

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

28 Aug 2020

UMW Holdings (UMWH MK) : HOLD

Mkt. Cap: US\$731m | 3m Avg. Daily Val: US\$1.6m

Last Traded Price (27 Aug 2020): RM2.61

Price Target 12-mth: RM2.75 (5% upside) (Prev RM2.75)

Analyst

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Holding its ground despite lockdown

- 2QFY20 net loss of RM34m due to impact of lockdown
- Robust demand for Vios and Yaris riding on sales and service tax exemption
- Expect rebound in 2HFY20 supported by stronger auto sales
- Maintain HOLD with TP of RM2.75

What's New

Stripping off various non-core adjustments, UMW Holdings (UMWH) recorded core net loss of RM34m in 2QFY20, from RM82m net profit in 2QFY19. This brings its 1HFY20 earnings to RM0.5m and exceeded our expectations. We had expected the group to record wider losses in 2QFY20 due to the full impact of the COVID-19 lockdown.

Better than expected

- UMWH's automotive segment recorded loss before taxation (LBT) of RM41m on the back of RM1.1bn revenue. Both Toyota and Perodua saw their sales volume drop by >30% q-o-q due to the full impact of the lockdown. This was supported by better sales mix of completely knocked down (CKD) units as Vios, Yaris and Hilux accounted for 78% of 2QFY20 sales.
- The equipment segment held well despite being impacted by the lockdown. Revenue fell by 19% q-o-q but profit before taxation (PBT) only fell by 4% q-o-q to RM24.6m. This was attributed to cost saving initiatives undertaken by the group.
- The manufacturing and engineering segment recorded PBT of RM8m, from RM10.6m in 1QFY20. The impact of the lockdown was partially offset by cost optimisation efforts. In line with the planned ramp-up of production, its aerospace business delivered higher numbers of fan cases in 1H20 compared to 1H19. It is currently operating 24 hours to deliver outstanding orders to Rolls-Royce.

Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	11,739	8,080	10,317	10,951
EBITDA	679	438	614	598
Pre-tax Profit	755	196	526	518
Net Profit	447	85.4	265	265
Net Pft (Pre Ex.)	260	85.4	265	265
Net Pft Gth (Pre-ex) (%)	(35.6)	(67.1)	210.0	0.0
EPS (sen)	38.3	7.31	22.7	22.7
EPS Pre Ex. (sen)	22.2	7.31	22.7	22.7
EPS Gth Pre Ex (%)	(36)	(67)	210	0
Diluted EPS (sen)	22.2	7.31	22.7	22.7
Net DPS (sen)	6.00	0.0	4.53	4.53
BV Per Share (sen)	316	323	342	360
PE (X)	6.8	35.7	11.5	11.5
PE Pre Ex. (X)	11.7	35.7	11.5	11.5
P/Cash Flow (X)	11.0	9.2	23.7	26.2
EV/EBITDA (X)	9.5	14.2	10.4	10.9
Net Div Yield (%)	2.3	0.0	1.7	1.7
P/Book Value (X)	0.8	0.8	0.8	0.7
Net Debt/Equity (X)	0.2	0.1	0.1	0.1
ROAE (%)	12.7	2.3	6.8	6.5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.



Outlook

Better 2HFY20 expected.

- Auto sales are expected to be stronger in 2HFY20, riding on the Sales and Service Tax (SST) exemption. This will be further supported by demand for the Vios and Yaris models.
- We believe that both Toyota and Perodua should be able to hit their sales targets of 45k and 210k units respectively, largely due to the strong recovery momentum in the past 3 months.
- The manufacturing and engineering segment should gain traction on its improving aerospace business with Rolls-Royce. It continues to receive orders for fan cases, albeit at slightly lower numbers. This will be supported by the maiden delivery of fan cases for the Trent 7000 engine scheduled for delivery in October.

Revised our FY20 forecast from net loss to marginal profit in FY20. Following the better than expected performance in 2QFY20, we now expect UMW to record net profit of RM85m in FY20 (-70% y-oy).

Valuation & Recommendation

Maintain HOLD with unchanged TP of RM2.75. Given its recent share price rally, we believe that the positives have been largely priced in. Our target price (TP) implies an FY21 price-to-earnings (PE) of 12x, which is in line with its peers.

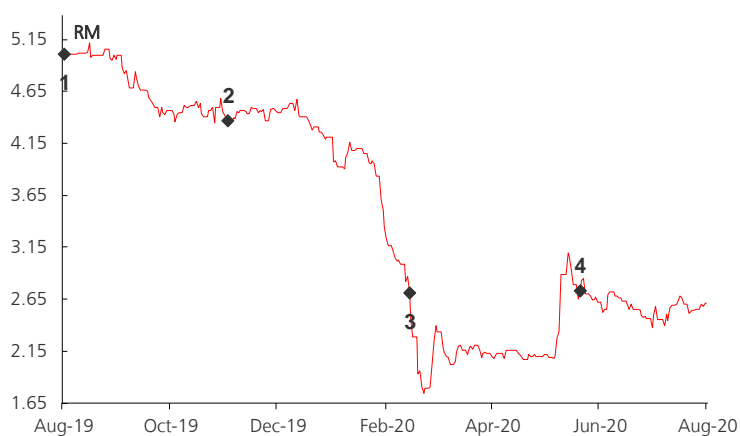
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Quarterly Income Statement (RMm)

FY Dec	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	2,966	2,119	1,530	(48.4)	(27.8)
Other Oper. (Exp)/Inc	(2,865)	(2,074)	(1,544)	(46.1)	(25.6)
Operating Profit	101	45.7	(14.0)	(113.8)	(130.6)
Other Non Opg (Exp)/Inc	31.9	(8.0)	42.6	33.5	nm
Associates & JV Inc	76.1	29.2	(26.9)	nm	nm
Net Interest (Exp)/Inc	(24.9)	(11.8)	(17.9)	28.0	(52.0)
Exceptional Gain/(Loss)	(31.9)	8.02	(42.6)	(33.5)	nm
Pre-tax Profit	152	63.1	(58.8)	nm	nm
Tax	(36.3)	(14.2)	4.74	(113.1)	(133.3)
Minority Interest	(65.7)	(4.5)	(24.4)	62.9	442.7
Net Profit	50.1	44.3	(78.4)	nm	(277.0)
Net Profit bef Except.	82.0	36.3	(35.8)	nm	(198.6)
EBITDA	186	138	81.2	(56.3)	(41.0)
Margins (%)					
Opg Profit Margins	3.4	2.2	(0.9)		
Net Profit Margins	1.7	2.1	(5.1)		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Aug 19	5.01	4.55	HOLD
2:	29 Nov 19	4.37	4.65	HOLD
3:	11 Mar 20	2.71	3.05	HOLD
4:	16 Jun 20	2.73	2.75	HOLD

Note : Share price and target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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