

## UMW Holdings (UMWH MK)

# U/G to BUY, TP raised to MYR3.30

### Sales tax exemption a key re-rating catalyst

We are positive on the sales tax incentive (50%-100% exemption on CKD/CBU purchases), a timely inducement to spur sales decimated by the MCO exercise since Mar. This is a key catalyst that warrants a sector re-rating. We have upgraded UMW to BUY (from SELL) and raised our TP by (+14%), on a higher FY21 PER of 14x, -0.5-SD (vs. 12x; -1SD in FY21).

### Sales tax: 0% for CKD, 5% for CBU models

The Government has approved a tax incentive scheme on passenger cars sales tax to spur sales, provide financial relief and stimulate the sector. **The 10% sales tax on passenger cars will be reduced to: (i) 0% for completely knocked down (CKD) model and (ii) 5% for completely built-up (CBU) models and/ or imported cars. The sales tax relief is from mid-Jun to end-Dec 2020.**

### An incentive that will jumpstart car purchases

**Based on our estimate, this move would reduce car prices by 3-6%.**

We are positive on this, for it will spur purchases and reduce inventories build-up. Sales were severely curtailed during the MCO period (from mid-Mar). We draw parallel of this 'tax incentive scenario' to the situation back in Jun-Aug 2018, when the 6% GST was zero-rated (0%). Toyota's vehicle sales were the strongest during the 3-months period then, with sales surging by 117%/ 64%/ 57% YoY to 11.7k/ 9.2k/ 9.1k units respectively, accounting for 45% of its vehicle sales in 2018. Perodua's vehicle sales were also the strongest in Jul-18, at 23.8k units (10% of its sales for 2018).

### Adjust earnings, raise TP

We have cut FY20-22 earnings by 1%-18%, mainly to account for lower vehicle sales estimates (-4%-25% for Toyota) and associate's earnings (38%-owned Perodua) from the MCO and tax incentives effects. The weak earnings in FY20 is a given and investors should look beyond that as demand normalises.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	11,304	11,739	8,913	11,684	12,151
EBITDA	822	867	591	643	691
Core net profit	558	254	193	263	283
Core EPS (sen)	47.8	21.7	16.5	22.5	24.2
Core EPS growth (%)	92.6	(54.5)	(24.2)	36.4	7.8
Net DPS (sen)	7.5	6.0	2.4	3.3	3.6
Core P/E (x)	11.5	20.7	17.5	12.9	11.9
P/BV (x)	1.9	1.4	0.9	0.8	0.7
Net dividend yield (%)	1.4	1.3	0.8	1.2	1.2
ROAE (%)	16.3	13.4	5.1	6.4	6.5
ROAA (%)	5.4	2.3	1.8	2.4	2.4
EV/EBITDA (x)	11.2	8.8	9.3	8.7	8.0
Net gearing (%) (incl perp)	26.6	17.0	12.5	12.6	10.2
Consensus net profit	-	-	154	228	322
MKE vs. Consensus (%)	-	-	25.3	15.2	(12.2)

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# BUY

[Prior:SELL]

Share Price MYR 2.89  
12m Price Target MYR 3.30 (+14%)  
Previous Price Target MYR 2.75

### Company Description

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

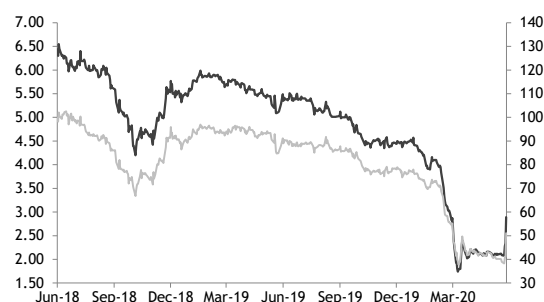
### Statistics

52w high/low (MYR) 5.51/1.74  
3m avg turnover (USDm) 1.4  
Free float (%) 81.3  
Issued shares (m) 1,168  
Market capitalisation MYR3.4B  
USD791M

### Major shareholders:

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

### Price Performance



— UMW - (LHS, MYR) — UMW / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	34	(3)	(45)
Relative to index (%)	19	(8)	(42)

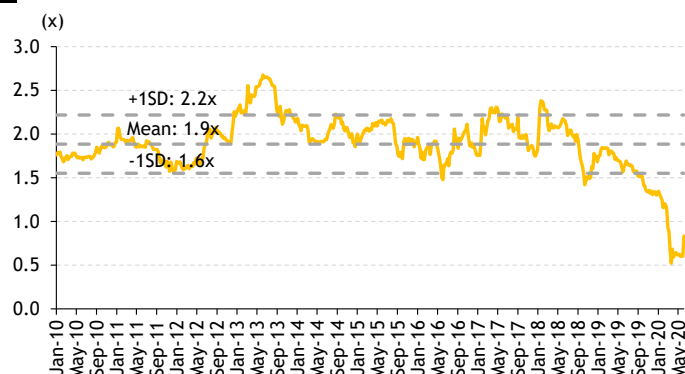
Source: FactSet

Fig 1: UMW: 12M forward rolling PER



Source: Bloomberg, Maybank Kim Eng

Fig 2: UMW: 12M forward rolling P/BV



Source: Bloomberg, Maybank Kim Eng

Fig 3: Snapshot of key revisions

	Before	After	% chg
<b>Vehicle sales (unit)</b>			
- FY20F	71.0k	53.6k	(24.5)
- FY21F	75.0k	69.7k	(7.1)
- FY22F	75.5k	72.5k	(4.0)
<b>EPS (sen)</b>			
- FY20F	20.0	16.5	(17.5)
- FY21F	22.8	22.5	(1.3)
- FY22F	24.6	24.2	(1.7)

Source: Company, Maybank Kim Eng

## Risk statement

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

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	13.2	12.9	17.5	12.9	11.9
Core P/E (x)	11.5	20.7	17.5	12.9	11.9
P/BV (x)	1.9	1.4	0.9	0.8	0.7
P/NTA (x)	1.9	1.4	0.9	0.8	0.7
Net dividend yield (%)	1.4	1.3	0.8	1.2	1.2
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	11.2	8.8	9.3	8.7	8.0
EV/EBIT (x)	16.9	14.6	23.7	21.0	18.5

**INCOME STATEMENT (MYR m)**

Revenue	11,303.6	11,739.1	8,913.2	11,684.1	12,150.9
Gross profit	163.9	205.6	1,396.9	1,731.4	1,827.5
EBITDA	821.5	867.0	590.6	643.4	690.8
Depreciation	(279.3)	(346.2)	(357.6)	(375.4)	(391.0)
EBIT	542.2	520.8	233.0	267.9	299.8
Net interest income / (exp)	(12.6)	(57.6)	(51.5)	(35.6)	(38.8)
Associates & JV	270.7	291.6	205.0	288.6	295.9
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	386.6	520.9	556.9
Income tax	(124.1)	(108.7)	(85.1)	(132.4)	(145.8)
Minorities	(120.0)	(104.6)	(39.2)	(56.1)	(58.3)
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	192.6	262.7	283.2
Core net profit	558.0	253.9	192.6	262.7	283.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,311.8	1,472.1	1,716.7	1,661.4	1,787.9
Accounts receivable	1,076.6	1,450.5	1,151.3	1,444.7	1,494.1
Inventory	1,548.5	1,589.6	1,035.9	1,371.7	1,422.8
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	1,930.9	2,024.0	2,124.5
Other assets	2,159.2	1,853.2	1,853.2	1,853.2	1,854.2
<b>Total assets</b>	<b>10,758.0</b>	<b>11,147.8</b>	<b>10,691.5</b>	<b>11,483.1</b>	<b>11,920.5</b>
ST interest bearing debt	535.0	386.4	386.4	386.4	386.4
Accounts payable	1,854.0	2,093.4	1,364.3	1,806.5	1,873.8
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
<b>Total Liabilities</b>	<b>5,043.6</b>	<b>5,053.4</b>	<b>4,324.3</b>	<b>4,766.5</b>	<b>4,833.8</b>
Shareholders Equity	3,344.6	3,692.6	3,926.3	4,219.6	4,531.4
Minority Interest	1,271.9	1,303.9	1,343.1	1,399.2	1,457.5
<b>Total shareholder equity</b>	<b>4,616.6</b>	<b>4,996.5</b>	<b>5,269.4</b>	<b>5,618.8</b>	<b>5,988.8</b>
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
<b>Total liabilities and equity</b>	<b>10,758.0</b>	<b>11,147.8</b>	<b>10,691.5</b>	<b>11,483.1</b>	<b>11,920.5</b>

**CASH FLOW (MYR m)**

Pretax profit	800.3	754.8	386.6	520.9	556.9
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)	123.7	(187.0)	(33.2)
Cash taxes paid	(139.0)	(129.6)	(85.1)	(132.4)	(145.8)
Other operating cash flow	(423.0)	(499.1)	(153.6)	(252.9)	(257.1)
Cash flow from operations	174.4	278.4	495.8	190.5	378.4
Capex	(915.0)	(345.5)	(500.0)	(500.0)	(500.0)
Free cash flow	(740.6)	(67.1)	(4.2)	(309.5)	(121.6)
Dividends paid	(123.1)	(172.2)	(28.6)	(39.0)	(42.1)
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	293.3	290.1
Effect of exch rate changes	(732.7)	(26.8)	26.8	0.0	0.0
Net cash flow	142.2	160.3	271.4	(55.3)	126.4

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.1	3.9	(24.1)	31.1	4.0
EBITDA growth	111.2	5.5	(31.9)	8.9	7.4
EBIT growth	338.3	(4.0)	(55.3)	15.0	11.9
Pretax growth	200.2	(5.7)	(48.8)	34.7	6.9
Reported net profit growth	1,374.4	(9.4)	(59.2)	36.4	7.8
Core net profit growth	92.6	(54.5)	(24.2)	36.4	7.8
<b>Profitability ratios (%)</b>					
EBITDA margin	7.3	7.4	6.6	5.5	5.7
EBIT margin	4.8	4.4	2.6	2.3	2.5
Pretax profit margin	7.1	6.4	4.3	4.5	4.6
Payout ratio	16.8	14.9	14.9	14.9	14.9
<b>DuPont analysis</b>					
Net profit margin (%)	4.6	4.0	2.2	2.2	2.3
Revenue/Assets (x)	1.1	1.1	0.8	1.0	1.0
Assets/Equity (x)	3.2	3.0	2.7	2.7	2.6
ROAE (%)	16.3	13.4	5.1	6.4	6.5
ROAA (%)	5.4	2.3	1.8	2.4	2.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	6.1	26.1	32.6	26.2	28.1
Days receivable outstanding	33.4	38.7	52.5	40.0	43.5
Days inventory outstanding	47.8	49.0	62.9	43.5	48.7
Days payables outstanding	75.1	61.6	82.8	57.3	64.2
Dividend cover (x)	5.9	6.7	6.7	6.7	6.7
Current ratio (x)	2.2	2.2	2.7	2.4	2.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.2	2.5	2.4	2.5
Net gearing (%) (incl perps)	26.6	17.0	12.5	12.6	10.2
Net gearing (%) (excl. perps)	33.0	20.8	15.1	15.1	12.1
Net interest cover (x)	43.1	9.0	4.5	7.5	7.7
Debt/EBITDA (x)	3.4	2.9	4.2	3.9	3.6
Capex/revenue (%)	8.1	2.9	5.6	4.3	4.1
Net debt/ (net cash)	1,521.4	1,037.7	793.1	848.3	721.9

Source: Company; Maybank

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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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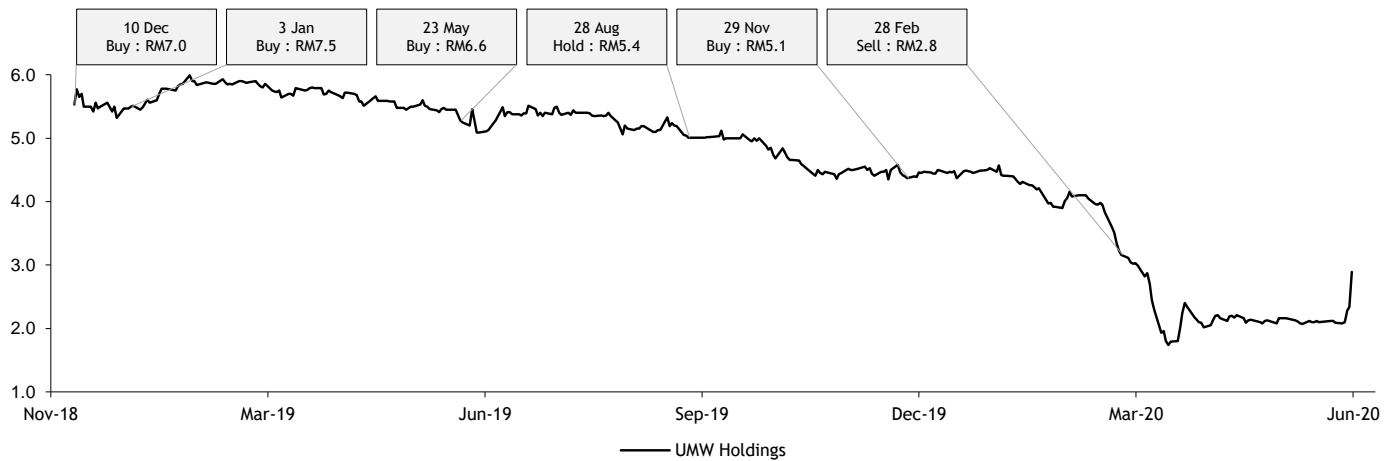
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