

**Company Result**

16 June 2020

# UMW Holdings Berhad

*A poor start*

**HOLD**  
*Maintained*

<b>Share Price</b>	<b>RM2.65</b>
<b>Target Price</b>	<b>RM2.45</b>

**Company Description**

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

**Stock Data**

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	3095.98
52-week price Range	RM1.65-5.50
Beta (against KLCI)	1.86
3-m Average Daily Volume	3.08m
3-m Average Daily Value	RM7.25

**Share Performance**

	1m	3m	12m
Absolute (%)	28.0	23.8	-50.3
Relative (%-pts)	19.9	3.8	-45.7

**Major Shareholders**

	%
SKIM AMANAH SAHAM BUMIPUTERA	45.13
EMPLOYEES PROVIDENT FUND	12.60
YAYASAN PELABURAN BUMIPUTRA	7.66
ESTIMATED FREE FLOAT	26.73

**Historical Chart**



Source: Bloomberg

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**Result**

- **UMW Holdings Berhad (UMW) registered a core net profit of RM31m during 1Q20 as compared to core net loss of RM 13.4m during previous quarter and core net profit of RM83.2m during same period a year ago.** Meanwhile, revenue stood at RM2.1b, which tumbled 32.0% qoq and 23.8% yoy.
- **Substantially below forecast.** 3M20 core net profit of RM31m was substantially below our in-house and market expectation which only accounts for 7% and 14.5% of full year earnings estimates respectively. The subdued earnings expectation was weighed down by disappointing performance in Automotive and Equipment divisions despite stellar M&E division.

**Comment**

- **MCO weighed on Auto's sales.....** Auto division's revenue down 35.3% qoq and 26.7% yoy during 1Q20 as both domestic Toyota and Perodua sales deteriorated 51.5% qoq/24.1% yoy and 27.0% qoq/ 25.9% yoy respectively arising from movement-controlled order (MCO) starting 18<sup>th</sup> March 2020. On the same note, Auto's PBT also slid 53.3% qoq and 56.8% yoy due to compressed margin (dropped by 1.3ppts qoq and 2.4%ppts yoy respectively) following higher depreciation cost from Bukit Raja Plant (BRP). The Group has revised Toyota car sales to 45k this year from 66k earlier in view of soft demand due to pandemic. Despite current pandemic situation, the Group is still on track to introduce two CKD model during 2H20. We deem Auto segment to remain subdued in the next quarter due to full lockdown in Apr'20 despite reduction of car sales prices which takes effect on 15<sup>th</sup> June 2020 following 100% sales tax exemption for CKD cars and 50% for CBU models announced by the government.
- **....as well as Equipment division.** The Equipment division's revenue tumbled 11.9% qoq and 24.5% yoy on the back sluggish PBT of 5.5% qoq and 38.9% yoy. Disappointing results were due to lockdown which led to lower demand and disruption in operational activities. Moreover, Equipment division also weighed down by slowdown in jade mining as a result of interference from Myanmar government. Going forward, the Group feels sanguine to introduce new products line-up and heavy marketing campaign activities for equipment sales as well as cost reduction strategies to lift overall division's performance.

- **M&E division remained steady on YoY basis.** Manufacturing & Engineering's revenue and PBT down 24.4% qoq and 65.1% qoq respectively during 1Q20 arising from enhancement from MCO which halted business operation since 18<sup>th</sup> Mar 2020. However, M&E posted higher revenue and PBT of 4.8% yoy and 350% yoy respectively resulted from higher fan cases deliver as well as higher Lubricant sub-segment contribution amid improved margin arising from cost optimization. Looking forward, the Group expects its aerospace business to soften as number of fan cases ordered has been revised downward for the rest of the year due to pandemic situation. As for lubricants sub-segment, the Group believes this segment to leverage on its OEM partners and bolster the domestic sales and export to ASEAN markets.

### Earnings Outlook/Revision

- **We cut our earnings forecast for FY20F and FY21F by 62.3% and 49.3% respectively** to account for lower margins due to high depreciation cost from Bukit Raja Plant (BRP) as well as subdued car sales volume due to Covid-19 pandemic.

### Valuation & Recommendation

- **Maintain HOLD call on UMW with a lower target price of RM2.45 (RM3.50 previously) following our earnings cut.** Our valuation is now based on 18.9x FY2020F PE with a revised EPS of 13 sen (35 sen previously). Target P/E ratio assigned is slightly below 5-year average PE of 19.5x.
- **We are neutral on its outlook** as: 1) Auto division is dampened by stiff competition from other car makers, stringent loan approval and weak sentiment towards big ticket items amid Covid-19 pandemic; 2) Higher depreciation cost from BRP; and 3) Fluctuation of foreign exchange (RM against Yen and USD).

Figure 1: Quarterly Figures

Year to 31 Dec	1Q20 (RMm)	4Q19 (RMm)	1Q19 (RMm)	QoQ % chg	YoY % chg
Revenue	2,119.2	3,115.7	2,779.9	-32.0%	-23.8%
Operating Profit	45.7	75.1	94.8	-39.2%	-51.8%
Pre-tax Profit	92.8	344.3	173.2	-73.1%	-46.4%
Profit After Tax	48.8	272.9	110.8	-82.1%	-56.0%
Net Profit	44.3	200.5	86.5	-77.9%	-48.8%
Core Profit	31.0	(13.4)	83.2	N/A	-62.8%
<b>Margin (%)</b>				<b>ppts</b>	<b>ppts</b>
Operating profit	2.2%	2.4%	3.4%	-0.3	-1.3
Profit before tax	4.4%	11.1%	6.2%	-6.7	-1.9
Net profit	2.3%	8.8%	4.0%	-6.5	-1.7
Core profit	1.5%	-0.4%	3.0%	N/A	-1.5

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY19	1Q20 (RMm)	4Q19 (RMm)	1Q19 (RMm)	QoQ % chg	YoY % chg
<b>Segmental Revenue</b>					
Automotive	1,585.9	2,450.0	2,162.5	-35.3%	-26.7%
Equipment	289.2	328.0	382.8	-11.9%	-24.5%
M & E	248.5	328.5	237.1	-24.4%	4.8%
<b>Segmental PBT</b>					
Automotive	53.7	114.9	124.2	-53.3%	-56.8%
Equipment	25.8	27.3	42.2	-5.5%	-38.9%
M & E	10.5	30.0	2.3	-65.1%	350.0%
<b>Segmental Margin (%)</b>				<b>ppts</b>	<b>ppts</b>
Automotive	3.4%	4.7%	5.7%	-1.3	-2.4
Equipment	8.9%	8.3%	11.0%	0.6	-2.1
M & E	4.2%	9.1%	1.0%	-4.9	3.2

Source: Company, JF Apex

**Figure 3: Financial Summary**

Year to 31 Dec (RMm)	2016	2017	2018	2019	2020F	2021F
Revenue	10,436.8	11,066.6	11,303.6	11,739.0	8,409.2	9,985.4
Operating profit	(484.6)	123.7	335.2	521.5	302.3	330.4
PBT	(282.1)	266.6	593.3	754.8	447.2	539.4
Net profit	(1,658.0)	(640.6)	172.9	454.5	155.5	222.2
Core profit	(401.8)	(85.8)	370.3	287.2	155.5	222.2
Core EPS (sen)	(0.31)	(0.07)	0.32	0.25	0.13	0.19
P/BV (x)	0.45	0.74	0.54	0.51	0.52	0.44
DPS (sen)	0.00	0.00	0.075	0.07	0.02	0.03
Dividend yield (%)	0.0%	0.0%	2.8%	2.5%	0.8%	1.1%
Operating margin (%)	-4.6%	1.1%	3.0%	4.4%	3.6%	3.3%
PBT margin (%)	-2.7%	2.4%	5.2%	6.4%	5.3%	5.4%
Net profit margin (%)	-15.9%	-5.8%	1.5%	3.9%	1.8%	2.2%
Net Gearing Ratio(x)	0.88	0.66	0.50	0.41	0.53	0.59
ROE (%)	-5.4%	-2.1%	6.5%	4.7%	2.6%	3.2%
ROA (%)	-10.2%	-6.4%	1.6%	4.1%	1.2%	1.4%

Source: Company, JF Apex

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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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