

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM2.65/Target: RM2.50)

1Q20: Below Expectation, Earnings To Remain Lacklustre In 2020

Year to 31 Dec	1Q20 (RMm)	4Q19 (RMm)	1Q19 (RMm)	qoq % chg	yoy % chg	Remark	Year	EPS (sen)	PE (x)
Revenue	2,119.2	3,115.7	2,774.8	(32.0)	(23.6)	Mainly on lower sales in Auto and Heavy	FY20F	15.3	17.3
-Auto	1,585.9	2,450.0	2,162.5	(35.3)	(26.7)	Equipment that was partly impacted by MCO	FY21F	21.8	12.2
-Equipment	289.2	328.0	382.8	(11.9)	(24.5)	disruption	FY22F	22.0	12.1
-Mfg & Eng	248.5	328.5	237.1	(24.4)	4.8				
Associates	29.2	64.6	60.6	(54.8)	(51.9)				
PBT	63.0	123.5	140.5	(49.0)	(55.1)	Lower amid higher depreciation in Auto alongside			
-Auto	53.7	114.9	124.2	(53.3)	(56.8)	operational deleveraging in Heavy Equipment			
-Equipment	25.8	27.3	42.2	(5.5)	(38.9)				
-Mfg & Eng	10.5	30.0	2.3	(65.1)	+>100				
Net Profit	44.3	208.1	86.5	(78.7)	(48.8)				
Core Net Profit	48.8	15.5	78.7	+>100	(38.0)	a) Lower car sales b) Lower associate contribution c) Weak demand from Heavy Equipment d) Narrowed losses from non-core business qoq			
Toyota unit sales	10,415	21,483	13,722	(51.5)	(24.1)				
Perodua unit sales	44,977	61,587	60,659	(27.0)	(25.9)				
PBT Margins	(%)	(%)	(%)	ppts	ppts				
Overall	3.0	4.0	5.1	(1.0)	(2.1)				
-Auto	3.4	4.7	5.7	(1.3)	(2.4)				
-Equipment	8.9	8.3	11.0	0.6	(2.1)				
-Mfg & Eng	4.2	9.1	1.0	(4.9)	3.2				

Source: UMW, UOB Kay Hian

RESULTS

- 1Q20 results below expectations.** UMW Holdings (UMW) reported 1Q20 core net profit of RM48.8m (-38% yoy, +>100% qoq), which made up of 17% and 22% of both our and consensus full-year forecasts. The lackluster results were adversely dragged by the overall softer demand from all segments alongside the Movement Control Order (MCO) disruption amid the COVID-19 outbreak. On a closer look, the main culprits were the: a) lower car sales volume (-26% yoy), b) lower contribution from associate Perodua (-56% yoy), and c) sluggish demand from the heavy equipment business (-25% yoy). The sequential gain was driven by narrowed losses from non-core oil and gas business at the PBT level (1Q20: -RM26.9m, 4Q19: -RM62.5m).
- Automobile segment was hit by MCO, while higher depreciation continues to pressure margins.** 1Q20 sale volume slumped 26% yoy to 55,392 units (both Toyota and Perodua) amid weak consumer sentiments and the MCO disruption that resulted in a two-week production halt for the quarter. UMW sold 10,415 units (-24% yoy) of Toyota and Lexus while associate Perodua sold 44,977 units (-26% yoy) in 1Q20. In addition, higher depreciation from the new Bukit Raja plant as well as inventories clearance - by higher discounts, have resulted in a 54% yoy drop in PBT. For 2020, the sales target for Toyota was revised downward to 45,000 units (from 66,000 units) amid weak consumer sentiment and the grim economic outlook. This will be partly supported by the new SUV model, including the Lexus UX200 (launched on Mar 20) and the all-new RAV4 that are slated to launch on 18 Jun 20.
- Equipment segment corroded by sluggish demand and stiff competition.** 1Q20 revenue contracted 25% yoy due to sluggish demand on the back of the delay in project implementation, following a slowdown in construction, manufacturing and mining activities in Malaysia and Myanmar. Consequently, operational deleveraging alongside competitive pricing for both heavy equipment and industrial equipment businesses have led to a 39% yoy drop in PBT. Outlook wise, the group believes local demand could be supported by the government's commitment to roll out major infrastructure projects in a bid to boost the economy.
- Manufacturing and engineering (M&E) segment the only silver-lining.** For M&E, 1Q20 sales soared 5% yoy, mainly driven by the higher volume of fan cases delivered by its aerospace sub-segment. Notably, PBT for the segment grew to RM10.5m (+>100% from RM2.3m in 1Q20) thanks to higher contributions from the lubricants sub-segment and continuous cost optimisation efforts.
- Expect marginal boost on sales tax waiver.** We believe the sales tax exemption of 10% for the CKD models and 5% for CBU models will lead to marginal front-loading purchases in 2020, as the actual cost savings after waiving the sales tax were ranging about 2-5%, lesser than the 4-7% during the zero-rated GST period. This leads us to believe that car sales might not be as robust compared to that in the previous zero-rated period, with the additional dampener being the frail economic outlook induced by the current COVID-19 outbreak whereby consumers tend to hold back on discretionary spending in times of uncertainty.

RECOMMENDATION

- We slashed FY20 and FY21 earnings by 36%/6% respectively to account for weaker associates' earnings and higher loss from its non-core business segment (oil and gas).
- Maintain HOLD with a lower SOTP-based target price of RM2.50 (from RM2.60).** Our target price implies 12x 2021F PE. Entry price is RM2.10.

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