

15 June 2023

Consumer Cyclical | Auto & Autoparts

**UMW** (UMWH MK)

**Neutral** (Maintained)

## UMW Aerospace Plant Site Visit

Target Price (Return): MYR3.80 (+2%)  
 Price (Market Cap): MYR3.71 (USD938m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 2.17m/0.48m

- **Still NEUTRAL and MYR3.80 TP, 2% upside.** Yesterday, we attended a site visit to UMW's aerospace plant. Prospects for the segment seem promising, especially with the recovery of the aerospace industry. In the near term, the segment's profit growth should come from rising volume and improving margin due to economies of scale. From FY25F, its profit could see a further boost from the manufacturing of rear cases. Despite uncertain automotive prospects in FY24F, we keep to our call as the stock is fairly valued, and still yields c.4%.
- **Aerospace segment continues to recover.** In FY22, UMW's aerospace segment continued to see a turnaround. With an average utilisation rate of 50-60% (FY21: c.40%), its revenue rose 53% YoY to MYR226m (FY21: MYR148m), delivering a smaller LBT of MYR9m (FY21 LBT: MYR34m). With the increase in volume and utilisation rate, 4Q22 and 1Q23 are once again profitable. However, 1Q23's aerospace margin was flat QoQ, mainly as 4Q22 saw some FX gains. Despite some lingering supply chain issues, the impact to production and deliveries is manageable.
- **New rear case contract should lift margin.** In April, it was announced that UMW Aerospace will also manufacture rear cases for Rolls-Royce's Trent 1000 and Trent 7000 aircraft engines. The rear case is part of the fan cases that UMW has been delivering to Rolls-Royce. Previously, UMW had been purchasing the rear cases from a North American supplier to assemble into the fan cases before shipping to Rolls-Royce UK. UMW's manufacturing of the rear case (to be commercialised in FY25) should translate into cost savings and incremental margin improvement. Coupled with continued volume growth, the segment's profit should rise further.
- **UMW Aerospace still has room to grow.** Despite the segment's promising near-term prospects, it still has room to grow based on its existing and expanding capacity. Its management is always looking out for potential business opportunities, especially given the recovery in the aerospace industry. With its newly set up, self-developed, and highly proprietary chemical milling plant, certain original equipment manufacturers are expressing interest in UMW Aerospace's capabilities, which we think could potentially translate into new contracts in the coming years.
- **Maintaining our earnings estimates, TP, and call.** Post site visit, we maintain our estimates (which has accounted for the aforementioned prospects) and TP of MYR3.80 based on 11x FY24F P/E, or -0.5SD from its 5-year mean of 13x. Our TP also has 0% ESG adjustments. We recently turned less bullish on UMW due to its uncertain FY24 automotive prospects, given our expectations of a softer 2024 TIV. Nevertheless, we think the stock is still worth holding for its 4% yield. It is also trading at a fair 11x FY24F P/E. Downside risks include softer-than-expected orders and deliveries, worse-than-expected FX movements, and higher-than-expected costs. The opposite represents upside risks.

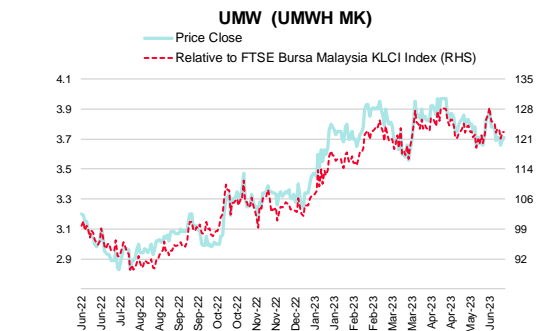
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.9	(3.1)	0.3	11.4	15.9
Relative	14.3	(0.5)	0.9	18.0	22.4
52-wk Price low/high (MYR)				2.83 – 3.97	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	11,061	15,814	15,191	14,583	14,664
Recurring net profit (MYRm)	226	399	450	405	393
Recurring net profit growth (%)	(20.6)	76.5	12.7	(10.0)	(3.0)
Recurring P/E (x)	19.15	10.85	9.63	10.70	11.03
P/B (x)	1.1	1.0	0.9	0.8	0.8
P/CF (x)	16.58	5.25	16.19	8.40	8.25
Dividend Yield (%)	1.6	3.8	4.0	3.6	3.6
EV/EBITDA (x)	19.25	2.29	2.73	2.29	1.80
Return on average equity (%)	(4.5)	9.9	9.9	8.2	7.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

### Overall ESG Score: 3.0 (out of 4)

#### E: GOOD

UMW has taken efforts to monitor and improve its environmental standing, especially with energy consumption, carbon emissions, and water management. Its carbon footprint increased 2.36% in FY19.

#### S: GOOD

Aside from the up-to-date health & safety policies and guidelines, UMW is also consistent in its CSR participation – achieving 9,241 volunteer hours in 2019. It recorded average training hours of 12.36 hours per employee in FY19.

#### G: GOOD

Management has held regular engagements with the market and media while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	Recurring EPS	0.19	0.34	0.39	0.35	0.34
Consumer Cyclical	DPS	0.06	0.14	0.15	0.14	0.14
<b>UMW</b>	BVPS	3.43	3.72	4.07	4.40	4.72
UMWH MK	Return on average equity (%)	(4.5)	9.9	9.9	8.2	7.4
Neutral						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	19.15	10.85	9.63	10.70	11.03
11x FY24F P/E	P/B (x)	1.1	1.0	0.9	0.8	0.8
	FCF Yield (%)	(3.3)	7.3	(12.3)	2.7	2.9
<b>Key drivers</b>	Dividend Yield (%)	1.6	3.8	4.0	3.6	3.6
i. Introduction of new Perodua and Toyota models	EV/EBITDA (x)	19.25	2.29	2.73	2.29	1.80
ii. Long-term growth potential from aerospace business.	EV/EBIT (x)	na	3.58	4.62	3.78	2.95
	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	11,061	15,814	15,191	14,583	14,664
i. Weaker-than-expected orders and deliveries;	Gross profit	1,194	2,806	2,653	2,584	2,627
ii. Softer-than-expected margins;	EBITDA	172	946	856	850	868
iii. Stronger-than-expected USD/MYR.	Depreciation and amortisation	(344)	(341)	(349)	(335)	(337)
	Operating profit	(171)	606	507	514	531
<b>Company Profile</b>	Net interest	(108)	(114)	(93)	(92)	(92)
UMW is the largest company in the automotive sector.	Pre-tax profit	37	896	874	814	802
Its 51%-owned subsidiary UMW-Toyota imports,	Taxation	33	(219)	(152)	(154)	(159)
assembles and distributes Toyota and Lexus vehicles	Reported net profit	(177)	415	450	405	393
in Malaysia.	Recurring net profit	226	399	450	405	393
	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(221)	0	(234)	6	(4)
	Cash flow from operations	261	825	268	516	525
	Capex	(406)	(507)	(800)	(400)	(400)
	Cash flow from investing activities	12	(507)	(432)	(100)	(129)
	Dividends paid	(68)	(166)	(175)	(158)	(158)
	Cash flow from financing activities	(275)	(196)	(205)	(188)	(188)
	Cash at beginning of period	2,051	2,941	2,808	2,438	2,667
	Net change in cash	(2)	122	(370)	228	209
	Ending balance cash	2,057	3,064	2,438	2,667	2,875
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	2,941	2,808	2,438	2,667	2,875
	Tangible fixed assets	2,545	2,706	2,965	2,961	2,958
	Total investments	2,524	2,655	2,642	2,626	2,612
	Total assets	12,173	12,417	12,326	12,395	12,599
	Short-term debt	655	225	217	217	217
	Total long-term debt	2,133	1,379	1,378	1,378	1,378
	Total liabilities	5,410	5,277	4,988	4,855	4,864
	Total equity	6,763	7,140	7,338	7,540	7,735
	Total liabilities & equity	12,173	12,417	12,326	12,395	12,599
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	15.8	43.0	(3.9)	(4.0)	0.6
	Recurrent EPS growth (%)	(20.6)	76.5	12.7	(10.0)	(3.0)
	Gross margin (%)	10.8	17.7	17.5	17.7	17.9
	Operating EBITDA margin (%)	1.6	6.0	5.6	5.8	5.9
	Net profit margin (%)	(1.6)	2.6	3.0	2.8	2.7
	Dividend payout ratio (%)	(38.2)	40.0	38.9	38.9	40.1
	Capex/sales (%)	3.7	3.2	5.3	2.7	2.7
	Interest cover (x)	(1.58)	5.31	5.46	5.57	5.75

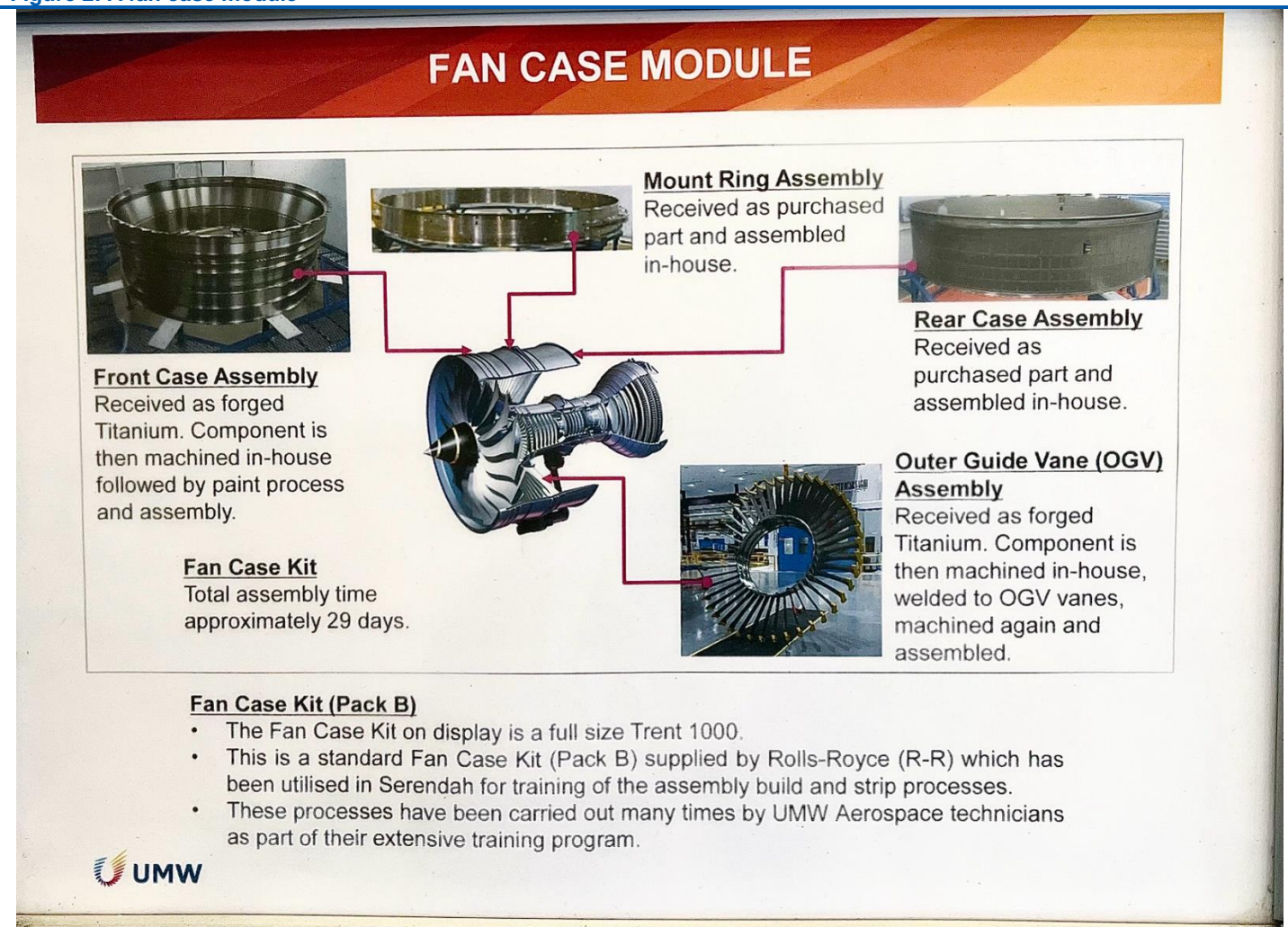
Source: Company data, RHB

Figure 1: Key assumptions

FYE Dec	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Toyota/Lexus TIV (units)	70,009	59,320	72,394	101,034	100,000	90,000	85,000
Perodua TIV (units)	240,341	220,154	190,291	282,019	320,000	250,000	230,000

Source: Company data, RHB

Figure 2: A fan case module



Source: Company data, RHB



Figure 3: Area highlighted is the rear case, assembled into a fan case



Source: RHB

Figure 4: UMW makes the fan case used in the Rolls-Royce Trent 1000 engine, which is fitted in the Boeing 787 Dreamliner



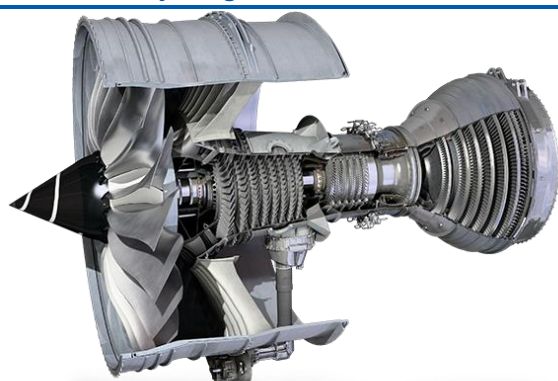
Source: AINonline.com

Figure 5: UMW also makes fan case used in the Rolls-Royce Trent 7000 engine, which is fitted in the Airbus A330neo



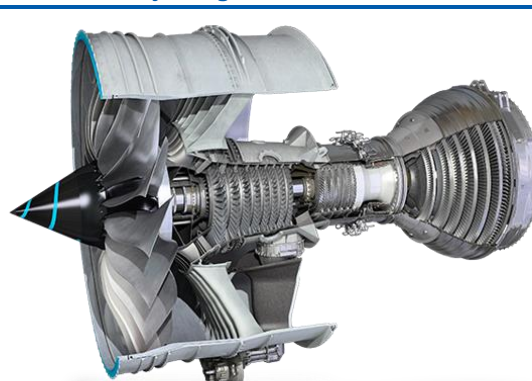
Source: Rolls-Royce

Figure 4: Trent 1000 jet engine



Source: Rolls-Royce

Figure 7: Trent 7000 jet engine



Source: Rolls-Royce

## Recommendation Chart

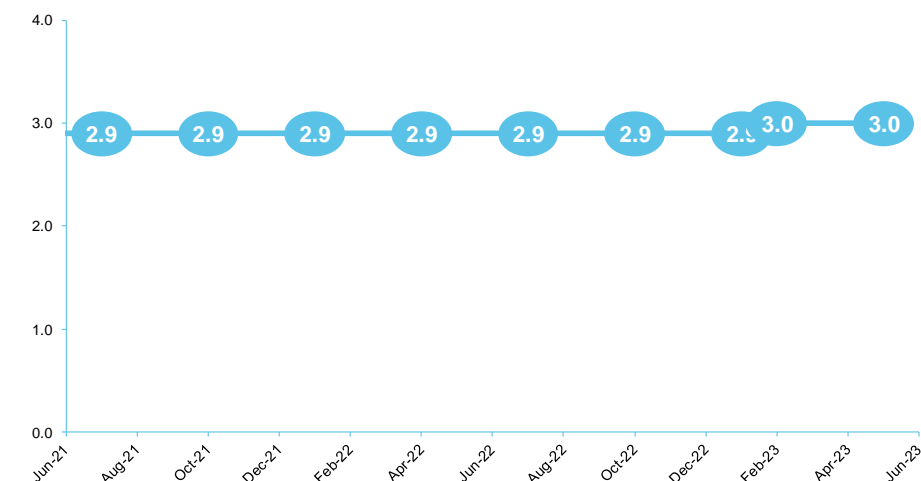


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-06-01	Neutral	3.80	3.89
2023-02-28	Buy	5.00	3.90
2023-02-17	Buy	5.10	3.85
2022-11-30	Neutral	3.35	3.26
2022-08-28	Neutral	3.10	3.06
2022-07-15	Neutral	2.90	2.83
2022-05-25	Neutral	3.64	3.35
2022-03-15	Neutral	3.29	3.06
2022-02-28	Neutral	3.29	3.07
2021-11-30	Neutral	2.83	3.08
2021-08-27	Neutral	2.94	3.11
2021-07-27	Neutral	2.94	2.91
2021-05-25	Neutral	3.43	3.25
2021-04-22	Neutral	3.40	3.38
2021-02-26	Neutral	2.98	2.99

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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