

Company Result

28 February 2020

UMW Holdings Berhad

Pinning hopes on M&E division

HOLD

Maintained

Share Price	RM3.23
Target Price	RM3.50

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	3773.59
52-week price Range	RM3.20-5.82
Beta (against KLCI)	0.69
3-m Average Daily Volume	0.43m
3-m Average Daily Value	RM1.80

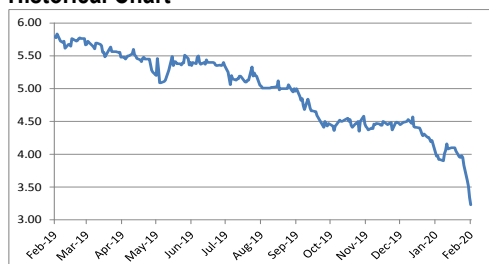
Share Performance

	1m	3m	12m
Absolute (%)	-23.3	-28.1	-44.0
Relative (%-pts)	-19.9	-22.3	-36.3

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	41.14
EMPLOYEES PROVIDENT FUND	11.64
YAYASAN PELABURAN BUMIPUTRA	7.66
ESTIMATED FREE FLOAT	28.97

Historical Chart



Source: Bloomberg

Nursuhaiza Hashim

03-87361118, ext. 752

nursuhaiza@jfp Apex.com.my

Result

- **UMW Holdings Berhad (UMW) posted a core net loss of RM13.4m during 4Q19 which depleted 113.3% qoq and 126.5% yoy.** Meanwhile, revenue stood at RM3.1b, which soared 8.1% qoq and 16.3% yoy.
- **As for full year of 2019, the Group registered a core net profit of RM287.2m which dropped 22.4% yoy despite achieving marginally higher revenue, +3.9% yoy.** The disappointing earnings were due to higher depreciation cost from Bukit Raja Plant (BRP) under Automotive segment coupled with subdued margin from Equipment segment. However, stellar revenue was spurred by robust car sales from Automotive division as well as higher fan cases delivery from Manufacturing & Engineering division.
- **Below our expectations.** 12M19 core net profit of RM287.2m were substantially below our in-house and market expectation which only account for 76% and 85.9% of full year earnings estimates respectively.

Comment

- **Robust sales from Toyota and Perodua.** Auto segment posted massive revenue which rose 6.7% qoq and 19.7% yoy. Stellar growth was propelled by massive vehicle sales from Toyota (+31.3% qoq and 64.5% yoy) as well as Perodua (+8.1% qoq and 4.1% yoy) which brings up full year vehicle sales for both car makers by 5.1% and 6.0% respectively. Nevertheless, PBT slid 18% qoq and 11.9% yoy, no thanks to lower share of profit from Perodua. Going forward, both Toyota and Perodua are expected to launch new SUV models coupled with some facelift or updated version, we believe. We reckon Auto segment to grow at healthy pace as BRP already hit the production capacity of 50k units/year with 80% utilization rate, easily double the capacity with minimal capex requirement, working on dual-shifts and higher localisation rate to (c.80%).
- **Disappointing Equipment division.** The Equipment segment's revenue down 7.2% qoq and 17.5% yoy, no thanks to sluggish demand from both Industrial and Heavy equipment businesses. On the same note, PBT dropped 11.4% qoq and 19.5% yoy due to margin squeeze which led to PBT margin depleted by 0.4 pts qoq and 0.2 pts yoy respectively in view of slowdown in manufacturing, construction and logging activities. Overall, the Group expects the outlook for this division to remain challenging in the near term on the back of sluggish demand from

manufacturing, mining and logging sectors from Heavy equipment business. However, the Group believes the Heavy equipment business will be underpinned by revival of few mega projects by Malaysian government and massive demand from Singapore and Papua New Guinea coupled with steady leasing and other value-added services in Vietnam under Industrial equipment business.

- **Encouraging outlook for M&E division.** Manufacturing & Engineering's revenue jumped 30.2% qoq and 35.5% yoy. On the same note, PBT soared 95.3% qoq and 219.2% yoy. Steady performance was underpinned by higher number of cases deliver from its Aerospace business during the period as well strong demand for auto-components products. The Group is currently ramping up their production within the time frame to meet the Rolls-Royce's demand and expects to breakeven in FY20. Besides, the business will also begin its production of Trent 7000 fan cases in FY20. Moreover, the Auto Components business is expected to remain steady throughout the year.
- **Final dividend declared.** The Group has declared a single-tier dividend of 2.5sen/share for FY19, which bring total dividend payout of 6.5sen/share for FY19.

Earnings Outlook/Revision

- **We cut our earnings forecast for FY20 by 4.3%** to account for lower margins due to high depreciation cost from Bukit Raja Plant (BRP) as well as lower vehicle sales volume. Besides, we also introduce our 2021F net earnings of RM438.4m, +6.4% growth yoy.

Valuation & Recommendation

- **Maintained HOLD call on UMW with a lower target price of RM3.50 (RM4.80 previously) following our earnings cut.** Our valuation is now based on 10x FY2020F PE with a revised EPS of 35 sen (37 sen previously). Target P/E ratio assigned is below -1 standard deviation of 5-year average PE of 13.1x.
- **We are neutral on its outlook** as: 1) Auto division is dampened by stiff competition from other car makers, stringent loan approval and weak sentiment towards big ticket items; 2) Higher depreciation cost from BRP; and 3) Fluctuation of foreign exchange.

Figure 1: Quarterly Figures

Year to 31 Dec	4Q19 (RMm)	3Q19 (RMm)	4Q18 (RMm)	QoQ % chg	YoY % chg	12M19 (RMm)	12M18 (RMm)	YoY % chg
Revenue	3,115.7	2,882.7	2,679.4	8.1%	16.3%	11,739.1	11,303.8	3.9%
Operating Profit	75.1	80.1	82.9	-6.3%	-9.4%	359.6	542.2	-33.7%
Pre-tax Profit	311.7	150.3	151.2	107.4%	106.2%	781.8	804.8	-2.9%
Profit After Tax	272.9	131.2	94.5	108.0%	188.8%	655.7	500.0	31.2%
Net Profit	200.5	110.3	17.9	81.8%	1018.0%	481.4	344.5	39.7%
Core Profit	(13.4)	101.2	50.7	-113.3%	-126.5%	287.2	370.3	-22.4%
Margin (%)				ppts	ppts			ppts
Operating profit	2.4%	2.8%	3.1%	-0.4	-0.7	3.1%	4.8%	-1.7
Profit before tax	10.0%	5.2%	5.6%	4.8	4.4	6.7%	7.1%	-0.5
Net profit	8.8%	4.6%	3.5%	4.2	5.2	5.6%	4.4%	1.2
Core profit	-0.4%	3.5%	1.9%	-3.9	-2.3	2.4%	3.3%	-0.8

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY19	4Q19 (RMm)	3Q19 (RMm)	4Q18 (RMm)	QoQ % chg	YoY % chg	12M19 (RMm)	12M18 (RMm)	YoY % chg
Segmental Revenue								
Automotive	2,450.0	2,296.9	2,046.1	6.7%	19.7%	9,295.9	8,949.2	3.9%
Equipment	328.0	353.7	397.8	-7.2%	-17.5%	1,408.2	1,540.2	-8.6%
M & E	328.5	252.4	242.5	30.2%	35.5%	1,062.5	842.8	26.1%
Segmental PBT								
Automotive	114.9	140.1	130.3	-18.0%	-11.9%	530.30	550.0	-3.6%
Equipment	27.3	30.8	33.9	-11.4%	-19.5%	135.68	160.1	-15.3%
M & E	30.0	15.4	9.4	95.3%	219.2%	60.92	21.5	182.9%
Segmental Margin (%)				ppts	ppts			ppts
Automotive	4.7%	6.1%	6.4%	-1.4	-1.7	5.7%	6.1%	-0.4
Equipment	8.3%	8.7%	8.5%	-0.4	-0.2	9.6%	10.4%	-0.8
M & E	9.1%	6.1%	3.9%	3.0	5.3	5.7%	2.6%	3.2

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2015	2016	2017	2018	2019	2020F	2021F
Revenue	14,441.6	10,436.8	11,066.6	11,303.6	11,739.0	12,141.3	12,585.0
Operating profit	135.6	(484.6)	123.7	335.2	359.6	455.2	457.2
PBT	269.7	(282.1)	266.6	593.3	781.8	733.9	754.7
Net profit	(37.2)	(1,658.0)	(640.6)	172.9	481.4	412.0	438.4
Core profit	19.6	(401.8)	(85.8)	370.3	287.2	412.0	438.4
Core EPS (sen)	0.02	(0.31)	(0.07)	0.32	0.25	0.35	0.38
P/BV (x)	0.41	0.55	0.90	0.66	0.69	0.58	0.48
DPS (sen)	0.20	0.00	0.00	0.075	0.07	0.05	0.06
Dividend yield (%)	6.2%	0.0%	0.0%	2.3%	2.0%	1.6%	1.7%
Operating margin (%)	0.9%	-4.6%	1.1%	3.0%	3.1%	3.7%	3.6%
PBT margin (%)	1.9%	-2.7%	2.4%	5.2%	6.7%	6.0%	6.0%
Net profit margin (%)	-0.3%	-15.9%	-5.8%	1.5%	4.1%	3.4%	3.5%
Net Gearing Ratio(x)	0.64	0.88	0.66	0.50	0.66	0.77	0.95
ROE (%)	0.2%	-5.4%	-2.1%	6.5%	5.3%	6.4%	5.6%
ROA (%)	-0.2%	-10.2%	-6.4%	1.6%	4.3%	3.1%	2.7%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST

JF APEX SECURITIES BHD

Head Office:
6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM

Head Office:
Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Zairul Azman (ext 746)
Nur Nadia (ext 741)
Ahmad Mansor (ext 744)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Joanne Tan Hui Bin (Ext 111)

RESEARCH TEAM

Head Office:
Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Nursuhaiza Hashim (ext 752)
How Chi Hoong (ext 754)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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