

Outthink. Outperform.

Lacklustre performance

UMW Holdings (UMWH) reported a weak set of results – 2019 pretax profits slipped by 6% yoy to RM755m, due to a weaker EBITDA margin, higher interest expense, but partially cushioned by higher contribution from associates. Excluding the ElS, UMW's core earnings were below expectations. We cut our 2020-21E EPS by 6-18%, and lower our TP to RM3.30 as we expect a challenging economic outlook amid the Covid-19 epidemic to weigh on near-term earnings. At 14x 2020E PER, valuation looks fair, reaffirm HOLD.

2019 core earnings below expectations

Although 2019 revenue rose by 4% to RM11.8bn, UMWH reported a weak pretax profit of RM755m (-6% yoy). The weaker performance was mainly due to lower EBITDA margins (-3ppt to 2.1%) and higher interest expense, but partially cushioned by higher contribution from its associates (+8% yoy). Stripping off the one-off gain on disposal of Shah Alam land of RM220m and other ElS, 2019 core net profit of RM251m (-40% yoy) was below street and our expectations, accounting merely 75% and 77% of our full-year forecasts. The variance was largely due to weaker-than-expected margins for the automotive division. UMWH declared a 2 sen dividend for 4Q19, bringing 2019 DPS to 6 sen (2018: 7.5 sen).

Sequentially, 4Q19 core earnings was lower

UMWH's 4Q19 pretax profit was elevated on higher revenue (+8% qoq from higher sales from automotive and M&E) but largely due to one off gains from the land disposal, and partially offset by weaker contribution from associate (-24% qoq, mainly due to higher depreciation cost from Perodua's new model) and a weaker EBIT margins (-0.9ppt to 1.6%). However, 4Q19 core net profit was lower by 78% qoq largely due to the one-off disposal mentioned above.

M&E lights up whereas automotive and equipment segments falter

Despite the 4% increase in revenue, **the automotive 2019 PBT was lower by 4% yoy** to RM530m due to the lower contribution from 38%-owned Perodua associate (-26% qoq to RM60m, from the higher depreciation cost from the investment in new model). Management guided that there will be no increase in Toyota car prices at this juncture. Elsewhere, **the equipment's 2019 PBT fell by 15% yoy** to RM135m affected by sluggish demand for the heavy equipment. On a brighter note, **prospects for M&E segment looks promising** – 2019 PBT almost tripled to RM61m as the delivery for aerospace unit remains on track, and management guided that the production of the Trent 7000 fan case is still scheduled to commence in 4Q20.

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	11,303.6	11,739.1	10,289.3	10,165.9	10,170.9
EBITDA (RMm)	815.9	649.1	604.4	610.3	620.4
Pretax profit (RMm)	800.3	754.8	484.6	588.7	648.3
Net profit (RMm)	379.9	524.1	270.8	330.6	364.3
EPS (sen)	32.5	44.9	23.2	28.3	31.2
PER (x)	9.9	7.2	13.9	11.4	10.4
Core net profit (RMm)	417.2	251.2	273.8	332.6	366.3
Core EPS (sen)	35.7	21.5	23.4	28.5	31.4
Core EPS growth (%)	n.m.	(39.8)	9.0	21.5	10.1
Core PER (x)	9.0	15.0	13.8	11.3	10.3
Net DPS (sen)	7.5	6.0	5.0	6.0	6.5
Dividend Yield (%)	2.3	1.9	1.5	1.9	2.0
EV/EBITDA (x)	6.5	7.4	6.7	5.1	6.1
Chg in EPS (%)			(17.8)	(5.6)	new
Affin/Consensus (x)			0.7	0.8	-

Source: Company, Bloomberg, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

UMW Holdings

UMWH MK

Sector: Auto & Autoparts

RM3.23 @ 27 February 2020
HOLD (maintain)

Upside: 2.2%

Price Target: RM3.30

Previous Target: RM4.75



Price Performance

	1M	3M	12M
Absolute	-23.3%	-26.3%	-44.0%
Rel to KLCI	-19.9%	-22.3%	-36.3%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	3773.6/897.3
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	3.2-5.82
Est free float	29.0%
BV per share (RM)	3.04
P/BV (x)	1.06
Net cash/ (debt) (RMm)	(741.55)
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

ASB	41.1%
EPF	11.6%
Yayasan Pelaburan Bumiputra	7.7%
KWAP	7.1%

Source: Affin Hwang, Bloomberg

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Maintain HOLD call with a lower TP of RM3.30

We cut our 2020-21E core EPS by 6-18% to account for the weaker growth and margins for the automotive and equipment segments against a challenging business outlook. We also lower our price target to RM3.30 (from RM4.75) after incorporating lower valuation multiple to reflect the higher earnings and valuation risks arising from the Covid-19 outlook. At 14x 2020 PER (close to the post O&G demerger average of 14x), valuation looks fair. Reaffirm HOLD. Key upside risks: a strong rebound in vehicle sales, pick-up in equipment sales and strengthening of the RM (vs. US\$). Key downside risk: intense competition in automotive and equipment segment and higher-than-expected losses of O&G assets.

Fig 1: Results comparison

FY 31 Dec (RMm)	4Q18	3Q19	4Q19	qoq % chg	yoy % chg	2018	2019	yoy % chg	Comment
Revenue	2,679.4	2,882.7	3,115.7	8.1	16.3	11,303.6	11,739.1	3.9	Higher revenue driven by higher sales in the Automotive and M&E segments.
Op costs	-2,553.1	-2,811.7	-3,066.3	9.1	20.1	-10,724.2	-11,491.3	7.2	
EBIT	126.3	71.0	49.4	-30.5	-60.9	579.5	247.9	-57.2	
<i>EBIT margin (%)</i>	<i>4.7</i>	<i>2.5</i>	<i>1.6</i>	<i>-0.9ppt</i>	<i>-3.1ppt</i>	<i>5.1</i>	<i>2.1</i>	<i>-3ppt</i>	
Int expense	-53.5	-30.8	-32.6	6.0	-39.1	-98.3	-125.9	28.1	
Int income	21.5	15.7	16.4	4.4	-23.4	85.7	68.3	-20.3	
Associates	100.4	85.2	64.6	-24.2	-35.7	270.7	291.6	7.7	Associates contribution grew by 8% on higher Perodua sales (+6%) and higher margin sales mix.
El	-43.4	9.1	213.9	>100	n.m.	-37.3	272.9	n.m.	2019 Els largely due to gain on disposal of on-current asset for sale (RM220m)
Pretax from Cont. Operations	151.2	150.3	311.7	>100	>100	800.3	754.8	-5.7	
Discon-operations	-45.3	1.9	-16.9	n.m.	-62.8	-176.3	-17.4	-90.1	
Tax	-11.4	-21.0	-21.9	4.3	91.4	-124.1	-108.7	-12.4	
<i>Tax rate (%)</i>	<i>-10.8</i>	<i>-13.8</i>	<i>-7.4</i>	<i>6.4ppt</i>	<i>3.4ppt</i>	<i>-19.9</i>	<i>-14.7</i>	<i>5.1ppt</i>	
MI	-41.2	-20.9	-37.6	79.8	-8.6	-120.0	-104.6	-12.8	
Net profit	53.3	110.3	235.3	>100	>100	379.9	524.1	38.0	
Con-operations	116.4	103.3	242.9	>100	>100	550.8	516.9	-6.2	
Discon-operations	-63.1	6.9	-7.7	n.m.	-87.9	-170.9	7.2	n.m.	
EPS (sen)	4.6	9.4	20.1	>100	>100	32.5	44.9	38.0	
Core profit	96.7	101.2	21.4	-78.9	-77.9	417.2	251.2	-39.8	Below street and our expectations.

Source: Company, Affin Hwang estimates

Fig 2: Lower SOTP of RM3.30 (from RM4.75)

Segmental	multiple	Equity value per share (RM)	Comment
Automotive			
- Toyota	PE 10.0x	0.06	Pegged to 10x forward earnings (12x)
- Perodua	PE 10.0x	2.36	Pegged to 10x forward earnings (12x)
Equipment	PE 6.0x	0.49	Pegged to 9x forward earnings (9x)
M&E	PE 11.0x	0.46	Pegged to 11x forward earnings (12x)
Others			
SOP (RM)		3.30	

Source: Company, Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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