

UMW Holdings (UMWH MK)

FY19 results below expectation

D/G to SELL; TP cut to MYR2.75

FY19 core results came in below ours/ consensus FY estimates, on weaker-than-expected 4Q19. We cut FY20-21 earnings by up to 39%, on a challenging outlook over the next 12 months (sluggish vehicle sales and higher costs; weaker MYR). We also cut our TP by 45%, as we value UMW at 12x FY21 PER now (vs. SOP previously), as we harmonise the sector's valuations method. Our preferred auto sector exposure are Sime (SIME MK; TP: MYR2.58) and MBM (MBM MK; TP: MYR6.35).

4Q19 core NP fell 32% QoQ, 2 sen final DPS

Headline net profit of MYR252m in 4Q19 consisted of substantial one-off gains (+MYR184m), arising mainly from sale of land (MYR188m). Excluding that, UMW reported a core net profit of MYR68m (-32% QoQ, +11% YoY) in 4Q19, which took its FY19 core earnings to MYR254m (-55% YoY); 78% of our initial FY estimate. The QoQ weakness was due to lower: (i) associate's profit (-24% to MYR65m; via 38%-owned Perodua), PBT at its (ii) automotive division (-18% to MYR115m; due to price discounting/ rebates and higher depreciation costs); and (iii) equipment division (-11% to MYR27m; sluggish demand, weaker margin).

Challenging outlook ahead

Despite the 4 new Toyota models launches planned for 2020, UMW is projecting for a lower vehicle sales target of 66k this FY (vs. 70k units in 2019). Correspondingly, Perodua is expecting a flat YoY sales volume (240k units), reflecting the sluggish consumer sentiment. Broadly, we expect the automotive market to be competitive, with attractive rebates to achieve sales targets, thus compromising on margins. That said, FY20 will not inspire, leading us to cut our FY20-21 earnings by 5%-39% respectively, on lower vehicle sales (-7%) and margins (-1-2%-ppts).

No catalyst in sight

Valuations are turning more expensive on a challenging outlook perspective over the next 12 months. The weaker MYR outlook is also pressuring the margin outlook given the USD import costs. There is no short-term catalyst that could improve the operating outlook, in our view.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	11,304	11,739	12,134	13,360	13,499
EBITDA	822	867	640	718	765
Core net profit	558	254	234	267	287
Core EPS (sen)	47.8	21.7	20.0	22.8	24.6
Core EPS growth (%)	92.6	(54.5)	(8.0)	14.2	7.7
Net DPS (sen)	7.5	6.0	3.0	3.4	3.7
Core P/E (x)	11.5	20.7	16.1	14.1	13.1
P/BV (x)	1.9	1.4	1.0	0.9	0.8
Net dividend yield (%)	1.4	1.3	0.9	1.1	1.1
ROAE (%)	16.3	13.4	6.1	6.5	6.5
ROAA (%)	5.4	2.3	2.1	2.3	2.4
EV/EBITDA (x)	11.2	8.8	9.6	8.6	8.0
Net gearing (%) (incl perps)	26.6	17.0	16.5	15.0	12.0
Consensus net profit	-	-	473	515	na
MKE vs. Consensus (%)	-	-	(50.6)	(48.2)	na

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SELL

[Prior:BUY]

Share Price MYR 3.23
12m Price Target MYR 2.75 (-15%)
Previous Price Target MYR 5.05

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

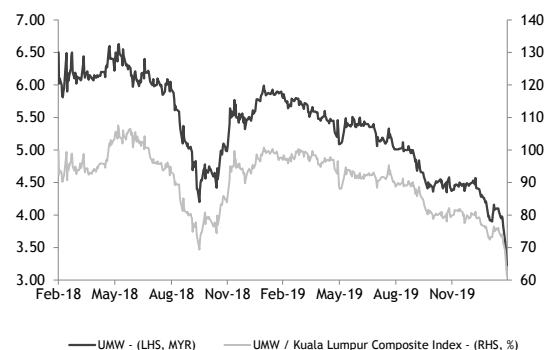
Statistics

52w high/low (MYR) 5.86/3.23
3m avg turnover (USDm) 0.4
Free float (%) 81.3
Issued shares (m) 1,168
Market capitalisation MYR3.8B
USD895M

Major shareholders:

Permodalan Nasional Bhd. 50.4%
Employees Provident Fund 10.8%
Bumiputra Investment Foundation 7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(23)	(27)	(45)
Relative to index (%)	(19)	(22)	(36)

Source: FactSet

Fig. 1: UMWH's quarterly results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	4Q19	3Q19	%QoQ	4Q18	%YoY	FY19	FY18	%YoY
Turnover	3,115.7	2,882.7	8.1	2,679.2	16.3	11,739.1	11,303.6	3.9
EBIT	75.1	80.1	(6.3)	97.7	(23.1)	332.6	335.2	(0.8)
Interest expense	(32.6)	(30.8)	6.0	(42.3)	(22.8)	(125.9)	(98.3)	28.1
Associates	64.6	85.2	(24.2)	101.4	(36.3)	291.6	270.7	7.7
Investment Income	16.4	15.7	4.4	21.4	(23.3)	68.3	85.7	(20.3)
Pre-tax profit	311.7	150.3	>100	178.3	74.8	754.8	800.3	(5.7)
Taxation	(21.9)	(21.0)	4.3	(11.4)	91.4	(108.7)	(124.1)	(12.4)
Minority interest	(37.6)	(20.9)	79.8	(41.2)	(8.6)	(104.6)	(120.0)	(12.8)
Sukuk	(34.8)	0.0	NM	(35.4)	(1.6)	(69.7)	(35.4)	96.8
Net profit / (loss)	252.1	108.4	132.7	90.3	NM	471.8	520.8	(9.4)
Exceptional item	184.3	9.4	NM	29.0	>100	217.9	(37.2)	NM
Recurring net profit / (loss)	67.8	99.0	(31.5)	61.3	10.6	253.9	558.0	(54.5)
	4Q19	3Q19	+/- ppt	4Q18	%YoY	FY19	FY18	+/- ppt
EBIT margin (%)	2.4	2.8	(0.4)	3.6	(1.2)	2.8	3.0	(0.1)
Tax rate (%)	7.0	14.0	(6.9)	6.4	0.6	14.4	15.5	(1.1)
	4Q19	3Q19	%QoQ	4Q18	%YoY	FY19	FY18	%YoY
Revenue	3,115.7	2,882.7	8.1	2,679.2	16.3	11,739.1	11,303.6	3.9
Automotive	2,450.0	2,296.9	6.7	2,043.6	19.9	9,295.9	8,946.7	3.9
Equipment	328.0	353.7	(7.2)	397.2	(17.4)	1,408.2	1,539.6	(8.5)
M&E	328.5	252.4	30.2	242.8	35.3	1,062.5	843.2	26.0
Others	9.1	(71.3)	NM	(79.8)	NM	(27.4)	(25.9)	6.0
Pre-tax profit	311.7	150.3	107.4	178.3	74.8	754.8	800.3	(5.7)
Automotive	114.9	140.1	(18.0)	130.3	(11.9)	530.3	550.0	(3.6)
Equipment	27.3	30.8	(11.4)	33.9	(19.5)	135.7	160.1	(15.3)
M&E	30.0	15.4	95.3	9.4	219.2	60.9	21.5	NM
Others	139.5	(62.9)	NM	(55.5)	(351.5)	27.9	68.7	(59.4)
	4Q19	3Q19	+/- ppt	4Q18	%YoY	FY19	FY18	+/- ppt
Pre-tax margins (%)	10.0	5.2	4.8	6.7	3.3	6.4	7.1	(0.7)
Automotive	4.7	6.1	(1.4)	6.4	(1.7)	5.7	6.1	(0.4)
Equipment	8.3	8.7	(0.4)	8.5	(0.2)	9.6	10.4	(0.8)
M&E	9.1	6.1	3.0	3.9	5.3	5.7	2.6	3.2
	4Q19	3Q19	%QoQ	4Q18	%YoY	FY19	FY18	%YoY
Vehicle Unit Sales (MAA)								
Toyota	21,915	16,628	31.8	13,058	67.8	70,009	66,562	5.2
Perodua	61,587	56,974	8.1	59,040	4.3	240,341	227,243	5.8

Source: Company

Risk statement

There are several risk factors for our earnings estimates, target price and rating for UMWH. Key risks are: (i) weaker consumer sentiment, affecting demand vehicle purchases while (ii) USD/ MYR forex volatility will affect UMWH's margins and profitability.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	13.2	12.9	16.1	14.1	13.1
Core P/E (x)	11.5	20.7	16.1	14.1	13.1
P/BV (x)	1.9	1.4	1.0	0.9	0.8
P/NTA (x)	1.9	1.4	1.0	0.9	0.8
Net dividend yield (%)	1.4	1.3	0.9	1.1	1.1
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	11.2	8.8	9.6	8.6	8.0
EV/EBIT (x)	16.9	14.6	21.9	18.1	16.3

INCOME STATEMENT (MYR m)

Revenue	11,303.6	11,739.1	12,133.6	13,360.2	13,498.5
Gross profit	163.9	205.6	1,783.9	1,990.3	2,051.9
EBITDA	821.5	867.0	640.4	718.4	765.4
Depreciation	(279.3)	(346.2)	(357.6)	(375.4)	(391.0)
EBIT	542.2	520.8	282.7	342.9	374.4
Net interest income / (exp)	(12.6)	(57.6)	(51.5)	(50.6)	(48.2)
Associates & JV	270.7	291.6	292.2	299.4	300.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	800.3	754.8	523.5	591.7	626.9
Income tax	(124.1)	(108.7)	(175.0)	(196.0)	(204.4)
Minorities	(120.0)	(104.6)	(45.2)	(59.3)	(65.6)
Perpetual securities	(35.4)	(69.7)	(69.7)	(69.7)	(69.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	520.8	471.8	233.7	266.8	287.2
Core net profit	558.0	253.9	233.7	266.8	287.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,311.8	1,472.1	1,453.3	1,495.5	1,649.8
Accounts receivable	1,076.6	1,450.5	1,492.3	1,622.1	1,636.8
Inventory	1,548.5	1,589.6	1,426.4	1,567.0	1,577.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,820.9	2,861.2	3,003.5	3,128.1	3,237.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,841.0	1,921.3	2,018.0	2,122.0	2,227.3
Other assets	2,159.2	1,853.2	1,853.2	1,853.2	1,854.2
Total assets	10,758.0	11,147.8	11,246.7	11,788.0	12,182.8
ST interest bearing debt	535.0	386.4	386.4	386.4	386.4
Accounts payable	1,854.0	2,093.4	1,878.5	2,063.7	2,077.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,298.2	2,123.4	2,123.4	2,123.4	2,123.4
Other liabilities	356.0	450.0	450.0	450.0	450.0
Total Liabilities	5,043.6	5,053.4	4,838.6	5,023.7	5,037.7
Shareholders Equity	3,344.6	3,692.6	3,961.3	4,258.1	4,573.3
Minority Interest	1,271.9	1,303.9	1,349.1	1,408.4	1,474.0
Total shareholder equity	4,616.6	4,996.5	5,310.3	5,666.4	6,047.3
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	10,758.0	11,147.8	11,246.7	11,788.0	12,182.8

CASH FLOW (MYR m)

Pretax profit	800.3	754.8	523.5	591.7	626.9
Depreciation & amortisation	279.3	346.2	357.6	375.4	391.0
Adj net interest (income)/exp	(139.2)	(133.5)	(133.5)	(133.5)	(133.5)
Change in working capital	(204.1)	(60.3)	(93.5)	(85.3)	(11.3)
Cash taxes paid	(139.0)	(129.6)	(175.0)	(196.0)	(204.4)
Other operating cash flow	(423.0)	(499.1)	(240.7)	(248.8)	(252.5)
Cash flow from operations	174.4	278.4	238.5	303.6	416.3
Capex	(915.0)	(345.5)	(500.0)	(500.0)	(500.0)
Free cash flow	(740.6)	(67.1)	(261.5)	(196.4)	(83.7)
Dividends paid	(123.1)	(172.2)	(34.7)	(39.6)	(42.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,177.7	(340.9)	0.0	0.0	0.0
Other invest/financing cash flow	560.9	767.3	277.4	278.3	280.7
Effect of exch rate changes	(732.7)	(26.8)	26.8	0.0	0.0
Net cash flow	142.2	160.3	8.0	42.2	154.3

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.1	3.9	3.4	10.1	1.0
EBITDA growth	111.2	5.5	(26.1)	12.2	6.6
EBIT growth	338.3	(4.0)	(45.7)	21.3	9.2
Pretax growth	200.2	(5.7)	(30.6)	13.0	5.9
Reported net profit growth	1,374.4	(9.4)	(50.5)	14.2	7.7
Core net profit growth	92.6	(54.5)	(8.0)	14.2	7.7
Profitability ratios (%)					
EBITDA margin	7.3	7.4	5.3	5.4	5.7
EBIT margin	4.8	4.4	2.3	2.6	2.8
Pretax profit margin	7.1	6.4	4.3	4.4	4.6
Payout ratio	16.8	14.9	14.9	14.9	14.9
DuPont analysis					
Net profit margin (%)	4.6	4.0	1.9	2.0	2.1
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.2	3.0	2.8	2.8	2.7
ROAE (%)	16.3	13.4	6.1	6.5	6.5
ROAA (%)	5.4	2.3	2.1	2.3	2.4
Liquidity & Efficiency					
Cash conversion cycle	6.1	26.1	27.0	26.9	27.8
Days receivable outstanding	33.4	38.7	43.7	42.0	43.5
Days inventory outstanding	47.8	49.0	52.5	47.4	49.4
Days payables outstanding	75.1	61.6	69.1	62.4	65.1
Dividend cover (x)	5.9	6.7	6.7	6.7	6.7
Current ratio (x)	2.2	2.2	2.3	2.2	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.2	2.3	2.3	2.4
Net gearing (%) (incl perps)	26.6	17.0	16.5	15.0	12.0
Net gearing (%) (excl. perps)	33.0	20.8	19.9	17.9	14.2
Net interest cover (x)	43.1	9.0	5.5	6.8	7.8
Debt/EBITDA (x)	3.4	2.9	3.9	3.5	3.3
Capex/revenue (%)	8.1	2.9	4.1	3.7	3.7
Net debt/ (net cash)	1,521.4	1,037.7	1,056.5	1,014.2	859.9

Source: Company; Maybank

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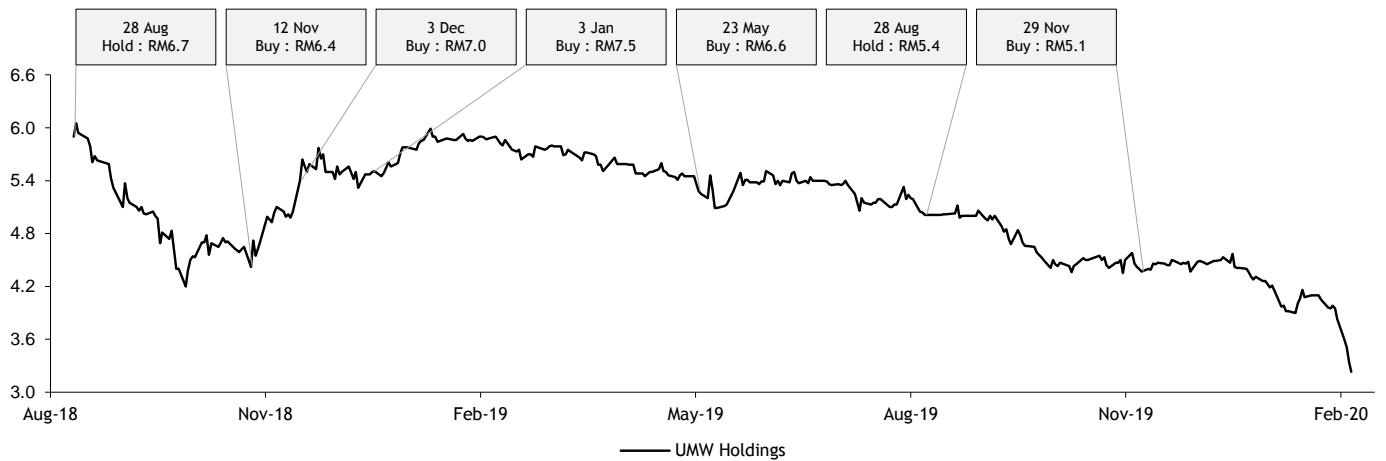
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