UMW Holdings

Sky is the Limit

OUTPERFORM ↔

Price : **RM3.71**
Target Price : **RM4.80** ↔

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We obtained a first-hand impression of UMW's fastest-growing segment, UMW Aerospace (which is the exclusive Rolls-Royce fan cases manufacturer), during our visit to its facility in UMW High Value Manufacturing Park, Serendah, two days ago. UMW Aerospace is also able to scale up the production of its existing products and expand its capabilities to venture into new products. We maintain our forecasts, TP of RM4.80 and OUTPERFORM call.

We recently visited UMW Aerospace's operations which comprises: (i) front cases manufacturing and assembly machine, (ii) rear cases manufacturing empty machine plot ready for future assembly, and (iii) a new exclusive chemical milling plant (floor are chemically treated to endure 700-800 degrees temperature).

UMW Aerospace to turn profitable in 2023. UMW Aerospace returned to profitability in 4QFY22, and UMW guided for a full-year profit for FY23. We estimate fan cases sales volume to double in FY23, at 192 units compared to 96 units (+37% YoY) in FY22, with full capacity of 250 units expected by FY25. Additionally, UMW also receives a fixed margin under a cost-plus model agreement and is able to fully pass through fluctuation of input costs to Rolls-Royce with natural forex hedging mechanism (sales and materials costs in USD). Additional upside in profitability could come from economies of scale on higher volumes and improved efficiency in manufacturing processes.

Recall, UMW Aerospace secured its first contract in 2015 worth RM830m for 25+5 years to manufacture front fan cases and assemble them into complete units (for Trent 1000 and Trent 7000 aircraft engines), for shipment to Rolls-Royce UK. The contract took two years to take off with maiden delivery in 2017, and it achieve break-even at the EBIT level in 2019, and saw its first pre-tax profit in 2020 at RM1.7m. However, it slipped back to losses of RM33m in FY21 due to the pandemic lockdown, but pared its losses to RM9.4m in FY22.

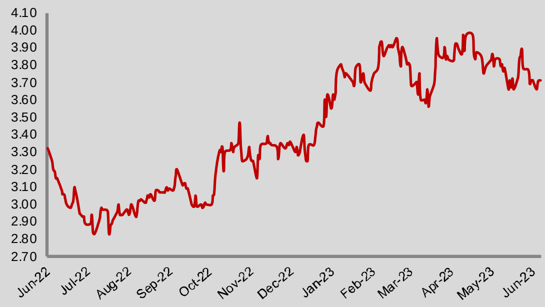
New market opportunities. UMW Aerospace is able to scale up the production of its existing products (see page 2), and further expand its capabilities via new collaboration to venture into new products. In April 2023, UMW secured a second contract worth RM1b for 15 years to exclusively manufacture rear fan cases which was previously imported from a North American supplier.

The new chemical milling plant and related processes to manufacture the rear case will undergo trial run in 2024, with its first delivery by 2025 at max capacity matching the front cases at 250 units. Subsequently, the new exclusive chemical milling plant, which is the only one in Asia, has received several requests from local OEMs for future collaboration.

Forecasts. Maintained.

We also maintained our Sum-of Parts (SOP) derived TP of RM4.80 (see page 3) which already includes its aerospace segment's valuation given the recurring order from Rolls-Royce that reflects well on UMW's credibility and operational efficiency. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Share Price Performance



KLCI	1,381.73
YTD KLCI chg	-7.6%
YTD stock price chg	6.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	4,334.4
Shares outstanding	1,168.3
52-week range (H)	4.04
52-week range (L)	2.77
3-mth avg daily vol:	618,828
Free Float	30%
Beta	0.9

Major Shareholders

Amanah Saham Nasional	55.2%
Employees Provident Fund	9.3%
KWAP	9.2%

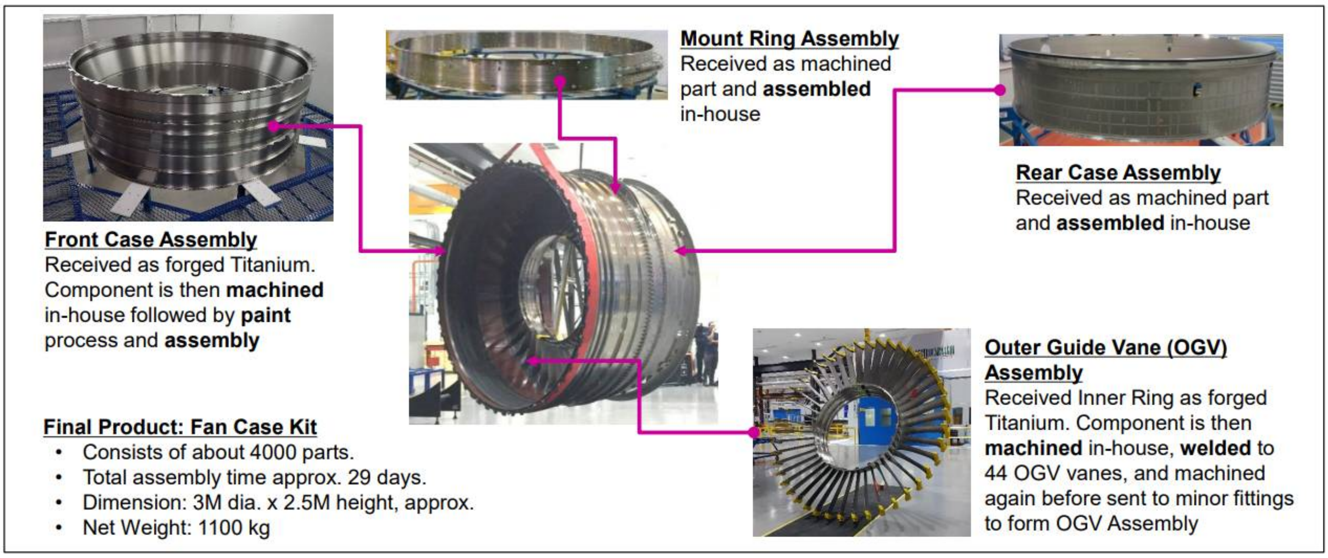
Summary Earnings Table

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)	11.0	10.5	9.8
PBV (x)	1.0	0.9	0.9
Net Gearing (x)	N.cash	N.cash	N.cash
Net Div. Yield (%)	3.8	4.0	4.0

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. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM.**

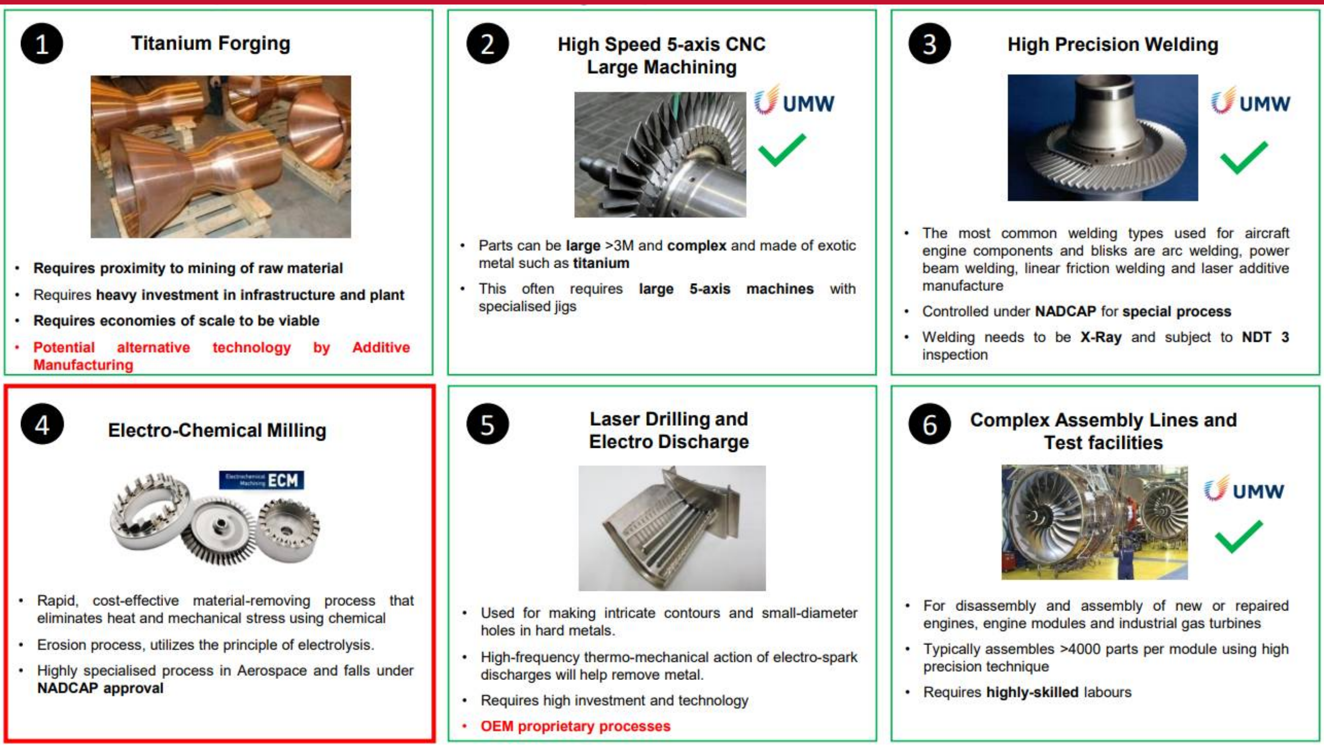
Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation, (ii) supply chain disruptions, (iii) escalating input costs, and (iv) a global recession hurting demand for industrial/heavy equipment.

UMW Aerospace Products and Capabilities



Source: Kenanga Research

UMW Aerospace Manufacturing Competencies (moving to 4 types out of 6, with the addition of Chemical Milling)



Source: Kenanga Research

Sum-of-Parts Valuation

Segment	Valuation (RM m)	Basis
Group (ex-aerospace)	4,907	13x PER
UMW Aerospace	651	1x estimated BV
Total	**5,558**	
No. of shares	1,168	
SOP/share (TP)	**4.80**	

Source: Kenanga Research

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**

Financial Data & Ratios

FY Dec				
Growth (%)	**2021A**	**2022A**	**2023F**	**2024F**
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)	19.4	11.0	10.5	9.8
Div. Yield (%)	1.6	3.8	4.0	4.0
PBV (x)	1.1	1.0	0.9	0.9
EV/EBITDA (x)	7.0	8.2	7.1	7.4

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**	**8,214**	**9,316**
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**	**8,214**	**9,316**

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

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	2.20	3.10	40.9%	2,568.7	Y	04/2024	23.6	24.3	-9.7%	3.1%	9.3	9.0	3.1	34.6%	18.9	8.6%
DRB-HICOM BHD	MP	1.40	1.45	3.6%	2,706.5	Y	12/2023	16.5	17.7	4.9%	7.2%	8.5	7.9	0.3	3.6%	2.0	1.4%
MBM RESOURCES BHD	OP	3.55	4.70	32.4%	1,387.7	Y	12/2023	65.6	67.7	14.5%	3.2%	5.4	5.2	0.6	12.0%	26.0	7.3%
SIME DARBY BHD	OP	2.03	2.40	18.2%	13,835.7	Y	06/2023	15.0	17.2	-14.6%	14.9%	13.5	11.8	0.9	6.3%	12.0	5.9%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.07	0.800	-25.2%	697.5	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	OP	3.71	4.80	29.4%	4,334.4	Y	12/2023	35.5	37.9	5.3%	6.7%	10.5	9.8	0.9	9.3%	15.0	4.0%
Simple Average					**25,530.4**					**-6.2%**	**10.6%**	**11.4**	**10.3**	**0.7**	**6.1%**		**4.9%**

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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