

Company Result

29 November 2019

UMW Holdings Berhad

Unexciting earnings outlook

HOLD

Downgraded

Share Price	RM4.40
Target Price	RM4.80

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	5140.49
52-week price Range	RM4.32-6.02
Beta (against KLCI)	0.69
3-m Average Daily Volume	0.35m
3-m Average Daily Value	RM1.67

Share Performance

	1m	3m	12m
Absolute (%)	-0.7	-9.8	-11.6
Relative (%-pts)	-1.1	-11.5	-5.4

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	41.14
EMPLOYEES PROVIDENT FUND	11.31
YAYASAN PELABURAN BUMIPUTRA	7.15
ESTIMATED FREE FLOAT	30.07

Historical Chart



Source: Bloomberg

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Result

- **UMW Holdings Berhad (UMW) registered a core net profit of RM101.2m during 3Q19 which increased 13.3% qoq but depleted 27.5% yoy.** Meanwhile, revenue stood at RM2.9b, which tumbled 2.8% qoq and 12.4% yoy.
- **As for 9M19, the Group posted a core net profit of RM273.7m which dropped 18.7% yoy on the back of flattish revenue.** The subdued performance was dented by discouraging earnings from the Automotive and Equipment segments which offset the greater revenue from the Manufacturing & Engineering segment.
- **Below our expectations.** 9M19 core net profit of RM273.3m is below our in-house expectation (66%) but within market expectation (70% of full year earnings estimates).

Comment

- **Subdued Automotive segment.** Auto segment recorded sluggish revenue which slid 3.7% qoq and 13.1% yoy respectively on the back of slower PBT which tumbled 7.3% qoq and 7.4% yoy. Lower revenue was due to slower vehicles sales due to high base effect which spurred by tax holiday. Domestic Toyota car sales depleted 6.7% qoq and 22% yoy while Perodua was down 6.8% qoq but improved 11.5% yoy. Higher YoY Perodua sales were due to higher demand for new Myvi as well as Perodua Aruz which was introduced in early January this year. We reckon that the Auto segment will improve in the next quarter following launching of few new variants such as Axia facelift (Aug'19) and Toyota Corolla (Sept'19) coupled with massive promotional and campaign activities as well as inventory clear off towards end of the year. Overall, we believe the Auto segment will grow at steady pace going forward as Bukit Raja Plant (BRP) almost hit the production capacity of 50k units/year with 80% utilization rate and easily double the capacity with minimal capex requirement. Besides, the Group is upgrading their Shah Alam plant (SAP) currently to cater for potential new models.
- **Lackluster Equipment division.** The Equipment segment's revenue inched up 2.9% qoq but tumbled 12.3% qoq. The sluggish YoY revenue was due to slower activities in manufacturing, construction and logging which dampened Heavy Equipment business. Moreover, PBT tumbled 13.2% qoq and 29.3% yoy, dragged down by margin squeeze in relation to challenging markets for both of its Heavy and Industrial Equipment businesses. Overall,

the Group expects outlook for Equipment division to remain subdued in the near term on the back of sluggish demand from manufacturing, mining and logging sectors. However, the Group believes the division's growth will be underpinned by revival of few mega projects by Malaysian government, stellar demand from Singapore and Papua New Guinea, as well as expansion of product line-up in Vietnam.

- **Aerospace business under M&E division is expected to breakeven in FY20.** Manufacturing & Engineering's revenue improved 3.1% qoq but flattish yoy, -0.5% yoy. Also, PBT increased 16.1% qoq but slid 1.2% yoy. Steady earnings on quarterly basis were buoyed by massive fan cases production from its Aerospace business as well as higher demand for auto-components products. The Group is currently ramping up their production within the time frame to meet the Rolls-Royce's demand and expects to breakeven in FY20. Besides, the business will also begin its production of Trent 7000 fan cases in FY20. Moreover, the Auto Components business is expected to remain steady following initial expansion and modernisation of KYB-UMW's plant as well as improved synergies between UMWT and Perodua.
- **Special dividend declared.** The Group has declared a special dividend of 4sen/share for FY19, representing 80% of our full year FY19 dividend forecast.

Earnings Outlook/Revision

- **We cut our earnings forecast for FY19 and FY20 by 8.5% and 4.7% respectively to account for lower margins due to high depreciation cost from Bukit Raja Plant (BRP).**

Valuation & Recommendation

- **Downgraded to HOLD from BUY on UMW with a lower target price of RM4.80 (RM5.60 previously) following our earnings cut and rolling over our valuation to FY20F.** Our valuation is now based on 13x FY2020F PE with a revised EPS of 37 sen. Target P/E ratio assigned is close to -1 standard deviation of 5-year average PE of 13.2x.
- **We are neutral on its outlook** as: 1) Auto division is dampened by stiff competition from other car makers, stringent loan approval and weak sentiment towards big ticket items; 2) Higher depreciation cost from BRP; and 3) Fluctuation of foreign exchange.

Figure 1: Quarterly Figures

Year to 31 Dec	3Q19 (RMm)	2Q19 (RMm)	3Q18 (RMm)	QoQ % chg	YoY % chg	9M19 (RMm)	9M18 (RMm)	YoY % chg
Revenue	2,882.7	2,966.0	3,290.0	-2.8%	-12.4%	8,623.5	8,624.4	0.0%
Operating Profit	80.1	100.9	171.6	-20.6%	-53.3%	257.5	510.4	-49.5%
Pre-tax Profit	150.3	152.1	233.6	-1.2%	-35.6%	443.1	703.0	-37.0%
Profit After Tax	131.2	113.8	172.1	15.4%	-23.7%	355.8	429.4	-17.1%
Net Profit	110.3	57.2	128.1	92.9%	-13.9%	254.0	343.7	-26.1%
Core Profit	101.2	89.3	139.5	13.3%	-27.5%	273.7	336.7	-18.7%
Margin (%)				ppts	ppts			ppts
Operating profit	2.8%	3.4%	5.2%	-0.6	-2.4	3.0%	5.9%	-2.9
Profit before tax	5.2%	5.1%	7.1%	0.1	-1.9	5.1%	8.2%	-3
Net profit	4.6%	3.8%	5.2%	0.7	-0.7	4.1%	5.0%	-0.9
Core profit	3.5%	3.0%	4.2%	0.5	-0.7	3.2%	3.9%	-0.7

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY19	3Q19 (RMm)	2Q19 (RMm)	3Q18 (RMm)	QoQ % chg	YoY % chg	9M19 (RMm)	9M18 (RMm)	YoY % chg
Segmental Revenue								
Automotive	2,296.9	2,386.4	2,643.4	-3.7%	-13.1%	6,845.9	6,903.1	-0.8%
Equipment	353.7	343.6	403.4	2.9%	-12.3%	1,080.1	1,142.4	-5.5%
M & E	252.4	244.5	253.6	3.2%	-0.5%	734.0	600.3	22.3%
Segmental PBT								
Automotive	140.1	151.1	151.2	-7.3%	-7.4%	415.43	419.6	-1.0%
Equipment	30.8	35.5	43.5	-13.2%	-29.3%	108.40	126.3	-14.1%
M & E	15.4	13.2	15.5	16.1%	-1.2%	30.92	12.1	154.8%
Segmental Margin (%)				ppts	ppts			ppts
Automotive	6.1%	6.3%	5.7%	-0.2	0.4	6.1%	6.1%	0.0
Equipment	8.7%	10.3%	10.8%	-1.6	-2.1	10.0%	11.1%	-1.0
M & E	6.1%	5.4%	6.1%	0.7	0.0	4.2%	2.0%	2.2

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2015	2016	2017	2018	2019F	2020F
Revenue	14,441.58	10,436.80	11,066.64	11,303.65	12,061.72	12,462.73
Operating profit	135.62	(484.55)	123.70	542.22	457.22	465.26
PBT	269.65	(282.10)	266.57	800.35	745.61	789.73
Net profit	(37.17)	(1,658.04)	(640.63)	379.93	377.98	430.54
Core profit	19.56	(401.80)	(85.77)	379.93	377.98	430.54
Core EPS (sen)	0.02	(0.31)	(0.07)	0.33	0.32	0.37
P/BV (x)	0.56	0.74	1.23	0.90	0.94	0.80
DPS (sen)	0.20	0.00	0.00	0.075	0.05	0.06
Dividend yield (%)	4.55%	0.00%	0.00%	1.70%	1.10%	1.26%
Operating margin (%)	0.94%	-4.64%	1.12%	4.80%	3.79%	3.73%
PBT margin (%)	1.87%	-2.70%	2.41%	7.08%	6.18%	6.34%
Net profit margin (%)	-0.26%	-15.89%	-5.79%	3.36%	3.13%	3.45%
Net Gearing Ratio(x)	0.64	0.88	0.66	0.50	0.66	0.77
ROE (%)	0.21%	-5.36%	-2.05%	6.73%	6.92%	6.66%
ROA (%)	-0.21%	-10.23%	-6.44%	3.53%	3.02%	2.88%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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