

15 Jun 2020

Buy

Price
RM2.65

Target Price
RM3.40

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,096.0
52-week high/low (RM)	5.50 / 1.65
Avg daily turnover (RMm)	7.2
KLCI (pts)	1,498.8

Source: Bloomberg, KAF

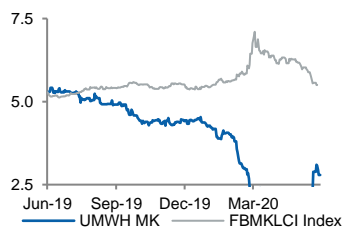
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(45.1%)
EPF	(12.6%)
Yayasan Perlaburan Bumiputera	(7.7%)
Free Float	26.7

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	15.7	(41.0)	(50.3)
Rel Market (%)	3.8	(38.1)	(45.7)



Source: Bloomberg, KAF

Analyst

Max Koh
(603) 2171 0505
maxkoh@kaf.com.my

UMW Holdings

1Q20 in line

UMW's 1Q20 core earnings of RM31m were in line at 24% of our estimates but below consensus at only 17%. 1Q earnings fell 65% mainly due to Covid-19 impact on its auto and equipment divisions. M&E was the bright spark on higher fan case deliveries. While auto sales were revised down, management hints of potential upside as it does not take into account SST exemption impact. We maintain Buy.

Financial Highlights

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue (RMm)	11,304	11,739	9,414	10,548	10,951
Core net profit (RMm)	326	200	148	184	203
Core EPS (Sen)	27.9	17.1	12.6	15.7	17.4
EPS growth (%)	93.2	(38.7)	(26.1)	24.6	10.3
DPS (Sen)	7.5	6.0	4.0	5.0	5.0
Core PE (x)	9.5	15.5	21.0	16.8	15.3
Div yield (%)	2.8	2.3	1.5	1.9	1.9
ROE (%)	16.1	12.0	3.9	4.7	4.9
Net Gearing (%)	45.5	28.1	20.1	22.4	19.2
PBV(x)	0.9	0.8	0.8	0.8	0.7

Source: Company, KAF

1Q20 within expectations. UMW's 1Q20 core earnings of RM36m were in line at 24% of our forecast, but below consensus at only 17%. Earnings fell 59% from a year earlier on the back of 24% topline decline mainly due to slower auto and equipment sales. This is partly mitigated by a strong M&E performance.

Slower auto sales in 1Q. Automotive PBT fell 57% to RM54m in 1Q on the back of 27% topline decline. The slower sales were mainly due to the MCO which took effect on 18 March as well as lower contribution from Perodua. In terms of volume, UMWT sales fell 24% while Perodua sales declined 26%. PBT margin also contracted 3ppts to 3% partly due to lower margin from clearance of 2019 inventories.

Equipment down 39%. Equipment PBT fell 39% to RM26m on the back of 24% topline decline. Similar to the auto segment, sales were impacted by the Covid-19 outbreak. Consequently, PBT margin contracted 2ppts to 9%.

M&E division a bright spark in 1Q. The M&E division was the bright spark as it ramped up deliveries of fan cases to Rolls-Royce. Hence, PBT increased to RM10m (from RM2m a year earlier) on 5% topline growth – resulting in PBT margin improving 3ppts to 4%. It is currently operating above 50% capacity.

Auto division outlook. Given the Covid-19 impact, management had reduced its UMWT sales target to 45k (from 66k earlier). However, this does not take into account the SST exemption – hence, management hints of a potential upward revision in the future. We maintain our 53k sales forecast – which implies 23% decline from a year earlier. As it is, auto operations had resumed in May with 3 months of inventories. With the latest SST exemption effective today, management is positive on improving sales – it also intends to preserve margins by offering financing options instead of providing discounts. UMW's new model pipeline is on track, with Lexus UX 200 on the road and Toyota RAV4 launching on 18 June. Another 2 models (CKD) will be launched in 2H.

Mitigating measures. On a positive note, operations for all three divisions had resumed in May (while aerospace commenced in 16 April) amid the MCO. To navigate the challenging environment, management will implement various cost-cutting measures, while orders for its aerospace are firm for this year (due to backlogged orders).

Maintain Buy. All in, we maintain Buy and SOP-based TP of RM3.40. We had already factored in the Covid-19 impact in our numbers – while upside stems from better-than-expected auto sales from the SST tax exemption. Even with the 45k sales target, management expects it to remain profitable. We continue to like UMW as proxy to market leader Perodua and to ride on auto sales recovery from a low base. UMW is trading at 0.8x PBV and 17x FY21 PE.

Exhibit 1: Results summary

FYE 31 Dec	1Q19	4Q19	1Q20	yoy %	qoq%	FY20F	1Q20/F
Revenue	2780	3116	2119	-24%	-32%	9414	23%
Operating profit	95	263	46	-52%	-83%	141	32%
Investment income	18	16	18	1%	9%	92	19%
Finance cost	(33)	(33)	(30)	-9%	-9%	(109)	27%
JV & Associates	61	65	29	-52%	-55%	217	13%
Pretax profit	141	312	63	-55%	-80%	341	18%
Tax	(30)	(22)	(14)	-52%	-35%	(47)	30%
Profit after tax	111	290	49	-56%	-83%	294	17%
MI & perpetual sukuk holders	(24)	(82)	(4)	-82%	-95%	(147)	3%
Net profit	87	208	44	-49%	-79%	148	30%
Core net profit	87	(6)	36	-59%	nm	148	24%
EPS (sen)	7.4	17.8	3.8				
Core EPS (sen)	7.5	(0.5)	2.7				
Net DPS (sen)	0.0	2.0	0.0				
BV (RM)	2.93	3.16	3.20				
EBIT margin (%)	3%	8%	2%			1%	
PBT margin (%)	5%	10%	3%			4%	
PAT margin (%)	4%	9%	2%			3%	
Net margin (%)	3%	7%	2%			2%	
Effective tax rate (%)	21%	7%	23%			14%	

Source: Company, KAF

Exhibit 2: Segmental breakdown

	1Q19	4Q19	1Q20	yoy %	qoq %	FY20F	1Q20/F
Continued							
Automotive	2163	2450	1586	-27%	-35%	6,960	23%
Equipment	383	328	289	-24%	-12%	1,290	22%
Manufacturing	237	329	249	5%	-24%	1,192	21%
Others & Eliminations	(3)	(20)	(4)	71%	-78%		
Total Revenue (RM mil)	2780	3116	2119	-24%	-32%	9,414	23%
Automotive	124	115	54	-57%	-53%	348	15%
Equipment	42	27	26	-39%	-6%	180	14%
Manufacturing	2	30	10	350%	-65%	100	10%
Others	(28)	140	(27)	-4%	-119%		
Total PBT (RM mil)	141	312	63	-55%	-80%	341	18%
Automotive PBT margin (%)	6%	5%	3%				
Equipment PBT margin (%)	11%	8%	9%				
Manufacturing PBT (%)	1%	9%	4%				
Total PBT margin (%)	5%	10%	3%				
USD:MYR average	4.09	4.16	4.18				
Unit sales	1Q19	4Q19	1Q20	yoy %	qoq %	FY20	1Q20/F
Toyota & Lexus	13,865	21,858	10,583	-24%	-52%	53,800	20%
Perodua	60,659	61,587	44,977	-26%	-27%	185,680	24%
Grand total	74,524	83,445	55,560	-25%	-33%	239,480	23%

Source: Company, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Revenue	11,303.6	11,739.1	9,414.2	10,548.3	10,951.3
EBITDA	815.9	866.6	504.9	531.8	574.9
Depreciation/Amortisation	(273.7)	(345.1)	(363.9)	(407.4)	(450.9)
Operating income (EBIT)	542.2	521.4	141.0	124.4	123.9
Other income & associates	270.7	291.6	217.1	271.8	279.9
Net interest	(12.6)	(58.2)	(16.8)	4.1	22.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	800.3	754.8	341.2	400.3	426.6
Taxation	(124.1)	(108.6)	(46.7)	(56.0)	(59.7)
Minorities/pref dividends	(160.8)	(223.4)	(146.8)	(160.3)	(163.9)
Net profit	515.4	422.8	147.7	184.0	203.0
Core net profit	325.8	199.8	147.7	184.0	203.0

Balance Sheet

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	2,820.9	2,701.7	2,888.7	3,032.2	3,132.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	729.2	865.1	865.1	865.1	865.1
Total non-current assets	5,391.2	5,488.2	5,675.2	5,818.7	5,918.7
Cash & equivalent	1,312.0	1,472.1	1,310.8	808.6	524.7
Stock	1,548.5	1,589.6	1,438.6	1,642.3	1,700.7
Trade debtors	1,076.6	1,449.1	941.6	1,045.7	1,075.6
Other current assets	1,148.1	1,082.5	1,539.9	1,694.2	1,803.2
Total current assets	5,085.1	5,593.2	5,230.8	5,190.8	5,104.2
Trade creditors	1,854.0	2,076.6	1,978.7	2,034.6	2,053.0
Short-term borrowings	535.0	386.4	149.2	141.0	133.9
Other current liabilities	106.3	138.1	138.1	138.1	138.1
Total current liabilities	2,495.3	2,601.0	2,266.0	2,313.7	2,325.0
Long-term borrowings	2,298.2	2,123.4	1,935.3	1,569.6	1,204.7
Other long-term liabilities	250.0	312.1	312.1	389.5	389.5
Total long-term liabilities	2,548.3	2,435.6	2,247.5	1,959.1	1,594.2
Shareholders' funds	3,344.6	3,696.4	3,844.1	4,028.0	4,231.0
Minority interests	2,369.8	2,401.7	2,548.5	2,708.8	2,872.7

Cash flow Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	800.3	754.8	341.2	400.3	426.6
Depreciation/Amortisation	273.7	345.1	363.9	407.4	450.9
Net change in working capital	(146.8)	(142.9)	560.6	(251.9)	(69.9)
Others	(752.8)	(702.0)	(381.9)	(331.9)	(362.5)
Cash flow from operations	174.4	255.0	883.8	223.8	445.3
Capital expenditure	(915.0)	(345.5)	(800.0)	(800.0)	(800.0)
Net investments & sale of fixed assets	(1,496.0)	(1,187.9)	(1,251.2)	(1,251.2)	(1,251.2)
Others	2,092.4	1,963.0	1,610.9	1,839.1	1,844.6
Cash flow from investing	(318.7)	429.7	(440.2)	(212.1)	(206.5)
Debt raised/(repaid)	77.7	(323.0)	(378.0)	(371.0)	(368.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(58.4)	(75.9)	(70.1)	(46.7)	(58.4)
Others	1,000.0	(185.3)	(96.2)	(96.2)	(96.2)
Cash flow from financing	1,019.2	(584.2)	(544.3)	(513.9)	(522.6)
Net cash flow	874.9	100.5	(100.7)	(502.2)	(283.9)
Cash b/f	1,181.5	1,315.2	1,411.5	1,310.8	808.6
Cash c/f	1,315.2	1,411.5	1,310.8	808.6	524.7

Key Ratios

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue growth (%)	2.1	3.9	(19.8)	12.0	3.8
EBITDA growth (%)	>100	6.2	(41.7)	5.3	8.1
Pretax margins (%)	7.1	6.4	3.6	3.8	3.9
Net profit margins (%)	4.6	3.6	1.6	1.7	1.9
Interest cover (x)	43.1	9.0	8.4	nm	nm
Effective tax rate (%)	5.8	7.4	0.0	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	34	39	46	34	35
Stock turnover (days)	48	49	59	53	56
Creditors turnover (days)	75	61	79	69	68

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)