

28 Feb 2020

Hold

Price
 RM3.23

Target Price
 RM3.50 (from RM5.10)

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,773.6
52-week high/low (RM)	5.82 / 3.20
Avg daily turnover (RMm)	1.8
KLCI (pts)	1,505.6

Source: Bloomberg, KAF

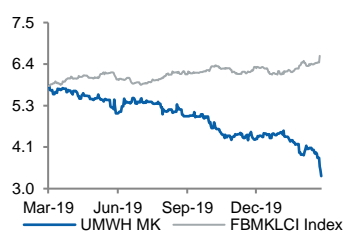
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(41.1%)
EPF	(11.6%)
Yayasan Perlaburan Bumiputera	(7.7%)
Free Float	29.0

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(26.3)	(35.3)	(44.0)
Rel Market (%)	(22.3)	(31.7)	(36.3)



Source: Bloomberg, KAF

Analyst

Max Koh
 (603) 2171 0505
 maxkoh@kaf.com.my

UMW Holdings

A disappointing FY19

UMW's FY19 core earnings of RM200m missed estimates due to lower-than-expected associate contribution and sluggish equipment demand. Positively, M&E performed well on the back of improved contribution from its aerospace unit. Management sees 6% decline for Toyota/Lexus sales this year due to weak consumer sentiment despite 4 new SUV launches. We downgrade to Hold with a lower TP of RM3.50.

Financial Highlights

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue (RMm)	11,304	11,739	11,033	11,175	11,487
Core net profit (RMm)	326	200	268	287	311
Core EPS (Sen)	27.9	17.1	23.0	24.6	26.6
EPS growth (%)	93.2	(38.7)	34.3	7.0	8.3
DPS (Sen)	7.5	6.0	6.0	6.0	6.0
Core PE (x)	11.6	18.9	14.1	13.1	12.1
Div yield (%)	2.3	1.9	1.9	1.9	1.9
ROE (%)	16.1	12.7	7.0	7.0	7.1
Net Gearing (%)	45.5	28.1	44.0	36.6	29.4
PBV(x)	0.7	0.6	0.6	0.5	0.5

Source: Company, KAF

FY19 below estimates. UMW's FY19 core earnings of RM200m fell below expectations at 69% of our forecast, and 60% of consensus. Core earnings fell 39% from a year earlier on 4% top-line growth. The main variance is the lower-than-expected contribution from associate Perodua due to asset impairment, for which the amount was not disclosed. Our core earnings exclude one-off items including RM188.1m gain from land sale booked in 4Q.

Lower auto profits. The auto segment saw 4% top-line growth on 5% increase in Toyota and Lexus sales volume. Nevertheless, PBT fell 4% due to higher depreciation with the commencement of its Bukit Raja plant. Key models launched last year include the all-new Vios, Yaris and Corolla. Overall associate/JV contribution rose 8% on higher Perodua contribution, despite the afore-mentioned asset impairment.

M&E up on aerospace turnaround. The M&E division reported PBT of RM61m (vs. RM22m last year) on 26% top-line growth, mainly on turnaround at its aerospace unit. Hence, PBT margin improved 3ppt to 6%. We estimate 120 fan case deliveries last year (from 59 in 2018) and forecast 150 deliveries this year. Presently, there has been no disruption to operations with Trent 7000 fan case to commence production in 4Q20.

Weak equipment performance. Sluggish demand in Malaysian and Myanmar impacted its equipment division sales – resulting in 15% PBT decline and 9% lower revenue. Margins also declined 1ppt to 9% due to stiff competition. We expect demand to remain sluggish for this segment.

Outlook. UMW is expected to launch 4 new SUV model this year (we expect to be mainly CBU units) – with two targeted for launch in 1Q20, and one each in 2Q and 3Q, respectively. Nevertheless, management expects Toyota/Lexus sales to decline 6% to 66k due to weak consumer sentiments. We had likewise adjusted our sales forecast to 66k from 69k. We maintain our Perodua growth forecast of 1% to 242k (vs. management's flattish 240k target). Including adjustments to reflect weaker equipment sales, we lower our FY20 earnings by 30%. We see strong challenges from Honda's new models to be introduced this year, while the ongoing Covid-19 outbreak could further hamper equipment sales.

Downgrade to Hold. Following our adjustments, we downgrade to Hold with a lower SOP-based TP of RM3.50 (from RM5.10 earlier) – which implies 14x PE. While the M&E division is a bright spark with steady Perodua performance, we expect Toyota and equipment sales to be weak due to ongoing Covid-19 concerns and weak economic demand.

Exhibit 1: Results summary

FYE 31 Dec	4Q18	3Q19	4Q19	yoy %	qoq%	FY18	FY19	yoy %	FY19F	FY19/F
Continued operations										
Revenue	2679	2883	3116	16%	8%	11304	11739	4%	10968	107%
Operating profit	83	80	263	218%	229%	542	521	-4%	411	127%
Investment income	21	16	16	-23%	4%	86	68	-20%	70	98%
Finance cost	(54)	(31)	(33)	-39%	6%	(98)	(126)	28%	(120)	105%
JV & Associates	100	85	65	-36%	-24%	271	292	8%	292	100%
Pretax profit	151	150	312	106%	107%	800	755	-6%	652	116%
Tax	(11)	(21)	(22)	91%	4%	(124)	(109)	-12%	(143)	76%
Profit after tax (continued ops)	140	129	290	107%	124%	676	646	-4%	509	127%
MI & perpetual sukuk holders	(59)	(26)	(82)	39%	215%	(161)	(199)	24%	(219)	91%
Net profit (continuing ops)	81	103	208	157%	101%	515	447	-13%	290	154%
Core net profit	114	94	(6)	-105%	-106%	326	200	-39%	290	69%
Discontinued Operations										
Revenue	5	2	8	71%	236%	72	21	-71%		
Loss before tax from discontinued ops	(45)	2	(14)	-69%	-730%	(175)	(14)	-92%		
Loss after tax from discontinued ops	(45)	2	(17)	-63%	-980%	(176)	(17)	-90%		
MI	(18)	5	9	-152%	83%	5	25	359%		
Net loss from discontinued ops	(63)	7	(8)	-88%	-210%	(171)	7	-104%		
Consolidated										
Revenue	2684	2885	3124	16%	8%	11376	11760	3%		
(Loss)/profit before tax	106	153	298	180%	95%	625	741	19%		
Profit after tax	94	131	273	189%	108%	500	629	26%		
MI	(77)	(21)	(72)	-5%	246%	(155)	(174)	12%		
Net profit	18	110	200	1018%	82%	344	454	32%		
Continued ops										
EPS (sen)	6.9	8.8	17.8			44.1	38.3			
Core EPS (sen)	9.7	8.1	(0.5)			27.9	17.1			
Net DPS (sen)	2.5	4.0	2.0			7.5	6.0			
BV (RM)	2.86	3.04	3.16			2.64	3.16			
EBIT margin (%)	3%	3%	8%			5%	4%		4%	
PBT margin (%)	6%	5%	10%			7%	6%		6%	
PAT margin (%)	5%	4%	9%			6%	6%		5%	
Net margin (%)	3%	4%	7%			5%	4%		3%	
Effective tax rate (%)	8%	14%	7%			16%	14%		22%	

Source: KAF, Company

Exhibit 2: Segmental breakdown

	4Q18	3Q19	4Q19	yoy %	qoq %	FY18	FY19	yoy %	FY19F	FY19/F
Continued										
Automotive	2044	2297	2450	20%	7%	8947	9296	4%	8,493	109%
Equipment	397	354	328	-17%	-7%	1540	1408	-9%	1,509	93%
Manufacturing	243	252	329	35%	30%	843	1063	26%	966	110%
Others & Eliminations	(4)	(20)	(20)	372%	0%	(26)	(27)	6%		
Total Revenue (RM mil)	2679	2883	3116	16%	8%	11304	11739	4%	10,968	107%
Automotive	130	140	115	-12%	-18%	550	530	-4%	499	106%
Equipment	34	31	27	-19%	-11%	160	136	-15%	145	94%
Manufacturing	9	15	30	219%	95%	22	61	183%	48	126%
Others	(22)	(36)	140	-722%	-488%	69	28	-59%		
Total PBT (RM mil)	151	150	312	106%	107%	800	755	-6%	652	116%
Automotive PBT margin (%)	6%	6%	5%	-26%	-23%	6.1%	5.7%		5.9%	
Equipment PBT margin (%)	9%	9%	8%	-3%	-4%	10%	10%		9.6%	
Manufacturing PBT (%)	4%	6%	9%	136%	50%	3%	6%		5.0%	
Total PBT margin (%)	6%	5%	10%	77%	92%	7%	6%		5.9%	
USD:MYR average	4.17	4.16	4.16			4.03	4.14	3%		
Unit sales										
	4Q18	3Q19	4Q19	yoy %	qoq %	FY18	FY19	yoy %	FY19F	FY19/F
Toyota	12,902	16,357	21,483	67%	31%	65,551	69,091	5%	67,500	102%
Lexus	156	271	375	140%	38%	1,011	918	-9%	800	115%
Total	13,058	16,628	21,858	67%	31%	66,562	70,009	5%	68,300	103%
Perodua	59,040	56,972	61,587	4%	8%	227,243	240,341	6%	238,000	101%
Grand total	72,098	73,600	83,445	16%	13%	293,805	310,350	6%	306,300	101%

Source: KAF, Company

Exhibit 3: SOP value

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	52	0.04	1%	Carrying value at end-FY18
Equipment division	679	0.58	17%	9x FY20F PE
M&E division	1011	0.87	25%	10x FY20F PE
UMW Toyota	1,065	0.91	26%	9x FY20F PE
Perodua	2,727	2.33	67%	10x FY20F PE - 38% stake
Serendah land	510	0.44	12%	RNAV (732 acres at RM16psf)
Company net cash/(debt)	(1958)	-1.68	-48%	FY18A
	4086			
UMWH share base	1168			
SOP value	3.50			

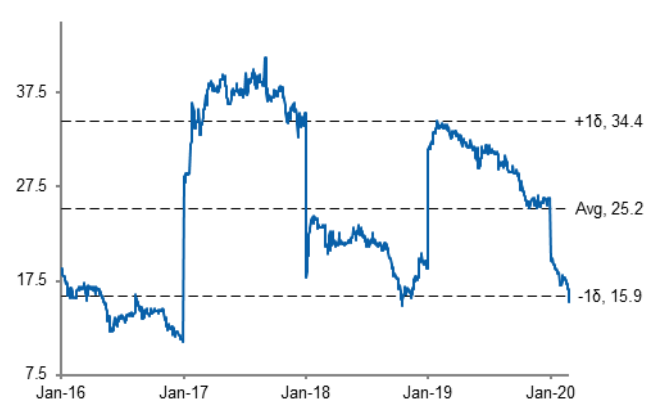
Source: Company, KAF

Exhibit 4: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 5: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Revenue	11,303.6	11,739.1	11,033.0	11,174.8	11,486.7
EBITDA	815.9	867.0	626.9	691.4	748.1
Depreciation/Amortisation	(273.7)	(346.2)	(364.6)	(389.1)	(413.6)
Operating income (EBIT)	542.2	520.8	262.3	302.3	334.5
Other income & associates	270.7	291.6	292.8	296.5	299.0
Net interest	(12.6)	(57.6)	(38.1)	(50.9)	(55.7)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	800.3	754.8	517.0	548.0	577.8
Taxation	(124.1)	(108.7)	(72.4)	(76.7)	(80.9)
Minorities/pref dividends	(160.8)	(198.9)	(176.3)	(184.1)	(185.7)
Net profit	515.4	447.2	268.3	287.2	311.2
Core net profit	325.8	199.8	268.3	287.2	311.2

Balance Sheet

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	2,820.9	2,756.8	2,544.5	2,465.9	2,362.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	729.2	826.9	826.9	826.9	826.9
Total non-current assets	5,391.2	5,504.9	5,292.6	5,214.1	5,111.0
Cash & equivalent	1,312.0	1,472.1	1,268.7	1,580.7	1,921.1
Stock	1,548.5	1,589.6	1,708.2	1,725.0	1,765.7
Trade debtors	1,076.6	1,450.5	1,080.9	1,089.5	1,110.2
Other current assets	1,148.1	1,077.5	2,348.3	2,767.2	3,104.1
Total current assets	5,085.1	5,589.7	6,406.1	7,162.3	7,901.1
Trade creditors	1,854.0	2,093.4	1,696.2	1,703.2	1,717.0
Short-term borrowings	535.0	386.4	158.2	96.0	35.9
Other current liabilities	106.3	138.1	138.1	138.1	138.1
Total current liabilities	2,495.3	2,617.9	1,992.5	1,937.2	1,891.0
Long-term borrowings	2,298.2	2,123.4	2,855.1	3,039.4	3,224.5
Other long-term liabilities	250.0	312.1	312.1	389.5	389.5
Total long-term liabilities	2,548.3	2,435.6	3,167.2	3,428.9	3,614.0
Shareholders' funds	3,344.6	3,692.6	3,961.0	4,248.2	4,559.3
Minority interests	2,369.8	2,401.7	2,578.1	2,762.1	2,947.8

Cash flow Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	800.3	754.8	517.0	548.0	577.8
Depreciation/Amortisation	273.7	346.2	364.6	389.1	413.6
Net change in working capital	(146.8)	(58.9)	(146.2)	(18.4)	(47.6)
Others	(752.8)	(763.6)	(462.0)	(322.4)	(324.2)
Cash flow from operations	174.4	278.4	273.4	596.3	619.6
Capital expenditure	(915.0)	(345.5)	(800.0)	(800.0)	(800.0)
Net investments & sale of fixed assets	(1,496.0)	(1,187.6)	(1,251.2)	(1,251.2)	(1,251.2)
Others	2,092.4	2,024.6	1,615.2	1,808.1	1,809.4
Cash flow from investing	(318.7)	491.5	(436.0)	(243.1)	(241.8)
Debt raised/(repaid)	77.7	(322.5)	122.0	125.0	129.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(58.4)	(75.9)	(70.1)	(70.1)	(70.1)
Others	1,000.0	(184.3)	(96.2)	(96.2)	(96.2)
Cash flow from financing	1,019.2	(582.8)	(44.3)	(41.3)	(37.3)
Net cash flow	874.9	187.1	(206.9)	311.9	340.5
Cash b/f	1,181.5	1,315.2	1,475.6	1,268.7	1,580.7
Cash c/f	1,315.2	1,475.6	1,268.7	1,580.7	1,921.1

Key Ratios

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue growth (%)	2.1	3.9	(6.0)	1.3	2.8
EBITDA growth (%)	>100	6.3	(27.7)	10.3	8.2
Pretax margins (%)	7.1	6.4	4.7	4.9	5.0
Net profit margins (%)	4.6	3.8	2.4	2.6	2.7
Interest cover (x)	43.1	9.0	6.9	5.9	6.0
Effective tax rate (%)	9.0	10.2	0.0	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	34	39	42	35	35
Stock turnover (days)	48	49	55	56	55
Creditors turnover (days)	75	61	63	56	54

Source: Bloomberg, KAF

* From this year onwards year end is Dec

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)