



MARC RATINGS BERHAD

P R E S S A N N O U N C E M E N T

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MARC RATINGS AFFIRMS RATINGS ON UMW'S IMTN AND PERPETUAL SUKUK PROGRAMMES

MARC Ratings has affirmed its **AA+*IS*** rating on UMW Holdings Berhad's (UMW) RM2.0 billion Islamic Medium-Term Notes Programme (Sukuk Musharakah) and its **AA-*IS*** rating on the RM2.0 billion Perpetual Sukuk Programme. The outlook for all ratings is **stable**.

UMW's longstanding leading position in the domestic automotive market, significant automotive sales in recent years that have translated into strong earnings, and healthy consolidated balance sheet are key rating drivers to the affirmation. These strengths are moderated by the keen price competition in the domestic automotive industry that could weigh on margins, and the potential impact on financial performance from business divestments and other structural changes to better align with parent Sime Darby Berhad following the completion of an acquisition exercise in March 2024.

MARC Ratings notes that while both Sime Darby and UMW mainly operate in the automotive as well as heavy and industrial equipment segments, the latter's primary businesses have remained independent and intact as at date, save for the disposal of its 74% stake in UMW Komatsu Heavy Equipment Sdn Bhd. This disposal, expected to be completed by 3Q2024, was necessitated to prevent competition between two principals involved in the distribution of heavy equipment within the Sime Darby group. The rating agency views the financial impact on UMW Group's performance to be minimal as this segment accounted for about 6% or RM80 million of its profit before tax as at end-December 2023. MARC Ratings understands that no further significant divestment is envisaged over the near term, with focus to remain on group-wide cost optimisation following the acquisition.

For 1Q2024, UMW sold 109,340 vehicles, accounting for 54.1% of the total industry volume, retaining its leading market position in the domestic automotive industry (1Q2023: 103,783 units or 53.9%). Its key marques are *Toyota*, *Lexus*, and *Perodua*. The long-established collaboration with the Toyota group, which holds a collective 49% interest in and has been providing technical expertise to UMW Toyota Motor Sdn Bhd, has contributed to the continued strong performance.

In 1Q2024, the automotive segment recorded 5.8% and 16.1% y-o-y growth in revenue and pre-tax profit to RM3.8 billion and RM252 million. Given total backlog orders of 143,000 units as at end-March 2024 (Toyota: 23,000 units; Perodua: 120,000 units), the rating agency views automotive sales performance would be sustained in the near term, cushioning any weakening consumer demand from rising costs of living as well as the potential fuel subsidy rationalisation. Operating profit margin, despite experiencing an uptick in recent years, remains in the single digits, reflecting the competitive nature of the automotive industry.

Group borrowings remained unchanged at RM1.6 billion, with a debt-to-equity ratio of 0.29x (adjusted to include 50% of Perpetual Sukuk) as at end-March 2024. The group has remained in a net cash position for four consecutive years. Liquidity position remained strong with cash balances of RM2.8 billion, allowing the group to largely fund its capex internally.

At the holding company level, UMW's debt servicing and repayment ability relies mainly on dividends from its key operating entities. In 2023, it recorded revenue of RM383.2 million; borrowings consisted of the outstanding sukuk, with the first sukuk repayment of RM400 million due in November 2025. Dividends of RM130.8 million paid in 2023 (2022: RM102.8 million) reflect a moderate dividend payout policy that takes into consideration the capex requirement at subsidiary levels.

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