

18 September 2023

UMW Holdings

Like a Well-Oiled Machine

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We recently visited UMW Toyota's integrated manufacturing complex in Bukit Raja, Klang (currently producing Vios, Yaris and Corolla Cross). Since our last visit in 2019, it has scaled up its production efficiency to one vehicle per 9 hours, vs. 12 hours four years ago. We maintain our earnings forecasts, TP of RM5.00 and ACCEPT OFFER call.

We recently visited UMW Toyota's integrated manufacturing complex which houses its: (i) main office, (ii) welding station, (iii) resin paint station, (iv) vehicles assembly station, (v) integrated quality hub (cater for both Bukit Raja and Shah Alam plant) as well as (vi) Toyota Boshoku UMW Sdn Bhd plant which is the manufacturer of seats, door trims, package trays and tool bags.

Production efficiency significantly improved since 2019. The Bukit Raja plant efficiency has significantly improved by 21% since our last visit in 2019. Its "takt time" (the rate at which a product is completed based on the orders/demand) has since been shortened to 4.5 minutes from 5.7 minutes, and still ahead of its Shah Alam plant which is at 7 minutes. Consequently, the plant is currently able to produce 1 car in 9 hours or 260 units/day simultaneously (capacity utilised at 120-130%), compared to 1 car in 12 hours or 190 units/day in 2019 (capacity utilised at 60%). UMW guided that the overcapacity incurred due to the addition of Toyota Corolla Cross in 2021 as well as the latest addition of all-new Vios in March 2023.

Note that, the Bukit Raja plant maximum capacity is at 50k units (2 shifts) with ready land bank for future expansion of up to 100k units, without incurring major capex. Bukit Raja plant is specifically designed to produce up to C-segment platform (Vios, Yaris and Corolla Cross) while the Shah Alam plant (32k units in capacity) is for commercial vehicles (Hilux, Fortuner, Innova and Hiace).

ESG-centric plant. The Bukit Raja plant (674,300 sq. m) is 2.4x bigger than the old Shah Alam plant, with ESG-centric features (refer to page 2). These includes: (i) ground-bolt machineries for easier, safer, and cheaper cost of expansion, (ii) flexible jigs that can assemble different car models in one manufacturing line, (iii) roof-top designed with natural light opening and solar-panel, (iv) zirconium coating paint (less wastewater and emission with 15-year no rust guarantee) with specifically-designed funnel to release clean and odourless air, and (v) welding shop line which at 45% automation level (vs. 0% at Shah Alam).

Initial investment for the Bukit Raja plant is at RM1.8b (includes land cost, construction, equipment and engineering support from Thailand and Japan) with depreciation cost at RM60m-RM70m/year for 30 years since January 2019.

Forecasts. Maintained.

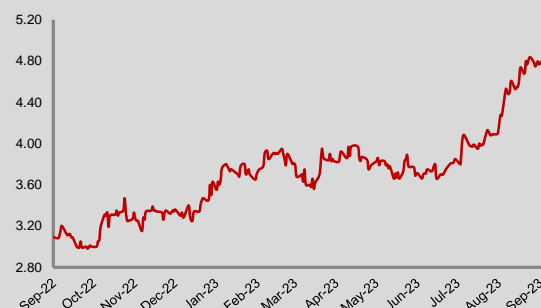
We also maintain our TP of RM5.00 which is the MGO price offered by SIME.

We like UMW for: (i) the mass-market marques under its automotive business, i.e. Toyota and Perodua, but not without high-margin models such as Toyota Vios and Perodua Alza, (ii) the strong earnings visibility at its automotive business backed by order backlogs of >240k units of vehicles, and (iii) it being a reopening play, given the pick-up seen in its heavy and industrial equipment business and manufacturing of aero-engine fan cases. However, we believe the MGO price is fair and hence maintain our **ACCEPT OFFER** call.

ACCEPT OFFER ↔

Price : **RM4.77**
Target Price : **RM5.00** ↔

Share Price Performance



KLCI	1,459.03
YTD KLCI chg	-2.4%
YTD stock price chg	37.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	5,572.8
Shares outstanding	1,168.3
52-week range (H)	4.88
52-week range (L)	2.92
3-mth avg daily vol:	2,354,319
Free Float	32%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	53.7%
KWAP	9.1%
Employees Provident Fund	7.4%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	15,814.4	15,706.2	17,121.9
EBIT	946.1	1,151.9	1,215.8
PBT	896.5	738.2	781.4
PATAMI	415.0	414.7	442.4
Core PATAMI	394.0	414.7	442.4
Consensus NP	-	412.8	408.7
Earnings Revision	-	-	-
Core EPS (sen)	33.7	35.5	37.9
C.EPS growth (%)	76.5	5.3	6.7
NDPS (sen)	14.2	15.0	15.0
BVPS (RM)	3.72	3.93	4.16
Core PER (x)	14.1	13.4	12.6
PBV (x)	1.3	1.2	1.1
Net Gearing (x)	N.cash	N.cash	N.cash
Net Div. Yield (%)	3.0	3.1	3.1

Risks to our call include: (i) failure of the proposed privatisation of UMW which could spark sell-down in its share price, (ii) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation, (iii) supply chain disruptions, (iv) escalating input costs, and (v) a global recession hurting demand for industrial/heavy equipment.



Source: Company, Kenanga Research



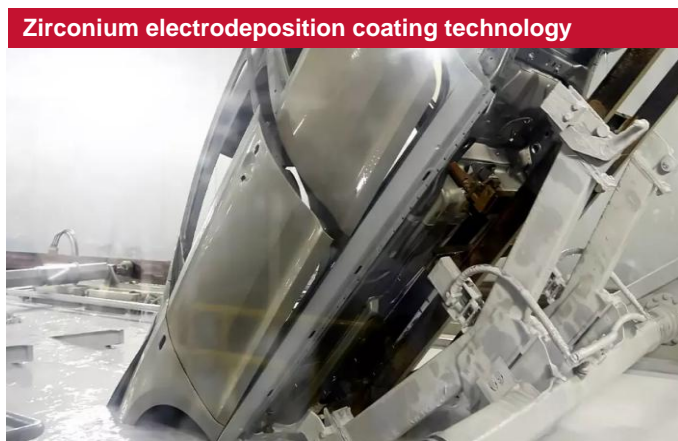
Source: Company, Kenanga Research



Source: Company, Kenanga Research



Source: Company, Kenanga Research



Source: nipponpaint-holdings.com, Kenanga Research



Source: Company, Kenanga Research

18 September 2023

Income Statement				
FY Dec (RM m)	2021A	2022A	2023F	2024F
Revenue	11,061	15,814	15,706	17,122
EBITDA	934	946	1,152	1,216
Depreciation	(344)	(341)	(460)	(490)
Interest Inc/(Exp)	(108)	(114)	(61)	(61)
Associate	268	335	413	437
PBT	483	896	738	781
Taxation	33	(219)	(162)	(167)
Minority Interest	(247)	(193)	(161)	(172)
PATAMI	268	415	415	442
Core PATAMI	223	394	415	442

Balance Sheet				
FY Dec (RM m)	2021A	2022A	2023F	2024F
F. Assets	2,171	2,362	3,242	4,154
Other F.Assets	3,622	3,689	3,689	3,689
Inventories	1,752	2,046	2,496	2,721
Receivables	904	1,124	1,291	1,407
Other C. Assets	782	387	387	387
Cash	2,941	2,808	2,439	2,366
Total Assets	12,173	12,417	13,545	14,724
Payables	648	846	904	985
ST Borrowings	638	212	212	212
Other ST Liability	1,734	2,544	2,544	2,544
LT Borrowings	2,095	1,340	1,340	1,340
Other LT Liability	295	335	335	335
Net Assets	6,763	7,140	8,210	9,308
S.holders' Equity	4,116	4,350	4,590	4,857
Others	2,646	2,790	3,625	4,460
Total Equity	6,763	7,140	8,210	9,308

Cashflow Statement				
FY Dec (RM m)	2021A	2022A	2023F	2024F
Operating CF	262	262	285	640
Investing CF	474	474	-418	-478
Financing CF	39	39	-236	-236
Change In Cash	775	775	-369	-74
Free CF	-494	-494	-546	-275

Source: Kenanga Research

Financial Data & Ratios				
FY Dec	2021A	2022A	2023F	2024F
Growth (%)				
Revenue				
EBITDA	15.8	43.0	-0.7	9.0
Op. Profit	15.8	43.0	-0.7	9.0
PBT	-258.0	-276.3	14.3	4.9
CNP	20.5	85.7	-17.6	5.8
Profitability (%)				
Operating Margin	5.3	3.8	4.4	4.2
PBT Margin	4.4	5.7	4.7	4.6
Core Net Margin	2.0	2.5	2.6	2.6
ROA	2.3	3.4	3.2	3.1
ROE	6.7	9.8	9.3	9.4

Leverage				
Debt/Asset (x)	0.2	0.1	0.1	0.1
Debt/Equity (x)	0.7	0.4	0.3	0.3
Net Cash/(Debt)	(208)	(1,256)	(887)	(814)
N.Debt/Equity(x)	(0.1)	(0.3)	(0.2)	(0.2)
Valuations				
Core EPS (sen)	19.1	33.7	35.5	37.9
NDPS (sen)	5.8	14.2	15.0	15.0
BV/sh (RM)	3.52	3.72	3.93	4.16
PER (x)	25.0	14.1	13.4	12.6
Div. Yield (%)	1.2	3.0	3.1	3.1
PBV (x)	1.4	1.3	1.2	1.1
EV/EBITDA (x)	7.0	8.2	7.1	7.4

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.40	3.22	34.2%	2,795.8	Y	04/2024	24.5	25.2	-6.2%	2.9%	9.8	9.5	3.5	36.2%	20.9	8.7%
DRB-HICOM BHD	MP	1.46	1.45	-0.7%	2,822.5	Y	12/2023	16.5	17.7	4.9%	7.2%	8.9	8.3	0.3	3.6%	2.0	1.4%
HIL INDUSTRIES BHD	UP	1.00	0.780	-22.0%	331.9	Y	12/2023	9.2	10.1	28.0%	9.5%	10.8	9.9	0.8	6.9%	2.0	2.0%
HONG LEONG INDUSTRIES BHD	OP	8.89	11.40	28.2%	2,840.1	Y	06/2024	95.1	103.0	7.3%	8.4%	9.4	8.6	1.3	16.5%	62.0	7.0%
MBM RESOURCES BHD	OP	3.73	4.70	26.0%	1,458.0	Y	12/2023	65.3	67.1	14.0%	2.7%	5.7	5.6	0.6	10.7%	46.0	12.3%
SIME DARBY BHD	OP	2.15	2.45	14.0%	14,653.5	Y	06/2024	17.7	17.9	4.4%	1.0%	12.1	12.0	0.9	8.4%	14.0	6.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.05	0.800	-23.8%	684.4	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.9%
UMW HOLDINGS BHD	ACCEPT	4.77	5.00	4.8%	5,572.8	Y	12/2023	35.5	37.9	5.3%	6.7%	13.4	12.6	1.2	9.3%	15.0	3.1%
SECTOR AGGREGATE					31,159.1					4.3%	4.5%	11.2	10.8	0.8	7.0%		5.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Electric & Hybrid Vehicles Availability	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★		
	Effluent & Water Management	★	★	★		
	Training & Education	★	★	★	★	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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