

### UOBKH HIGHLIGHTS

## UMW Holdings (UMWH MK/HOLD/RM3.23/Target: RM3.60)

2019: Earnings Below Expectation On Weaker Associate Contribution And Equipment Business

Year to 31 Dec	4Q19 (RMm)	qoq % chg	yoy % chg	2019 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	3,115.7	8.1	16.2	11,739.1	3.8	FY20F	27.1	11.9
Auto	2,450.0	6.7	19.7	9,295.9	3.9	FY21F	27.7	11.7
Equipment	328.0	(7.2)	(17.5)	1,408.2	(8.6)	FY22F	28.5	11.3
Mfg & Eng	328.5	30.2	35.5	1,062.5	26.1			
Associates	64.6	(24.2)	(32.9)	291.6	9.4			
PBT	123.5	(17.8)	18.8	566.6	(24.8)			
Auto	114.9	(18.0)	(8.5)	530.3	(2.7)			
Equipment	27.3	(11.4)	4.7	135.7	(10.9)			
Mfg & Eng	30.0	95.3	+>100	60.9	+>100			
Net Profit	208.1	+>100	+>100	448.0	4.5			
Core Net Profit	15.5	(83.0)	(72.3)	217.3	(54.3)			
Toyota unit sales	21,483	31.3	66.5	69,091	5.4			
Perodua unit sales	61,587	8.1	4.3	240,341	5.8			
<b>PBT Margins</b>	<b>(%)</b>	<b>ppts</b>	<b>ppts</b>	<b>(%)</b>	<b>ppts</b>			
Overall	4.0	(1.2)	0.1	4.8	(2.4)			
-Auto	4.7	(1.4)	(1.4)	5.7	(0.0)			
-Equipment	8.3	(0.4)	1.8	9.6	(1.0)			
-Mfg & Eng	9.1	3.0	5.2	5.7	2.2			

Source: UMWH, UOB Kay Hian

### RESULTS

- 2019 results below expectations.** UMW Holdings (UMW) reported 4Q19 core net profit of RM15.5m (-72% yoy, -83% qoq), bringing 2019 full-year core net profit to RM217.3m (-54% yoy) that made up 75% and 65% of both our and consensus full-year forecasts. The lackluster results for 4Q19 were dragged by: a) lower contribution from associate Perodua (-33% yoy) despite higher sales volume, b) softer demand in heavy equipment business (-18% yoy), and c) higher depreciation alongside operational inefficiency. Headline net profit of RM208.1m (+>100% yoy) includes a one-off gain on land disposal on RM188.1m. Meanwhile, management declared a final dividend of 2 sen per share, bringing 2019 total dividend to 6 sen (vs 7.5sen in 2018). This translates to a net dividend yield of 2%.
- Automobile segment recorded higher volume, while higher depreciation pressured margin.** 2019 volume surged 6% yoy to 240,341 units thanks to the robust sales from associate Perodua's SUV-Aruz and the new Toyota Corolla that launched in 3Q19. UMWT sold 69,091 units of Toyota and Lexus (+5% yoy) in 2019, mainly driven by higher sales of the all-new Toyota Vios and Yaris. Having said that, the sales missed UMWT's target of 75,000 units and our expectation of 73,230 units. Despite higher sales from Perodua, higher depreciation from the new Bukit Raja plant has resulted in a 9% yoy drop in PBT. For 2020, sales target for Toyota was revised downward to 66,000 units amid external headwind and weak consumer sentiment, partly supported by the 4 new SUV models namely Fortuner, Facelift Innova, New RAV4 and New Harrier.
- Equipment segment corroded by stiff competition.** 2019 sales dropped 9% yoy, following a slowdown in construction, manufacturing, mining and logging activities in Malaysia and Myanmar. As a result of competitive pricing for both heavy equipment and industrial equipment businesses alongside operational deleveraging, PBT dropped 11% yoy. Outlook wise, while the revival of major infrastructure projects by the government could continue to lead to stronger equipment demand, margins could be suppressed due to intensifying competition.
- Manufacturing and engineering (M&E) segment still gaining traction.** 2019 sales soared 26% yoy, mainly driven by the aerospace business on higher delivery of fan cases coupled with increased sales from the auto components and lubricant business. Notably, PBT for the segment grew to RM60.9m (+>100% from RM21.6m in 2018) thanks to a steady increase in production in tandem with higher orders by Rolls-Royce and continuous cost optimisation efforts.

### RECOMMENDATION

- We cut our 2020-21 earnings forecasts by 22-26% to account for lower profitability on equipment segment alongside a more conservative margin assumption on the automotive segment. This is based on a sales volume assumption of 66,030 units for FY20.
- Maintain HOLD with a lower SOTP-based target price of RM3.60 (from RM4.60).** Our target price implies a 13.5x 2020F PE which is at its 3-year forward average PE. Entry price is RM3.00.

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