

"Results below expectations"

### Share price performance



	1M	3M	12M
Absolute (%)	9.7	23.1	-47.7
Rel KLCI (%)	12.3	15.0	-46.5

	BUY	HOLD	SELL
Consensus	6	8	2

Source: Bloomberg

### Stock Data

Sector	Auto & Autoparts
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	3049.2/730.7
Avg daily vol - 6mth (m)	2.1
52-wk range (RM)	1.65-5.23
Est free float	27.9%
Stock Beta	1.85
Net cash/(debt)	(86.02)
ROE (2020E)	4.4%
Derivatives	Nil
Shariah Compliant	Yes

### Key Shareholders

ASB	51.5%
EPF	12.7%
KWAP	7.3%

Source: Affin Hwang, Bloomberg



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## UMW Holdings (UMWH MK)

**Hold (downgrade)**

Up/Downside: +7.3%

**Price Target: RM2.80**

Previous Target (Rating): RM3.10 (Buy)

### A subdued 6M20 performance

- **UMW Holdings (UMWH) posted a core net loss of RM47m in 2Q20 (vs. core net profit of RM21m in 2Q19), due to the negative impact of the MCO.**
- **The results were below expectations – 6M20 core net profit of RM16m accounted for 9-10% of the consensus and our full-year estimates.**
- **We cut our 2020-22E EPS forecasts by 9-28%, and lowered our TP to RM2.80. At 17x 2021E core PER, UMWH's valuation looks fair. Downgrade to Hold.**

#### Sequentially weaker due to MCO

As anticipated, the halt in business operations during the Movement Control Order (MCO) was the main culprit behind UMWH's core net loss of RM47m in 2Q20 (vs. core net profit of RM63m in 1Q20). Notably, UMWH's 2Q20 revenue fell by 28% qoq to RM1.5bn, its weakest quarterly revenue in our records. The 2Q20 EBITDA margin was squeezed by 1.3ppts qoq to 5.4% as the weaker sales were not able to offset the fixed overheads. In addition, 2Q20 contribution from associates (adjusted for reversal of provision of 30%-owned Toyota Capital) plunged by 93% qoq to RM3m: 38%-owned Perodua's 6M20 sales volume dropped by 39% yoy to 74k units.

#### 6M20 core net profit fell by 83% yoy, below expectations

On a cumulative basis, UMWH posted a 6M20 core net profit of RM16m (-83% yoy) due to the above-mentioned reasons. Overall, earnings were below consensus and our expectations, accounting for 9%-10% of the respective full-year estimates. The variance to our estimate was due to the lower-than-expected associate contribution. Moving past 1H20, we believe the cheaper car prices from the sales and service tax exemption period should aid a recovery in 2H20 automotive earnings. Based on MAA's [monthly data](#), UMWH's car brands are seeing signs of recovery – Toyota's July20 TIV rebounded by 70% mom to 7.5 units, while Perodua's July20 TIV recovered by 9% mom to 23k units. During the briefing, management guided for a gradual pick-up for the equipment segment with the restart of activities and revival of infrastructure projects. However, we believe the M&E aerospace segment could be softer moving forward, considering the challenging outlook for the airline industry amid the Covid-19 pandemic.

#### Downgrade to Hold with lower TP of RM2.80

We cut our 2020-22E core EPS by 9-28%, after imputing the weak 6M20 results, and lowered our margin assumptions for the automotive and M&E segments. In tandem, we are lowering our 12-month SOTP-derived price target to RM2.80 (from RM3.10). At 17x 2021E core PER, it is trading close to +1SD of the 5-year auto sector forward PER of 16x. Hence, we downgrade our rating to HOLD (from Buy). Key upside risks: a strong rebound in vehicle sales, pick-up in equipment sales and strengthening of the RM (vs. US\$). Key downside risks: intense competition in automotive and equipment segment and higher-than-expected losses of O&G assets.

#### Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue	11,303.6	11,739.1	8,128.7	8,965.6	9,477.5
EBITDA	853.2	593.7	425.7	479.2	537.0
Pretax profit	800.3	754.8	284.0	336.4	407.6
Net profit	344.5	454.4	166.9	165.0	213.1
sen)	29.5	38.9	14.3	14.1	18.2
PER	8.9	6.7	18.3	18.5	14.3
Core net profit	558.1	198.9	116.9	180.0	218.1
Core EPS (sen)	47.8	17.0	10.0	15.4	18.7
Core EPS growth (%)	238.8	(64.4)	(41.2)	53.9	21.2
Core PER	5.5	15.3	26.1	16.9	14.0
Net DPS (sen)	7.5	6.0	4.0	6.5	7.5
Dividend Yield (%)	2.9	2.3	1.5	2.5	2.9
EV/EBITDA	5.4	6.9	8.6	7.7	5.7

Chg in EPS (%)	-28.0	-14.8	-9.1
Affin/Consensus (x)	0.7	0.7	0.7

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q19	1Q20	2Q20	QoQ % chg	YoY % chg	6M19	6M20	YoY % chg	Comments
Revenue	2,971.2	2,119.2	1,529.7	-27.8	-48.5	5,751.2	3,648.9	-36.6	Lower revenue due to production halt and softer export activities during the Covid-19 MCO period.
Op costs	-2,832.3	-1,977.0	-1,447.5	-26.8	-48.9	-5,429.9	-3,424.5	-36.9	
EBITDA	<b>139.0</b>	<b>142.2</b>	<b>82.3</b>	-42.1	-40.8	<b>321.2</b>	<b>224.5</b>	-30.1	
EBITDA margin (%)	4.7	6.7	5.4	-1.3ppt	0.7ppt	5.6	6.2	0.6ppt	2Q20 margins impacted by lower revenue and higher operating costs during the MCO
Depn and amort	-85.0	-92.0	-95.1	3.4	12.0	-171.5	-187.2	9.2	
EBIT	54.0	50.2	-12.9	n.m.	n.m.	149.8	37.3	-75.1	
Int expense	-44.1	-29.7	-30.1	1.3	-31.7	-76.8	-59.9	-22.0	
Int and other inc	18.5	17.9	12.2	-32.1	-34.0	36.2	30.1	-16.8	
Associates	71.1	43.3	3.1	-92.9	-95.7	131.8	46.3	-64.8	Largely due to weaker contribution from 38%-owned Perodua.
Exceptional items	50.9	-18.6	-31.1	67.2	n.m.	49.9	-49.7	n.m.	Bulk of EIs: reversal of impairment on receivables (RM20m), loss on sale of investment RM28m) and reversal from Toyota Capital (RM44m)
<b>Pretax</b>	<b>150.4</b>	<b>63.0</b>	<b>-58.8</b>	n.m.	n.m.	<b>290.9</b>	<b>4.2</b>	-98.5	
Tax	-36.6	-14.2	4.7	n.m.	n.m.	-66.3	-9.5	-85.7	
Tax rate (%)	-24.3	-22.6	-8.1	14.5ppt	16.3ppt	-22.8	-225.0	>100	
MI	-56.6	-4.5	-24.4	>100	-56.9	-80.9	-28.8	-64.3	
<b>Net profit</b>	<b>57.2</b>	<b>44.3</b>	<b>-78.4</b>	n.m.	n.m.	<b>143.7</b>	<b>-34.1</b>	n.m.	
EPS (sen)	4.9	3.8	-6.7	n.m.	n.m.	12.3	-2.9	n.m.	
<b>Core net profit</b>	<b>6.3</b>	<b>62.9</b>	<b>-47.3</b>	n.m.	n.m.	<b>93.8</b>	<b>15.6</b>	-83.4	Below consensus and our full-year estimates.

Source: Affin Hwang estimates, company

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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