

UMW Holdings Berhad

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

Giving the Final Push

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 result ahead of estimates**
- **Strong 3QFY23 driven mainly by associates and M&E division**
- **FY23F/24F earnings raised +22.7%/+1.9%**
- **Fair value raised marginally to RM4.86, recommend investors to accept buyout offer from Sime Darby at RM5.00**

Ahead of estimates. UMW's 9MFY23 result was ahead of estimates mainly due to outperformance of associates as well as the equipment and M&E divisions. The group reported a net profit of RM173m (+72%yoy) for its 3QFY23, which brought 9MFY23 core earnings to RM434m (+41%yoy), accounting for 96% of both our and consensus' full year estimates.

Key takeaways. Group 3QFY23 PBT rose +41%yoy driven mainly by higher associate (+49%yoy) and M&E division (+91%yoy) earnings. The former was driven by strong Perodua TIV (+28%yoy) which rose to a high of 88,541 units given higher production and delivery of backlog orders. The M&E division was driven by more than a doubling in aerospace revenue given higher fan case deliveries on the back of recovering aircraft orders for UMW Aerospace's key customers. The equipment division has been performing well in the past 12 months and the strong performance was sustained in 3QFY23 with a further +11%yoy PBT growth driven by strong demand for heavy equipment in the mining sector in Papua New Guinea and the plantation sector in Malaysia.

Earnings estimates. Given the outperformance, we raise FY23F earnings by +22.7% to factor in higher associate earnings (from higher Perodua TIV assumption), as well as higher revenue assumption for the equipment and M&E divisions. However, FY24F earnings is only revised up marginally by +1.9% as we expect TIV to normalize on dissipating effect of the prior sales tax holiday and pandemic fiscal incentives, coupled with potential impact from fuel subsidy rollback and SST hike next year. As it stands, we gather the latest Perodua order backlog has further receded to 140K units (from >200K in early-2023 and 155K August).

Recommendation. Our SOP-derived **fair value** is raised marginally to **RM4.86** (from RM4.84 previously) given the earnings revision and as we rollover valuations to FY24F. We stick to our recommendation for investors to **accept Sime Darby's buyout offer at RM5.00**, which values UMW at par to historical mean PER of 12.9x and at 1.2x FY24F PBV. We see this buyout offer as a good opportunity for UMW's minorities to exit at peak auto demand cycle.

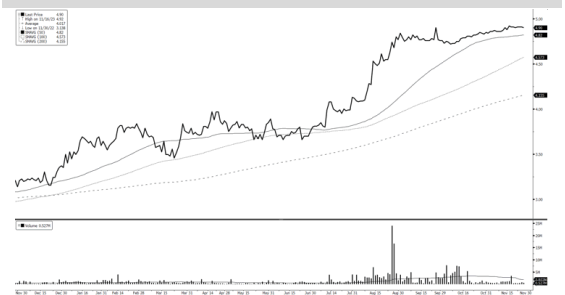
ACCEPT OFFER

Offer Price: RM5.00
(Revised Fair Value: RM4.86)

RETURN STATISTICS

| | |
|--|-------------|
| Price @ 27 th Nov 2023 (RM) | 4.90 |
| Expected share price return (%) | -0.8 |
| Expected dividend yield (%) | 3.9 |
| Expected total return (%) | +3.1 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | 1.2 | 0.8 |
| 3 months | 2.9 | 4.4 |
| 12 months | 46.7 | 50.6 |

INVESTMENT STATISTICS

| FYE Dec (RMm) | 2022A | 2023F | 2024F |
|--------------------|----------|----------|----------|
| Revenue | 15,814.4 | 16,194.0 | 15,848.5 |
| Operating Profit | 605.5 | 703.4 | 524.5 |
| Profit Before Tax | 896.5 | 1,011.5 | 807.3 |
| Core PATAMI | 415.0 | 555.9 | 454.4 |
| Core EPS (sen) | 35.5 | 47.6 | 38.9 |
| PER (x) | 13.8 | 10.3 | 12.6 |
| DPS (sen) | 14.2 | 19.0 | 15.6 |
| Dividend Yield (%) | 2.9 | 3.9 | 3.2 |

KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1448.15 |
| Issue shares (m) | 1168.29 |
| Estimated free float (%) | 29.45 |
| Market Capitalisation (RM'm) | 5,724.64 |
| 52-wk price range | RM3.22-RM4.92 |
| 3-mth average daily volume (m) | 2.24 |
| 3-mth average daily value (RM'm) | 10.68 |
| Top Shareholders (%) | |
| Amanah Saham Nasional Bhd | 53.70 |
| Employees Provident Fund Board | 10.39 |
| Kumpulan Wang Persaraan | 9.12 |

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Table 1: UMW sum-of-parts valuation

| Segments | Valuation Method | Multiple (x) | Value (RMm) | Comments |
|-------------------------|------------------|--------------|----------------|---|
| Automotive | PER | 10 | 4,426.7 | FY24F PER; 10x |
| Equipment | PER | 11 | 1,259.6 | FY24F PER; 11x |
| M&E | PER | 8 | 491.9 | FY24F 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 | | | 5,677.5 | |
| Shares out. | | | 1,168.3 | |
| Value/share (RM) | | | 4.86 | |

Source: Company, MIDFR

UMW HOLDINGS: 9MFY23 RESULT SUMMARY

| FYE Dec (RMm) | 3Q22 | 2Q23 | 3Q23 | YoY | QoQ | 9M22 | 9M23 | YTD |
|----------------------------------|----------------|----------------|----------------|--------------|---------------|-----------------|-----------------|--------------|
| Revenue | 4,057.5 | 4,484.9 | 4,834.1 | 19.1% | 7.8% | 11,439.1 | 13,698.5 | 19.8% |
| Operating Profit | 163.5 | 401.9 | 201.8 | 23.4% | -49.8% | 450.1 | 732.4 | 62.7% |
| Finance Cost | (21.4) | (16.2) | (15.8) | -25.8% | -2.2% | (85.8) | (47.4) | -44.7% |
| Associates | 72.8 | 69.0 | 115.6 | 58.8% | 67.6% | 267.1 | 293.9 | 10.0% |
| Investment Income / Other gains | 16.6 | 21.3 | 24.7 | 49.3% | 16.1% | 46.4 | 74.1 | 59.8% |
| Pretax Profit | 231.5 | 476.0 | 326.3 | 40.9% | -31.4% | 677.8 | 1,053.0 | 55.3% |
| Taxation | (72.1) | (90.6) | (65.9) | | | (172.1) | (203.5) | |
| Minorities / PERP | 58.7 | 81.8 | 87.2 | | | 196.6 | 238.3 | |
| Net Profit | 100.7 | 303.6 | 173.1 | 71.9% | -43.0% | 309.1 | 611.1 | 97.7% |
| Core net profit | 100.7 | 126.6 | 173.1 | 71.9% | 36.8% | 309.1 | 434.1 | 40.5% |
| Core EPS (FD, sen) | 8.6 | 10.8 | 14.8 | 71.9% | 36.8% | 26.5 | 37.2 | 40.5% |
| DPS (sen) | 3.0 | 0.0 | 0.0 | | | 3.0 | 0.0 | |
| Margins (%): | | | | ppts | ppts | | | ppts |
| Operating | 4.0% | 9.0% | 4.2% | 0.14 | -4.79 | 3.9% | 5.3% | 1.41 |
| Pretax Profit | 5.7% | 10.6% | 6.7% | 1.04 | -3.86 | 5.9% | 7.7% | 1.76 |
| Core Net Profit | 2.5% | 2.8% | 3.6% | 1.10 | 0.76 | 2.7% | 3.2% | 0.47 |
| Tax Rate | 31.2% | 19.0% | 20.2% | -10.95 | 1.18 | 25.4% | 19.3% | -6.07 |
| Segmental Breakdown (RMm) | 3Q22 | 2Q23 | 3Q23 | YoY | QoQ | 9M22 | 9M23 | YTD |
| Automotive | 3,427.6 | 3,417.2 | 4,023.2 | 17.4% | 17.7% | 9,615.1 | 11,067.3 | 15.1% |
| Equipment | 394.4 | 456.2 | 452.0 | 14.6% | -0.9% | 1,132.7 | 1,343.1 | 18.6% |
| Manuf & Eng | 252.2 | 299.7 | 363.8 | 44.3% | 21.4% | 705.7 | 987.1 | 39.9% |
| Others | 3.6 | 340.3 | 27.6 | 665.1% | -91.9% | 46.5 | 392.4 | 743.2% |
| Automotive | 183.6 | 212.8 | 257.6 | 40.3% | 21.0% | 592.3 | 687.5 | 16.1% |
| Equipment | 50.0 | 49.1 | 55.5 | 11.1% | 13.1% | 117.2 | 155.9 | 33.0% |
| Manuf & Eng | 13.4 | 21.8 | 25.7 | 91.2% | 17.7% | 37.1 | 69.8 | 88.3% |
| Others | (15.5) | 192.2 | (12.5) | -19.2% | -106.5% | (68.7) | 139.8 | -303.3% |
| Pretax margins | | | | ppts | ppts | | | ppts |
| Automotive | 5.4% | 6.2% | 6.4% | 1.05 | 0.17 | 6.2% | 6.2% | 0.05 |
| Equipment | 12.7% | 10.8% | 12.3% | -0.39 | 1.53 | 10.3% | 11.6% | 1.26 |
| Manuf & Eng | 5.3% | 7.3% | 7.1% | 1.73 | -0.22 | 5.3% | 7.1% | 1.82 |
| Others | NA | NA | NA | | | NA | NA | |
| Perodua TIV (units) | 69,020 | 66,130 | 88,541 | 28.3% | 33.9% | 196,364 | 233,236 | 18.8% |
| Toyota TIV (units) | 24,683 | 23,115 | 27,253 | 10.4% | 17.9% | 70,132 | 75,398 | 7.5% |

Source: Company, MIDFR

FINANCIAL SUMMARY

| Income Statement (RMm) | 2020 | 2021 | 2022 | 2023F | 2024F |
|--------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | 9,554.6 | 11,060.8 | 15,814.4 | 16,194.0 | 15,848.5 |
| Operating expenses | (10,423.7) | (10,547.1) | (15,031.0) | (15,490.6) | (15,324.1) |
| Operating profit | 257.7 | 274.2 | 605.5 | 703.4 | 524.5 |
| Net interest expense | (115.5) | (108.2) | (114.1) | (71.4) | (71.4) |
| Associates | 204.1 | 268.0 | 334.9 | 379.5 | 354.3 |
| PBT | 400.7 | 482.8 | 896.5 | 1,011.5 | 807.3 |
| Taxation | (77.7) | 32.9 | (218.6) | (158.0) | (113.3) |
| Minority Interest/PERP | 118.3 | 247.4 | 262.8 | 297.6 | 239.6 |
| Net profit | 204.6 | 268.2 | 415.0 | 555.9 | 454.4 |
| Core net profit | 240.9 | 196.8 | 415.0 | 555.9 | 454.4 |
| | | | | | |
| 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 | 2,741.8 | 3,096.1 |
| Others | 976.5 | 1,090.7 | 983.2 | 983.2 | 983.2 |
| Non-current assets | 5,455.3 | 5,792.7 | 6,051.7 | 6,635.4 | 7,168.3 |
| Inventories | 1,439.3 | 1,752.2 | 2,045.7 | 1,619.4 | 1,584.9 |
| Receivables | 1,059.1 | 904.2 | 1,124.3 | 1,353.1 | 1,324.2 |
| Others | 1,442.5 | 782.2 | 387.2 | 387.2 | 387.2 |
| Cash & equivalent | 2,050.9 | 2,941.4 | 2,808.1 | 3,047.5 | 2,932.5 |
| Current assets | 5,991.8 | 6,380.0 | 6,365.4 | 6,407.2 | 6,228.7 |
| Share capital | 584.1 | 584.1 | 584.1 | 584.1 | 584.1 |
| Minority Interest | 2,549.0 | 2,646.1 | 2,789.9 | 3,017.7 | 3,187.5 |
| Reserves | 3,284.0 | 3,532.3 | 3,765.9 | 4,099.4 | 4,372.1 |
| Total Equity | 6,417.2 | 6,762.5 | 7,140.0 | 7,701.3 | 8,143.7 |
| 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 | 3,365.2 | 3,293.4 |
| Others | 116.2 | 132.9 | 96.9 | 88.6 | 72.3 |
| Current liabilities | 2,796.2 | 3,019.8 | 3,602.1 | 3,666.2 | 3,578.0 |

| Cash Flow Statement (RMm) | 2020 | 2021 | 2022 | 2023F | 2024F |
|----------------------------------|----------------|----------------|------------------|----------------|----------------|
| PBT | 400.7 | 482.8 | 896.5 | 1,011.5 | 807.3 |
| Depreciation & Amortization | 374.1 | 343.5 | 340.6 | 351.8 | 378.3 |
| Chgs in working capital | 419.9 | (232.4) | 524.8 | 295.8 | (24.7) |
| Others | (248.3) | (332.5) | (558.4) | (537.5) | (467.5) |
| Operating cash flow | 946.3 | 261.4 | 1,203.4 | 1,121.6 | 693.4 |
| 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) | (222.4) | (181.8) |
| 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) | (326.2) | (251.5) |
| Net changes in cash | 598.3 | 685.6 | (279.7) | 239.4 | (115.0) |
| Beginning cash | 1,411.5 | 2,006.5 | 2,700.3 | 2,808.1 | 3,047.5 |
| Forex, Overdrafts & Deposits | 41.2 | 249.3 | 387.6 | 0.0 | 0.0 |
| Ending cash | 2,050.9 | 2,941.4 | 2,808.1 | 3,047.5 | 2,932.5 |

| Key Ratios | 2020 | 2021 | 2022 | 2023F | 2024F |
|-------------------------|-------------|-------------|-------------|--------------|--------------|
| Operating profit margin | 2.7% | 2.5% | 3.8% | 4.3% | 3.3% |
| Core net profit margin | 2.5% | 1.8% | 2.6% | 3.4% | 2.9% |
| ROE | 5.4% | 6.7% | 10.0% | 12.3% | 9.4% |
| ROA | 2.3% | 2.3% | 5.9% | 5.5% | 4.0% |
| Net gearing (%) | 6.5% | -3.1% | -17.6% | -19.4% | -16.9% |
| Book value/share (RM) | 3.31 | 3.52 | 3.72 | 4.01 | 4.24 |
| PBV (x) | 1.4 | 1.4 | 1.29 | 1.2 | 1.2 |
| PER (x) | 23.3 | 28.5 | 13.5 | 10.3 | 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