

19 Mar 2020

Buy

Price
 RM1.80

Target Price
 RM2.70 (from RM3.50)

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	2,102.9
52-week high/low (RM)	5.76 / 1.75
Avg daily turnover (RMm)	2.9
KLCI (pts)	1,239.0

Source: Bloomberg, KAF

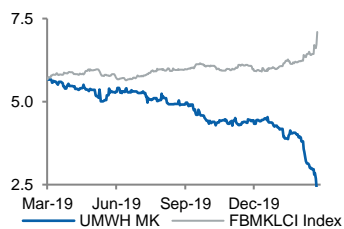
Major Shareholder (%)

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 (%)	(59.6)	(63.7)	(68.4)
Rel Market (%)	(47.9)	(53.1)	(56.9)



Source: Bloomberg, KAF

Analyst

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UMW Holdings

Upgrade on compelling valuation

We upgrade UMW to Buy with an SOP-based TP of RM2.70. Following the steep sell-down, we believe UMW has turned attractive from a valuation standpoint – trading at only 0.6x of its BV of RM3.16. We still like UMW as a proxy to market leader Perodua, which makes up 81% of its SOP value. Improving profitability at its M&E division should mitigate the slowdown for its equipment division.

Financial Highlights

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue (RMm)	11,304	11,739	10,991	11,106	11,390
Core net profit (RMm)	326	200	189	230	233
Core EPS (Sen)	27.9	17.1	16.2	19.7	19.9
EPS growth (%)	93.2	(38.7)	(5.2)	21.2	1.4
DPS (Sen)	7.5	6.0	5.0	5.0	5.0
Core PE (x)	6.5	10.5	11.1	9.2	9.0
Div yield (%)	4.2	3.3	2.8	2.8	2.8
ROE (%)	16.1	12.7	5.0	5.7	5.5
Net Gearing (%)	45.5	28.1	47.9	42.0	36.9
PBV(x)	0.6	0.6	0.5	0.5	0.5

Source: Company, KAF

Turns attractive following steep sell-down. Following the steep sell-down, we upgrade UMW to Buy as we believe it is attractive from a valuation standpoint – trading at only 0.6x of its PBV of RM3.16. We believe the sell-down was overdone considering that UMW is a good proxy to 38%-owned associate Perodua. Perodua earnings make up 81% of our SOP value, with UMW's net carrying value in associates amounts to RM1.87b (or RM1.60/share, and 50% of UMW's BV).

Proxy to Perodua's market dominance. We like UMW as a proxy to Perodua's market dominance. While we expect TIV to decline 5% this year to 575k on the back of subdued demand and impact from Covid-19, we believe Perodua would remain as market leader with 40% share. To this end, we forecast Perodua sales to fall 4% this year to 230k (following its record sales of 240k in 2019). As it is, 2M Perodua sales slowed 3%. However, we expect dividends from Perodua to remain intact and the launch of a new SUV model to support volume in 2H.

Toyota sales to remain subdued. On the Toyota front, we forecast 6% sales decline to 65k this year given the weak market outlook. Despite 4 new SUV models targeted for launch this year, we see strong competition coming from Honda (which is expected to launch the all-new Jazz and City in the highly popular B-segment) as well as Proton X50. Nevertheless, we still expect Toyota to retain its second market share position in the non-national segment.

M&E to mitigate equipment slowdown. We expect M&E earnings to improve further this year as the aerospace arm ramps up fan case deliveries. Management is currently seeking exemption for it to resume aerospace production activities as it has yet to see slowdown in orders from Rolls-Royce. We forecast 150 deliveries this year (from estimated 120 last year). Higher M&E contribution should mitigate the slowdown for its heavy and industrial equipment arm.

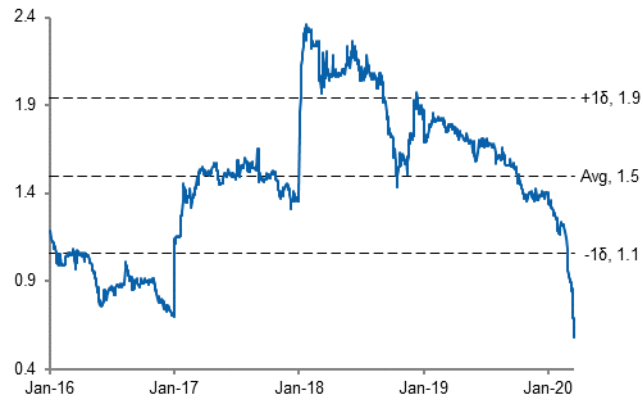
Upgrade to Buy. We upgrade UMW to Buy (from Hold) with an adjusted SOP-based TP of RM2.70 – which implies 17x FY20 PE and 0.9x PBV. We believe the steep sell-down was overdone, and UMW has turned attractive from a valuation standpoint at only 0.6x PBV currently. Upsides include a stronger MYR and improving consumer demand. Key downside risks are a weaker MYR and further supply and consumer demand disruption from Covid-19 outbreak.

Exhibit 1: 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	582	0.50	15%	8x FY20F PE
M&E division	982	0.84	25%	10x FY20F PE
UMW Toyota	568	0.49	14%	8x FY20F PE
Perodua	3,194	2.73	81%	11x FY20F PE - 38% stake
Serendah land	510	0.44	13%	RNAV (732 acres at RM16psf)
Company net cash/(debt)	(1958)	-1.68	-50%	FY18A
	3931		100%	
UMWH share base	1168			
SOP value	3.36			
Discount	20%			
Fair value	2.70			

Source: Company, KAF

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: 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	10,990.7	11,105.8	11,390.4
EBITDA	815.9	867.0	513.4	591.7	621.0
Depreciation/Amortisation	(273.7)	(346.2)	(364.6)	(389.1)	(413.6)
Operating income (EBIT)	542.2	520.8	148.8	202.6	207.3
Other income & associates	270.7	291.6	306.4	313.0	318.7
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	417.1	464.8	470.3
Taxation	(124.1)	(108.7)	(57.1)	(65.1)	(65.8)
Minorities/pref dividends	(160.8)	(198.9)	(170.5)	(170.1)	(171.6)
Net profit	515.4	447.2	189.5	229.6	232.9
Core net profit	325.8	199.8	189.5	229.6	232.9

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	1,154.8	1,408.0	1,656.0
Stock	1,548.5	1,589.6	1,721.3	1,730.6	1,771.3
Trade debtors	1,076.6	1,450.5	1,087.5	1,092.3	1,113.1
Other current assets	1,148.1	1,077.5	2,355.7	2,771.7	3,107.3
Total current assets	5,085.1	5,589.7	6,319.3	7,002.7	7,647.8
Trade creditors	1,854.0	2,093.4	1,694.1	1,699.8	1,712.3
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	1,990.4	1,933.8	1,886.3
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	3,882.1	4,111.7	4,344.6
Minority interests	2,369.8	2,401.7	2,572.2	2,742.4	2,914.0

Cash flow Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	800.3	754.8	417.1	464.8	470.3
Depreciation/Amortisation	273.7	346.2	364.6	389.1	413.6
Net change in working capital	(146.8)	(58.9)	(168.1)	(8.5)	(49.0)
Others	(752.8)	(763.6)	(460.3)	(327.2)	(328.9)
Cash flow from operations	174.4	278.4	153.3	518.2	506.1
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	1,621.4	1,815.8	1,818.7
Cash flow from investing	(318.7)	491.5	(429.8)	(235.4)	(232.5)
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)	(58.4)	(58.4)
Others	1,000.0	(184.3)	(96.2)	(96.2)	(96.2)
Cash flow from financing	1,019.2	(582.8)	(44.3)	(29.6)	(25.6)
Net cash flow	874.9	187.1	(320.8)	253.2	248.0
Cash b/f	1,181.5	1,315.2	1,475.6	1,154.8	1,408.0
Cash c/f	1,315.2	1,475.6	1,154.8	1,408.0	1,656.0

Key Ratios

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue growth (%)	2.1	3.9	(6.4)	1.0	2.6
EBITDA growth (%)	>100	6.3	(40.8)	15.3	4.9
Pretax margins (%)	7.1	6.4	3.8	4.2	4.1
Net profit margins (%)	4.6	3.8	1.7	2.1	2.0
Interest cover (x)	43.1	9.0	3.9	4.0	3.7
Effective tax rate (%)	7.1	8.6	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	36	35
Stock turnover (days)	48	49	55	57	56
Creditors turnover (days)	75	61	63	56	55

Source: Bloomberg, KAF

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.

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