

16 June 2020

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

All Segments Hit By The Pandemic

Target Price (Return): MYR2.65 (0%)
 Price: MYR2.65
 Market Cap: USD726m
 Avg Daily Turnover (MYR/USD): 6.68m/1.54m

- **Keep NEUTRAL, MYR2.65 TP and c.2.3% yield.** UMW's 1Q20 core earnings of MYR48.8m were within expectations. The weaker net profit was expected, as most of its businesses were hit by COVID-19. 2Q20 earnings are expected to be weaker, as the shift to the conditional Movement Control Order (MCO) only started in mid-May. There may be a 2H20 recovery, aided by the Government's sales tax exemption and its cost-cutting measures.
- **UMWH's 1Q20 core earnings of MYR48.8m (-43% YoY, +144% QoQ) were within our and Street's expectations** at 27% and 24% of full-year estimates. The weaker earnings were attributed to the MCO's impact, whereby operations were forced to shut down from mid-March. 2Q20 earnings should still be impacted, as the shift to conditional MCO only took effect in mid-May.
- **Sales dragged down by the MCO.** Toyota/Lexus recorded sales of only 10,583 units (-24% YoY, -52% QoQ). Also affected, Perodua sales declined 26% YoY and 27% QoQ to 44,977 units during the quarter. However, sales may improve from 2H20, bolstered by the proposed sales tax exemption on passenger car purchases. Toyota and Perodua car prices declined 1-6% and 3-6% due to the exemption (Figures 6 and 7). UMWH's FY20 sales target of 45,000 units has yet to consider the tax exemption.
- **Equipment and manufacturing & engineering (M&E) earnings** were also affected by the MCO. Equipment orders may gain traction once mega projects start picking up, but the timeline is uncertain - it may take time before construction operations fully normalise. The M&E wing was allowed to reopen slightly earlier in mid-April, as it caters to the export market. We understand UMW Aerospace's orders remain intact, but there could be a downside risk from COVID-19's longer-term impact on the airline industry.
- **Toyota's B-segment SUV, the Yaris Cross,** just made its world debut and could be one of four SUVs UMW Toyota (UMWT) brings in after the RAV4 and Lexus' UX 200. While this model may plug UMWT's product offerings gap, the timeline and pricing will play a significant role in its success. With several B-segment models set to be introduced over the next 6-9 months, eg Proton, Honda, and Perodua's X50, City, and D55L, competition is expected to be stiff. UMWH expects to introduce two new locally assembled SUVs in 2H20 – models in contention for this: Toyota's Raize and C-HR.
- **Key risks.** Consumers staying cautious despite the tax exemption being implemented could pose downside risk to our earnings, while stronger-than-expected sales recovery is the key upside risk. We stay keep our call and TP, which is based on an unchanged 13x FY21F P/E. Stock sentiment was boosted by the sales tax exemption, but intense competition in the local market is likely to limit earnings growth. Its share price looks fairly valued, trading close to the sector average: 12-13x P/E. No change to our forecasts.

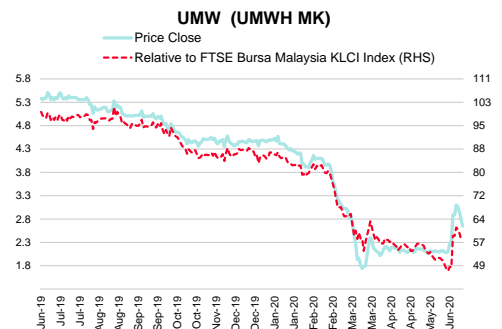
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(41.0)	28.0	15.7	(41.0)	(50.8)
Relative	(35.3)	21.2	4.2	(36.4)	(42.3)
52-wk Price low/high (MYR)				1.74	5.51



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	11,304	11,739	9,366	10,321	10,759
Recurring net profit (MYRm)	308	259	180	233	268
Recurring net profit growth (%)	6.6	(16.0)	(30.4)	29.2	14.9
Recurring P/E (x)	10.04	11.95	17.18	13.29	11.57
P/B (x)	0.9	0.8	0.8	0.8	0.7
P/CF (x)	na	5.81	4.27	9.41	8.41
Dividend Yield (%)	2.8	2.3	2.3	2.3	2.3
EV/EBITDA (x)	71.33	5.14	4.67	4.37	4.36
Return on average equity (%)	10.7	9.3	6.7	7.8	8.3
Net debt to equity (%)	26.6	17.0	4.1	6.0	7.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.26	0.22	0.15	0.20	0.23
Consumer Cyclical	DPS	0.08	0.06	0.06	0.06	0.06
UMW	BVPS	2.86	3.16	3.27	3.41	3.58
UMWH MK	Return on average equity (%)	10.7	9.3	6.7	7.8	8.3
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	10.04	11.95	17.18	13.29	11.57
P/E	P/B (x)	0.9	0.8	0.8	0.8	0.7
	FCF Yield (%)	(76.7)	6.0	10.5	(2.3)	(1.0)
Key drivers	Dividend Yield (%)	2.8	2.3	2.3	2.3	2.3
i. Introduction of attractive new car models;	EV/EBITDA (x)	71.33	5.14	4.67	4.37	4.36
ii. Turnaround at various legacy non-core oil and gas businesses;	EV/EBIT (x)	11.34	10.49	11.59	9.30	8.80
iii. Long-term growth potential from aerospace business.						
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	11,304	11,739	9,366	10,321	10,759
i. Weaker MYR;	Gross profit	3,109	3,228	2,576	2,838	2,959
ii. Weaker-than-expected economic growth;	EBITDA	53	679	568	627	644
iii. Higher start-up losses from the aerospace venture.	Depreciation and amortisation	282	(346)	(339)	(332)	(325)
	Operating profit	335	333	229	295	319
Company Profile	Net interest	(13)	(58)	(44)	(71)	(72)
UMWH is the largest company in the automotive sector. Its 51%-owned subsidiary UMW T imports, assembles, and distributes Toyota and Lexus vehicles in Malaysia.	Pre-tax profit	593	567	406	489	537
	Taxation	(124)	(109)	(81)	(98)	(107)
	Reported net profit	344	329	250	303	338
	Recurring net profit	308	259	180	233	268
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(1,104)	(169)	350	(61)	(28)
	Cash flow from operations	(1,460)	533	725	329	368
	Capex	(915)	(346)	(400)	(400)	(400)
	Cash flow from investing activities	(431)	394	(232)	(232)	(232)
	Dividends paid	0	(88)	(70)	(70)	(70)
	Cash flow from financing activities	(145)	(518)	1,281	(106)	(208)
	Cash at beginning of period	1,163	1,312	1,472	3,731	3,693
	Net change in cash	(2,036)	409	1,774	(9)	(72)
	Ending balance cash	(1,187)	1,738	3,263	3,739	3,637
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	1,312	1,472	3,731	3,693	3,590
	Tangible fixed assets	2,821	2,757	2,266	2,334	2,409
	Total investments	2,069	2,130	2,350	2,616	2,907
	Total assets	10,758	11,148	12,181	12,689	13,050
	Short-term debt	534	386	386	386	386
	Total long-term debt	2,298	2,123	3,600	3,700	3,700
	Total liabilities	5,044	5,053	5,887	6,139	6,209
	Total equity	5,714	6,094	6,294	6,550	6,841
	Total liabilities & equity	10,758	11,148	12,181	12,689	13,050
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	2.1	3.9	(20.2)	10.2	4.2
	Recurrent EPS growth (%)	6.6	(16.0)	(30.4)	29.2	14.9
	Gross margin (%)	27.5	27.5	27.5	27.5	27.5
	Operating EBITDA margin (%)	0.5	5.8	6.1	6.1	6.0
	Net profit margin (%)	3.0	2.8	2.7	2.9	3.1
	Dividend payout ratio (%)	25.5	21.3	28.0	23.1	20.8
	Capex/sales (%)	8.1	2.9	4.3	3.9	3.7
	Interest cover (x)	3.41	2.64	2.05	2.12	2.27

Source: Company data, RHB

Figure 1: Earnings review

FYE Dec (MYRm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Revenue	2,774.8	3,115.7	2,119.2	(32.0)	(23.6)	Sales were affected by the implementation of MCO starting from mid-March
EBIT	76.5	75.1	50.2	(33.2)	(34.4)	
<i>EBIT margin (%)</i>	<i>2.8</i>	<i>2.4</i>	<i>2.4</i>			
Finance costs	(19.2)	(32.6)	(29.7)	(8.8)	54.7	
Associates	65.6	64.6	29.2	(54.8)	(55.5)	Perodua was forced to close its operation during the MCO period
Investment income	17.7	16.4	17.9	9.2	1.1	
Pretax Profit	140.7	123.5	67.5	(45.3)	(52.0)	
<i>Pretax margin (%)</i>	<i>5.1</i>	<i>4.0</i>	<i>3.2</i>			
Tax	(29.5)	(21.9)	(14.2)	(35.0)	(51.6)	
<i>Eff tax rate (%)</i>	<i>(20.9)</i>	<i>(17.7)</i>	<i>(21.1)</i>			
Core Net Profit	85.7	20.0	48.8	>100	(43.0)	Within our and consensus' expectations
<i>Net Margin (%)</i>	<i>3.1</i>	<i>0.6</i>	<i>2.3</i>			

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Automotive	2,162.5	2,450.0	1,585.9	(35.3)	(26.7)	In line with lower sales volume by Toyota/Lexus
Equipment	382.8	328.0	289.2	(11.9)	(24.5)	Affected by lower demand and operational restrictions
Mfg & Eng	237.1	328.5	248.5	(24.4)	4.8	
Others	(7.7)	9.1	(4.4)	<100	(42.9)	
Revenue	2,774.8	3,115.7	2,119.2	(32.0)	(23.6)	
Automotive	124.2	114.9	53.7	(53.3)	(56.8)	
Equipment	42.2	27.3	25.8	(5.5)	(38.9)	
Mfg & Eng	2.3	30.0	10.5	(65.1)	>100	
Others	(28.0)	(48.6)	(22.4)	53.9	20.1	
PBT	140.7	123.5	67.5	(45.3)	(52.0)	
PBT Margins						
<i>Automotive</i>	<i>5.7</i>	<i>4.7</i>	<i>3.4</i>			
<i>Equipment</i>	<i>11.0</i>	<i>8.3</i>	<i>8.9</i>			Pricing competition persists
<i>Mfg & Eng</i>	<i>1.0</i>	<i>9.1</i>	<i>4.2</i>			
	5.1	4.0	3.2			Margin deteriorated due to lower operating leverage
Automotive	85.6	82.4	50.5	(38.8)	(41.0)	
Equipment	30.8	5.5	15.6	>100	(49.2)	
Mfg & Eng	(3.2)	17.9	6.5	(63.6)	<100	
Others	(27.5)	(51.1)	(23.8)	(53.4)	(13.4)	
Perpetual sukuk	0.0	(34.8)	0.0	na	na	
NP	85.7	20.0	48.8	<100	(43.0)	Core net profit exclude reversal of impairment on receivables MYR20m, loss on sale on investment MYR27.7m and gain on disposal of PPE not relating to business operations MYR3.2
NP Margins						
<i>Automotive</i>	<i>4.0</i>	<i>3.4</i>	<i>3.2</i>			
<i>Equipment</i>	<i>8.0</i>	<i>1.7</i>	<i>5.4</i>			
<i>Mfg & Eng</i>	<i>(1.3)</i>	<i>5.5</i>	<i>2.6</i>			
	3.1	1.8	2.3			

Source: Company data

Figure 3: UMWH's vehicle sales summary

FYE Dec (units)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)
Toyota/Lexus	13,865	21,858	10,583	(51.6)	(23.7)
- Passenger	10,802	17,180	7,741	(54.9)	(28.3)
- Commercial	3,063	4,678	2,842	(39.2)	(7.2)
Perodua	60,659	61,587	44,977	(27.0)	(25.9)
- Passenger	60,659	61,587	44,977	(27.0)	(25.9)
- Commercial	0	0	0	0.0	0.0
Total	74,524	83,445	55,560	(33.4)	(25.4)

Source: The Malaysian Automotive Association

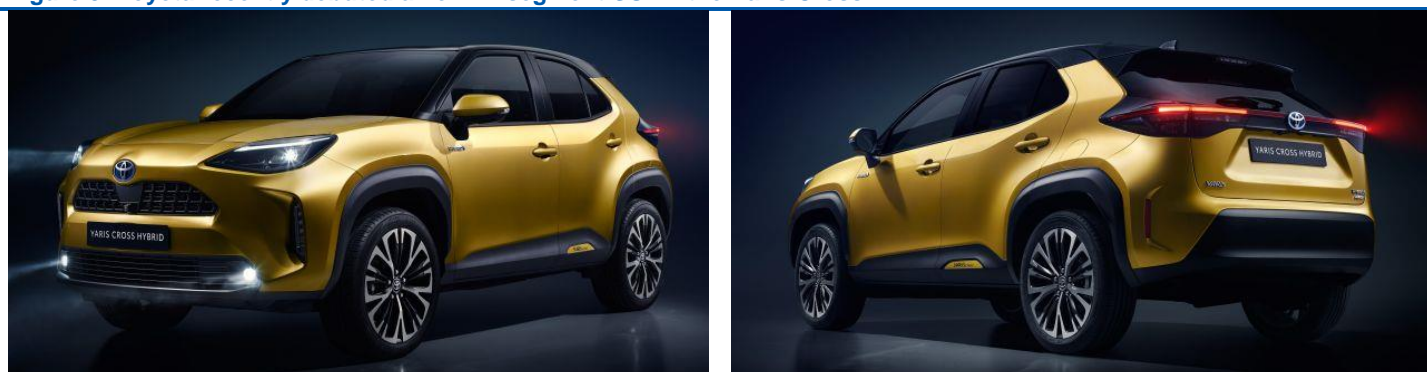
Figure 4: Forecast assumptions

FYE Dec	2018	2019	2020F	2021F	2022F
Toyota/Lexus (units)	66,562	70,009	50,000	57,000	60,000
Perodua (units)	227,243	240,341	192,000	214,000	225,000
FX (JPY/MYR)*	3.65	3.80	3.92	3.90	3.90
FX (USD/MYR)*	4.04	4.14	4.28	4.25	4.25

*average rate

Source: RHB

Figure 5: Toyota recently debuted a new B-segment SUV – the Yaris Cross



Source: paultan.org

Figure 6: Toyota new pricing list after the tax exemption

Toyota Model	Variant	Price with SST	Price with 2020 SST Exemption (until December 31)	Price difference	Price difference in Percentage
Yaris	1.5J	RM70,888	RM69,576	-RM1,312	-1.85%
	1.5E	RM76,888	RM75,479	-RM1,409	-1.83%
	1.5G	RM83,888	RM82,475	-RM1,413	-1.68%
Vios	1.5J	RM77,200	RM76,101	-RM1,099	-1.42%
	1.5E	RM81,200	RM80,074	-RM1,126	-1.39%
	1.5G	RM87,300	RM86,132	-RM1,168	-1.34%
Corolla	1.8E	RM128,888	RM123,972	-RM4,916	-3.81%
	1.8G	RM139,888	RM134,505	-RM5,383	-3.85%
Camry	2.5V	RM196,888	RM188,763	-RM8,125	-4.13%
Rush	1.5G	RM93,000	RM88,314	-RM4,686	-5.04%
	1.5S	RM97,000	RM91,885	-RM5,115	-5.27%
C-HR	1.8L	RM150,000	RM144,336	-RM5,664	-3.78%
RAV4	2.0L	RM203,880	RM196,436	-RM7,444	-3.65%
	2.5L	RM223,880	RM215,665	-RM8,215	-3.67%
Harrier	2.0T Premium	RM243,000	RM234,510	-RM8,490	-3.49%
	2.0T Luxury	RM266,000	RM256,396	-RM9,604	-3.61%
Fortuner	2.4 4x4	RM171,500	RM162,178	-RM9,322	-5.44%
	2.4 VRZ 4x4	RM195,600	RM184,431	-RM11,169	-5.71%
	2.7 SRZ 4x4	RM181,200	RM172,523	-RM8,677	-4.79%
	5/Cab 2.4 MT 4x4	RM90,000	RM90,000	RM0	0.00%
Hilux	2.4 STD MT 4x4	RM100,000	RM100,000	RM0	0.00%
	2.4G MT 4x4	RM110,000	RM110,000	RM0	0.00%
	2.4G AT 4x4	RM118,100	RM118,100	RM0	0.00%
	2.4 L-Edition 4x4	RM124,888	RM124,888	RM0	0.00%
	2.8 Black Edition 4x4	RM139,888	RM139,888	RM0	0.00%
Avanza	1.5E	RM80,888	RM77,963	-RM2,925	-3.62%
	1.5S	RM83,888	RM80,849	-RM3,039	-3.62%
	1.5S+	RM87,888	RM84,849	-RM3,039	-3.46%
Innova	2.0E MT (Taxi)	RM84,325	RM84,325	RM0	0.00%
	2.0E	RM115,280	RM110,034	-RM5,246	-4.55%
	2.0G	RM123,400	RM117,364	-RM6,036	-4.89%
	2.0X	RM132,400	RM127,126	-RM5,274	-3.98%
Vellfire	2.5L	RM382,300	RM367,881	-RM14,419	-3.77%
Alphard	3.5L	RM464,000	RM446,609	-RM17,391	-3.75%
Hiace	Panel Van 2.5TD	RM98,000	RM98,000	RM0	0.00%

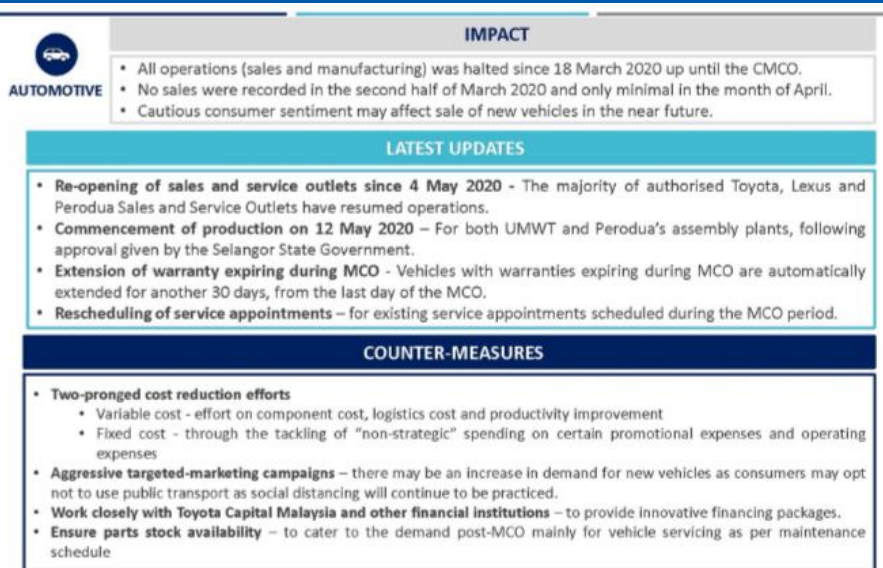
Source: paultan.org

Figure 7: Toyota new pricing list after the tax exemption

Perodua model	Variant	Price with SST	Price with 2020 SST exemption (until December 31)	Price difference	Price difference in percentage
Axia	1.0 E (MT)	RM24,090	RM23,367	-RM723	-3.00%
	1.0 G (AT)	RM33,490	RM32,485	-RM1,005	-3.00%
	1.0 GXtra (AT)	RM34,990	RM33,940	-RM1,050	-3.00%
	1.0 Style (AT)	RM38,890	RM37,515	-RM1,375	-3.54%
	1.0 SE (AT)	RM38,890	RM37,515	-RM1,375	-3.54%
	1.0 Advance (AT)	RM43,190	RM41,427	-RM1,763	-4.08%
Bezza	1.0 G (MT)	RM34,580	RM33,456	-RM1,124	-3.25%
	1.0 G (AT)	RM36,580	RM35,391	-RM1,189	-3.25%
	1.3 X (AT)	RM43,980	RM42,551	-RM1,429	-3.25%
	1.3 Advance (AT)	RM49,980	RM48,356	-RM1,624	-3.25%
Myvi	1.3 G (MT)	RM42,790	RM41,292	-RM1,498	-3.50%
	1.3 G (AT)	RM44,590	RM43,029	-RM1,561	-3.50%
	1.3 Premium X (AT)	RM46,590	RM44,959	-RM1,631	-3.50%
	1.5 High (AT)	RM50,280	RM48,530	-RM1,750	-3.50%
	1.5 Advance (AT)	RM54,090	RM52,197	-RM1,893	-3.50%
Alza	1.5 S (MT)	RM51,490	RM49,944	-RM1,546	-3.00%
	1.5 S (AT)	RM54,290	RM52,661	-RM1,629	-3.00%
	1.5 SE (AT)	RM56,890	RM55,186	-RM1,704	-3.00%
	1.5 Advance (AT)	RM62,890	RM60,525	-RM2,365	-3.45%
Aruz	1.5 X (AT)	RM72,900	RM68,526	-RM4,374	-6.00%
	1.5 Advance (AT)	RM77,900	RM73,226	-RM4,674	-6.00%

Source: paultan.org

Figure 8: Impact of COVID-19 to the automotive division's business operations



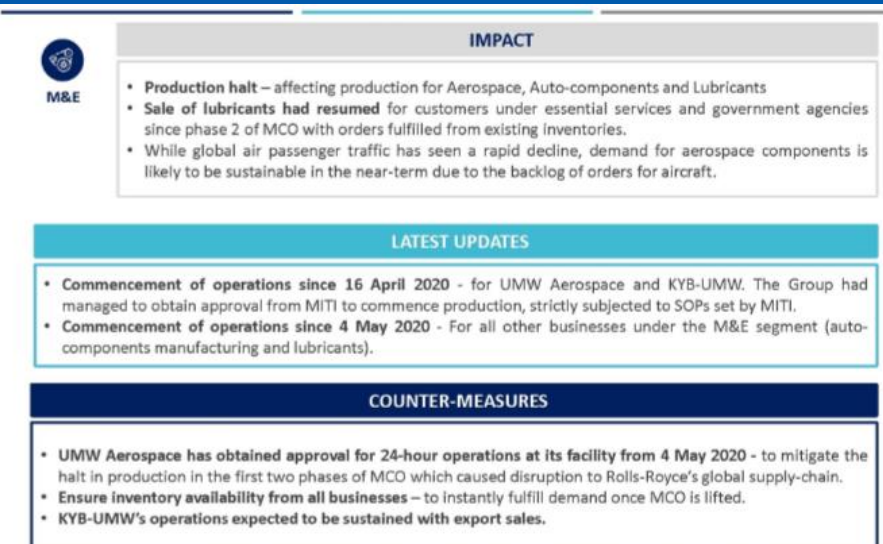
Source: Company

Figure 9: Impact of COVID-19 to business operations – equipment division



Source: Company

Figure 10: Impact of COVID-19 to business operations – M&E division



Source: Company

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-08	Neutral	2.65	2.89
2020-03-27	Neutral	2.40	2.34
2020-02-28	Sell	2.90	3.16
2019-11-29	Neutral	4.45	4.37
2019-11-18	Neutral	4.60	4.47
2019-08-29	Neutral	5.30	5.01
2019-05-23	Neutral	5.75	5.28
2019-04-26	Neutral	6.20	5.48
2019-01-07	Neutral	5.85	5.45
2018-12-03	Buy	5.70	5.40
2018-10-30	Buy	5.59	4.69
2018-08-30	Neutral	5.59	5.94

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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