

16 June 2020

UMW Holdings Bhd

1QFY20 Within Our Expectation

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1QFY20 core PATAMI of RM37.1m (-60% YoY, -6% QoQ) came in within our expectation at 28%, but below consensus at 18%, of full-year estimate. We expect the upcoming 2QFY20 to fare much worse than 1QFY20 due to zero delivery recorded from April 2020 up to 4th May 2020 (for sales and service outlets), and up to 12th May 2020 (for assembly plants). SST exemption from government may provide some relief, but overall cautious consumer sentiment may dampen its near-term sales. Downgrade to UP from MP but with a higher TP of RM1.80 (from RM1.60), as we roll over valuation base to FY21E (from FY20E).

1QFY20 within our expectation. 1QFY20 core PATAMI of RM37.1m (-60% YoY, -6% QoQ) came in within our expectation at 28%, but below consensus at 18%. No dividend was declared for the quarter, as expected. Note that, 1QFY20 core PATAMI exclude: (i) reversal of impairment and receivables (including debt recovery) at RM26.6m, unlisted O&G's forex loss (no more stake held) at RM27.7m, and (ii) other impairment of RM8.3m.

Results highlights, 1QFY20 core PATAMI plunged 60% YoY, 6% QoQ mainly due to: (i) lower Automotive segment profit contribution (-57% YoY, -53% QoQ), suffering from the closure of business during MCO starting 18th March 2020 and higher Bukit Raja plant depreciation, (ii) weaker equipment segment (-39% YoY, -6% QoQ) in a challenging market for both Heavy and Industrial Equipment businesses especially during MCO, and (iii) higher effective tax rate at 22.6% (1QFY19: 19.2%, 4QFY19: 7.0%). These was, however, cushioned by: (i) higher M&E segment profit contribution (+350% YoY, -65% QoQ), due to the ramping up of fan case production by Aerospace sub-segment (have recently received 24-hour operations approval), but the closure during MCO has also affected its performance QoQ.

Lower 2020 target sales. With the revision of lower TIV sales by Malaysian Automotive Association (MAA) to 400k unit for 2020, UMW has targeted lower sales for Toyota and Lexus at 45k unit (-36%) for 2020, while 38%-owned Perodua is planning to revise its 2020 sales target soon which we believe would be at c.160k units (-33%). Note that, 1QFY20 UMW Toyota Motor's sales was at 10,583 units (-51% YoY, -24% QoQ), while lower associate and joint-venture company (-48% YoY, -55% QoQ), was mainly from 38%-owned Perodua's sales at 44,977 unit (-27% YoY, -26% QoQ). To achieve its target, UMW plans to tie up with local financial institutions to offer consumers flexible loan facility with low initial monthly instalment, which could see, for example, Yaris at lower monthly instalment than MyVi.

Outlook. UMW derives its earnings mostly from: (i) stream of all-new models (especially Vios, and Yaris, and recently launched Toyota RAV4 CBU and Lexus UX200, with expected 2 new CKD models starting 2HCY20), and (ii) its deep value stake in 38%-owned Perodua. We are cautious on its Automotive segment with its high level of plant depreciation and stiff competition from local carmakers. For Equipment division, the group will continue to leverage on its partners (KOMATSU & TICO)'s strengths, while UMW Aerospace had turned profitable in 2019. SST exemption from government has reduced vehicles prices for Toyota up to 5.7% (average at 3%), while for Perodua, reduction is up to 6% (average at 3%).

Downgrade to UP (from MP), but with a higher TP of RM1.80 (RM1.60), as we roll over valuation base to FY21E EPS (from FY20E EPS) based on unchanged PER of 14x (at -1.0SD of its 5-year historical mean PER). **Risks to our call include:** (i) higher-than-expected car sales volume, and (ii) favourable forex rate.

UNDERPERFORM ↓

Price: RM2.65
Target Price: RM1.80 ↑

Share Price Performance



KLCI 1,498.83
YTD KLCI chg -5.7%
YTD stock price chg -41.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK EQUITY
Market Cap (RM m)	3,096.0
Shares Outstanding	1,168.3
52-week range (H)	5.50
52-week range (L)	1.65
3-mth avg daily vol:	3,076,018
Free Float	27%
Beta	1.9

Major Shareholders

Skim Amanah Saham Bumiputera	45.1%
Employees Provident Fund	12.6%
Yayasan Pelaburan Bumiputera	7.7%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	11,739.1	9,057.0	11,519.6
EBIT	880.7	648.1	810.2
PBT	754.8	297.5	366.5
PATAMI	454.4	130.5	148.2
Core PATAMI	255.0	130.5	148.2
Consensus NP	-	207.4	275.9
Earnings Revision	-	-	-
Core EPS (sen)	21.8	11.2	12.7
C.EPS growth (%)	-23.5	-48.8	13.6
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	2.85	2.90	2.97
Core PER (x)	12.1	23.7	20.9
PBV (x)	0.9	0.9	0.9
Net Gearing (x)	0.5	0.3	0.5
Net Div. Yield (%)	2.3	2.3	2.3

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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	2,119.2	3,115.7	-32%	2,779.9	-24%	2,119.2	2,779.9	-24%
Associates and JV	29.2	64.6	-55%	56.3	-48%	29.2	56.3	-48%
EBIT	92.8	344.3	-73%	168.1	-45%	92.8	168.1	-45%
PBT	63.0	311.7	-80%	154.3	-59%	63.0	154.3	-59%
Taxation and Zakat	(14.2)	(21.9)	35%	(29.6)	52%	(14.2)	(29.6)	52%
PATAMI	44.3	200.5	-78%	85.1	-48%	44.3	85.1	-48%
Core PATAMI	37.1	39.5	-6%	92.9	-60%	37.1	92.9	-60%
Core EPS (sen)	3.2	3.4	-6%	8.0	-60%	3.2	8.0	-60%
DPS (sen)	-	2.0		-		-	-	
EBIT margin	4.4%	11.1%		6.0%		4.4%	6.0%	
PBT margin	3.0%	10.0%		5.5%		3.0%	5.5%	
Core NP margin	1.8%	1.3%		3.3%		1.8%	3.3%	
Effective tax rate	22.6%	7.0%		19.2%		22.6%	19.2%	

Source: Company, Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	2,119.2	3,115.7	-32.0%	2,779.9	-23.8%	2,119.2	2,779.9	-23.8%
Automotive	1,585.9	2,450.0	-35.3%	2,162.5	-26.7%	1,585.9	2,162.5	-26.7%
Equipment	289.2	328.0	-11.9%	382.8	-24.5%	289.2	382.8	-24.5%
M&E	248.5	328.5	-24.4%	237.1	4.8%	248.5	237.1	4.8%
Others	(4.4)	9.1	N.M	(2.6)	-70.7%	(4.4)	(2.6)	N.M
Segment PBT/(LBT)	63.0	311.7	-79.8%	154.3	-59.1%	63.0	154.3	-59.1%
Automotive	53.7	114.9	-53.3%	124.2	-56.8%	53.7	124.2	-56.8%
Equipment	25.8	27.3	-5.5%	42.2	-38.9%	25.8	42.2	-38.9%
M&E	10.5	30.0	-65.1%	2.3	+350.0%	10.5	2.3	+350.0%
Others	(26.9)	139.5	N.M	(14.4)	N.M	(26.9)	(14.4)	N.M
Segment Margin								
Automotive	3.4%	4.7%		5.7%		3.4%	5.7%	
Equipment	8.9%	8.3%		11.0%		8.9%	11.0%	
M&E	4.2%	9.1%		1.0%		4.2%	1.0%	

Source: Company, Kenanga Research

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Peer Comparison																		
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	1.45	1,685.2	Y	04/2021	36.6%	8.8%	17.0%	42.6%	16.8	14.3	10.0	3.2	2.7	20.4%	5.9%	1.30	UP	
DRB-HICOM BHD	1.70	3,286.5	Y	12/2019	-12.5%	7.7%	-32.2%	32.9%	19.9	29.3	22.1	0.5	0.4	4.3%	1.8%	1.40	MP	
MBM RESOURCES BERHAD	3.07	1,200.0	Y	12/2020	-8.1%	1.2%	-30.5%	16.1%	6.3	9.0	7.7	0.6	0.6	6.5%	2.0%	2.40	UP	
SIME DARBY BERHAD	2.20	14,963.2	Y	06/2020	-0.7%	2.0%	2.0%	2.0%	15.7	15.4	15.1	1.0	1.0	6.5%	4.5%	1.75	UP	
TAN CHONG MOTOR HOLDINGS BHD	1.10	717.7	N	12/2020	2.2%	2.6%	4.1%	20.3%	15.8	15.2	12.6	0.2	0.2	1.6%	3.6%	0.750	UP	
UMW HOLDINGS BHD	2.65	3,096.0	Y	12/2020	-22.8%	27.2%	-48.8%	13.6%	12.1	23.7	20.9	0.5	0.5	2.1%	2.3%	1.80	UP	
Simple Average					-0.9%	8.2%	-14.7%	21.3%	14.4	17.8	14.8	1.0	0.9	6.9%	3.3%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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