

Out think. Out perform.

## Better times ahead looking past 2Q20

UMW Holdings (UMWH) reported a weak set of results: 1Q20 core net profit dropped by 44% yoy to RM49m. The lacklustre performance was largely due to weaker revenue and lower contribution from associates, following the disruption caused by the Covid-19 pandemic. All in, the 1Q20 results were within street and our expectations. At 12x 2021E PER, valuation looks compelling. Maintain BUY with unchanged TP of RM4.10.

### 1Q20 earnings fell by 44% yoy; within expectations

UMWH's 1Q20 core net profit fell by 44% yoy to RM49m, a result of the halt of operations caused by the Covid-19 Movement Control Order period. UMWH's 1Q20 revenue fell by 24% yoy to RM2,119.2m, mainly due to lower sales in the Automotive (-27% yoy; Toyota sales volume fell by 24% yoy) and Equipment (-25% yoy) segments respectively, cushioned by the better performance from the M&E segment (+5% yoy). In addition, the contribution from associates also dropped by 52% yoy to RM29m, due to a 26% yoy decline in Perodua sales volume. All in, the results were in line with street and our expectations, accounting for 24%-26% of respective full-year forecasts.

### Sequentially, core net profit was higher on low base effect

Sequentially, UMWH's 1Q20 core net profit more than doubled to RM49m on low base effect. Stripping off the one-off gain on disposal of Shah Alam land of RM220m, 4Q19 core net profit came in at RM21m on weaker EBITDA margin.

### Management guidance for 2H20: cautiously optimistic

We expect the 2Q20 results to be sequentially weaker due to the extension of the MCO between April to mid-May 2020. Post results briefing, UMW Toyota revised its 2020 sales target to 45k units (-36% yoy; from 66k units prior to the announcement of the Sales and Service Tax period); Perodua is expected to announce its 2020 target soon. Looking past 2Q20, management expects a better performance for the Automotive segment from the cheaper car prices after the tax incentive and attractive product pipeline. We learnt that the Toyota [RAV4](#) will be launched the middle of this month and 2 new CKD models are slated for launch in 2H20. Elsewhere, we gather that the Rolls-Royce fan case orders are still intact at this juncture.

### Maintain BUY

We maintain our earnings forecasts and SOTP-based 12-month TP of RM4.10. Maintain BUY. At 12x 2021E PER, we believe valuation is attractive, in view of the (i) new volume-generative Toyota model line-ups, (ii) modest growth from UMWH's two core segments, and (iii) higher Perodua associate contribution.

### Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	11,303.6	11,739.1	9,687.2	9,879.5	10,756.7
EBITDA (RMm)	853.2	594.0	560.2	658.2	873.5
Pretax profit (RMm)	800.3	754.8	413.0	469.8	673.6
Net profit (RMm)	344.5	454.4	236.0	236.4	355.4
EPS (sen)	29.5	38.9	20.2	20.2	30.4
PER (x)	9.0	6.8	13.1	13.1	8.7
Core net profit (RMm)	558.1	198.9	186.0	251.4	360.4
Core EPS (sen)	47.8	17.0	15.9	21.5	30.8
Core EPS growth (%)	238.8	(64.4)	(6.5)	35.2	43.4
Core PER (x)	5.5	15.6	16.6	12.3	8.6
Net DPS (sen)	7.5	6.0	5.0	6.5	7.5
Dividend Yield (%)	2.8	2.3	1.9	2.5	2.8
EV/EBITDA (x)	5.4	7.0	7.0	6.0	3.5
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.9	1.1

Source: Company, Bloomberg, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)

### Results Note

## UMW Holdings

UMWH MK

Sector: Auto & Autoparts

RM2.65 @ 15 June 2020

BUY (maintain)

Upside: 54.7%

Price Target: RM4.10

Previous Target: RM4.10



### Price Performance

	1M	3M	12M
Absolute	28.0%	15.7%	-50.3%
Rel to KLCI	19.9%	3.8%	-45.7%

### Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	3096/723.8
Avg daily vol - 6mth (m)	1.9
52-wk range (RM)	1.65-5.5
Est free float	26.7%
BV per share (RM)	3.16
P/BV (x)	0.84
Net cash/ (debt) (RMm)	(59.81)
ROE (2020E)	6.1%
Derivatives	No
Shariah Compliant	Yes

### Key Shareholders

ASB	45.1%
EPF	12.6%
PNB	7.7%
KWAP	7.3%

Source: Affin Hwang, Bloomberg

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**Key risks**

Key downside risks include higher losses of O&G assets, weaker-than-expected vehicle and equipment sales and weaker Ringgit (vs. US\$).

**Fig 1: Results comparison**

FY 31 Dec (RMm)	1Q19	4Q19	1Q20	qoq % chg	yoy % chg	Comments
Revenue	2,779.9	3,115.7	2,119.2	-32.0	-23.8	Lower revenue mainly due to lower sales in the Automotive and Equipment segments.
Op costs	-2,597.6	-2,990.4	-1,977.0	-33.9	-23.9	
<b>EBITDA</b>	<b>182.3</b>	<b>125.3</b>	<b>142.2</b>	13.5	-22.0	
<i>EBITDA margin (%)</i>	<i>6.6</i>	<i>4.0</i>	<i>6.7</i>	<i>2.7ppt</i>	<i>0.2ppt</i>	
Depreciation	-86.5	-92.8	-92.0	-0.8	6.4	
EBIT	95.8	32.5	50.2	54.3	-47.6	
Int expense	-32.7	-32.6	-29.7	-8.8	-9.0	
Int income	17.8	16.4	17.9	9.2	1.0	
Associates	60.6	64.6	29.2	-54.8	-51.9	Associates contribution declined by 52% yoy due to softer Perodua sales (-26% yoy). 1Q20 EIs largely include reversal of impairment on receivables (RM20m), loss on sale of investment (RM27.7m) and gain on disposal of PPE (RM3.2m).
EI	-1.0	213.9	-4.5	n.m.	n.m.	
<b>Pretax profit</b>	<b>140.5</b>	<b>294.8</b>	<b>63.0</b>	-78.6	-55.1	
Tax	-29.7	-21.9	-14.2	-35.0	-52.0	
<i>Tax rate (%)</i>	<i>-21.2</i>	<i>-7.9</i>	<i>-22.6</i>	<i>-14.7ppt</i>	<i>-1.4ppt</i>	
MI	-24.3	-37.6	-4.5	-88.1	-81.6	
<b>Net profit</b>	<b>86.5</b>	<b>235.3</b>	<b>44.3</b>	-81.2	-48.8	
EPS (sen)	7.4	20.1	3.8	-81.2	-48.8	
<b>Core profit</b>	<b>87.5</b>	<b>21.4</b>	<b>48.8</b>	128.3	-44.2	Within street and our expectations.

Source: Company, Affin Hwang estimates

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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