

28 Nov 2019

# Buy

**Price**  
 RM4.40

**Target Price**  
 RM5.10 (from RM5.80)

## Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	5,140.5
52-week high/low (RM)	6.02 / 4.32
Avg daily turnover (RMm)	1.7
KLCI (pts)	1,583.8

Source: Bloomberg, KAF

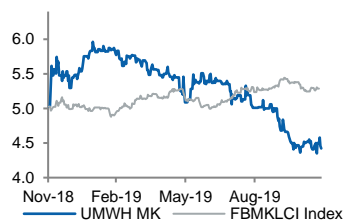
## Major Shareholder (%)

Skim Amanah Saham Bumiputera	(41.1%)
EPF	(11.1%)
Yayasan Perlaburan Bumiputera	(7.2%)
Free Float	30.1

Source: Bloomberg, KAF

## Performance

	3M	6M	12M
Absolute (%)	(12.2)	(19.4)	(12.4)
Rel Market (%)	(11.8)	(17.8)	(6.7)



Source: Bloomberg, KAF

## Analyst

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# UMW Holdings

## A slower 9M

UMW's 9M core earnings of RM206m missed estimates mainly on weaker auto and equipment sales as well as weaker margins for the latter. A 4 sen special DPS was declared. For 2020, management targets 12% market share of TIV with 4 potential new SUV models (in addition to other facelifts) to be launched. While equipment sales remain challenging, the aerospace division is on track to breakeven. Maintain Buy.

## Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	11,067	11,304	10,968	11,436	11,749
Core net profit (RMm)	169	361	290	380	418
Core EPS (Sen)	14.4	30.9	24.8	32.5	35.8
EPS growth (%)	(61.4)	>100	(19.7)	30.8	10.1
DPS (Sen)	0.0	7.5	8.0	9.0	9.0
Core PE (x)	30.5	14.2	17.7	13.5	12.3
Div yield (%)	0.0	1.7	1.8	2.0	2.0
ROE (%)	3.7	17.2	8.3	9.9	9.9
Net Gearing (%)	52.2	45.5	48.3	50.5	49.3
PBV(x)	1.2	0.9	0.8	0.8	0.7

Source: Company, KAF

**A slow 9M.** UMW's 9M19 core earnings of RM206m were below expectations at 48% of our FY19 forecast and 53% of consensus. Core earnings fell 49% from a year earlier on the back of flattish topline growth. Nevertheless, 3Q earnings improved 15% qoq (after factoring sukuk payments in 2Q) although it was 13% lower yoy (due to the high base effect). Margin compression were mainly seen for its equipment segment due to intense competition. A special DPS of 4 sen was declared.

**A minor 1% auto revenue decline.** For the the 9M period, sales volume for Toyota and Lexus fell 10% to 48k from a year earlier due to the tax holiday then. Nevertheless, auto revenue and PBT only fell 1% mainly due to improved margins for its new models and stronger Perodua contributions. To be sure, UMW Toyota's EBITDA margin improved by 0.4ppt to 5.1% for the 9M period despite operating out of its new Bukit Raja plant.

**Expecting stronger sales in 4Q.** Management expects Toyota and Lexus sales to pick up in 4Q on year-end promotions as well as the low base following the run-out of previous generation Vios last year. In any case, management had reduced its sales target to 72k (from 75k earlier) – implying 24k volume in 4Q. Management is banking on resilient demand for its Vios and Yaris (2.8k monthly sales) as well as its new three-tier financing package to drive sales. As it is, Oct sales of 6.6k make up 28% of target.

**Slower equipment sales but improved M&E.** Equipment division's 9M PBT fell 14% on the back of 5% topline decline – the weaker margins were mainly due to immense competition on sluggish equipment demand. On the positive side, M&E saw PBT rising 155% on 22% topline growth due to higher deliveries of fan cases. We believe the aerospace is on track to 120 deliveries this year (vs. 59 last year) before achieving breakeven with 150 units next year.

**Outlook.** Looking ahead, management is targeting 12% market share of TIV for next year – which implies 73k unit sales based on MAA's forecast of 612k. UMW is expected to launch four new models for the SUV segment, while Yaris and Vios should remain competitive within the B-segment. Besides that, the M&E is on track towards breakeven next year, as Trent 700 fan case production is expected to commence in 4Q20.

**Adjustments.** We maintain our Toyota/Lexus sales target of 68k and Perodua sales target of 238k for FY19. Next year, we forecast 2% sales growth for all marques. Our FY19 earnings is reduced by 32%, after adjustments to mainly account for slower equipment sales and margin.

**Maintain Buy.** We maintain our Buy recommendation with a lower SOP-based TP of RM5.10. We remain upbeat on UMW as we expect FY20 earnings to improve on new model launches and turnaround at its aerospace division.

**Exhibit 1: Results summary**

FYE 31 Dec	3Q18	2Q19	3Q19	yoy %	qoq%	9M18	9M19	yoy %	FY19F	9M19/F
<b>Continued operations</b>										
Revenue	3290	2966	2883	-12%	-3%	8624	8623	0%	11283	76%
Operating profit	122	101	80	-34%	-21%	459	258	-44%	598	84%
Investment income	23	18	16	-33%	-14%	64	52	-19%	90	71%
Finance cost	(26)	(43)	(31)	16%	-29%	(72)	(93)	30%	(120)	47%
JV & Associates	58	76	85	46%	12%	171	227	33%	286	79%
Pretax profit	177	152	150	-15%	-1%	622	443	-29%	854	52%
Tax	(43)	(36)	(21)	-52%	-42%	(113)	(87)	-23%	(205)	42%
Profit after tax (continued ops)	134	116	129	-3%	12%	509	356	-30%	649	55%
MI & perpetual sukuk holders	(37)	(66)	(26)	-30%	-61%	(102)	(117)	15%	(220)	53%
Net profit (continuing ops)	97	50	103	7%	106%	407	239	-41%	428	56%
Core net profit	108	82	94	-13%	15%	401	206	-49%	428	48%
<b>Discontinued Operations</b>										
Revenue	9	5	2	-74%	-53%	64	13	-80%		
Loss before tax from discontinued ops	40	(2)	2	-94%	-223%	(103)	0	-100%		
Loss after tax from discontinued ops	38	(2)	2	-95%	-194%	(104)	(1)	-100%		
MI	(7)	9	5	-172%	-45%	23	15	-34%		
Net loss from discontinued ops	31	7	7	-78%	-2%	(81)	15	-118%		
<b>Consolidated</b>										
Revenue	3299	2971	2885	-13%	-3%	8689	8636	-1%		
(Loss)/profit before tax	217	150	153	-30%	1%	519	443	-15%		
Profit after tax	172	114	131	-24%	15%	405	356	-12%		
MI	(44)	(57)	(21)	-52%	-63%	(79)	(102)	29%		
Net profit	128	57	110	-14%	93%	327	254	-22%		
<b>Continued ops</b>										
EPS (sen)	8.3	4.3	8.8			34.9	20.5			
Core EPS (sen)	9.3	7.0	8.1			34.3	17.6			
Net DPS (sen)	0.0	0.0	4.0			5.0	4.0			
BV (RM)	2.81	2.98	3.04			2.81	3.04			
EBIT margin (%)	4%	3%	3%			5%	3%		5%	
PBT margin (%)	5%	5%	5%			7%	5%		8%	
PAT margin (%)	4%	4%	4%			6%	4%		6%	
Net margin (%)	3%	2%	4%			4.7%	2.8%		4%	
Effective tax rate (%)	25%	24%	14%			18%	20%		24%	

Source: KAF, Company

**Exhibit 2: Segmental breakdown**

	3Q18	2Q19	3Q19	yoy %	qoq %	9M18	9M19	yoy %	FY19F	9M19/F
<b>Continued</b>										
Automotive	2643	2386	2297	-13%	-4%	6903	6846	-1%	8,416	81%
Equipment	403	344	354	-12%	3%	1142	1080	-5%	1,616	67%
Manufacturing	254	245	252	0%	3%	600	734	22%	1,252	59%
Others & Eliminations	(10)	(9)	(20)	96%	138%	(21)	(37)	71%		
<b>Total Revenue (RM mil)</b>	<b>3290</b>	<b>2966</b>	<b>2883</b>	<b>-12%</b>	<b>-3%</b>	<b>8642</b>	<b>8623</b>	<b>0%</b>	<b>11,283</b>	<b>76%</b>
Automotive	151	151	140	-7%	-7%	420	415	-1%	526	79%
Equipment	44	35	31	-29%	-13%	126	108	-14%	159	68%
Manufacturing	16	13	15	-1%	16%	12	31	155%	38	82%
Others	(33)	(21)	(36)	8%	74%	64	(112)	-274%		
<b>Total PBT (RM mil)</b>	<b>177</b>	<b>179</b>	<b>150</b>	<b>-15%</b>	<b>-16%</b>	<b>622</b>	<b>443</b>	<b>-29%</b>	<b>854</b>	<b>52%</b>
Automotive PBT margin (%)	6%	6%	6%	7%	-4%	6.1%	6.1%		6%	
Equipment PBT margin (%)	11%	10%	9%	-19%	-16%	11%	10%		10%	
Manufacturing PBT margin (%)	6%	5%	6%	-1%	12%	2%	4%		3%	
<b>Total PBT margin (%)</b>	<b>5%</b>	<b>6%</b>	<b>5%</b>	<b>-3%</b>	<b>-14%</b>	<b>7%</b>	<b>5%</b>		<b>8%</b>	
USD:MYR average	4.09	4.15	4.16			3.99	4.13	5%		

Source: Company, KAF

**Exhibit 3: Unit sales breakdown**

	3Q18	2Q19	3Q19	yoy %	qoq %	9M18	9M19	yoy %	FY19F	9M19/F
Toyota	20,940	17,529	16,357	-22%	-7%	52,649	47,608	-10%	67,500	71%
Lexus	430	129	271	-37%	110%	855	543	-36%	600	91%
<b>Total</b>	<b>21,370</b>	<b>17,658</b>	<b>16,628</b>	<b>-22%</b>	<b>-6%</b>	<b>53,504</b>	<b>48,151</b>	<b>-10%</b>	<b>68,100</b>	<b>71%</b>
Perodua	51,105	61,123	56,972	11%	-7%	168,203	178,754	6%	238,000	75%
<b>Grand total</b>	<b>72,475</b>	<b>78,781</b>	<b>73,600</b>	<b>2%</b>	<b>-7%</b>	<b>221,707</b>	<b>226,905</b>	<b>2%</b>	<b>306,100</b>	<b>74%</b>

Source: Company, KAF

**Exhibit 4: SOP value**

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	52	0.04	1%	Carrying value at end-FY18
Equipment division	962	0.82	16%	10x FY20F PE
M&E division	957	0.82	16%	11x FY20F PE
UMW Toyota	2,093	1.79	35%	12x FY20F PE
Perodua	3,339	2.86	56%	12x FY20F PE - 38% stake
Serendah land	510	0.44	9%	RNAV (732 acres at RM16psf)
Company net cash/(debt)	(1958)	-1.68	-33%	FY18A
	<b>5956</b>		<b>100%</b>	
UMWH share base	1168			
Fair value	<b>5.10</b>			

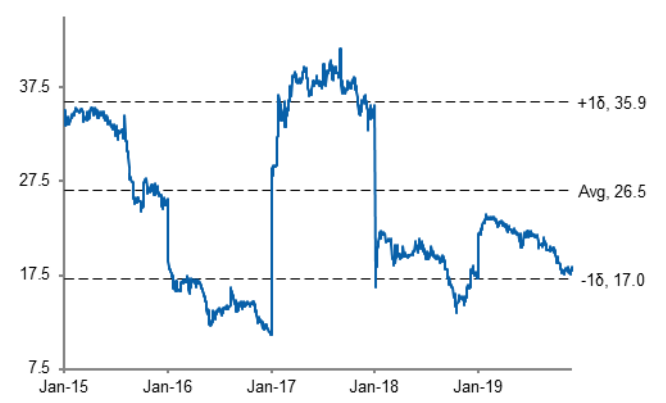
Source: Company, KAF

**Exhibit 5: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 6: PE Band chart**



Source: Company, KAF, Bloomberg

## UMW Holdings

### Income Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
<b>Revenue</b>	<b>11,066.6</b>	<b>11,303.6</b>	<b>10,968.0</b>	<b>11,435.8</b>	<b>11,749.0</b>
<b>EBITDA</b>	<b>389.0</b>	<b>815.9</b>	<b>750.8</b>	<b>861.1</b>	<b>1,043.3</b>
Depreciation/Amortisation	(265.3)	(273.7)	(340.0)	(364.6)	(389.1)
Operating income (EBIT)	123.7	542.2	410.7	496.5	654.2
Other income & associates	182.0	270.7	291.8	293.0	295.9
Net interest	(39.1)	(12.6)	(50.3)	(32.0)	(129.1)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>266.6</b>	<b>800.3</b>	<b>652.3</b>	<b>757.5</b>	<b>821.0</b>
Taxation	(121.7)	(124.1)	(143.5)	(181.8)	(197.0)
Minorities/pref dividends	(109.6)	(125.4)	(218.6)	(196.1)	(206.0)
<b>Net profit</b>	<b>144.9</b>	<b>550.8</b>	<b>290.1</b>	<b>379.6</b>	<b>418.0</b>
<b>Core net profit</b>	<b>168.6</b>	<b>361.2</b>	<b>290.1</b>	<b>379.6</b>	<b>418.0</b>

### Balance Sheet

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Fixed assets	2,658.1	2,820.9	2,598.5	2,544.5	2,465.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	462.4	729.2	729.2	729.2	729.2
<b>Total non-current assets</b>	<b>4,833.8</b>	<b>5,391.2</b>	<b>5,168.7</b>	<b>5,114.7</b>	<b>5,036.2</b>
Cash & equivalent	1,169.6	1,312.0	1,139.3	987.9	951.4
Stock	1,410.7	1,548.5	1,680.2	1,726.3	1,749.3
Trade debtors	1,021.3	1,076.6	1,119.2	1,146.8	1,160.5
Other current assets	1,315.2	1,148.1	2,277.4	3,277.4	4,277.4
<b>Total current assets</b>	<b>4,916.8</b>	<b>5,085.1</b>	<b>6,216.1</b>	<b>7,138.3</b>	<b>8,138.7</b>
Trade creditors	2,795.5	1,854.0	2,010.7	2,033.7	2,049.2
Short-term borrowings	691.9	535.0	221.6	158.2	96.0
Other current liabilities	165.5	106.3	95.8	95.8	95.8
<b>Total current liabilities</b>	<b>3,652.9</b>	<b>2,495.3</b>	<b>2,328.0</b>	<b>2,287.7</b>	<b>2,240.9</b>
Long-term borrowings	2,069.7	2,298.2	2,671.7	2,855.1	3,039.4
Other long-term liabilities	194.7	250.0	161.9	311.4	471.7
<b>Total long-term liabilities</b>	<b>2,264.4</b>	<b>2,548.3</b>	<b>2,833.5</b>	<b>3,166.5</b>	<b>3,511.0</b>
<b>Shareholders' funds</b>	<b>3,047.2</b>	<b>3,344.6</b>	<b>3,634.8</b>	<b>4,014.4</b>	<b>4,432.4</b>
Minority interests	1,131.2	2,369.8	2,588.4	2,784.5	2,990.5

### Cash flow Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Pretax profit	266.6	800.3	652.3	757.5	821.0
Depreciation/Amortisation	265.3	273.7	340.0	364.6	389.1
Net change in working capital	1,216.6	(146.8)	(17.7)	(50.6)	(21.3)
Others	(619.2)	(752.8)	(671.2)	(729.0)	(650.0)
<b>Cash flow from operations</b>	<b>1,129.3</b>	<b>174.4</b>	<b>303.3</b>	<b>342.4</b>	<b>538.8</b>
Capital expenditure	(869.8)	(915.0)	(607.0)	(800.0)	(800.0)
Net investments & sale of fixed assets	(1,500.4)	(1,496.0)	(1,558.3)	(1,558.3)	(1,558.3)
Others	519.5	2,092.4	1,776.2	1,900.5	1,827.8
<b>Cash flow from investing</b>	<b>(1,850.7)</b>	<b>(318.7)</b>	<b>(389.0)</b>	<b>(457.8)</b>	<b>(530.5)</b>
Debt raised/(repaid)	194.8	77.7	62.0	122.0	125.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	(58.4)	(87.6)	(93.5)	(105.1)
Others	(75.9)	1,000.0	(64.6)	(64.6)	(64.6)
<b>Cash flow from financing</b>	<b>118.9</b>	<b>1,019.2</b>	<b>(90.2)</b>	<b>(36.1)</b>	<b>(44.8)</b>
<b>Net cash flow</b>	<b>(602.4)</b>	<b>874.9</b>	<b>(175.9)</b>	<b>(151.4)</b>	<b>(36.4)</b>
<b>Cash b/f</b>	<b>1,607.3</b>	<b>1,181.5</b>	<b>1,315.2</b>	<b>1,139.3</b>	<b>987.9</b>
<b>Cash c/f</b>	<b>1,181.5</b>	<b>1,315.2</b>	<b>1,139.3</b>	<b>987.9</b>	<b>951.4</b>

### Key Ratios

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue growth (%)	6.0	2.1	(3.0)	4.3	2.7
EBITDA growth (%)	nm	>100	(8.0)	14.7	21.2
Pretax margins (%)	2.4	7.1	5.9	6.6	7.0
Net profit margins (%)	1.3	4.9	2.6	3.3	3.6
Interest cover (x)	3.2	43.1	8.2	15.5	5.1
Effective tax rate (%)	53.8	22.7	30.2	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	33	34	37	36	36
Stock turnover (days)	55	48	54	54	54
Creditors turnover (days)	77	75	64	65	63

Source: Bloomberg, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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