

## First Read

### UMW

## Q1: Auto and equipment divisions dragged by the Movement Control Order

#### Q: How did the results compare with expectations?

UMW reported Q120 core net profit of RM48.8m, down 43% YoY and accounted for 13%/19% of UBS/consensus full year estimates. The weaker earning is mainly dragged by weaker performance across its auto and equipment divisions.

#### Q: What were the most noteworthy areas in the results?

Auto division's revenue in Q1 declined 27% YoY as showrooms were closed during the Movement Control Order (MCO) period, resulting in 26% and 24% decline in Perodua and Toyota sales volume, respectively. Its equipment segment also saw revenue declining by 24% as deliveries fell due to the MCO, while PBT margin also declined by 2.1ppt as pricing competition persists. Meanwhile, manufacturing and engineering division saw revenue increasing 5%, mainly due to the ramp up of its aerospace business to meet orders from Rolls-Royce.

#### Q: Has the company's outlook/guidance changed and how will investors react?

UMW has resumed most of its sales and service outlets' operations since early May, while Perodua and Toyota's sales volume in May has recovered to c.40% and 80% of pre-MCO levels, respectively. It is still on track to release another 2 Complete Knocked-Down (CKD) Toyota models in 2H20. The auto division now collaborates with banks to offer c.100% financing amount for its car sales, while also adapting to the new norm by offering test drives at customers' places. The aerospace business saw limited impact from COVID-19 and has built up an order book until end-2020. It also aims to achieve c.RM100m in cost savings, mainly through negotiations with its vendors and enhancing business processes.

#### Valuation: SOTP-based price target of RM2.30

We value UMW based on SOTP: its auto and equipment divisions are valued on 8x and 12x June 2021E PE, respectively; its manufacturing division is valued on 1x current book value and its 861-acre land in Serendah is valued at 70% of the market value.

### Equities

Malaysia

Automobile Manufacturers

**12-month rating** **Neutral**
**12m price target** **RM2.30**
**Price (15 Jun 2020)** **RM2.65**
**RIC:** UMWS.KL **BBG:** UMWK MK

#### Trading data and key metrics

<b>52-wk range</b>	RM5.51-1.74
<b>Market cap.</b>	RM3.10bn/US\$0.73bn
<b>Shares o/s</b>	1,168m (ORD)
<b>Free float</b>	42%
<b>Avg. daily volume ('000)</b>	3,140
<b>Avg. daily value (m)</b>	RM7.5
<b>Common s/h equity (12/20E)</b>	RM3.93bn
<b>P/BV (12/20E)</b>	0.8x
<b>Net debt / EBITDA (12/20E)</b>	4.0x

#### EPS (UBS, diluted) (RM)

	UBS	Cons.
<b>12/20E</b>	0.29	0.22
<b>12/21E</b>	0.35	0.26
<b>12/22E</b>	0.43	0.27

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Highlights (RMm)	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
<b>Revenues</b>	11,067	11,304	11,739	10,342	11,426	11,992	12,526	12,724
<b>EBIT (UBS)</b>	389	323	147	348	416	593	680	703
<b>Net earnings (UBS)</b>	300	509	286	336	412	504	585	600
<b>EPS (UBS, diluted) (RM)</b>	0.26	0.44	0.24	0.29	0.35	0.43	0.50	0.51
<b>DPS (RM)</b>	0.00	0.05	0.06	0.09	0.11	0.13	0.15	0.15
<b>Net (debt) / cash</b>	(2,277)	(3,391)	(2,843)	(2,428)	(2,432)	(2,258)	(2,005)	(1,696)
Profitability/valuation	12/17	12/18	12/19	12/20E	12/21E	12/22E	12/23E	12/24E
<b>EBIT margin %</b>	3.5	2.9	1.3	3.4	3.6	4.9	5.4	5.5
<b>ROIC (EBIT) %</b>	5.2	6.0	2.5	5.9	6.9	9.3	10.2	10.1
<b>EV/EBITDA (core) x</b>	13.4	14.1	15.5	6.9	5.8	4.6	4.1	4.9
<b>P/E (UBS, diluted) x</b>	21.0	13.5	21.3	9.2	7.5	6.1	5.3	5.2
<b>Equity FCF (UBS) yield %</b>	4.0	(9.4)	1.1	18.9	6.1	12.8	15.0	16.9
<b>Net dividend yield %</b>	0.0	0.9	1.2	3.3	4.0	4.9	5.7	5.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of RM2.65 on 15 Jun 2020 19:02 HKT

**Figure 1: Results summary**

	Q118	Q218	Q318	Q119	Q219	Q319	Q419	Q120	QoQ	YoY
Total Revenue	2,415	2,919	3,290	2,779.9	2,961	2,883	3,115.7	2,119.2	-32%	-24%
Operating Expenses	(2,345)	(2,689)	(3,192)	(2,710.0)	(2,899)	(2,835)	(3,080.4)	(2,095.6)	32%	23%
Other Operating Income	20	17	24	24.9	34	33	39.8	22.1	-45%	-11%
<b>EBIT</b>	<b>90</b>	<b>247</b>	<b>122</b>	<b>94.8</b>	<b>96</b>	<b>80</b>	<b>75.1</b>	<b>45.7</b>	<b>-39%</b>	<b>-52%</b>
Income/(Loss) from Affiliates	56	56	58	60.6	76	85	64.6	29.2	-55%	-52%
Interest Expense	(14)	(4)	(26)	(32.7)	(43)	(31)	(32.6)	(29.7)	9%	9%
Interest and Invest. Income	22	19	23	17.8	18	16	204.6	17.9	-91%	1%
<b>PBT - continuing operations</b>	<b>154</b>	<b>318</b>	<b>177</b>	<b>140.5</b>	<b>147</b>	<b>150</b>	<b>311.7</b>	<b>63.0</b>	<b>-80%</b>	<b>-55%</b>
Income Tax Expense	(30)	(40)	(43)	(29.7)	(36)	(21)	(21.9)	(14.2)	35%	52%
<b>PAT - continuing operations</b>	<b>125</b>	<b>278</b>	<b>134</b>	<b>110.8</b>	<b>111</b>	<b>129</b>	<b>289.8</b>	<b>48.8</b>	<b>-83%</b>	<b>-56%</b>
Discontinued operations	(21)	(118)	31		7	7	(7.7)			
Minority Int.	(30)	(35)	(37)	(24.3)	(66)	(26)	(81.7)	(4.5)	95%	82%
<b>PATAMI</b>	<b>74</b>	<b>124</b>	<b>128</b>	<b>86.5</b>	<b>52</b>	<b>110</b>	<b>200.5</b>	<b>44.3</b>	<b>-78%</b>	<b>-49%</b>
Core net profit	91	229	155	86	77	111	42.7	48.8	14%	-43%
EBITDA	141	296	171	181	181	162	(178)	138	177%	-24%
EBITDA margin	5.8%	10.2%	5.2%	6.5%	6.1%	5.6%	-5.7%	6.5%	12.2%	0.0%
EBIT margin	3.7%	8.5%	3.7%	3.4%	3.2%	2.8%	2.4%	2.2%	-0.3%	-1.3%
PBT margin	6.4%	10.9%	5.4%	5.1%	5.0%	5.2%	10.0%	3.0%	-7.0%	-2.1%

Source: Company data

**Figure 2: Results breakdown by operations**

Revenue	Q118	Q218	Q318	Q119	Q219	Q319	Q419	Q120	QoQ	YoY
Automotive	1,877	2,383	2,643	2,163	2,386	2,297	2,450	1,586	-35%	-27%
Equipment	373	366	403	383	344	354	328	289	-12%	-24%
Manufacturing and engineering	168	178	254	237	245	252	329	249	-24%	5%
Others	(3)	(8)	(11)	(3)	(14)	(20)	9	(4)		
<b>Total</b>	<b>2,415</b>	<b>2,919</b>	<b>3,290</b>	<b>2,780</b>	<b>2,961</b>	<b>2,883</b>	<b>3,116</b>	<b>2,119</b>	<b>-32%</b>	<b>-24%</b>
PBT	Q118	Q218	Q318	Q119	Q219	Q319	Q419	Q120	QoQ	YoY
Automotive	126	142	151	124	151	140	115	54	-53%	-57%
Equipment	45	38	34	42	35	31	27	26	-6%	-39%
Manufacturing and engineering	(3)	(1)	9	2	13	15	30	10	-65%	350%
Others	(20)	119	25	(28)	(48)	(36)	(49)	(27)	45%	4%
<b>Total</b>	<b>148</b>	<b>299</b>	<b>220</b>	<b>141</b>	<b>152</b>	<b>150</b>	<b>124</b>	<b>63</b>	<b>-49%</b>	<b>-55%</b>
PATAMI	Q118	Q218	Q318	Q119	Q219	Q319	Q419	Q120	QoQ	YoY
Automotive	81	87	90	86	102	104	82	50	-39%	-41%
Equipment	37	30	33	31	28	23	6	16	183%	-49%
Manufacturing and engineering	(9)	(6)	8.6	(3)	7	9.1	17.9	6.5	-64%	306%
Others	(18)	119	24	(27)	(60)	(26)	(51)	(28)	45%	3%
<b>Total</b>	<b>91</b>	<b>229</b>	<b>155</b>	<b>86</b>	<b>77</b>	<b>111</b>	<b>55</b>	<b>44</b>	<b>-19%</b>	<b>-48%</b>
PBT margin	Q118	Q218	Q318	Q119	Q219	Q319	Q419	Q120	QoQ	YoY
Automotive	6.7%	6.0%	5.7%	5.7%	6.3%	6.1%	4.7%	3.4%	-1.3%	-2.4%
Equipment	12.0%	10.3%	8.4%	11.0%	10.3%	8.7%	8.3%	8.9%	0.6%	-2.1%
Manufacturing and engineering	-1.7%	-0.3%	3.7%	1.0%	5.4%	6.1%	9.1%	4.2%	-4.9%	3.2%

Source: Company data

## Forecast returns

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Forecast price appreciation	-13.2%
Forecast dividend yield	3.4%
Forecast stock return	-9.8%
Market return assumption	8.1%
Forecast excess return	-17.9%

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## Valuation Method and Risk Statement

We value UMW based on SOTP: its auto and equipment divisions are valued on 8x and 12x June 2021E PE, respectively; its manufacturing division is valued on 1x current book value and its 861-acre land in Serendah is valued at 70% of the market value.

We believe the key risk for UMW is a downturn in economic conditions, especially in Malaysia, which could affect consumer spending and thus sales of motor vehicles. We also believe there is a risk of intensifying competition in the auto space in Malaysia, driven by factors including the introduction of the third national car project and/or a significantly different direction taken by the new government in the National Automotive Policy. This could result in further losses in Toyota's market share.

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Buy	FSR is > 6% above the MRA.	48%	32%
Neutral	FSR is between -6% and 6% of the MRA.	40%	28%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2020.

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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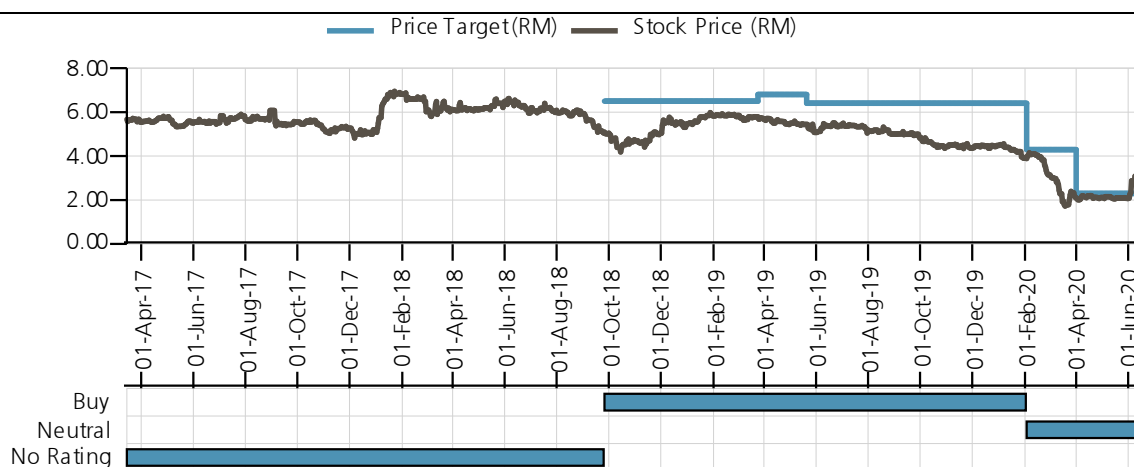
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
UMW	UMWS.KL	Neutral	N/A	RM2.65	15 Jun 2020

Source: UBS. All prices as of local market close.

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### UMW (RM)



Date	Stock Price (RM)	Price Target (RM)	Rating
2017-03-15	5.67	-	No Rating
2018-09-26	5.1	6.5	Buy
2019-03-25	5.79	6.8	Buy
2019-05-21	5.45	6.4	Buy
2020-02-03	3.9	4.3	Neutral
2020-04-01	2.1	2.3	Neutral

Source: UBS; as of 15 Jun 2020

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