

UMW Holdings (UMWH MK)

1Q20 in line

Maintain BUY and MYR3.30 TP

1Q20 vehicle sales/ core earnings made up 19%/ 22% of our FY20 earnings. While the 10% sales tax exemption will catalyse sales, the weak FY20 earnings are well-flagged. Focus should be on FY21 instead. Another key positive would be its cost optimisation program, (>MYR100m in savings) if it is realised. Our TP is pegged to 14x FY21 PER (unchanged).

Weaker YoY earnings, MCO-impacted

1Q20 core net profit fell 52% YoY to MYR42m, hit by weaker PBT at its automotive (-57% to MYR54m) and equipment (-39% to MYR26m) divisions. This was partially moderated by a 4.6x jump in M&E's PBT to MYR10m, fuelled by higher orders at its aerospace operations. Vehicle sales for its Toyota/ 38%-owned Perodua marques fell 25% to 10.4k units/ 26% YoY to 45.0k units respectively, impacted by the MCO exercise since 18th Mar. Vios, Hilux and Yaris were its best-selling models in 1Q20, accounting for 80% of Toyota's sales. UMW stated that its vehicles stock level stood at 3 months as at end-Mar-20.

Has an unconventional approach to fight for sales

Our estimates are unchanged. We expect UMW to sell 53.6k units (-23% YoY) in 2020, compared to its 45k units target (pre-SST exemption) while projecting Perodua's vehicle sales to fall by 27% YoY to 175k units. While UMW will pass 100% of the SST savings to car buyers, which is not unexpected, it is adopting a different approach to competing for sales in the market. Toyota, in collaboration with Maybank Islamic has announced a special package for graduates; a 100% hire-purchase financing for B-segment models (Vios, Yaris and Avanza) to entice sales. We note that its price discounts are less than its peers (i.e. Honda) but we reckon its sales target is more on fleet vs. individual purchases.

Going digital, targets MYR100+m savings in future

UMW is also adopting the digital approach to fuel its sales target, as it aims to optimise its A&P expenses from now on. Apart from the changes to its A&P approach, it is also restructuring its operating (i.e. vendors) processes, as it targets to save about MYR100+m in expenses from this new approach.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	11,304	11,739	8,913	11,684	12,151
EBITDA	822	867	591	643	691
Core net profit	558	254	193	263	283
Core EPS (sen)	47.8	21.7	16.5	22.5	24.2
Core EPS growth (%)	92.6	(54.5)	(24.2)	36.4	7.8
Net DPS (sen)	7.5	6.0	2.4	3.3	3.6
Core P/E (x)	11.5	20.7	16.1	11.8	10.9
P/BV (x)	1.9	1.4	0.8	0.7	0.7
Net dividend yield (%)	1.4	1.3	0.9	1.3	1.4
ROAE (%)	16.3	13.4	5.1	6.4	6.5
ROAA (%)	5.4	2.3	1.8	2.4	2.4
EV/EBITDA (x)	11.2	8.8	8.9	8.3	7.6
Net gearing (%) (incl perps)	26.6	17.0	12.5	12.6	10.2
Consensus net profit	-	-	189	232	307
MKE vs. Consensus (%)	-	-	1.7	13.1	(7.6)

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BUY

Share Price	MYR 2.65
12m Price Target	MYR 3.30 (+25%)
Previous Price Target	MYR 3.30

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

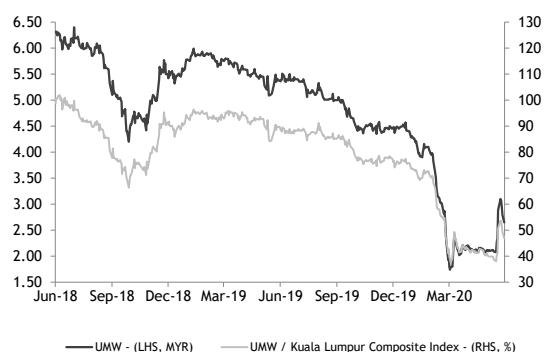
Statistics

52w high/low (MYR)	5.51/1.74
3m avg turnover (USDm)	1.7
Free float (%)	81.3
Issued shares (m)	1,168
Market capitalisation	MYR3.1B
	USD725M

Major shareholders:

Permodalan Nasional Bhd.	50.4%
Employees Provident Fund	10.8%
Bumiputra Investment Foundation	7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	28	16	(51)
Relative to index (%)	16	1	(48)

Source: FactSet

Fig. 1: UMWH's quarterly results summary

	Quarterly results				
FY Dec (MYR m)	1Q20	4Q19	%QoQ	1Q19	%YoY
Turnover	2,119.2	3,115.7	(32.0)	2,774.8	(23.6)
EBIT	45.7	75.1	(39.2)	89.7	(49.1)
Interest expense	(29.7)	(32.6)	(8.8)	(32.7)	(9.0)
Associates	29.2	64.6	(54.8)	60.6	(51.9)
Investment Income	17.9	16.4	9.2	17.8	1.0
Pre-tax profit	63.0	311.7	(79.8)	140.5	(55.1)
Taxation	(14.2)	(21.9)	(35.0)	(29.7)	(52.0)
Minority interest	(4.5)	(37.6)	(88.1)	(24.3)	(81.6)
Sukuk	0.0	(34.8)	NM	0.0	NM
Net profit / (loss)	44.3	252.1	(82.4)	86.5	(48.8)
Exceptional item	2.0	184.3	(98.9)	(1.1)	NM
Recurring net profit / (loss)	42.3	67.8	(37.5)	87.6	(51.7)
	1Q20	4Q19	+/- ppt	1Q19	%YoY
EBIT margin (%)	2.2	2.4	(0.3)	3.2	(1.1)
Tax rate (%)	22.6	7.0	15.6	21.1	1.5
	1Q20	4Q19	+/- ppt	1Q19	%YoY
Revenue	2,119.2	3,115.7	(32.0)	2,774.8	(23.6)
Automotive	1,585.9	2,450.0	(35.3)	2,162.5	(26.7)
Equipment	289.2	328.0	(11.9)	382.8	(24.5)
M&E	248.5	328.5	(24.4)	237.1	4.8
Others	(4.4)	9.1	NM	16.0	NM
	1Q20	4Q19	+/- ppt	1Q19	%YoY
Pre-tax profit	63.0	311.7	(79.8)	140.5	(55.1)
Automotive	53.7	114.9	(53.3)	124.2	(56.8)
Equipment	25.8	27.3	(5.5)	42.2	(38.9)
M&E	10.5	30.0	(65.1)	2.3	>100
Others	(26.9)	139.5	NM	(28.2)	(4.5)
	1Q20	4Q19	+/- ppt	1Q19	%YoY
Pre-tax margins (%)	3.0	10.0	(7.0)	5.1	(2.1)
Automotive	3.4	4.7	(1.3)	5.7	(2.4)
Equipment	8.9	8.3	0.6	11.0	(2.1)
M&E	4.2	9.1	(4.9)	1.0	3.2
	1Q20	4Q19	+/- ppt	1Q19	%YoY
Vehicle Unit Sales (MAA)					
Toyota	10,415	21,915	(52.5)	13,808	(24.6)
Perodua	44,977	61,587	(27.0)	60,659	(25.9)

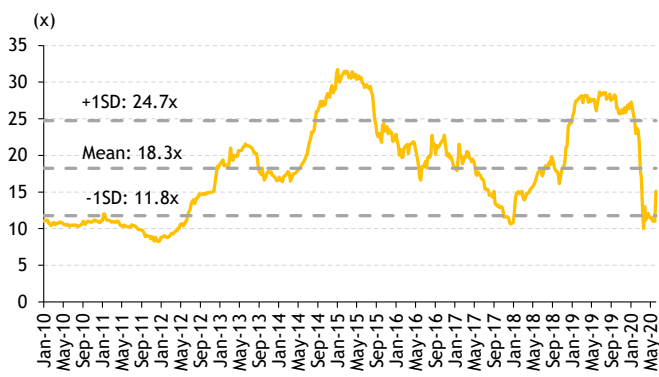
Source: Company

UMW: Vehicles sales

	2018	2019	2020F	2021F	2022F
Toyota	66,562	70,009	53,600	69,680	72,467
Perodua	227,243	240,341	175,000	248,000	250,000

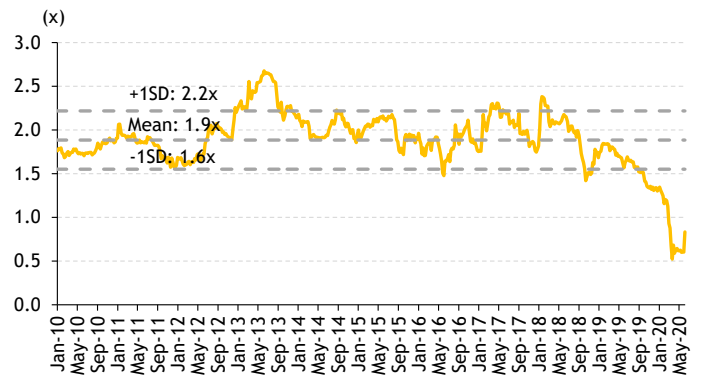
Source: Company, Maybank KE

UMW: 12M forward rolling PER



Source: Bloomberg, Maybank Kim Eng

UMW: 12M forward rolling P/BV



Source: Bloomberg, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for UMW. Key risks are: (i) weaker consumer sentiment, affecting demand vehicle purchases while (ii) USD/ MYR forex volatility will affect UMW's margins and profitability.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	13.2	12.9	16.1	11.8	10.9
Core P/E (x)	11.5	20.7	16.1	11.8	10.9
P/BV (x)	1.9	1.4	0.8	0.7	0.7
P/NTA (x)	1.9	1.4	0.8	0.7	0.7
Net dividend yield (%)	1.4	1.3	0.9	1.3	1.4
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	11.2	8.8	8.9	8.3	7.6
EV/EBIT (x)	16.9	14.6	22.5	19.9	17.6

INCOME STATEMENT (MYR m)

Revenue	11,303.6	11,739.1	8,913.2	11,684.1	12,150.9
Gross profit	163.9	205.6	1,396.9	1,731.4	1,827.5
EBITDA	821.5	867.0	590.6	643.4	690.8
Depreciation	(279.3)	(346.2)	(357.6)	(375.4)	(391.0)
EBIT	542.2	520.8	233.0	267.9	299.8
Net interest income / (exp)	(12.6)	(57.6)	(51.5)	(35.6)	(38.8)
Associates & JV	270.7	291.6	205.0	288.6	295.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	800.3	754.8	386.6	520.9	556.9
Income tax	(124.1)	(108.7)	(85.1)	(132.4)	(145.8)
Minorities	(120.0)	(104.6)	(39.2)	(56.1)	(58.3)
Perpetual securities	(35.4)	(69.7)	(69.7)	(69.7)	(69.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	520.8	471.8	192.6	262.7	283.2
Core net profit	558.0	253.9	192.6	262.7	283.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,311.8	1,472.1	1,716.7	1,661.4	1,787.9
Accounts receivable	1,076.6	1,450.5	1,151.3	1,444.7	1,494.1
Inventory	1,548.5	1,589.6	1,035.9	1,371.7	1,422.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,820.9	2,861.2	3,003.5	3,128.1	3,237.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,841.0	1,921.3	1,930.9	2,024.0	2,124.5
Other assets	2,159.2	1,853.2	1,853.2	1,853.2	1,854.2
Total assets	10,758.0	11,147.8	10,691.5	11,483.1	11,920.5
ST interest bearing debt	535.0	386.4	386.4	386.4	386.4
Accounts payable	1,854.0	2,093.4	1,364.3	1,806.5	1,873.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,298.2	2,123.4	2,123.4	2,123.4	2,123.4
Other liabilities	356.0	450.0	450.0	450.0	450.0
Total Liabilities	5,043.6	5,053.4	4,324.3	4,766.5	4,833.8
Shareholders Equity	3,344.6	3,692.6	3,926.3	4,219.6	4,531.4
Minority Interest	1,271.9	1,303.9	1,343.1	1,399.2	1,457.5
Total shareholder equity	4,616.6	4,996.5	5,269.4	5,618.8	5,988.8
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	10,758.0	11,147.8	10,691.5	11,483.1	11,920.5

CASH FLOW (MYR m)

Pretax profit	800.3	754.8	386.6	520.9	556.9
Depreciation & amortisation	279.3	346.2	357.6	375.4	391.0
Adj net interest (income)/exp	(139.2)	(133.5)	(133.5)	(133.5)	(133.5)
Change in working capital	(204.1)	(60.3)	123.7	(187.0)	(33.2)
Cash taxes paid	(139.0)	(129.6)	(85.1)	(132.4)	(145.8)
Other operating cash flow	(423.0)	(499.1)	(153.6)	(252.9)	(257.1)
Cash flow from operations	174.4	278.4	495.8	190.5	378.4
Capex	(915.0)	(345.5)	(500.0)	(500.0)	(500.0)
Free cash flow	(740.6)	(67.1)	(4.2)	(309.5)	(121.6)
Dividends paid	(123.1)	(172.2)	(28.6)	(39.0)	(42.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,177.7	(340.9)	0.0	0.0	0.0
Other invest/financing cash flow	560.9	767.3	277.4	293.3	290.1
Effect of exch rate changes	(732.7)	(26.8)	26.8	0.0	0.0
Net cash flow	142.2	160.3	271.4	(55.3)	126.4

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.1	3.9	(24.1)	31.1	4.0
EBITDA growth	111.2	5.5	(31.9)	8.9	7.4
EBIT growth	338.3	(4.0)	(55.3)	15.0	11.9
Pretax growth	200.2	(5.7)	(48.8)	34.7	6.9
Reported net profit growth	1,374.4	(9.4)	(59.2)	36.4	7.8
Core net profit growth	92.6	(54.5)	(24.2)	36.4	7.8
Profitability ratios (%)					
EBITDA margin	7.3	7.4	6.6	5.5	5.7
EBIT margin	4.8	4.4	2.6	2.3	2.5
Pretax profit margin	7.1	6.4	4.3	4.5	4.6
Payout ratio	16.8	14.9	14.9	14.9	14.9
DuPont analysis					
Net profit margin (%)	4.6	4.0	2.2	2.2	2.3
Revenue/Assets (x)	1.1	1.1	0.8	1.0	1.0
Assets/Equity (x)	3.2	3.0	2.7	2.7	2.6
ROAE (%)	16.3	13.4	5.1	6.4	6.5
ROAA (%)	5.4	2.3	1.8	2.4	2.4
Liquidity & Efficiency					
Cash conversion cycle	6.1	26.1	32.6	26.2	28.1
Days receivable outstanding	33.4	38.7	52.5	40.0	43.5
Days inventory outstanding	47.8	49.0	62.9	43.5	48.7
Days payables outstanding	75.1	61.6	82.8	57.3	64.2
Dividend cover (x)	5.9	6.7	6.7	6.7	6.7
Current ratio (x)	2.2	2.2	2.7	2.4	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.2	2.5	2.4	2.5
Net gearing (%) (incl perps)	26.6	17.0	12.5	12.6	10.2
Net gearing (%) (excl. perps)	33.0	20.8	15.1	15.1	12.1
Net interest cover (x)	43.1	9.0	4.5	7.5	7.7
Debt/EBITDA (x)	3.4	2.9	4.2	3.9	3.6
Capex/revenue (%)	8.1	2.9	5.6	4.3	4.1
Net debt/ (net cash)	1,521.4	1,037.7	793.1	848.3	721.9

Source: Company; Maybank

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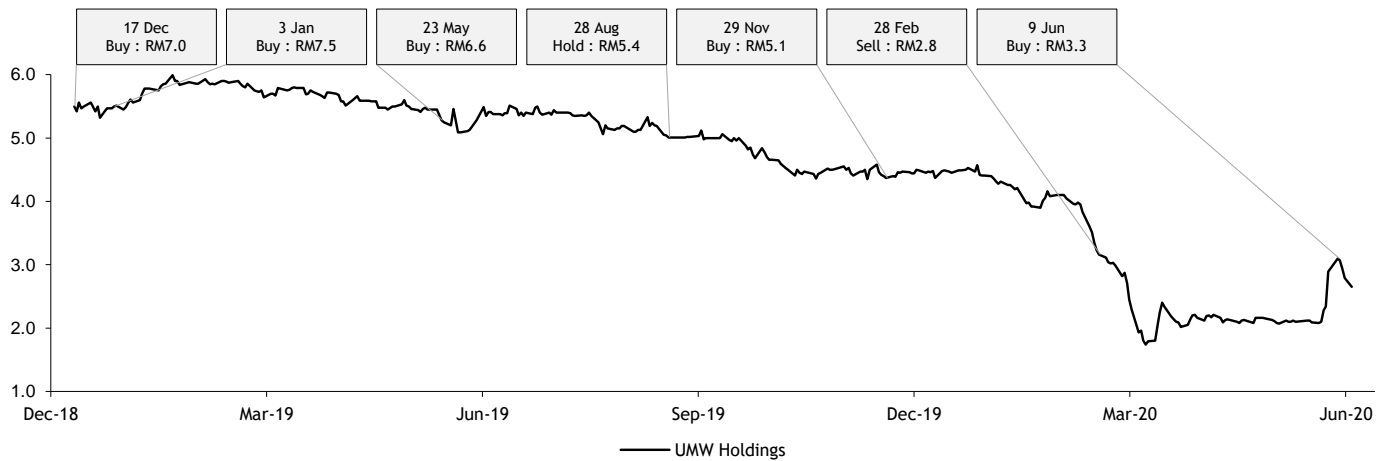
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