.2	387.2	387.2
Cash & equivalent	2,050.9	2,941.4	2,808.1	2,965.5	2,922.1
Current assets	5,991.8	6,380.0	6,365.4	6,180.7	6,175.5
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,549.0	2,646.1	2,789.9	2,996.3	3,205.7
Reserves	3,284.0	3,532.3	3,765.9	4,037.8	4,305.3
Total Equity	6,417.2	6,762.5	7,140.0	7,618.2	8,095.2
Long-term borrowings	1,942.3	2,095.0	1,339.9	1,340.1	1,340.2
Deferred tax liabilities	47.8	48.4	60.8	60.8	60.8
Others	243.6	247.0	274.3	274.3	274.3
Non-current liabilities	2,233.7	2,390.4	1,675.1	1,675.2	1,675.4
Short-term borrowings	523.8	638.1	212.3	212.3	212.3
Payables	2,156.2	2,248.8	3,292.8	3,201.6	3,244.8
Others	116.2	132.9	96.9	76.2	75.8
Current liabilities	2,796.2	3,019.8	3,602.1	3,490.2	3,533.0

Cash Flow Statement (RMm)	2020	2021	2022	2023F	2024F
PBT	400.7	482.8	896.5	856.7	851.5
Depreciation & Amortization	374.1	343.5	340.6	351.8	378.3
Chgs in working capital	419.9	(232.4)	524.8	264.3	4.6
Others	(248.3)	(332.5)	(558.4)	(474.4)	(472.7)
Operating cash flow	946.3	261.4	1,203.4	998.4	761.7
Capex	(700.0)	(406.2)	(509.9)	(700.0)	(700.0)
Others	589.5	790.9	559.4	144.0	143.0
Investing cash flow	(110.5)	384.8	49.5	(556.0)	(557.0)
Dividends paid	(23.4)	(46.7)	(168.8)	(181.3)	(178.4)
Net movement in borrowings	0.2	0.2	(880.0)	0.2	0.2
Others	(214.3)	86.0	(483.8)	(103.9)	(69.9)
Financing cash flow	(237.5)	39.4	(1,532.6)	(285.0)	(248.1)
Net changes in cash	598.3	685.6	(279.7)	157.4	(43.4)
Beginning cash	1,411.5	2,006.5	2,700.3	2,808.1	2,965.5
Forex, Overdrafts & Deposits	41.2	249.3	387.6	0.0	0.0
Ending cash	2,050.9	2,941.4	2,808.1	2,965.5	2,922.1

Key Ratios	2020	2021	2022	2023F	2024F
Operating profit margin	2.7%	2.5%	3.8%	3.8%	3.7%
Core net profit margin	2.5%	1.8%	2.6%	2.9%	2.9%
ROE	5.4%	6.7%	10.0%	10.1%	9.4%
ROA	2.3%	2.3%	5.9%	4.6%	4.4%
Net gearing (%)	6.5%	-3.1%	-17.6%	-18.5%	-16.9%
Book value/share (RM)	3.31	3.52	3.72	3.96	4.19
PBV (x)	1.4	1.4	1.29	1.2	1.1
PER (x)	23.3	28.5	13.5	12.4	12.6

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 <i>rise</i> 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 <i>fall</i> 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