

Outthink. Outperform.

## 9M19: Below expectations

UMW Holdings (UMWH) reported a weak set of results – 9M19 core net profit fell 45% yoy to RM239m, mainly due to a weaker EBIT margin (-2.3ppts yoy to 3%). All in, the results were below street and our expectations. We think UMW's near-term prospects look lethargic, in view of the subdued demand for Toyota vehicles and heavy equipment. We cut our 2019-21E EPS by 6-8% to factor in the weak 9M19 results and weaker margins. We reiterate our HOLD rating on UMWH with a lower TP of RM4.75 (from RM4.90). At 15x 2020E PER, the valuation looks fair.

### Sequentially, 3Q19-core pretax profit was flat at RM150m

Sequentially, UMWH's 3Q19 headline net profit doubled to RM103m as 2Q19 was hit by: i) additional sukuk expense, ii) a higher effective tax and iii) losses from discontinued operations of RM2m. Excluding these negatives, 3Q19 pretax profit was flat at RM150m (-1% qoq), due to weaker contribution from the Automotive and Equipment segments that was partially offset by higher contribution from Manufacturing & Engineering (M&E) segment. The [restated](#) 2Q19 pretax profit was RM152m due to an omitted elimination for the reversal of provision for a financial guarantee of RM27m). **The Automotive 3Q19 PBT fell by 7% qoq** to RM140m on a lower Toyota sales volume (-6% qoq to 16k units); the sluggish demand for both heavy and industrial equipment also saw **the equipment segment 3Q19 PBT drop by 13% qoq** to RM31m. On a brighter note, **the M&E segment 3Q19 PBT improved by 18% qoq** to RM15m as more fan cases were delivered from the Aerospace sub-segment.

### 9M19 core net profit fell by 45% yoy; below expectations

Although 9M19 revenue was flat at RM8.6bn, UMWH reported a weak 9M19 core net profit of RM239m (-45% yoy), which was below street and our expectations (62% and 69% of the respective full-year forecasts). The earnings disappointment was mainly due to weaker-than-expected EBIT margins (9M19: -2.3ppts yoy to 3%) from the Automotive and Equipment segments. UMWH declared a 4 sen special dividend for 3Q19.

### Maintain HOLD call with a lower 12-month TP of RM4.75

We cut our 2019-21E core EPS by 6%-8%, after imputing the weak 9M19 results and lowering our auto and equipment margins. In tandem, we lower our TP to RM4.75 (from RM4.90; Fig 2). At a 15x 2020 PER (close to the post O&G demerger average of 14x), the valuation looks fair. Key upside risks: a strong rebound in vehicle sales, pick-up in equipment sales and strengthening of the RM (vs. the US\$). Key downside risk: intense competition in automotive and equipment segment and higher-than-expected losses of O&G assets.

### Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	11,066.6	11,303.6	11,100.2	10,882.6	10,803.3
EBITDA (RMm)	389.0	815.9	649.1	659.3	694.4
Pretax profit (RMm)	266.6	800.3	566.9	589.9	623.3
Net profit (RMm)	(640.6)	344.5	315.3	330.3	350.2
EPS (sen)	(54.8)	29.5	27.0	28.3	30.0
PER (x)	n.m	14.9	16.3	15.6	14.7
Core net profit (RMm)	164.7	520.8	320.3	333.3	352.2
Core EPS (sen)	14.1	44.6	27.4	28.5	30.1
Core EPS growth (%)	(16.0)	216.2	(38.5)	4.0	5.7
Core PER (x)	n.m	9.9	16.0	15.4	14.6
Net DPS (sen)	0.0	7.5	7.0	7.5	8.0
Dividend Yield (%)	0.0	1.7	1.6	1.7	1.8
EV/EBITDA (x)	17.3	8.2	9.8	9.2	8.3
Chg in EPS (%)			(8.2)	(6.3)	(8.4)
Affin/Consensus (x)			0.8	0.8	0.7

Source: Company, Bloomberg, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)

## Results Note

# UMW Holdings

UMWH MK

Sector: Auto & Autoparts

**RM4.40 @ 28 November 2019**

**HOLD (maintain)**

Upside: 8%

**Price Target: RM4.75**

Previous Target: RM4.90



## Price Performance

	1M	3M	12M
Absolute	-1.6%	-12.2%	-12.4%
Rel to KLCI	-2.4%	-11.8%	-6.7%

## Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	5140.5/1232.1
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	4.32-6.02
Est free float	30.1%
BV per share (RM)	2.98
P/BV (x)	1.48
Net cash/ (debt) (RMm)	(623.61)
Derivatives	No
Shariah Compliant	Yes

## Key Shareholders

ASB	41.1%
EPF	11.3%
Yayasan Pelaburan Bumiputra	7.2%
KWAP	6.8%

Source: Affin Hwang, Bloomberg

Brian Yeoh  
(603) 2146 7658  
brian.yeoh@affinhwang.com

Fig 1: Results comparison

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FY 31 Dec (RMm)	3Q18	2Q19	3Q19	qoq % chg	yoy % chg	9M18	9M19	yoy % chg	Comment
<b>Revenue</b>	3,289.8	2,966.0	2,882.7	-2.8	-12.4	8,624.3	8,623.5	0.0	9M19 revenue was flat, on the back of higher revenue from M&E (+22% yoy), offset by lower revenue from automotive (-0.8% yoy) and equipment (-5.5% yoy) segments
Op costs	-3,167.8	-2,865.1	-2,802.5	-2.2	-11.5	-8,165.2	-8,366.0	2.5	
<b>EBIT</b>	<b>122.0</b>	<b>100.9</b>	<b>80.1</b>	-20.6	-34.3	<b>459.1</b>	<b>257.5</b>	-43.9	
<i>EBIT margin (%)</i>	<i>3.7</i>	<i>3.4</i>	<i>2.8</i>	<i>-0.6ppt</i>	<i>-0.9ppt</i>	<i>5.3</i>	<i>3.0</i>	<i>-2.3ppt</i>	EBIT margin dipped by 2.3ppts to 3% due to lower margins from automotive and equipment segments.
Int expense	-26.4	-43.3	-30.8	-28.9	16.4	-71.9	-93.3	29.8	
Int income	23.4	18.4	15.7	-14.4	-32.6	64.2	51.9	-19.3	
Associates	58.3	76.1	85.2	11.9	46.2	170.6	227.0	33.1	Associate's 9M19 contribution grew by 33% yoy on higher Perodua sales (+6% yoy) and higher margin sales mix.
<b>Pretax from Cont. Operations</b>	<b>177.2</b>	<b>152.1</b>	<b>150.3</b>	-1.2	-15.2	622.0	443.1	-28.8	
<b>Discon-operations</b>	38.4	-2.0	1.9	n.m.	-95.0	-103.9	-0.5	-99.5	
Tax	-43.5	-36.3	-21.0	-42.2	-51.7	-112.7	-86.8	-23.0	
<i>Tax rate (%)</i>	<i>-20.2</i>	<i>-24.2</i>	<i>-13.8</i>	<i>10.4ppt</i>	<i>6.4ppt</i>	<i>-21.7</i>	<i>-19.6</i>	<i>2.1ppt</i>	
MI	-43.9	-56.6	-20.9	-63.0	-52.4	-78.9	-101.8	29.1	
<b>Net profit</b>	<b>128.1</b>	<b>57.2</b>	<b>110.3</b>	92.9	-13.9	<b>326.6</b>	<b>254.0</b>	-22.2	
<b>Con-operations</b>	96.7	50.1	103.3	>100	6.8	434.4	239.1	-45.0	
<b>Discon-operations</b>	31.4	7.1	6.9	-2.3	-77.9	-107.8	14.9	n.m.	
EPS (sen)	11.0	4.9	9.4	92.9	-13.9	28.0	21.7	-22.2	
<b>Core profit</b>	<b>96.7</b>	<b>50.1</b>	<b>103.3</b>	>100	6.8	<b>434.4</b>	<b>239.1</b>	-45.0	Below street and our expectations.

Source: Company, Affin Hwang estimates

Fig 2: Lower SOTP of RM4.75 (from RM4.90)

Segmental	multiple	Share base	Equity value per share (RM)	Comment
<b>Automotive</b>				
- Toyota	PE 12.0x	1,168.3	0.37	Pegged to 12x forward earnings
- Perodua	PE 12.0x	1,168.3	3.19	Pegged to 12x forward earnings
<b>Equipment</b>	PE 9.0x	1,168.3	0.81	Pegged to 9x forward earnings
<b>M&amp;E</b>	PE 12.0x	1,168.3	0.38	Pegged to 12x forward earnings
<b>SOP (RM)</b>			<b>4.75</b>	

Source: Company, Affin Hwang estimates

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)  
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
69, Jalan Raja Chulan,  
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700  
F : + 603 2146 7630  
research@affinhwang.com

www.affinhwang.com