



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

29 Nov 2019

Outlook for equipment division weak

HOLD

(Maintained)

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Rationale for report: Company results/update

Price	RM4.40
Fair Value	RM4.74
52-week High/Low	RM6.02/RM4.32

Key Changes

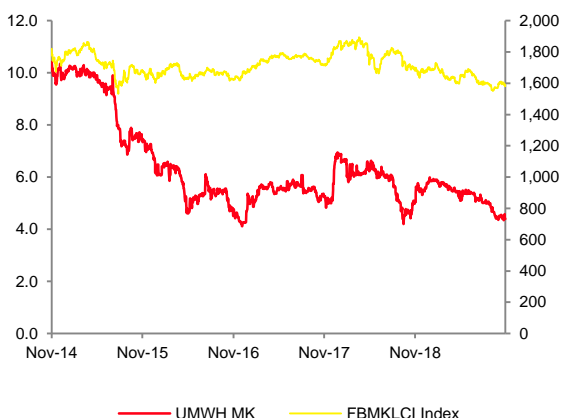
Fair value	⬇️
EPS	⬇️

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	11,303.6	11,172.6	11,544.4	11,973.0
Core net profit (RM mil)	440.7	357.8	375.2	432.8
FD Core EPS (sen)	37.7	30.6	32.1	37.0
FD Core EPS growth (%)	(549.5)	(18.8)	4.9	15.3
Consensus Net Profit (RM mil)	-	383.9	431.5	470.5
DPS (sen)	15.4	9.2	9.6	11.1
PE (x)	11.7	14.4	13.7	11.9
EV/EBITDA (x)	8.2	6.0	5.8	5.2
Div yield (%)	3.5	2.1	2.2	2.5
ROE (%)	16.1	10.3	10.1	10.8
Net Gearing (%)	45.5	36.5	29.6	22.4

Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RM mil)	5,140.5
Book Value (RM/share)	2.86
P/BV (x)	1.5
ROE (%)	16.1
Net Gearing (%)	45.5
Major Shareholders	ASB (40.7%) EPF (8.8%) PNB (7.3%)
Free Float	32.6
Avg Daily Value (RM mil)	1.7

Price performance	3mth	6mth	12mth
Absolute (%)	(12.2)	(19.4)	(12.4)
Relative (%)	(11.8)	(17.8)	(6.7)



Investment Highlights

- We maintain our HOLD call on UMW Holdings (UMWH) with a lower SOP-derived FV of RM4.74 based on a FY20F PE of 10x for its motor segment.
- We trim UMWH's FY19/20/21 core net profit forecast by 10%/14%/14% after factoring in lower revenue and PBT margin assumptions for the group's equipment division. We also reduce the segment's PE multiple to 11x from 12.5x due to the muted local construction sector's prospects for FY20F.
- UMWH's 9M19 core net profit of RM266.2mil (-15%YoY) was below our expectations, accounting for 66% and 69% of our forecasts and consensus respectively.
- We have also factored in the provision of a financial guarantee of RM27mil into our estimates following UMWH's recent announcement of an error in its financial statements causing an overstatement in its 2Q19 results.
- For the automotive segment, the group recorded a marginally lower 9M19 revenue of RM6.85 bil (-1% YoY) and PBT of RM415.4mil (-1% YoY) compared to 9M18 due to lower vehicles sold due to a high-base effect from 2018's tax holidays. Toyota sold a total of 47.6K units in 9M19 (-10% YoY) vs. 52.6K units in 9M18.
- From the group's analyst briefing yesterday, UMWH revised its 2019 sales volume target downwards to 72.0K from 75.0K units. The group also aims to capture at least a minimum of 12% market share for the year 2020 with a TIV projection of 612.0K for the year.
- We noted an impressive increase in 9M19 associate earnings of RM227.0mil (+34% YoY) mainly attributed to better performance from Perodua. Perodua sold a total of 178.8K units in 9M19 vs. 168.2K units in 9M18 (+6% YoY). The strong sales performance was buoyed by the sales of the new Aruz and healthy demand for its entire passenger car fleet.
- UMWH's equipment segment posted a slightly lower 9M19 revenue of RM1.1bil (-5% YoY) while net profit for the division slid significantly to RM82.2mil (-17% YoY). The lower revenue and profits was attributed to the intense competition and also a slowdown in the Malaysian construction sector. We expect the division's outlook to remain challenging as management guided that the demand in the construction and manufacturing sectors are likely to be sluggish for the rest of 2019 and 2020.

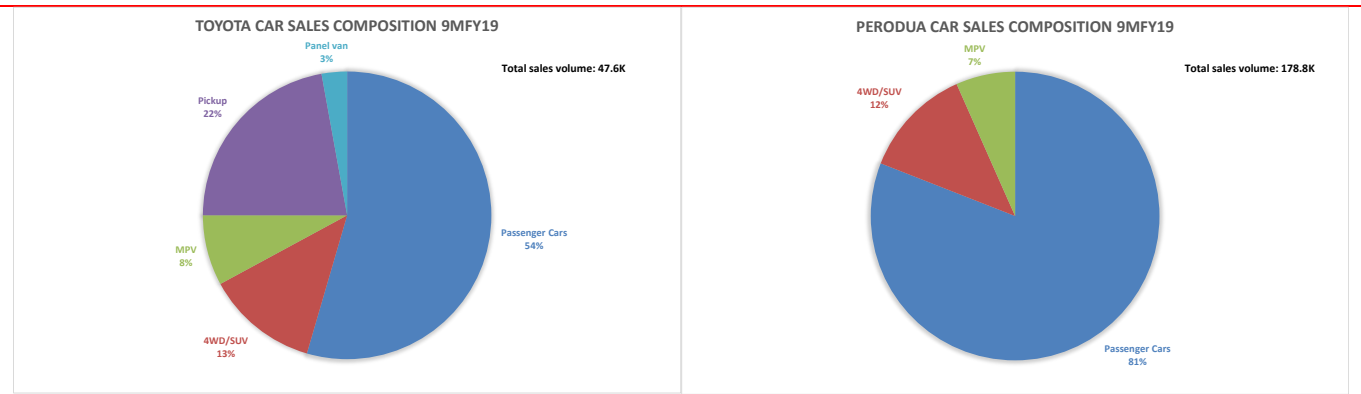
- UMWH's M&E segment registered a higher 9M19 revenue of RM734.0mil (+22% YoY) and an impressive net profit of RM12.6mil, compared to a 9M18 net loss of RM6.7mil. This was backed by higher production of fan cases in the aerospace unit and improved sales from the auto component business.
- UMWH's management has guided that the production ramp-up is progressing as planned with orders from Rolls-Royce. The production of Trent 7000 is scheduled to commence in 4Q2020 and with its volume combined with the Trent 1000 fan cases to drive towards the volume needed to beyond breakeven in end 2020.
- UMWH declared a special dividend of 4 sen for the quarter.
- Going forward, we continue to be apprehensive on Toyota's outlook in FY20 due to heightened competition in the passenger vehicle space with the expected launch of the Nissan Almera CKD, Honda Jazz and Honda City 2020 CKD. These models serve as direct competitors to the Toyota Vios and Yaris.

EXHIBIT 1: RESULTS SUMMARY

RM mil	3Q18	2Q19	3Q19	QoQ	YoY	9M18	9M19	YoY
Revenue	3,289.8	2,966.0	2,882.7	-3%	-12%	8,624.3	8,623.5	0%
Operating Expenses	(3,191.9)	(2,899.2)	(2,835.2)	-2%	-11%	(8,231.3)	(8,453.2)	3%
Other Operating Income	24.1	34.0	32.7	-4%	36%	60.7	87.2	44%
Operating Profit	122.0	100.9	80.1	-21%	-34%	453.7	257.5	-43%
Finance Costs	(26.4)	(43.3)	(30.8)	-29%	16%	(54.1)	(93.3)	72%
Share of Profits of Associates & JV	58.3	76.1	85.2	12%	46%	169.0	227.0	34%
Investment Income	23.4	18.4	15.7	-14%	-33%	64.2	51.9	-19%
Profit before tax	177.2	152.1	150.3	-1%	-15%	632.8	443.1	-30%
Tax	(43.5)	(36.3)	(21.0)	-42%	-52%	(112.7)	(86.8)	-23%
Profit after tax	133.7	115.8	129.3	12%	-3%	520.1	356.3	-31%
Minority interest								
Continuing operations	37.0	30.9	26.0	-16%	-30%	99.3	82.4	-17%
Discontinued operations	7.0	(9.2)	(5.0)	-45%	-172%	(20.5)	(15.4)	-25%
Total	43.9	21.7	20.9	-4%	-52%	78.9	67.0	-15%
Net profit								
Continuing operations	96.7	50.1	103.3	106%	7%	420.8	239.1	-43%
Discontinued operations	31.4	0.8	6.9	773%	-78%	(94.2)	8.5	-109%
Total	128.1	50.9	110.3	117%	-14%	326.6	247.7	-24%
Core net profit	108.2	85.3	94.2	10%	-13%	313.3	266.2	-15%
Margins								
EBIT margin	3.7%	3.4%	2.8%			5.3%	3.0%	
PBT Margin	5.4%	5.1%	5.2%			7.3%	5.1%	
Net profit margin	2.9%	1.7%	3.6%			4.9%	2.8%	
Core net profit margin	3.3%	2.9%	3.3%			3.6%	3.1%	
Toyota								
Sales volume (units)	20,940	17,529	16,357	-7%	-22%	52,649	47,608	-10%
Perodua								
Sales volume (units)	51,105	61,123	56,972	-7%	11%	168,203	178,754	6%

Source: AmlInvestment Bank

EXHIBIT 2: TOYOTA AND PERODUA SALES MIX 9M19



Source: AmlInvestment Bank Bhd

EXHIBIT 3: SEGMENTAL BREAKDOWN

<u>Segmental Breakdown</u>	3Q18	2Q19	3Q19	QoQ	YoY	9M18	9M19	YoY
Revenue								
Automotive	2,643.4	2,386.4	2,296.9	-4%	-13%	6,903.1	6,845.9	-1%
Equipment	403.4	343.6	353.7	3%	-12%	1,142.4	1,080.1	-5%
Manufacturing & Engineering	253.6	244.5	252.4	3%	0%	600.3	734.0	22%
Others	(10.6)	(8.5)	(20.3)	138%	93%	(21.6)	(36.6)	69%
Total	3,289.8	2,966.0	2,882.7	-3%	-12%	8,624.3	8,623.5	0%
PBT								
Automotive	151.3	151.1	140.1	-7%	-7%	419.6	415.4	-1%
Equipment	43.5	35.5	30.8	-13%	-29%	126.3	108.4	-14%
Manufacturing & Engineering	15.5	13.2	15.4	16%	-1%	12.1	30.9	155%
Eliminations	(33.1)	(47.7)	(35.9)	-25%	8%	74.8	(111.6)	-249%
Total	177.2	152.1	150.3	-1%	-15%	632.8	443.1	-30%
Net profit								
Automotive	89.6	102.4	104.4	2%	16%	257.7	292.4	13%
Equipment	32.9	28.2	23.2	-18%	-30%	99.3	82.2	-17%
Manufacturing & Engineering	8.6	6.7	9.1	36%	5%	(6.7)	12.6	-288%
Others	23.8	(25.5)	(60.3)	137%	-353%	124.9	(113.3)	-191%
Total	155.0	111.9	41.5	-63%	-73%	475.2	239.1	-50%
PBT Margin								
Automotive	5.7%	6.3%	6.1%			6.1%	6.1%	
Equipment	10.8%	10.3%	8.7%			11.1%	10.0%	
Manufacturing & Engineering	6.1%	5.4%	6.1%			2.0%	4.2%	
Net Profit Margin								
Automotive	3.4%	4.3%	4.5%			3.7%	4.3%	
Equipment	8.2%	8.2%	6.6%			8.7%	7.6%	
Manufacturing & Engineering	3.4%	2.7%	3.6%			-1.1%	1.7%	

Source: AmlInvestment Bank Bhd

EXHIBIT 4: SOP MATRIX

Segment	SOP VALUATION				Value (RM/share)	No. of Shares
	PAT (RM mil)	Stake	PE (x)	Value (RM mil)		
Automotive	433	51%	10	2,206	1.89	1,168.3
Equipment	88	91%	11	877	0.75	
M&E	74		12	893	0.76	
					3.40	
Add: Others segment	80			80	0.07	
Add: Perodua	574	38%	11	2,401	2.06	
Add: Serendah land (821 acres at RM15/psf)				536	0.46	
Add: Cash Proceeds from disposal of land				14	0.01	
Add: Company net debt				(1,468)	(1.26)	
Fair Value					4.74	

Source: AmlInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	11,066.6	11,303.6	11,172.6	11,544.4	11,973.0
EBITDA	389.0	815.9	1,074.2	1,091.4	1,178.1
Depreciation/Amortisation	(265.3)	(273.7)	(423.9)	(451.9)	(478.4)
Operating income (EBIT)	123.7	542.2	650.3	639.4	699.7
Other income & associates	182.0	270.7	206.5	218.3	230.5
Net interest	(39.1)	(12.6)	(27.8)	4.7	11.7
Exceptional items	-	-	-	-	-
Pretax profit	266.6	800.3	829.0	862.4	941.9
Taxation	(121.7)	(124.1)	(149.4)	(154.6)	(170.8)
Minorities/pref dividends	19.8	(155.4)	(321.8)	(332.6)	(338.4)
Net profit	35.3	515.4	357.8	375.2	432.8
Core net profit	(98.0)	440.7	357.8	375.2	432.8
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	2,658.1	2,820.9	3,719.6	4,039.4	4,357.3
Intangible assets	-	-	-	-	-
Other long-term assets	2,520.8	2,851.9	2,888.6	2,928.3	2,977.3
Total non-current assets	5,178.9	5,672.9	6,608.1	6,967.7	7,334.6
Cash & equivalent	1,169.6	1,311.8	1,338.0	1,452.3	1,606.1
Stock	1,410.7	1,548.5	1,350.0	1,394.9	1,446.7
Trade debtors	1,021.3	1,076.6	918.3	948.9	984.1
Other current assets	1,315.2	1,148.3	1,148.3	1,148.3	1,148.3
Total current assets	4,916.8	5,085.1	4,754.6	4,944.4	5,185.2
Trade creditors	2,795.5	1,854.0	2,190.9	2,263.8	2,347.8
Short-term borrowings	691.9	535.0	1,277.9	1,534.9	1,791.9
Other current liabilities	165.5	106.3	214.8	219.8	225.5
Total current liabilities	3,652.9	2,495.3	3,683.6	4,018.5	4,365.2
Long-term borrowings	2,069.7	2,298.2	1,371.7	1,058.7	745.8
Other long-term liabilities	194.7	250.0	90.5	92.7	95.1
Total long-term liabilities	2,264.4	2,548.3	1,462.3	1,151.4	840.9
Shareholders' funds	3,047.2	3,344.6	3,595.1	3,857.7	4,160.7
Minority interests	1,131.2	2,369.8	2,621.7	2,884.5	3,153.1
BV/share (RM)	2.61	2.86	3.08	3.30	3.56
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	266.6	800.3	829.0	862.4	941.9
Depreciation/Amortisation	265.3	273.7	423.9	451.9	478.4
Net change in working capital	1,099.3	(1,075.1)	644.2	3.5	4.0
Others	(478.5)	(640.4)	(506.6)	(554.8)	(588.9)
Cash flow from operations	1,152.7	(641.6)	1,390.4	763.0	835.5
Capital expenditure	(869.8)	(847.8)	(670.4)	(577.2)	(598.7)
Net investments & sale of fixed assets	(234.8)	-	-	-	-
Others	(746.1)	182.4	135.8	166.9	172.6
Cash flow from investing	(1,850.7)	(665.4)	(534.6)	(410.3)	(426.0)
Debt raised/(repaid)	194.8	(56.0)	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(75.9)	(180.4)	(107.3)	(112.6)	(129.8)
Others	-	1,064.6	(69.9)	(69.9)	(69.9)
Cash flow from financing	118.9	828.2	(233.2)	(238.4)	(255.6)
Net cash flow	(579.0)	(478.7)	622.7	114.3	153.8
Net cash/(debt) b/f	1,607.3	1,193.4	715.3	1,338.0	1,452.3
Net cash/(debt) c/f	1,204.9	714.7	1,338.0	1,452.3	1,606.1
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	6.0	2.1	(1.2)	3.3	3.7
EBITDA growth (%)	(252.4)	109.7	31.7	1.6	8.0
Pretax margin (%)	2.4	7.1	7.4	7.5	7.9
Net profit margin (%)	0.3	4.6	3.2	3.3	3.6
Interest cover (x)	3.2	43.1	23.4	nm	nm
Effective tax rate (%)	45.6	15.5	18.0	17.9	18.1
Dividend payout (%)	161.3	26.3	22.5	22.5	22.5
Debtors turnover (days)	33	34	33	30	29
Stock turnover (days)	55	48	47	43	43
Creditors turnover (days)	77	75	66	70	70

Source: Company, AmlInvestment Bank Bhd estimates

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