

HLIB Research

PP 9484/12/2012 (031413)

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HOLD (Maintain)

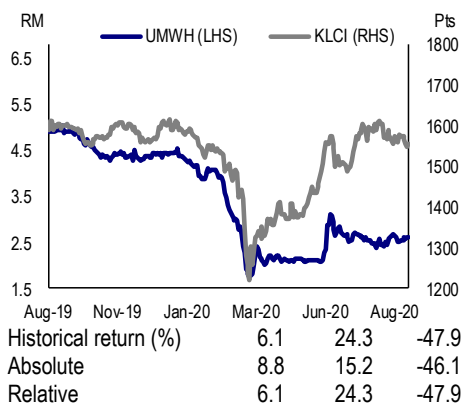
Target Price: **RM2.75**
Previously: **RM2.58**
Current Price: **RM2.61**

Capital upside	5.4%
Dividend yield	0.8%
Expected total return	6.2%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price



Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,049
3-mth average volume ('000)	2,205
SC Shariah compliant	Yes

Major shareholders

Permodalan Nasional Berhad	61.3%
Employsess Provident Fund	12.8%
Kumpulan Wang Persaraan	7.3%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	253	121	292
EPS - core (sen)	21.6	10.4	25.0
P/E (x)	12.3	25.5	10.6

UMW Holdings

Expecting a better 2H20

Adjusted for quarterly RM13.4m distribution for Perpetual Sukuk, core LATMI at -RM56.3m for 2QFY20, dragged 1HFY20 to LATMI -RM56.3m, vs. HLIB's FY20 forecast of PATMI RM121.2m (in line) and consensus RM187.3m (below). We expect a stronger 2H20 mainly driven by higher automotive sales and automotive components sales under SST exemption period. Maintain HOLD with higher TP: RM2.75 (from RM2.58) based on lower 10% discount (from 15%) to SOP: RM3.03.

Within expectation. UMW reported core LATMI of -RM69.8m (adjusted for quarterly provision of RM13.4m Perpetual Sukuk distribution) for 2QFY20, which reversed 1HFY20 to LATMI of -RM56.3m as compared to HLIB's FY20 forecast of RM121.2m and consensus of RM216.1m. We deem the result within our expectation (but below consensus) as we expect earnings recovery in 2H20, driven mainly by government's introduction of SST exemption of car purchases from 15 Jun to 31 Dec 2020 as well as higher delivery of Rolls-Royce fan case. We have excluded net EIs of +RM14.7m in 1HFY20, mainly due to reversal of impairments, PPE disposal gain and forex gain (offset by investment disposal loss).

Dividend. None.

QoQ/YoY/YTD. Adjusted for quarterly distribution for Perpetual Sukuk, recorded core LATMI of -RM69.8m in 2QFY20 (vs. PATMI RM13.6m in 1QFY20 and RM79.1m in 2QFY19) and -RM56.3m in 1HFY20 (vs. PATMI RM149.2m in 1HFY19) mainly affected by the implementation of MCO since mid-March until May 2020.

Automotive. The segment was greatly affected by Covid-19 with the implementation of MCO, deteriorated consumer sentiments and implemented loan moratorium exercise (recognized RM44.1m share of loss in 30% owned associate Toyota Capital Malaysia due to present value impact of loan moratorium and unfavourable mark-to-market value of interest rate swaps). Nevertheless, the group is guiding for strong automotive demand post introduction of SST exemption (15 Jun to 31 Dec 2020), as the group increased production rate at both Bukit Raja and Shah Alam plant. There will be facelift/updated model for Hilux, Innova and Fortuner in 2H20 and also Vios and Yaris in 2021, along with 2 new CKD models in 2021. We are cautiously optimistic on the outlook for the segment due to concurrent new model introductions by competitors in the same period.

Equipment. Demand for heavy equipment (mining, construction and logging) remains sluggish in the near term, given the slowdown of domestic as well as regional economic activity. The anticipated re-commencement of mega projects may provide some growth to the segment.

M&E. Automotive parts will leverage on the recovery of local car production volume, for earnings sustainability. Kayaba is expected to complete its capacity expansion by end 2020. UMW Aerospace production has seen some slowdown due to the severely affected air travel sector. Management is hopeful the new production for Trent 7000 to be able to cover the drop in existing production for Trent 1000.

Forecast. Unchanged.

Maintain HOLD, TP: RM2.75. Maintain HOLD recommendation on UMW with higher TP: RM2.75 (from RM2.58), based on lower discount of 10% (from 15%) to SOP of RM3.03, given the improved short term outlook of the automotive segment. Nevertheless, we believe Toyota will continue to face stiff market competition in 2021, post ending of SST exemptions.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	1,312	1,472	1,987	1,840	1,695
Receivables	1,549	1,590	1,122	1,453	1,542
Inventories	960	1,243	748	1,077	1,142
PPE	2,821	2,702	2,603	2,674	2,741
Others	4,116	4,128	4,226	4,367	4,518
Assets	10,758	11,135	10,686	11,411	11,638
Payables	708	941	559	809	862
Debt	5,044	5,037	4,443	4,808	4,655
Others	(5,501)	(5,722)	(4,746)	(5,362)	(5,261)
Liabilities	250	256	256	256	256
Shareholder's equity	(2,619)	(2,136)	(1,409)	(1,671)	(1,610)
Perpetual sukuk	(17)	(33)	(33)	(33)	(33)
Minority interest	0	0	0	0	0
Equity	(2,636)	(2,168)	(1,442)	(1,704)	(1,643)

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	800	755	250	504	532
D&A	274	345	349	349	353
Working capital	274	345	349	349	353
Taxation	(13)	(58)	(90)	(76)	(64)
Others	(1,335)	(1,387)	(857)	(1,126)	(1,173)
CFO	-	-	-	-	-
Capex	0	0	0	0	0
Asset disposal	(412)	357	(152)	(280)	(269)
Acquisitions	(915)	(345)	(250)	(420)	(420)
Others	1,392	(289)	402	700	689
CFI	65	(278)	-	-	-
Changes in debt	1	1	(1)	(1)	(1)
Shares issued	0	0	0	0	0
Dividends	750	136	200	836	336
Distribution to Perps	0	0	0	0	0
Others	(442)	68	(101)	(695)	(184)
CFF	309	205	98	140	151
Net cash flow	374	(73)	98	140	151
Forex	-	-	0	0	0
Others	(232)	234	417	(287)	(297)
Beginning cash	1,170	1,312	1,472	1,987	1,840
Ending cash	1,312	1,472	1,987	1,840	1,695

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	11,304	11,739	7,477	10,765	11,421
EBITDA	816	867	493	649	646
EBIT	542	521	144	300	293
Net finance cost	(13)	(58)	(90)	(76)	(64)
Associates & JV	271	292	196	280	303
Profit before tax	800	755	250	504	532
Tax	(124)	(109)	(33)	(79)	(82)
Operation net profit	676	646	217	425	450
Discontinued operation	(177)	(17)	0	0	0
Reported net profit	499	629	217	425	450
Minority interest	(120)	(105)	(26)	(64)	(59)
Perpetual sukuk	(121)	(99)	(9)	(41)	(33)
Reported PATMI	344	454	121	292	321
Exceptionals	(54)	(202)	0	0	0
Core PATMI	290	253	121	292	321
Consensus			187	238	343
HLIB/Consensus (%)			64.7%	122.6%	93.7%

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Reported EPS (sen)	29.4	38.9	10.4	25.0	27.5
Core EPS (sen)	24.8	21.6	10.4	25.0	27.5
Core P/E (x)	10.5	12.1	25.2	10.4	9.5
DPS (sen)	7.5	6.0	2.0	4.0	6.0
Dividend yield (%)	2.9%	2.3%	0.8%	1.5%	2.3%
BVPS (RM)	2.86	3.16	3.25	3.46	3.69
P/B (x)	0.9	0.8	0.8	0.8	0.7
EBITDA margin	7.2%	7.4%	6.6%	6.0%	5.7%
EBIT margin	4.8%	4.4%	1.9%	2.8%	2.6%
PBT margin	7.1%	6.4%	3.3%	4.7%	4.7%
Net margin	-1.1%	-0.8%	-0.1%	-0.4%	-0.3%
ROE	9.1%	7.2%	3.2%	7.5%	7.7%
ROA	2.8%	2.3%	1.1%	2.6%	2.8%
Net gearing*	-78.3%	-57.8%	-37.1%	-41.4%	-37.3%

Assumptions

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Sales (Unit)					
Toyota	65,551	69,391	48,000	62,000	66,000
Lexus	1,020	918	600	800	800
Perodua	227,243	240,341	193,476	236,397	248,354
Average Price (RM)					
UMW	9,487	10,588	10,588	8,318	10,267
Perodua	9,487	10,588	10,588	8,318	10,267

Figure #1 Quarterly results comparison

FYE Dec (RMm)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	6MY19	6MY20	YoY (%)
Revenue	2,966.0	2,119.2	1,529.7	-27.8%	-48.4%	5,740.8	3,648.9	-36.4%
EBITDA	227.2	133.4	87.3	-34.5%	-61.6%	398.5	220.7	-44.6%
EBIT	142.2	41.4	(7.8)	-118.8%	-105.5%	227.0	33.6	-85.2%
Net finance expense	(34.1)	(20.8)	(25.5)	22.2%	-25.5%	(42.9)	(46.3)	7.8%
Associates	76.1	29.2	(26.9)	-192.3%	-135.4%	141.8	2.2	-98.4%
Eis	(32.1)	13.3	1.4			(33.1)	14.7	
Reported PBT	152.1	63.0	(58.8)	-193.3%	-138.7%	292.8	4.2	-98.6%
Tax	(36.3)	(14.2)	(4.7)	-66.7%	-86.9%	(65.8)	(19.0)	-71.1%
Reported operation net profit	115.8	48.8	(63.6)	-230.2%	-154.9%	227.0	(14.8)	-106.5%
Discontinued operation	(2.0)	0.0	0.0	#DIV/0!	-100.0%	(2.4)	0.0	-100.0%
Reported net profit	113.8	48.8	(63.6)	-230.2%	-155.9%	224.6	(14.8)	-106.6%
Reported PATMI	57.2	44.3	(87.9)	-298.4%	-253.7%	178.5	(43.6)	-124.4%
Eis & Sukuk Adjustments	21.9	(30.7)	18.1	-158.9%	-17.5%	(29.3)	(12.6)	-56.9%
Core PATMI	79.1	13.6	(69.8)	-614.3%	-188.2%	149.2	(56.3)	-137.7%
Reported EPS (Sen)	4.9	3.8	(7.5)	-298.4%	-253.7%	12.3	(3.7)	-130.3%
Core EPS (Sen)	6.8	1.2	(6.0)	-614.3%	-188.2%	12.8	(4.8)	-137.7%
				<u>pts</u>	<u>pts</u>			<u>pts</u>
EBITDA margin (%)	7.7%	6.3%	5.7%	(0.6)	(2.0)	6.9%	6.0%	(0.9)
EBIT margin (%)	4.8%	2.0%	-0.5%	(2.5)	(5.3)	4.0%	0.9%	(3.0)
Core PATMI margin (%)	2.7%	0.6%	-4.6%	(6.5)	(9.4)	2.6%	-1.5%	(5.5)

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Figure #2 Quarterly results comparison by segment

FYE Dec (RMm)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	6MY19	6MY20	YoY (%)
Reported Revenue								
Automotive	2,966.0	2,119.2	1,529.7	-27.8%	-48.4%	5,740.8	3,648.9	-36.4%
Equipment	2,386.4	1,585.9	1,102.0	-30.5%	-53.8%	4,549.0	2,687.9	-40.9%
Manufacturing & Engineering	343.6	289.2	233.2	-19.3%	-32.1%	726.5	522.4	-28.1%
Others	18.7	(4.4)	11.1	-354.0%	-40.6%	34.7	6.7	-80.6%
Total	5,696.1	3,994.2	2,865.0	-28.3%	-49.7%	11,016.3	6,859.3	-37.7%
Reported PATMI								
Automotive	102.4	50.5	(17.4)	-134.4%	-117.0%	188.0	33.1	-82.4%
Equipment	28.2	15.6	21.0	34.4%	-25.5%	59.1	36.7	-37.9%
Manufacturing & Engineering	6.7	6.5	7.8	19.9%	16.6%	3.5	14.3	306.0%
Others	(80.2)	(28.3)	(99.4)	251.1%	24.0%	0.0	(57.3)	N.M.
Total	57.2	44.3	(87.9)	-298.4%	N.M.	250.6	26.9	-89.3%
Core PATMI	79.1	13.6	(69.8)	-614.3%	N.M.	149.2	(56.3)	-137.7%

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Figure #3 UMW automotive sales statistics

Unit Sales	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Toyota (51% ownership)	13,865	17,658	16,628	22,158	10,583	7,886
Lexus (51% ownership)	143	129	271	375	168	102
Perodua (38% ownership)	60,659	61,123	56,972	61,587	44,977	29,193
Total	74,667	78,910	73,871	84,120	55,728	37,181
Growth YoY (%)	9.0%	-2.5%	1.5%	16.2%	-25.4%	-52.9%
Growth QoQ (%)	3.4%	5.7%	-6.6%	13.8%	-33.7%	-33.3%

Company

Figure #4 UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,147.5	2.69	FY21 PE 10x
Equipment	Various	647.8	0.55	FY21 PE 8x
Manufacturing & Engineering	Various	1,388.4	1.19	FY21 PE 18x
Others (including O&G unlisted)	Various	35.9	0.03	Book value based on FY2019
700 acres Serendah land	100.00	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	90.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2019 Annual Report
Holding Co Net Debt		(1,647.8)	(1.41)	Based on 2019 Annual Report
Total		3,541.5	3.03	
Holding Co Discount			10.0%	
Target Price			2.75	
* No of Shares		1,168.3		As at end FY2018

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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