



AmInvestment Bank

## Company report

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

28 Feb 2020

*A miserable FY19, core segments to remain subdued*

## UNDERWEIGHT

(Downgraded)

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*Rationale for report: Company results/update*

|                  |               |
|------------------|---------------|
| Price            | RM3.23        |
| Fair Value       | RM2.98        |
| 52-week High/Low | RM5.82/RM3.20 |

### Key Changes

|            |    |
|------------|----|
| Fair value | ⬇️ |
| EPS        | ⬇️ |

| YE to Dec                     | FY19     | FY20F    | FY21F    | FY22F    |
|-------------------------------|----------|----------|----------|----------|
| Revenue (RM mil)              | 11,739.1 | 10,570.4 | 10,960.0 | 11,322.5 |
| Core net profit (RM mil)      | 278.6    | 252.4    | 267.8    | 282.0    |
| FD Core EPS (sen)             | 23.8     | 21.6     | 22.9     | 24.1     |
| FD Core EPS growth (%)        | (38.6)   | (9.4)    | 6.1      | 5.3      |
| Consensus Net Profit (RM mil) | -        | 387.6    | 410.3    | 468.0    |
| DPS (sen)                     | 6.0      | 6.5      | 6.9      | 7.2      |
| PE (x)                        | 13.5     | 14.9     | 14.1     | 13.4     |
| EV/EBITDA (x)                 | 3.1      | 7.2      | 6.9      | 6.6      |
| Div yield (%)                 | 1.9      | 2.0      | 2.1      | 2.2      |
| ROE (%)                       | 8.0      | 6.9      | 6.9      | 6.9      |
| Net Gearing (%)               | 36.5     | 35.9     | 34.9     | 33.5     |

### Stock and Financial Data

|                              |         |
|------------------------------|---------|
| Shares Outstanding (million) | 1,168.3 |
| Market Cap (RM mil)          | 3,773.6 |
| Book Value (RM/share)        | 3.08    |
| P/BV (x)                     | 1.0     |
| ROE (%)                      | 8.0     |
| Net Gearing (%)              | 36.5    |

|                          |             |
|--------------------------|-------------|
| Major Shareholders       | ASB (40.7%) |
|                          | EPF (8.8%)  |
|                          | PNB (7.3%)  |
| Free Float               | 32.6        |
| Avg Daily Value (RM mil) | 1.8         |

| Price performance | 3mth   | 6mth   | 12mth  |
|-------------------|--------|--------|--------|
| Absolute (%)      | (26.3) | (35.3) | (44.0) |
| Relative (%)      | (22.3) | (31.7) | (36.3) |



### Investment Highlights

- We downgrade UMW Holdings (UMWH) to UNDERWEIGHT from HOLD with a lower SOP-derived FV of RM2.98 (from RM4.74) based on an FY20F PE of 10x for its motor segment.
  - We cut our UMWH's FY20–21F core net profit forecast by 33–38% based on: (i) lower Toyota sales volume assumptions; and (ii) lower equipment segment contribution as the company guided that the outlook for both divisions is subdued in the upcoming year.
  - UMWH's FY19 core net profit of RM278.6mil was below our and consensus expectation, accounting for 72% of both our forecasts and consensus respectively. Overall, core earnings fell by 26% YoY from RM374.8mil in FY18.
  - UMWH registered a FY19 revenue of RM11.7bil, which was a 4% YoY increase. The better performance was highly attributed to: i) higher revenue contribution from the automotive segment; and ii) higher fan cases delivered by the aerospace unit in the M&E segment.
  - Toyota sold 69.1K units in 2019 (+5% YoY) vs. 65.6K units in 2018. Toyota's market share in 2019 was 11.4%. UMWH Toyota introduced a total sales volume target of 66.0K units for 2020, aiming to capture a market share of 12% with an internal TIV projection of 550.0K units for 2020 (our projection stands at 610.0K units). The company confirmed that there will be 4 new SUV launches in 2020.
  - For the automotive segment, the group registered a higher FY19 revenue of RM9.3bil (+4% YoY) due to the increased demands from the sales of auto parts. However, FY19 PBT was marginally lower (-3% YoY) compared to FY18 due to the additional depreciation expense from the Bukit Raja plant, which was mitigated by higher contributions from associate earnings.
- UMWH also said that the Toyota RAV4 CBU will be making its debut in the domestic market in March 2020.
- We noted a decent increase in FY19 associate earnings of RM291.6mil (+10% YoY) mainly attributed to better performance from Perodua. Perodua sold a total of 240.3K units in FY19 vs. 227.2K units in FY18 (+6% YoY). The strong sales performance was buoyed by the sales of the new Aruz and healthy demand for the Myvi, Axia and Bezza.
  - The M&E segment registered a stronger FY19 revenue of RM1.1bil (+26% YoY) and a net profit of RM30.5mil, compared to a FY18 net loss of RM3.5mil. This was highly attributed to higher deliveries of fan cases in the aerospace segment. UMWH guided that its aerospace unit has already turned profitable in 4Q19, which was one year ahead than an earlier guidance. The production of Trent 7000 is scheduled to commence in 4Q2020.

EXHIBIT 1: EARNINGS SUMMARY

| RM mil                              | 4Q18           | 3Q19           | 4Q19           | QoQ   | YoY   | FY18            | FY19            | YoY   |
|-------------------------------------|----------------|----------------|----------------|-------|-------|-----------------|-----------------|-------|
| <b>Revenue</b>                      | <b>2,681.8</b> | <b>2,882.7</b> | <b>3,115.7</b> | 8%    | 16%   | <b>11,306.1</b> | <b>11,739.1</b> | 4%    |
| Operating Expenses                  | (2,756.2)      | (2,835.2)      | (3,080.4)      | 9%    | 12%   | (10,987.5)      | (11,533.6)      | 5%    |
| Other Operating Income              | 92.6           | 32.7           | 39.8           | 22%   | -57%  | 153.2           | 127.1           | -17%  |
| <b>Operating Profit</b>             | <b>18.2</b>    | <b>80.1</b>    | <b>75.1</b>    | -6%   | 313%  | <b>471.9</b>    | <b>332.6</b>    | -30%  |
| Finance Costs                       | (32.1)         | (30.8)         | (32.6)         | 6%    | 2%    | (86.2)          | (125.9)         | 46%   |
| Share of Profits of Associates & JV | 96.3           | 85.2           | 64.6           | -24%  | -33%  | 265.3           | 291.6           | 10%   |
| Investment Income                   | 21.5           | 15.7           | 16.4           | 4%    | -24%  | 85.8            | 68.3            | -20%  |
| <b>Profit before tax</b>            | <b>103.9</b>   | <b>150.3</b>   | <b>123.5</b>   | -18%  | 19%   | <b>736.8</b>    | <b>566.6</b>    | -23%  |
| Tax                                 | (29.8)         | (21.0)         | (21.9)         | 4%    | -27%  | (142.5)         | (108.7)         | -24%  |
| <b>Profit after tax</b>             | <b>74.1</b>    | <b>129.3</b>   | <b>101.6</b>   | -21%  | 37%   | <b>594.3</b>    | <b>458.0</b>    | -23%  |
| Minority interest                   |                |                |                |       |       |                 |                 |       |
| Continuing operations               | 23.3           | 26.0           | 46.8           | 80%   | 101%  | 122.7           | 129.2           | 5%    |
| Discontinued operations             | 2.3            | (5.0)          | (9.2)          | 83%   | -497% | (18.1)          | (24.6)          | 35%   |
| <b>Total</b>                        | <b>25.7</b>    | <b>20.9</b>    | <b>37.6</b>    | 80%   | 47%   | <b>104.5</b>    | <b>104.6</b>    | 0%    |
| <b>Net profit</b>                   |                |                |                |       |       |                 |                 |       |
| Continuing operations               | 15.4           | 103.3          | 208.1          | 101%  | 1251% | 436.2           | 447.2           | 3%    |
| Discontinued operations             | (0.3)          | 6.9            | (7.7)          | -210% | 2179% | (94.5)          | 0.9             | -101% |
| <b>Total</b>                        | <b>15.1</b>    | <b>110.3</b>   | <b>200.5</b>   | 82%   | 1231% | <b>341.7</b>    | <b>448.1</b>    | 31%   |
| <b>Core net profit</b>              | <b>56.0</b>    | <b>94.2</b>    | <b>15.5</b>    | -84%  | -72%  | <b>374.8</b>    | <b>278.6</b>    | -26%  |
| <b>Margins</b>                      |                |                |                |       |       |                 |                 |       |
| EBIT margin                         | 0.7%           | 2.8%           | 2.4%           |       |       | 4.2%            | 2.8%            |       |
| PBT Margin                          | 3.9%           | 5.2%           | 4.0%           |       |       | 6.5%            | 4.8%            |       |
| Net profit margin                   | 0.6%           | 3.6%           | 6.7%           |       |       | 3.9%            | 3.8%            |       |
| Core net profit margin              | 2.1%           | 3.3%           | 0.5%           |       |       | 3.3%            | 2.4%            |       |
| <b>Toyota</b>                       |                |                |                |       |       |                 |                 |       |
| Sales volume (units)                | 12,902         | 16,357         | 21,483         | 31%   | 67%   | 65,551          | 69,091          | 5%    |
| <b>Perodua</b>                      |                |                |                |       |       |                 |                 |       |
| Sales volume (units)                | 59,040         | 56,972         | 61,587         | 8%    | 4%    | 227,243         | 240,341         | 6%    |

Source: AmlInvestment Bank Bhd

EXHIBIT 2: TOYOTA AND PERODUA SALES MIX FY19



Source: AmlInvestment Bank Bhd

## EXHIBIT 3: SEGMENTAL BREAKDOWN

| <b>Segmental Breakdown</b>  | <b>4Q18</b>    | <b>3Q19</b>    | <b>4Q19</b>    | <b>QoQ</b>  | <b>YoY</b> | <b>FY18</b>     | <b>FY19</b>     | <b>YoY</b>  |
|-----------------------------|----------------|----------------|----------------|-------------|------------|-----------------|-----------------|-------------|
| <b>Revenue</b>              |                |                |                |             |            |                 |                 |             |
| Automotive                  | 2,046.1        | 2,296.9        | 2,450.0        | 7%          | 20%        | 8,949.2         | 9,295.9         | 4%          |
| Equipment                   | 397.8          | 353.7          | 328.0          | -7%         | -18%       | 1,540.2         | 1,408.2         | -9%         |
| Manufacturing & Engineering | 242.5          | 252.4          | 328.5          | 30%         | 36%        | 842.8           | 1,062.5         | 26%         |
| Others                      | (4.5)          | (20.3)         | 9.1            | -145%       | -304%      | (26.0)          | (27.4)          | 5%          |
| <b>Total</b>                | <b>2,681.8</b> | <b>2,882.7</b> | <b>3,115.7</b> | <b>8%</b>   | <b>16%</b> | <b>11,306.1</b> | <b>11,739.1</b> | <b>4%</b>   |
| <b>PBT</b>                  |                |                |                |             |            |                 |                 |             |
| Automotive                  | 125.5          | 140.1          | 114.9          | -18%        | -8%        | 545.1           | 530.3           | -3%         |
| Equipment                   | 26.0           | 30.8           | 27.3           | -11%        | 5%         | 152.3           | 135.7           | -11%        |
| Manufacturing & Engineering | 9.5            | 15.4           | 30.0           | 95%         | 217%       | 21.6            | 60.9            | 182%        |
| Eliminations                | (57.1)         | (35.9)         | (48.6)         | 35%         | -15%       | 17.7            | (160.3)         | -1005%      |
| <b>Total</b>                | <b>103.9</b>   | <b>150.3</b>   | <b>123.5</b>   | <b>-18%</b> | <b>19%</b> | <b>736.8</b>    | <b>566.6</b>    | <b>-23%</b> |
| <b>Net profit</b>           |                |                |                |             |            |                 |                 |             |
| Automotive                  | 105.0          | 104.4          | 82.4           | -21%        | -21%       | 362.7           | 374.8           | 3%          |
| Equipment                   | 18.2           | 23.2           | 5.5            | -76%        | -70%       | 117.5           | 87.8            | -25%        |
| Manufacturing & Engineering | 3.2            | 9.1            | 17.9           | 97%         | 463%       | (3.5)           | 30.5            | -964%       |
| Others                      | (75.6)         | (60.3)         | (51.1)         | -15%        | -32%       | 49.4            | (164.3)         | -433%       |
| <b>Total</b>                | <b>50.8</b>    | <b>41.5</b>    | <b>89.6</b>    | <b>116%</b> | <b>76%</b> | <b>526.0</b>    | <b>328.8</b>    | <b>-37%</b> |
| <b>PBT Margin</b>           |                |                |                |             |            |                 |                 |             |
| Automotive                  | 6.1%           | 6.1%           | 4.7%           |             |            | 6.1%            | 5.7%            |             |
| Equipment                   | 6.5%           | 8.7%           | 8.3%           |             |            | 9.9%            | 9.6%            |             |
| Manufacturing & Engineering | 3.9%           | 6.1%           | 9.1%           |             |            | 2.6%            | 5.7%            |             |
| <b>Net Profit Margin</b>    |                |                |                |             |            |                 |                 |             |
| Automotive                  | 5.1%           | 4.5%           | 3.4%           |             |            | 4.1%            | 4.0%            |             |
| Equipment                   | 4.6%           | 6.6%           | 1.7%           |             |            | 7.6%            | 6.2%            |             |
| Manufacturing & Engineering | 1.3%           | 3.6%           | 5.5%           |             |            | -0.4%           | 2.9%            |             |

Source: AmlInvestment Bank Bhd

## EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec)    | FY18           | FY19             | FY20F          | FY21F          | FY22F          |
|--|----------------|------------------|----------------|----------------|----------------|
| Revenue                                | 11,303.6       | 11,739.1         | 10,570.4       | 10,960.0       | 11,322.5       |
| EBITDA                                 | 815.9          | 1,640.7          | 709.4          | 749.8          | 787.2          |
| Depreciation/Amortisation              | (273.7)        | (423.9)          | (450.8)        | (475.1)        | (499.1)        |
| Operating income (EBIT)                | 542.2          | 1,216.8          | 258.5          | 274.7          | 288.1          |
| Other income & associates              | 270.7          | 206.5            | 218.3          | 230.5          | 245.0          |
| Net interest                           | (12.6)         | (27.8)           | 4.7            | 1.0            | (1.7)          |
| <b>Exceptional items</b>               | -              | -                | -              | -              | -              |
| Pretax profit                          | 800.3          | 1,395.5          | 481.5          | 506.2          | 531.4          |
| Taxation                               | (124.1)        | (149.4)          | (63.2)         | (66.2)         | (68.5)         |
| <b>Minorities/pref dividends</b>       | <b>(155.4)</b> | <b>(321.8)</b>   | <b>(235.7)</b> | <b>(242.1)</b> | <b>(248.8)</b> |
| Net profit                             | 515.4          | 278.6            | 252.4          | 267.8          | 281.0          |
| Core net profit                        | 454.0          | 278.6            | 252.4          | 267.8          | 282.0          |
| Balance Sheet (RMmil, YE 31 Dec)       | FY18           | FY19             | FY20F          | FY21F          | FY22F          |
| Fixed assets                           | 2,820.9        | 3,719.6          | 3,994.1        | 4,266.7        | 4,535.3        |
| Intangible assets                      | -              | -                | -              | -              | -              |
| <b>Other long-term assets</b>          | <b>2,851.9</b> | <b>2,888.6</b>   | <b>2,923.4</b> | <b>2,970.3</b> | <b>3,027.7</b> |
| Total non-current assets               | 5,672.9        | 6,608.1          | 6,917.5        | 7,236.9        | 7,563.0        |
| Cash & equivalent                      | 1,311.8        | 1,338.0          | 1,238.2        | 1,157.3        | 1,088.4        |
| Stock                                  | 1,548.5        | 1,350.0          | 1,277.2        | 1,324.3        | 1,368.1        |
| Trade debtors                          | 1,076.6        | 918.3            | 868.8          | 900.8          | 930.6          |
| <b>Other current assets</b>            | <b>1,148.3</b> | <b>1,148.3</b>   | <b>1,148.3</b> | <b>1,148.3</b> | <b>1,148.3</b> |
| Total current assets                   | 5,085.1        | 4,754.6          | 4,532.5        | 4,530.7        | 4,535.4        |
| Trade creditors                        | 1,854.0        | 2,190.9          | 2,072.8        | 2,149.2        | 2,220.2        |
| Short-term borrowings                  | 535.0          | 1,277.9          | 1,534.9        | 1,791.9        | 2,048.9        |
| <b>Other current liabilities</b>       | <b>106.3</b>   | <b>214.8</b>     | <b>206.8</b>   | <b>212.0</b>   | <b>216.8</b>   |
| Total current liabilities              | 2,495.3        | 3,683.6          | 3,814.5        | 4,153.1        | 4,486.0        |
| Long-term borrowings                   | 2,298.2        | 1,371.7          | 1,058.7        | 745.8          | 432.8          |
| <b>Other long-term liabilities</b>     | <b>250.0</b>   | <b>90.5</b>      | <b>87.1</b>    | <b>89.3</b>    | <b>91.4</b>    |
| <b>Total long-term liabilities</b>     | <b>2,548.3</b> | <b>1,462.3</b>   | <b>1,145.9</b> | <b>835.1</b>   | <b>524.2</b>   |
| Shareholders' funds                    | 3,344.6        | 3,595.1          | 3,771.8        | 3,959.2        | 4,155.9        |
| Minority interests                     | 2,369.8        | 2,621.7          | 2,787.6        | 2,959.9        | 3,138.8        |
| BV/share (RM)                          | 2.86           | 3.08             | 3.23           | 3.39           | 3.55           |
| Cash Flow (RMmil, YE 31 Dec)           | FY18           | FY19             | FY20F          | FY21F          | FY22F          |
| Pretax profit                          | 800.3          | 1,395.5          | 481.5          | 506.2          | 531.4          |
| Depreciation/Amortisation              | 273.7          | 423.9            | 450.8          | 475.1          | 499.1          |
| Net change in working capital          | (1,075.1)      | 644.2            | (5.6)          | 3.6            | 3.4            |
| <b>Others</b>                          | <b>(640.4)</b> | <b>(1,073.2)</b> | <b>(463.4)</b> | <b>(473.6)</b> | <b>(486.4)</b> |
| Cash flow from operations              | (641.6)        | 1,390.4          | 463.3          | 511.3          | 547.6          |
| Capital expenditure                    | (847.8)        | (670.4)          | (528.5)        | (548.0)        | (566.1)        |
| Net investments & sale of fixed assets | -              | -                | -              | -              | -              |
| <b>Others</b>                          | <b>182.4</b>   | <b>135.8</b>     | <b>166.9</b>   | <b>161.9</b>   | <b>157.9</b>   |
| Cash flow from investing               | (665.4)        | (534.6)          | (361.6)        | (386.1)        | (408.3)        |
| Debt raised/(repaid)                   | (56.0)         | (56.0)           | (56.0)         | (56.0)         | (56.0)         |
| Equity raised/(repaid)                 | -              | -                | -              | -              | 1.0            |
| Dividends paid                         | (180.4)        | (107.3)          | (75.7)         | (80.3)         | (84.3)         |
| <b>Others</b>                          | <b>1,064.6</b> | <b>(69.9)</b>    | <b>(69.9)</b>  | <b>(69.9)</b>  | <b>(67.9)</b>  |
| <b>Cash flow from financing</b>        | <b>828.2</b>   | <b>(233.2)</b>   | <b>(201.5)</b> | <b>(206.1)</b> | <b>(207.1)</b> |
| <b>Net cash flow</b>                   | <b>(478.7)</b> | <b>622.7</b>     | <b>(99.8)</b>  | <b>(80.9)</b>  | <b>(67.8)</b>  |
| <b>Net cash/(debt) b/f</b>             | <b>1,193.4</b> | <b>715.3</b>     | <b>1,338.0</b> | <b>1,238.2</b> | <b>1,157.3</b> |
| Net cash/(debt) c/f                    | 714.7          | 1,338.0          | 1,238.2        | 1,157.3        | 1,091.4        |
| Key Ratios (YE 31 Dec)                 | FY18           | FY19             | FY20F          | FY21F          | FY22F          |
| Revenue growth (%)                     | 2.1            | 3.9              | (10.0)         | 3.7            | 3.3            |
| EBITDA growth (%)                      | 109.7          | 101.1            | (56.8)         | 5.7            | 5.0            |
| Pretax margin (%)                      | 7.1            | 11.9             | 4.6            | 4.6            | 4.7            |
| Net profit margin (%)                  | 4.6            | 2.4              | 2.4            | 2.4            | 2.5            |
| Interest cover (x)                     | 43.1           | 43.7             | nm             | nm             | 169.5          |
| Effective tax rate (%)                 | 15.5           | 10.7             | 13.1           | 13.1           | 12.9           |
| Dividend payout (%)                    | 26.3           | 28.9             | 22.5           | 22.5           | 22.5           |
| Debtors turnover (days)                | 34             | 31               | 31             | 29             | 30             |
| Stock turnover (days)                  | 48             | 45               | 45             | 43             | 43             |
| Creditors turnover (days)              | 75             | 63               | 74             | 70             | 70             |

Source: Company, AmlInvestment Bank Bhd estimates

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