

**HLIB Research**

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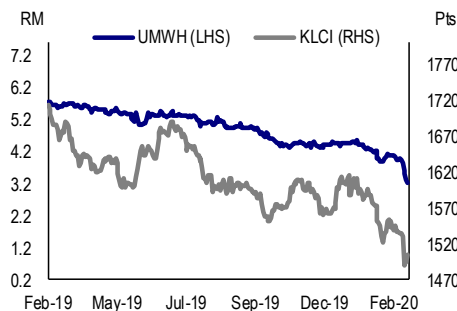
**HOLD** (Maintain)

<b>Target Price:</b>	<b>RM3.20</b>
<b>Previously:</b>	<b>RM4.25</b>
<b>Current Price:</b>	<b>RM3.23</b>

Capital upside	-0.9%
Dividend yield	3.1%
Expected total return	2.2%

**Sector coverage:** Automotive

**Company description:** UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

**Share price**


	1M	3M	12M
Absolute	-23.3	-26.3	-44.0
Relative	-19.9	-22.3	-36.3

**Stock information**

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,774
3-mth average volume ('000)	435
SC Shariah compliant	Yes

**Major shareholders**

Permodalan Nasional Berhad	59.4%
Employess Provident Fund	11.6%
Kumpulan Wang Persaraan	7.1%

**Earnings summary**

	FY19	FY20f	FY21f
FYE (Dec)			
PATMI - core (RM m)	237	322	360
EPS - core (sen)	20.3	27.6	30.8
P/E (x)	15.9	11.7	10.5

# UMW Holdings

## Below expectations

Adjusted for quarterly distribution for Perpetual Sukuk, core PATMI at RM4.0m for 4QFY19 (-95.3% QoQ; -86.8% YoY) and RM236.9m for FY19 (-18.3% YoY), was below HLIB's FY19 forecast (73.5%) and consensus (71.0%). The disappointment was mainly attributed to higher losses of Others segment. UMW will continue to leverage on Perodua and M&E (mainly aerospace) segment for earnings growth, while Toyota and Equipment segment remains unexciting. Cut earnings for FY20 by 15.6% and FY21 by 13.9%. Maintain HOLD with lower TP: RM3.20 (from RM4.25) based on 15% discount (from 10%) to SOP: RM3.77 (from RM4.72).

**Below expectations.** UMW reported core PATMI of only RM4.0m (adjusted for quarterly provision of RM13.4m Perpetual Sukuk distribution) for 4QFY19 (-95.3% QoQ; -86.8% YoY) and RM236.9m for FY19 (-18.3% YoY), achieving 73.5% of HLIB's FY19 forecast and 71.0% of consensus. The disappointment was mainly due to higher than expected losses from Others segment. We have excluded net EIs of +RM213m in 4QFY19 and +RM190m in FY19, mainly due to gain from disposal of land bank, property and equipment, and investments.

**Dividend.** Declared a final dividend of 2 sen/share (ex-date: 13 March), cumulating to 6 sen/share for FY19.

**QoQ/YoY.** Adjusted for quarterly distribution for Perpetual Sukuk, core earnings deteriorated significantly by -95.3% QoQ and -86.8% YoY on the back of lower profit contribution from associate Perodua and Equipment segment (slowdown in sales), and higher losses from Others segment.

**YTD.** Core earnings declined by 18.3%, dragged by Others segment, partially cushioned by turnaround of Manufacturing & Equipment (following improvement in efficiency and utilization) and O&G unlisted (following divestment and operational cease).

**Automotive.** UMW will continue to leverage on the sustainable sales of Perodua, while Toyota may face stiff competitions with attractive new launches by close competitors in 2020-2021. We remain cautious on the negative impact from the depreciated RM/USD, deteriorating consumer sentiment (due to Covid-19 and domestic political uncertainty) and heightened competitive market in 2020.

**Equipment.** Demand for equipment (mining, construction and logging) remains sluggish in the near term, given the slowdown of domestic as well as regional economic activity. The anticipated re-commencement of mega projects may provide some growth to the segment.

**M&E.** Automotive parts will leverage on the increasing local car production volume, namely Perodua and Proton for earnings sustainability. UMW Aerospace production ramp up plan is on track to turn profitable in FY20.

**Forecast.** Cut earnings for FY20 by 15.6% and FY21 by 13.9%.

**Maintain HOLD, TP: RM3.22.** Maintain HOLD recommendation on UMW with lower TP: RM3.22 (from RM4.25) based on higher discount of 15% discount (from 10%) to lower SOP of RM3.77 (from RM4.72) following cut in earnings. Despite UMW share price at a historical low, we reckon that valuations are fair at 1.0x P/B at 11.7x P/E with 3.1% dividend yield.

**Figure #1 Financial forecast summary**

FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	11,067	11,304	11,739	12,015	12,334
EBITDA	389	816	710	844	843
EBIT	124	542	363	490	485
PBT	267	800	755	671	694
Operation PAT	145	676	646	504	528
Discontinued operation	(805)	(177)	(17)	0	0
PATMI – Reported	(641)	344	454	322	360
PATMI – Core	(99)	290	237	322	360
% change YoY – Core PATMI		-393.0%	-18.3%	36.0%	11.7%
HLIB/ Consensus (%) – Core PATMI				63.9%	63.3%
Core EPS (sen)	(8.5)	24.8	20.3	27.6	30.8
P/E (x)	N.M.	13.0	15.9	11.7	10.5
DPS (sen)	0.0	7.5	6.0	10.0	10.0
Yield (%)	0.0%	2.3%	1.9%	3.1%	3.1%
Shareholder's equity	3,047	3,345	3,693	3,796	4,039
BVPS (RM/share)	2.61	2.86	3.16	3.25	3.46
P/B (x)	1.2	1.1	1.0	1.0	0.9
ROE (%)	-2.5%	9.1%	6.8%	8.7%	9.2%

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**Figure #2 Quarterly results comparison**

FYE Dec (RMm)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	2,681.8	2,882.7	3,115.7	8.1%	16.2%	11,303.7	11,739.1	3.9%
EBITDA	117.0	161.8	149.3	-7.7%	27.6%	815.9	709.6	-13.0%
EBIT	62.8	79.8	56.5	-29.2%	-9.9%	542.2	363.4	-33.0%
Net finance expense	(22.3)	(23.9)	(23.4)	-2.1%	4.6%	(12.6)	(90.2)	616.7%
Associates	96.3	85.2	64.6	-24.2%	-32.9%	270.7	291.6	7.7%
Eis	(32.8)	9.1	213.9			0.0	190.0	
Reported PBT	103.9	150.3	311.7	107.4%	199.8%	800.3	754.8	-5.7%
Tax	(29.8)	(21.0)	(21.9)	4.3%	-26.5%	(124.1)	(108.7)	-12.4%
Reported operation net profit	74.1	129.3	289.8	124.1%	290.8%	676.2	646.1	-4.5%
Discontinued operation	2.0	1.9	(16.9)	-979.6%	-951.6%	(177.1)	(17.4)	-90.2%
Reported net profit	76.1	131.2	272.9	108.0%	258.5%	499.1	628.7	26.0%
Reported PATMI	15.1	110.3	200.5	81.8%	1230.5%	343.7	454.4	32.2%
Eis & Sukuk Adjustments	15.1	(26.5)	(196.5)	640.3%	-1403.0%	(53.6)	(217.5)	305.6%
Core PATMI	30.1	83.8	4.0	-95.3%	-86.8%	290.1	236.9	-18.3%
Reported EPS (Sen)	1.3	9.4	17.2	81.8%	1230.5%	29.4	38.9	32.2%
Core EPS (Sen)	2.6	7.2	0.3	-95.3%	-86.8%	24.8	20.3	-18.3%
				<b>pts</b>	<b>pts</b>			<b>pts</b>
EBITDA margin (%)	4.4%	5.6%	4.8%	(0.8)	0.4	7.2%	6.0%	(1.2)
EBIT margin (%)	2.3%	2.8%	1.8%	(1.0)	(0.5)	4.8%	3.1%	(1.7)
Core PATMI margin (%)	1.1%	2.9%	0.1%	(2.8)	(1.0)	2.6%	2.0%	(0.5)

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- 4QFY19 higher group revenue QoQ and YoY was driven by higher sales volume of Toyota.
- Group EBIT margin declined QoQ & YoY dragged by higher operational cost of Other segment.
- Associates contribution deteriorated QoQ and YoY due to lower contribution from Perodua on weaker sales mix.

**Figure #3** Quarterly results comparison by segment

FYE Dec (RM m)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
<b>Reported Revenue</b>								
Automotive	2,046.1	2,296.9	2,450.0	6.7%	19.7%	8,945.5	9,295.9	3.9%
Equipment	397.8	353.7	328.0	-7.2%	-17.5%	1,520.3	1,408.2	-7.4%
Manufacturing & Engineering	242.5	252.4	328.5	30.2%	35.5%	816.8	1,062.5	30.1%
Oil & Gas unlisted	0.0	0.0	0.0	#DIV/0!	#DIV/0!	0.0	0.0	#DIV/0!
Others	14.7	(71.3)	9.1	-112.8%	-38.0%	21.1	(27.4)	-230.2%
Intersegment	(19.2)	50.9	0.0	-100.0%	-100.0%	0.0	0.0	#DIV/0!
<b>Total</b>	<b>2,681.8</b>	<b>2,882.7</b>	<b>3,115.7</b>	<b>8.1%</b>	<b>16.2%</b>	<b>11,303.7</b>	<b>11,739.1</b>	<b>3.9%</b>
<b>Reported PATMI</b>								
Automotive	105.0	104.4	82.4	-21.0%	-21.5%	121.7	374.8	208.1%
Equipment	18.2	23.2	5.5	-76.1%	-69.6%	117.7	87.8	-25.4%
Manufacturing & Engineering	3.2	9.1	17.9	96.6%	462.6%	(3.5)	30.5	-964.3%
UMWOG	0.0	0.0	0.0	N.M.	N.M.	0.0	0.0	N.M.
Oil & Gas unlisted (discontinued)	(0.3)	6.9	(7.7)	N.M.	N.M.	(170.9)	7.2	N.M.
Others	(111.0)	(25.5)	67.4	N.M.	N.M.	33.5	(45.9)	N.M.
<b>Total</b>	<b>15.1</b>	<b>118.1</b>	<b>165.6</b>	<b>40.2%</b>	<b>N.M.</b>	<b>98.5</b>	<b>454.4</b>	<b>N.M.</b>
<b>Core PATMI</b>	<b>30.1</b>	<b>83.8</b>	<b>4.0</b>	<b>-95.3%</b>	<b>N.M.</b>	<b>290.1</b>	<b>236.9</b>	<b>-18.3%</b>

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**Figure #4** UMW automotive sales statistics

Unit Sales	1QFY19	2QFY19	3QFY19	4QFY19	FY18	FY19
Toyota (51% ownership)	13,722	17,529	16,357	21,783	65,551	69,391
Lexus (51% ownership)	143	129	271	375	1,020	918
Perodua (38% ownership)	60,659	61,123	56,972	61,587	227,243	240,341
<b>Total</b>	<b>74,524</b>	<b>78,781</b>	<b>73,600</b>	<b>83,745</b>	<b>293,814</b>	<b>310,650</b>
<b>Growth YoY (%)</b>	<b>9.0%</b>	<b>-2.5%</b>	<b>1.5%</b>	<b>16.2%</b>	<b>6.7%</b>	<b>5.7%</b>
<b>Growth QoQ (%)</b>	<b>3.4%</b>	<b>5.7%</b>	<b>-6.6%</b>	<b>13.8%</b>		

Company

**Figure #5** UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,916.8	3.35	FY20 PE 10x
Equipment	Various	824.7	0.71	FY20 PE 10x
Manufacturing & Engineering	Various	933.6	0.80	FY20 PE 18x
Others (including O&G unlisted)	Various	165.2	0.14	Book value based on FY2018
700 acres Serendah land	100.00	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	90.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2018 Annual Report
Holding Co Net Debt		(1,405.8)	(1.20)	Based on 2018 Annual Report
Subtotal		4,404.2	3.77	
Holding Co Discount			15.0%	
Subtotal			3.20	
* No of Shares		1,168.3		As at end FY2018

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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