

HLIB Research

PP 9484/12/2012 (031413)

Daniel Wong
kkwong@hlib.hongleong.com.my

(603) 2083 1720

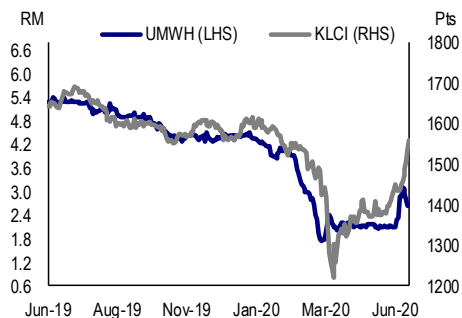
HOLD (Maintain)

Target Price: RM2.58
Previously: RM1.60
Current Price: RM2.65

Capital upside	-2.6%
Dividend yield	0.8%
Expected total return	-1.8%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


Historical return (%)	1M	3M	12M
Absolute	28.0	37.3	-50.3
Relative	19.9	17.3	-45.7

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,096
3-mth average volume ('000)	3,082
SC Shariah compliant	Yes

Major shareholders

Permodalan Nasional Berhad	60.1%
Employess Provident Fund	12.6%
Kumpulan Wang Persaraan	7.3%

Earnings summary

	FY19	FY20f	FY21f
FYE (Dec)			
PATMI - core (RM m)	253	121	292
EPS - core (sen)	21.6	10.4	25.0
P/E (x)	12.3	25.5	10.6

UMW Holdings

Expecting better 2H

Adjusted for quarterly RM13.4m distribution for Perpetual Sukuk, core PATMI at RM13.0m for 1QFY20 (-30.9% QoQ; -80.6% YoY), above HLIB's FY20 forecast (15.5%) as we expect recovery in 2H20, but below consensus (6.0%). We expect a stronger 2H20 due to higher automotive sales (SST exemption) and higher delivery of Rolls-Royce fan case. Upgraded earnings for FY20 by 44.2% and FY21 by 26.5%. Maintain HOLD with higher TP: RM2.58 (from RM1.60) based on lower 15% discount (from 20%) to SOP: RM3.03.

Above expectation. UMW reported core PATMI of RM13.0m (adjusted for quarterly provision of RM13.4m Perpetual Sukuk distribution) for 1QFY20 (-30.9% QoQ; -80.6% YoY) as compared to HLIB's FY19 forecast of RM84.1m (15.5%) and consensus of RM216.1m (6.0%). We deem the result above our expectation (but below consensus) as we expect earnings recovery in 2H20, driven mainly by government's introduction of SST exemption of car purchases from 15 Jun to 31 Dec 2020 as well as higher Rolls-Royce fan case. We have excluded net EIs of +RM13.3m in 1QFY20, mainly due to reversal of impairments, PPE disposal gain and forex gain (offset by investment disposal loss).

Dividend. None.

QoQ/YoY. Adjusted for quarterly distribution for Perpetual Sukuk, core earnings deteriorated further by 30.9% QoQ and 80.6% YoY on the back of lower group sales and lower profit contribution from associate Perodua, mainly affected by the implementation of Movement Control Order (MCO) by mid-March.

Automotive. The segment will benefit from the introduction of SST exemption for car purchases from 15 Jun to 31 Dec 2020. Nevertheless, we remain cautious on the negative impact from the depreciated RM/USD, deteriorating consumer sentiment (due to Covid-19 and domestic political uncertainty) and heightened competitive market in 2020.

Equipment. Demand for equipment (mining, construction and logging) remains sluggish in the near term, given the slowdown of domestic as well as regional economic activity. The anticipated re-commencement of mega projects may provide some growth to the segment.

M&E. Automotive parts will leverage on the recovery of local car production volume, namely Perodua and Proton for earnings sustainability. UMW Aerospace production remained on track to ramp up in 2020.

Forecast. Upgraded earnings for FY20 by 44.2% and FY21 by 26.5%, following our expectation of recovery of automotive sales (due to SST exemption) and equipment sales (due to ramping up of Rolls-Royce fan case production) by 2H20. Introduce FY22 earnings at RM321m.

Maintain HOLD, TP: RM2.58. Maintain HOLD recommendation on UMW with higher TP: RM2.58 (from RM1.60), following earnings adjustments and based on lower discount of 15% discount (from 20%) to SOP of RM3.03. We believe Toyota will continue to face stiff market competition in 2020-2021.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	1,312	1,472	1,987	1,840	1,695
Receivables	1,549	1,590	1,122	1,453	1,542
Inventories	960	1,243	748	1,077	1,142
PPE	2,821	2,702	2,603	2,674	2,741
Others	4,116	4,128	4,226	4,367	4,518
Assets	10,758	11,135	10,686	11,411	11,638
Payables	708	941	559	809	862
Debt	5,044	5,037	4,443	4,808	4,655
Others	(5,501)	(5,722)	(4,746)	(5,362)	(5,261)
Liabilities	250	256	256	256	256
Shareholder's equity	(2,619)	(2,136)	(1,409)	(1,671)	(1,610)
Perpetual sukuk	(17)	(33)	(33)	(33)	(33)
Minority interest	0	0	0	0	0
Equity	(2,636)	(2,168)	(1,442)	(1,704)	(1,643)

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	800	755	250	504	532
D&A	274	345	349	349	353
Working capital	274	345	349	349	353
Taxation	(13)	(58)	(90)	(76)	(64)
Others	(1,335)	(1,387)	(857)	(1,126)	(1,173)
CFO	-	-	-	-	-
Capex	0	0	0	0	0
Asset disposal	(412)	357	(152)	(280)	(269)
Acquisitions	(915)	(345)	(250)	(420)	(420)
Others	1,392	(289)	402	700	689
CFI	65	(278)	-	-	-
Changes in debt	1	1	(1)	(1)	(1)
Shares issued	0	0	0	0	0
Dividends	750	136	200	836	336
Distribution to Perps	0	0	0	0	0
Others	(442)	68	(101)	(695)	(184)
CFF	309	205	98	140	151
Net cash flow	374	(73)	98	140	151
Forex	-	-	0	0	0
Others	(232)	234	417	(287)	(297)
Beginning cash	1,170	1,312	1,472	1,987	1,840
Ending cash	1,312	1,472	1,987	1,840	1,695

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	11,304	11,739	7,477	10,765	11,421
EBITDA	816	867	493	649	646
EBIT	542	521	144	300	293
Net finance cost	(13)	(58)	(90)	(76)	(64)
Associates & JV	271	292	196	280	303
Profit before tax	800	755	250	504	532
Tax	(124)	(109)	(33)	(79)	(82)
Operation net profit	676	646	217	425	450
Discontinued operation	(177)	(17)	0	0	0
Reported net profit	499	629	217	425	450
Minority interest	(120)	(105)	(26)	(64)	(59)
Perpetual sukuk	(121)	(99)	(9)	(41)	(33)
Reported PATMI	344	454	121	292	321
Exceptionals	(54)	(202)	0	0	0
Core PATMI	290	253	121	292	321
Concensus			216	278	306
HLIB/Concensus (%)			56.1%	105.0%	105.0%

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Reported EPS (sen)	29.4	38.9	10.4	25.0	27.5
Core EPS (sen)	24.8	21.6	10.4	25.0	27.5
Core P/E (x)	10.7	12.3	25.5	10.6	9.7
DPS (sen)	7.5	6.0	2.0	4.0	6.0
Dividend yield (%)	2.8%	2.3%	0.8%	1.5%	2.3%
BVPS (RM)	2.86	3.16	3.25	3.46	3.69
P/B (x)	0.9	0.8	0.8	0.8	0.7
EBITDA margin	7.2%	7.4%	6.6%	6.0%	5.7%
EBIT margin	4.8%	4.4%	1.9%	2.8%	2.6%
PBT margin	7.1%	6.4%	3.3%	4.7%	4.7%
Net margin	-1.1%	-0.8%	-0.1%	-0.4%	-0.3%
ROE	9.1%	7.2%	3.2%	7.5%	7.7%
ROA	2.8%	2.3%	1.1%	2.6%	2.8%
Net gearing*	-78.3%	-57.8%	-37.1%	-41.4%	-37.3%

Assumptions

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Sales (Unit)					
Toyota	65,551	69,391	48,000	62,000	66,000
Lexus	1,020	918	600	800	800
Perodua	227,243	240,341	193,476	236,397	248,354
Average Price (RM)					
UMW	9,487	10,588	10,588	8,318	10,267
Perodua	9,487	10,588	10,588	8,318	10,267

Figure #1 Quarterly results comparison

FYE Dec (RMm)	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	2,774.8	3,115.7	2,119.2	-32.0%	-23.6%
EBITDA	171.3	149.3	133.4	-10.6%	-22.1%
EBIT	84.8	56.5	41.4	-26.8%	-51.2%
Net finance expense	(8.8)	(23.4)	(20.8)	-10.8%	137.0%
Associates	65.6	64.6	29.2	-54.8%	-55.5%
Eis	(1.0)	213.9	13.3		
Reported PBT	140.7	311.7	63.0	-79.8%	-55.2%
Tax	(29.5)	(21.9)	(14.2)	-35.0%	-51.6%
Reported operation net profit	111.2	289.8	48.8	-83.2%	-56.1%
Discontinued operation	(0.4)	(16.9)	0.0	-100.0%	-100.0%
Reported net profit	110.8	272.9	48.8	-82.1%	-56.0%
Reported PATMI	86.5	200.5	44.3	-77.9%	-48.8%
Eis & Sukuk Adjustments	(16.4)	(180.8)	(30.7)	-83.0%	87.0%
Core PATMI	70.1	19.7	13.6	-30.9%	-80.6%
Reported EPS (Sen)	7.4	17.2	3.8	-77.9%	-48.8%
Core EPS (Sen)	6.0	1.7	1.2	-30.9%	-80.6%
				<u>pts</u>	<u>pts</u>
EBITDA margin (%)	6.2%	4.8%	6.3%	1.5	0.1
EBIT margin (%)	3.1%	1.8%	2.0%	0.1	(1.1)
Core PATMI margin (%)	2.5%	0.6%	0.6%	0.0	(1.9)

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- 1QFY20 lower group revenue QoQ and YoY was affected by implementation of MCO.
- Group EBIT margin declined YoY dragged by lower automotive margins, but improved QoQ due to improved segmental mix.
- Associates contribution deteriorated QoQ and YoY due to lower contribution from Perodua on weaker sales volume.

Figure #2 Quarterly results comparison by segment

FYE Dec (RMm)	1QFY19	4QFY19	1QFY20	QoQ (%)
Reported Revenue				
Automotive	2,774.8	3,115.7	2,119.2	-32.0%
Equipment	2,162.5	2,450.0	1,585.9	-35.3%
Manufacturing & Engineering	382.8	328.0	289.2	-11.9%
Others	16.0	9.1	(4.4)	-148.0%
Total	5,336.2	5,902.8	3,989.9	-32.4%
Reported PATMI				
Automotive	85.6	82.4	50.5	-38.8%
Equipment	30.8	5.5	15.6	183.0%
Manufacturing & Engineering	(3.2)	17.9	6.5	-63.6%
Others	(26.7)	94.6	(28.3)	N.M.
Total	86.5	200.5	44.3	-77.9%
Core PATAMI	70.1	19.7	13.6	-30.9%

Bursa, HLIB Research

Figure #3 UMW automotive sales statistics

Unit Sales	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Toyota (51% ownership)	74,524	78,781	73,600	83,745	55,560
Lexus (51% ownership)	13,865	17,658	16,628	22,158	10,583
Perodua (38% ownership)	13,722	17,529	16,357	21,783	10,415
Total	102,111	113,968	106,585	127,686	76,558
Growth YoY (%)	9.0%	-2.5%	1.5%	16.2%	-25.4%
Growth QoQ (%)	3.4%	5.7%	-6.6%	13.8%	-33.7%

Company

Figure #4 UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,147.5	2.69	FY21 PE 10x
Equipment	Various	647.8	0.55	FY21 PE 8x
Manufacturing & Engineering	Various	1,388.4	1.19	FY21 PE 18x
Others (including O&G unlisted)	Various	35.9	0.03	Book value based on FY2019
700 acres Serendah land	100.00	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	90.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2019 Annual Report
Holding Co Net Debt		(1,647.8)	(1.41)	Based on 2019 Annual Report
Total		3,541.5	3.03	
Holding Co Discount			15.0%	
Target Price			2.58	
* No of Shares		1,168.3		As at end FY2018

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

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HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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