

# UMW Holdings Berhad

(4588 | UMWK MK) Consumer Products & Services | Automotive & Parts

## Maintain NEUTRAL

### On Bumpy Road

**Revised Target Price: RM4.50**

(Previously RM5.35)

#### KEY INVESTMENT HIGHLIGHTS

- **3Q19 earnings behind both our and consensus estimates**
- **Auto division dragged by lower TIV and weaker Ringgit despite strong Perodua contribution**
- **Equipment division facing sluggish demand and margin contraction from intense competition**
- **FY19F/20F earnings revised lower by 7%/13% to factor in latest Ringgit assumption and weaker outlook**
- **Maintain NEUTRAL, TP trimmed to RM4.50 (from RM5.35)**

**3Q19 disappointed.** UMW reported a net profit of RM110m for its 3Q19, which brought 9M19 earnings to RM254m. This is below both our and consensus forecasts accounting for 69% and 64% of FY19F estimates respectively. A special dividend of 4sen/share was declared.

**Earnings contraction.** 3Q19 group earnings were down 14%yoy against a high base for autos last year which was driven by the tax holiday period. Additionally, the equipment division staged weak performance.

**Automotive.** Auto division registered a 13%yoy revenue decline against a high base last year (3Q19 Toyota TIV: -22%yoy), coupled with a drag from a stronger USD in the period (3Q19: RM4.15 vs. 3Q18: RM3.95). Pretax earnings were down by a narrower 7%yoy given a 49%yoy increase in associate earnings, largely driven by strong Perodua sales on the back of the Aruz, launched early FY19.

**Equipment.** The equipment division saw revenue fall 12%yoy given sluggish demand for both industrial and heavy equipment following a slowdown in construction, manufacturing, mining and logging activities. Pretax earnings fell by a larger 29%yoy given margin contraction on the back of intense competition.

**M&E.** The M&E segment held steady, registering largely flattish year-on-year growth in earnings. On a YTD basis, the M&E segment is the only bright spot, more than doubling earnings to RM31m (9M19) given production volume improvement at aerospace sub-segment.

**Forecast revision.** UMW inadvertently overstated its 2Q19 earnings by RM27m (a reversal of provision which should have been eliminated). Coupled with a lower Ringgit assumption (in-line with our latest in-house view) of USD:RM4.15 (from USD:RM4.12) and to factor in lower equipment division revenue growth and margins, we trim our FY19F/20F by 7%/13%. We expect FY19F earnings to remain flattish but we forecast a 15%yoy growth in FY20F, to be mainly driven by improvement at the aerospace division from scheduled increase in fan case production. The fan case division is originally guided to breakeven from FY20F onwards.

#### RETURN STATISTICS

Price @ 28 <sup>th</sup> Nov 2019 (RM)	4.40
Expected share price return (%)	+2.3
Expected dividend yield (%)	+1.9
<b>Expected total return (%)</b>	<b>+4.2</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.1	-2.0
3 months	-9.4	-11.4
12 months	-12.0	-6.2

#### KEY STATISTICS

FBM KLCI	1,853.58
Syariah compliant	Yes
Issue shares (m)	1168.29
Estimated free float (%)	30.09
Market Capitalisation (RM'm)	5,163.86
52-wk price range	RM4.32 - RM6.02
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	0.01
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.35
3-mth average daily value (RM'm)	1.68
Top Shareholders (%)	
Skim Amanah Saham Bumiputera	41.14
Employees Provident Fund Board	11.31
Yayasan Pelaburan Bumiputra	7.15

**Analyst(s)**

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## INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19F	FY20F	FY21F
Revenue (RM'm)	11,046.5	11,306.3	9,382.1	9,644.9	9,816.5
EBIT (RM'm)	120.4	522.9	455.9	501.5	474.3
Pre-tax Profit (RM'm)	252.9	786.2	595.8	676.0	656.4
Core net profit (RM'm)	163.8	341.7	336.3	387.7	395.9
FD EPS (sen)	14.0	29.2	28.8	33.2	33.9
EPS growth (%)	NA	108.6	(1.6)	15.3	2.1
PER (x)	31.4	15.0	15.9	13.3	13.0
Net Dividend (sen)	6.5	7.5	7.2	8.3	8.5
Net Dividend Yield (%)	1.5	1.7	1.6	1.9	1.9

Source: Company, MIDFR

**Recommendation.** Share price has corrected by 23% since our downgrade back in Mar19. However, we remain NEUTRAL at this juncture and trim our TP to RM4.80 (from RM5.35) following the downward earnings revisions in this report and as we rollover valuations to FY20F. We also now peg UMW's auto and equipment divisions at a lower 10x PE (from 12x previously) given weak outlook for both the equipment and auto division at this juncture, coupled with a weaker Ringgit outlook next year. For exposure to Perodua, we recommend investors switch to MBM which offers much cheaper entry, much more attractive dividend yields and a more concentrated exposure to Perodua earnings. 

**Table 1: UMW Sum-of-Parts Valuation**

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive - UMWT	93	PER	10	934	
Automotive - P2	284	PER	10	2,842	
Equipment	74	PER	10	742	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		Book Value		26	50% discount to Book Value
<b>Total value</b>				<b>5,236</b>	
No of shares (m)				1,168	
<b>Fair value (RM)</b>				<b>4.50</b>	

Source: Company, MIDFR

**UMW: 3QFY19 RESULTS SUMMARY**

FYE Dec (RMm)	3Q18	2Q19	3Q19	YoY	QoQ	9M18	9M19	YTD
<b>Revenue</b>	<b>3,290.0</b>	<b>2,966.0</b>	<b>2,882.7</b>	<b>-12.4%</b>	<b>-2.8%</b>	<b>8,624.4</b>	<b>8,623.5</b>	<b>0.0%</b>
<b>Operating Profit</b>	<b>171.6</b>	<b>100.9</b>	<b>80.1</b>	<b>-53.3%</b>	<b>-20.6%</b>	<b>504.7</b>	<b>257.5</b>	<b>-49.0%</b>
Finance Cost	(18.6)	(43.3)	(30.8)	65.1%	-28.9%	(56.0)	(93.3)	66.5%
Associates	57.2	76.1	85.2	48.9%	11.9%	169.3	227.0	34.1%
Investment Income	23.4	18.4	15.7	-32.6%	-14.4%	64.3	51.9	-19.3%
<b>Pretax Profit</b>	<b>233.6</b>	<b>152.1</b>	<b>150.3</b>	<b>-35.6%</b>	<b>-1.2%</b>	<b>682.2</b>	<b>443.1</b>	<b>-35.0%</b>
Taxation	(43.5)	(36.3)	(21.0)			(112.7)	(86.8)	
Minorities / PERP	43.9	56.6	20.9	-52.4%	-63.0%	78.9	101.8	
Loss from discontinued operations (UMWOG)	(18.0)	(2.0)	1.9	-110.6%	-193.6%	(164.1)	(0.5)	
Net Profit	128.1	57.2	110.3	-13.9%	92.9%	326.6	254.0	-22.2%
<b>Core net profit incl. discontinued operations</b>	<b>128.1</b>	<b>57.2</b>	<b>110.3</b>	<b>-13.9%</b>	<b>92.9%</b>	<b>277.7</b>	<b>254.0</b>	<b>-8.5%</b>
<i>Core net profit from continuing operations</i>	<i>131.2</i>	<i>237.1</i>	<i>136.7</i>	<i>4.2%</i>	<i>-42.3%</i>	<b>350.3</b>	<i>387.2</i>	<i>10.6%</i>
EPS (FD, sen)	11.0	4.9	9.4			23.8	21.7	
DPS (sen)	0.0	0.0	4.0			5.0	4.0	
<b>Margins (%):</b>								
Operating	5.2%	3.4%	2.8%			5.9%	3.0%	
Pretax Profit	7.1%	5.1%	5.2%			7.9%	5.1%	
Core Net Profit	3.9%	1.9%	3.8%			3.8%	2.9%	
Tax Rate	18.6%	23.9%	14.0%			16.5%	19.6%	

Source: Company, MIDFR

## UMW: 3QFY19 RESULTS BREAKDOWN

Segmental Breakdown	3Q18	2Q19	3Q19	YoY	QoQ	9M18	9M19	YTD
Automotive	2,643.4	2,386.4	2,296.9	-13.1%	-3.7%	6,903.1	6,845.9	-0.8%
Equipment	403.4	343.6	353.7	-12.3%	2.9%	1,142.4	1,080.1	-5.5%
Manuf & Eng	253.6	244.5	252.4	-0.5%	3.2%	600.3	734.0	22.3%
Oil & Gas (Listed)	0.0	0.0	0.0	#DIV/0!	#DIV/0!	0.0	0.0	#DIV/0!
Oil & Gas (Unlisted)	9.5	5.2	2.5	-74.0%	-52.9%	64.2	12.8	-80.1%
<b>Revenue</b>	<b>3,309.9</b>	<b>2,979.8</b>	<b>2,905.5</b>	<b>-12.2%</b>	<b>-2.5%</b>	<b>8,710.1</b>	<b>8,672.8</b>	<b>-0.4%</b>
Automotive	151.3	151.1	140.1	-7.4%	-7.3%	419.6	415.4	-1.0%
Equipment	43.5	35.5	30.8	-29.3%	-13.2%	126.3	108.4	-14.1%
Manuf & Eng	15.5	13.2	15.4	-1.2%	16.1%	12.1	30.9	154.8%
Oil & Gas (Unlisted) *	(17.8)	(1.8)	2.2	-112.4%	-223.4%	(163.4)	0.3	-100.2%
<b>Pretax profit</b>	<b>192.6</b>	<b>198.0</b>	<b>188.4</b>	<b>-2.1%</b>	<b>-4.9%</b>	<b>394.6</b>	<b>555.0</b>	<b>40.6%</b>
<b>Pretax margins</b>								
Automotive	5.7%	6.3%	6.1%			6.1%	6.1%	
Equipment	10.8%	10.3%	8.7%			11.1%	10.0%	
Manuf & Eng	6.1%	5.4%	6.1%			2.0%	4.2%	
Oil & Gas (Unlisted)	-187.4%	-34.1%	89.2%			-254.4%	2.2%	
Toyota TIV (units)	20,940	17,529	16,357	-21.9%	-6.7%	52,649	47,608	-9.6%
Average revenue/car (RM)	126,237	136,142	140,426	11.2%	3.1%	131,116	143,797	9.7%
USD:RM (Spot, delayed by 3-month)	3.95	4.09	4.15	5.1%	1.5%	4.01		
<b>Net profit</b>	<b>128.1</b>	<b>240.1</b>	<b>48.5</b>			<b>326.6</b>	<b>254.0</b>	
Automotive	89.6	172.1	104.4	16.5%	-39.4%	257.7	292.4	13.4%
Equipment	32.9	68.5	23.2	-29.6%	-66.1%	99.3	82.2	-17.2%
Manuf & Eng	8.6	(3.5)	9.1	5.5%	-357.1%	(6.7)	12.6	-288.2%
Oil & Gas (Unlisted)	(26.9)	(149.4)	6.9	-125.8%	-104.6%	(148.6)	14.9	-110.0%
Others	23.8	152.4	(95.2)	-499.5%	-162.4%	124.9	(148.1)	-218.5%
<b>Core net profit from continuing operations</b>	<b>131.2</b>	<b>237.1</b>	<b>136.7</b>	<b>4.2%</b>	<b>-42.3%</b>	<b>350.3</b>	<b>387.2</b>	<b>10.6%</b>

Source: Company, MIDFR

<b>Income Statement (RMm)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Revenue</b>	<b>11,046.5</b>	<b>11,306.3</b>	<b>9,382.1</b>	<b>9,644.9</b>	<b>9,816.5</b>
Operating expenses	(10,926.1)	(10,783.4)	(8,926.2)	(9,143.4)	(9,342.2)
<b>EBIT</b>	<b>120.4</b>	<b>522.9</b>	<b>455.9</b>	<b>501.5</b>	<b>474.3</b>
Net interest expense	(39.2)	(88.1)	(130.4)	(109.8)	(114.6)
Associates	171.7	265.6	270.3	284.2	296.7
<b>PBT</b>	<b>252.9</b>	<b>786.2</b>	<b>595.8</b>	<b>676.0</b>	<b>656.4</b>
Taxation	(122.3)	(142.5)	(81.4)	(97.9)	(89.9)
Minority Interest/PERP	(22.8)	139.9	178.1	190.3	169.6
Net profit	(651.2)	341.7	336.3	387.7	396.9
<b>Core net profit</b>	<b>163.8</b>	<b>341.7</b>	<b>336.3</b>	<b>387.7</b>	<b>395.9</b>
<i>Consensus net profit</i>	<i>80.0</i>	<i>433.4</i>	<i>397.1</i>	<i>443.6</i>	<i>444.6</i>
<i>MIDF vs. consensus</i>		<i>-21.2%</i>	<i>-15.3%</i>	<i>-12.6%</i>	<i>-10.9%</i>
<b>Balance Sheet (RMm)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Non-current assets</b>	<b>4,833.8</b>	<b>5,505.3</b>	<b>5,759.1</b>	<b>6,317.1</b>	<b>6,864.0</b>
PPE	2,658.1	3,119.0	3,102.6	3,376.3	3,626.5
Investments in associate	1,661.5	1,843.9	2,114.2	2,398.4	2,695.1
Others	514.2	542.4	542.4	542.4	542.4
<b>Current assets</b>	<b>5,261.9</b>	<b>5,185.4</b>	<b>5,630.9</b>	<b>5,539.5</b>	<b>5,420.6</b>
Inventories	1,410.7	1,531.6	1,473.3	1,514.6	1,541.6
Receivables	1,029.1	1,032.3	993.1	1,020.9	1,039.1
Others	1,658.6	1,302.8	1,302.8	1,302.8	1,302.8
Cash & equivalent	1,163.4	1,318.7	1,861.7	1,701.3	1,537.2
<b>TOTAL ASSETS</b>	<b>10,095.7</b>	<b>10,690.7</b>	<b>11,390.0</b>	<b>11,856.7</b>	<b>12,284.5</b>
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	1,131.2	2,371.1	2,479.3	2,599.8	2,699.5
Reserves	2,463.1	2,740.4	2,992.7	3,283.4	3,581.1
<b>TOTAL EQUITY</b>	<b>4,178.4</b>	<b>5,695.7</b>	<b>6,056.1</b>	<b>6,467.4</b>	<b>6,864.8</b>
<b>Non-current liabilities</b>	<b>2,264.4</b>	<b>2,486.3</b>	<b>2,966.5</b>	<b>2,966.6</b>	<b>2,966.8</b>
Long-term borrowings	2,069.7	2,298.2	2,778.4	2,778.5	2,778.7
Deferred tax liabilities	34.0	34.8	34.8	34.8	34.8
Others	160.7	153.3	153.3	153.3	153.3
<b>Current liabilities</b>	<b>3,652.9</b>	<b>2,508.7</b>	<b>2,367.4</b>	<b>2,422.7</b>	<b>2,453.0</b>
Short-term borrowings	685.3	534.5	534.5	534.5	534.5
Payables	2,795.5	1,811.5	1,742.6	1,791.5	1,823.3
Others	172.0	162.7	90.3	96.7	95.2
<b>TOTAL LIABILITIES</b>	<b>5,917.3</b>	<b>4,995.0</b>	<b>5,333.9</b>	<b>5,389.3</b>	<b>5,419.7</b>

Cash Flow Statement (RMm)	FY17	FY18	FY19F	FY20F	FY21F
<b>Operating activities</b>					
PBT	109.5	619.8	595.8	676.0	656.4
Depreciation & Amortization	105.1	203.4	280.7	279.2	303.9
Chgs in working capital	1,124.6	(878.2)	(35.5)	(13.9)	(14.8)
Interest expense	(175.9)	(74.6)	(130.4)	(109.8)	(114.6)
Tax paid	(131.9)	(138.8)	(81.4)	(97.9)	(89.9)
Others	(585.9)	(343.9)	(139.9)	(174.4)	(182.1)
<b>CF from Operations</b>	<b>445.6</b>	<b>(612.3)</b>	<b>489.4</b>	<b>559.2</b>	<b>558.8</b>
<b>Investing activities</b>					
Capex	(1,003.8)	(914.7)	(700.0)	(700.0)	(700.0)
Others	(976.7)	606.2	427.4	147.0	146.0
<b>CF from Investments</b>	<b>(1,980.5)</b>	<b>(308.5)</b>	<b>(272.6)</b>	<b>(553.0)</b>	<b>(554.0)</b>
<b>Financing activities</b>					
Dividends paid	(75.9)	(6.2)	(84.1)	(96.9)	(99.2)
Net proceeds in borrowings	176.0	104.1	480.2	0.2	0.2
Others	0.0	1,064.4	(69.9)	(69.9)	(69.9)
<b>CF from Financing</b>	<b>100.1</b>	<b>1,162.2</b>	<b>326.2</b>	<b>(166.6)</b>	<b>(168.9)</b>
<b>Net changes in cash</b>	<b>(1,434.8)</b>	<b>241.5</b>	<b>543.0</b>	<b>(160.5)</b>	<b>(164.1)</b>
Beginning cash	1,607.3	1,187.9	1,318.7	1,861.7	1,701.3
Overdrafts & Deposits	176.6	(110.7)	0.0	0.0	0.0
<b>Ending cash</b>	<b>1,187.9</b>	<b>1,318.7</b>	<b>1,861.7</b>	<b>1,701.3</b>	<b>1,537.2</b>
<b>Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue growth	8.7%	-11.4%	-3.8%	2.8%	1.8%
EBIT growth	-6.0%	67.6%	-10.8%	10.0%	-5.4%
Core net profit growth	-140.8%	108.6%	-1.6%	15.3%	2.1%
PBT margin	1.0%	6.4%	6.4%	7.0%	6.7%
Core net profit margin	1.5%	3.0%	3.6%	4.0%	4.0%
ROE	2.2%	11.1%	9.7%	10.4%	9.9%
ROA	2.1%	4.9%	4.1%	4.3%	3.9%
Net gearing (%)	38.1%	26.6%	24.0%	24.9%	25.9%
Book value/share (RM)	2.61	2.85	3.06	3.31	3.57
PBV (x)	1.69	1.55	1.44	1.33	1.23
EV/EBITDA (x)	16.4	9.3	8.9	8.6	8.9
EBIT margin	1.1%	4.6%	4.9%	5.2%	4.8%

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.