

### UOBKH HIGHLIGHTS

## UMW Holdings (UMWH MK/HOLD/RM4.40 /Target: RM4.60)

9M19: Earnings Missed On Lower-Than-Expected Margin in Automotive And Equipment Business

Year to 31 Dec	3Q19 (RMm)	qoq % chg	yoy % chg	9M19 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	2,882.7	(2.8)	(12.4)	8623.5	(0.0)	FY19F	24.6	17.9
-Auto	2,296.9	(3.7)	(13.1)	6845.9	(0.8)	FY20F	34.9	12.6
-Equipment	353.7	2.9	(12.3)	1080.1	(5.5)	FY21F	37.3	11.8
-Mfg & Eng	252.4	3.2	(0.5)	734.0	22.3			
Associates	85.2	11.9	46.2	227.0	33.3			
PBT	150.3	(1.2)	(15.2)	443.1	(31.7)			
-Auto	140.1	(7.3)	(7.4)	415.4	(1.0)			
-Equipment	30.8	(13.2)	(29.3)	108.4	(14.1)			
-Mfg & Eng	15.4	16.1	(1.2)	30.9	154.2			
Net Profit	103.3	106.4	6.8	239.9	(42.0)			
Core Net Profit	91.7	192.3	(19.2)	201.7	(51.9)			
<b>PBT Margins</b>	<b>(%)</b>	<b>ppts</b>	<b>ppts</b>	<b>(%)</b>	<b>(%)</b>			
Overall	5.2	0.1	(0.2)	5.1	(2.4)			
-Auto	6.1	(0.2)	0.4	6.1	(0.0)			
-Equipment	8.7	(1.6)	(2.1)	10.0	(1.0)			
-Mfg & Eng	6.1	0.7	(0.0)	4.2	2.2			

Source: UMWH, UOB Kay Hian

### RESULTS

- 9M19 results below expectations.** UMW Holdings (UMW) reported 3Q19 core net profit of RM91.7m (+192% qoq, -19% yoy), sending 9M19 core net profit to RM201.7m which accounted for 52% and 53% of both our and consensus full-year forecasts. The negative deviation was mainly due to lower-than-expected margin in automotive business on aggressive marketing and promotional (M&P) activities. Meanwhile, softer demand in heavy equipment business alongside operational inefficiency continued to drag on earnings. Meanwhile, a 4.0 sen special dividend was declared.
- Automobile segment's sales came in flat, while profitability was down on higher M&P and depreciation.** 9M19 volume inched up by 3% to 226,362 units thanks to the robust sales from Perodua's SUV-Aruz. This is despite the high base in 3Q18 which was boosted by the GST-free period from Jun-Aug 18. If we were to exclude Perodua, UMW's sales volume from Toyota and Lexus in fact dropped by 10%. That said, with higher depreciation from the new Bukit Raja plant alongside aggressive M&P activities, PBT dropped 1%. For 2019, sales target for Toyota, including Lexus, for the group is at 72,000 units, which is lower now compared with the previous target of 75,000 units (vs 66,562 units in 2018), largely in line with our expectation of 71,983 units
- Equipment segment dragged by activities slowdown.** 9M19 sales dropped 6% yoy, following a slowdown in construction, manufacturing, mining and logging activities in Malaysia, Papua New Guinea, Singapore and Myanmar. PBT dropped by a sharper 14% yoy on lower profitability as a result of competitive pricing for both heavy equipment and industrial equipment businesses. In terms of outlook, while the revival of major infrastructure projects by the government could continue to lead to stronger equipment demand, margins could be suppressed due to intensifying competition.
- Manufacturing and engineering (M&E) segment still gaining traction.** Sales soared 22% yoy, driven by the aerospace business on higher delivery of fan cases (from low base, as the operation had just commenced in 4Q17) alongside increased sales from the auto components business. As production has been steadily increasing in tandem with higher orders by Rolls-Royce, the M&E segment's PBT continued to expand to RM30.9m (+154% from RM12.2m). The aerospace business is steadily increasing its production to meet the expected orders from Rolls-Royce.

### RECOMMENDATION

- We cut our 2019-20 earnings forecasts by 14-25% to account for lower profitability on equipment segment alongside a more conservative margin assumption on the automotive segment.
- Maintain HOLD with lower SOTP-based target price of RM4.60 (from RM5.20).** Our target price implies a 12.6x 2020F PE which is at its 3-year forward average PE. Entry price is RM4.35.

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