

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

16 Jun 2020

UMW Holdings (UMWH MK) : HOLD

Mkt. Cap: US\$726m | 3m Avg. Daily Val: US\$1.8m

Last Traded Price (15 Jun 2020): RM2.65

Price Target 12-mth: RM2.75 (4% upside) (Prev 2.75)

Analyst

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Look forward to better FY21

- 1QFY20 earnings came in within expectation; expect weak 2QFY20 and gradual recovery in 2HFY20
- Toyota and Perodua car prices lower by 2-6% following sales tax incentive
- Expect weak FY20 due to impact of lockdown prior to recovery in FY21
- Maintain HOLD with unchanged TP of RM2.75

Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	11,739	8,080	10,317	10,951
EBITDA	679	291	622	606
Pre-tax Profit	755	(25.6)	526	518
Net Profit	447	(38.9)	265	265
Net Pft (Pre Ex.)	260	(38.9)	265	265
Net Pft Gth (Pre-ex) (%)	(35.6)	nm	nm	0.0
EPS (sen)	38.3	(3.3)	22.7	22.7
EPS Pre Ex. (sen)	22.2	(3.3)	22.7	22.7
EPS Gth Pre Ex (%)	(36)	nm	nm	0
Diluted EPS (sen)	22.2	(3.3)	22.7	22.7
Net DPS (sen)	6.00	0.0	4.53	4.53
BV Per Share (sen)	316	313	331	349
PE (X)	6.9	nm	11.7	11.7
PE Pre Ex. (X)	11.9	nm	11.7	11.7
P/Cash Flow (X)	11.1	14.2	24.0	26.6
EV/EBITDA (X)	9.6	22.0	10.5	11.0
Net Div Yield (%)	2.3	0.0	1.7	1.7
P/Book Value (X)	0.8	0.8	0.8	0.8
Net Debt/Equity (X)	0.2	0.2	0.1	0.1
ROAE (%)	12.7	(1.1)	7.0	6.7

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Stripping off various non-core adjustments, UMWH recorded a core net profit of RM36m in 1QFY20 (-58% y-o-y; +671% q-o-q). We deem this within our expectations, as we expect weaker results in 2QFY20 due to the full impact of Malaysia's lockdown and a gradual recovery in 2HFY20 due to the challenging economic environment and weak consumer sentiment.

Weaker performance

Partially impacted by Covid-19 lockdowns, auto segment revenue came in lower at RM1,586m (-27% y-o-y; -35% q-o-q). This is in tandem with lower sales volume for Toyota of 10,583 units (-24% y-o-y; -52% q-o-q). As a result, profit before tax (PBT) also fell to RM24.5m (-58% y-o-y; -51% q-o-q) with a lower PBT margin of 1.5% (1QFY19: 2.7%; 4QFY19: 2.1%). Perodua also registered weak sales volume of 44,977 units (-26% y-o-y; -27% q-o-q).

The equipment segment recorded lower revenue of RM289m (-24% y-o-y; -12% q-o-q) due to sluggish demand for both Heavy Equipment and Industrial Equipment businesses. This led to a decline in PBT to RM25.8m (-39% y-o-y; -6% q-o-q).

The Manufacturing and Engineering segment recorded a PBT of RM10.5m from RM2.3m in 1QFY19, but lower than the PBT of RM30m registered in 4QFY19. The q-o-q decline was also attributed to the impact of the lockdown in the middle of March. The group indicated that contribution from Aerospace was partially cushioned by firm fan case orders received for the rest of the year.



Outlook

UMWH to see stronger earnings rebound in FY21

In light of the current situation, UMW Toyota had set a sales target of 45k units in FY20 (36% y-o-y) vs. 60k units initially. However, the target was set prior to the sales tax incentive announced recently. For now, we retain our sales target of 48k units for FY20.

We also understand that the group is looking to introduce two CKD models in FY20. While details are still sketchy, we believe both models are likely to be in the SUV segment – riding on the popularity of SUV. Perodua has yet to release its FY20 target but our estimate is around 168k units (-30% y-o-y).

Following the government's announcement of sales tax incentive, UMW Toyota has lowered its CKD vehicle prices by around 2% while CBU vehicle prices by 5%. Meanwhile, Perodua car prices dropped by around 3-6%.

On the back of weak consumer sentiment and an economic slowdown, we believe that Perodua will likely benefit more from the sales tax incentive as compared to Toyota/Lexus mainly because of Perodua's cheaper entry prices.

We think that the impact of sales tax likely to be more pronounced in 1QFY21. This is mainly due to UMW Toyota having three months of inventory as of end-March – whose sales tax already being paid. At the moment, the government has yet to come out with a refund mechanism but we think it will be likely be offset by future sales tax. If this is the case, the impact on earnings should be more pronounced in 1QFY21.

We make no changes to our earnings for now and expect UMWH to record full-year losses of RM39m in FY20. This is mainly due to the fact that margins are likely remain under pressure arising from 1) low sales volume, 2) delayed recognition of sales tax incentive as UMWT has to clear its existing inventory, and 3) its higher fixed costs (depreciation, interest and sukuk payment). That said, we expect its bottomline in FY21 to swing to a robust net profit of RM265m, driven by improved margins and continuous volume recovery.

Valuation & Recommendation

Maintain HOLD with unchanged TP of RM2.75. Given its recent share price rally, we believe the positives have been largely priced in. Our TP implies an FY21 PE of 12x, which is in line with its peers.

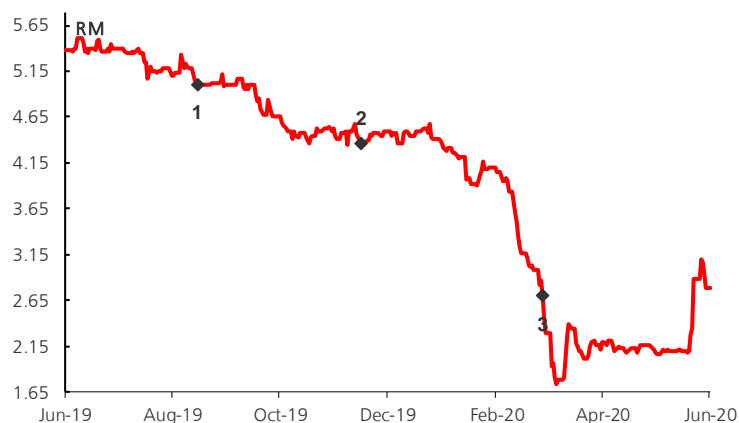
Flash Note

Quarterly Income Statement (RMm)

FY Dec	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Revenue	2,775	3,116	2,119	(23.6)	(32.0)
Other Oper. (Exp)/Inc	(2,698)	(2,852)	(2,074)	(23.2)	(27.3)
Operating Profit	76.5	263	45.7	(40.3)	(82.7)
Other Non Opg (Exp)/Inc	0.94	(214)	(8.0)	nm	(96.3)
Associates & JV Inc	65.7	64.6	29.2	(55.5)	(54.8)
Net Interest (Exp)/Inc	(1.5)	(16.2)	(11.8)	nm	27.1
Exceptional Gain/(Loss)	(0.9)	214	8.02	nm	(96.3)
Pre-tax Profit	141	312	63.1	(55.2)	(79.8)
Tax	(29.5)	(21.9)	(14.2)	(51.6)	(35.0)
Minority Interest	(25.5)	(81.7)	(4.5)	82.4	(94.5)
Net Profit	85.7	208	44.3	(48.3)	(78.7)
Net profit bef Except.	86.7	(6.4)	36.3	(58.1)	671.1
EBITDA	163	356	138	(15.5)	(61.3)
Margins (%)					
Opg Profit Margins	2.8	8.4	2.2		
Net Profit Margins	3.1	6.7	2.1		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Aug 19	5.01	4.55	HOLD
2:	29 Nov 19	4.37	4.65	HOLD
3:	11 Mar 20	2.71	3.05	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Published by
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