

27 Aug 2020

Buy

Price
 RM2.61

Target Price
 RM3.00 (from RM3.40)

Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,049.3
52-week high/low (RM)	5.23 / 1.65
Avg daily turnover (RMm)	5.8
KLCI (pts)	1,554.8

Source: Bloomberg, KAF

Major Shareholder (%)

Skim Amanah Saham Bumiputera	(51.5%)
EPF	(12.7%)
Yayasan Perlaburan Bumiputera	(7.3%)
Free Float	27.9

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	23.1	(19.2)	(47.7)
Rel Market (%)	15.0	(21.8)	(46.5)



Source: Bloomberg, KAF

Analyst

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UMW Holdings

MCO drags 2Q into the red; a better 2H

UMW fell into the red with RM33m core losses in 2Q – resulting in RM16m profits at the half-point. This was expected as car sales were halted at the height of MCO. Nevertheless, we see a stronger 2H on sales tax exemption (July auto sales up 20% mom and Perodua running at full utilisation) while FY21 sales will be boosted by the new Perodua SUV model and Toyota Corolla Cross (to finally rival Honda HR-V). Buy.

Financial Highlights

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue (RMm)	11,304	11,739	9,125	10,225	10,589
Core net profit (RMm)	326	168	108	130	149
Core EPS (Sen)	27.9	14.4	9.3	11.2	12.8
EPS growth (%)	93.2	(48.3)	(35.7)	20.4	14.3
DPS (Sen)	7.5	6.0	4.0	5.0	5.0
Core PE (x)	9.4	18.1	28.2	23.4	20.5
Div yield (%)	2.9	2.3	1.5	1.9	1.9
ROE (%)	16.1	12.0	2.9	3.4	3.7
Net Gearing (%)	45.5	28.1	13.1	9.6	0.9
PBV(x)	0.9	0.8	0.8	0.8	0.7

Source: Company, KAF

MCO drags UMW into losses. No surprises – UMW fell into the red with core losses of RM33m in 2Q. This was at the height of the Movement Control Order (MCO) which halted car production and sales. Topline fell 49% yoy on 53% car sales decline.

Impact from TCM and Perodua. At the half-point, UMW's core earnings fell 87% to RM16m on 37% topline decline. The sharper bottomline reduction is mainly due to lower share of JV/ass due to weak Perodua sales. There were also a one-off RM44m losses at its 30% associate Toyota Capital Malaysia – due to present value impact of loan moratorium and unfavourable mark-to-market value of interest rate swaps. However, we exclude these for our core numbers.

Sales volume down 40%. UMW's car sales volume decline 40% in 1H – in line with TIV's 41% decline. Nevertheless, sales had begun to pick up from June onwards following the introduction of sales tax exemption. To be sure, Toyota sales jumped 70% to 7.5k (from June's 4.4k and May's 3k) while Perodua sales reached 23k (from 21k in June). Hence, management believes it could surpass its UMWT sales target of 45k by 10-15% - implying a better 2H.

Outlook. To support this, Perodua had increased plant utilisation to 100% and is targeting 210k sales this year (implying 23k monthly sales until year-end). Meanwhile, Toyota models slated for updates in 2H include Yaris, Vios, Fortuner and Innova. It had also started to receive bookings for the Hilux. We expect a stronger 2021 as two new Toyota SUVs (we expect a locally-assembled Corolla Cross and imported Harrier) will be launched. We believe bookings for Cross will begin in Dec. Meanwhile, management said orders for fan cases will slightly decline for its aerospace arm.

Adjustments. We maintain our UMWT FY20 sales target at 53k – which implies 5.6k monthly sales until year-end. We believe this is achievable thanks to the tax exemption. More importantly, we expect contributions from Perodua to significantly improve in 2H. Nevertheless, we have reduced PBT margins for the auto segment (from 5% to 3%) and reduced manufacturing PBT by 60% to RM40m to reflect slower fan case deliveries. Consequently, our FY20 earnings was reduced by 27% from RM148m earlier.

Maintain Buy. Following adjustments, our SOP-based TP is reduced to RM3.00 – which implies 0.9x PBV. We continue to like UMW as proxy to Perodua, which will see a strong sales recovery as it ramps up production to meet demand. We expect sales to improve further next year from a low base, supported by the launch of the new Perodua SUV and new CKD Toyota models. Upsides include stronger recovery for its equipment division while a second Covid-19 outbreak is a key risk.

Exhibit 1: Results summary

FYE 31 Dec	2Q19	1Q20	2Q20	yoy %	qoq%	1HFY19	1HFY20	yoy %	FY20F	1H20/F
Revenue	2971	2119	1530	-49%	-28%	5751	3649	-37%	9414	39%
Operating profit	105	46	(14)	-113%	-131%	200	32	-84%	141	23%
Investment income	18	18	12	-34%	-32%	36	30	-17%	92	33%
Finance cost	(44)	(30)	(30)	-32%	1%	(77)	(60)	-22%	(109)	55%
JV & Associates	71	29	(27)	-138%	-192%	132	2	-98%	217	1%
Pretax profit	150	63	(59)	-139%	-193%	291	4	-99%	341	1%
Tax	(37)	(14)	5	-113%	-133%	(66)	(9)	-86%	(47)	20%
Profit after tax	114	49	(54)	-148%	-211%	225	(5)	-102%	294	-2%
MI & perpetual sukuk holders	(57)	(4)	(24)	-57%	443%	(81)	(29)	-64%	(147)	20%
Net profit	57	44	(78)	-237%	-277%	144	(34)	-124%	148	-23%
Core net profit	38	49	(33)	-186%	-168%	117	16	-87%	148	11%
EPS (sen)	4.9	3.8	(6.7)			12.3	(2.9)			
Core EPS (sen)	3.3	4.2	(2.8)			10.0	1.3			
Net DPS (sen)	0.0	0.0	0.0			0.0	0.0			
BV (RM)	2.98	3.20	3.16			2.98	3.16			
EBIT margin (%)	4%	2%	-1%			3%	1%			
PBT margin (%)	5%	3%	-4%			5%	0%			
PAT margin (%)	4%	2%	-4%			4%	0%			
Net margin (%)	2%	2%	-5%			2%	-1%			
Effective tax rate (%)	24%	23%	8%			23%	225%			

Source: Company, KAF

Exhibit 2: Segmental breakdown

	2Q19	1Q20	2Q20	yoy %	qoq %	1HFY19	1HFY20	yoy %	FY20F	1Q20/F
Automotive	2386	1586	1102	-54%	-31%	4549	2688	-41%	6,960	39%
Equipment	344	289	233	-32%	-19%	726	522	-28%	1,289	41%
Manufacturing	245	249	183	-25%	-26%	482	432	-10%	1,192	36%
Others & Eliminations	(3)	(4)	11	-435%	-354%	482	7	-99%		
Total Revenue (RM mil)	2971	2119	1530	-49%	-28%	5751	3649	-37%	9,414	39%
Automotive	151	54	(42)	-128%	-178%	275	12	-96%	348	3%
Equipment	35	26	25	-31%	-4%	78	50	-35%	84	60%
Manufacturing	13	10	8	-39%	-23%	16	19	19%	100	19%
Others	(49)	(27)	(50)	1%	85%	(78)	(77)	-1%		
Total PBT (RM mil)	150	63	(59)	-139%	-193%	291	4	-99%	341	1%
Automotive PBT margin (%)	6%	3%	-4%			6%	0%		5%	
Equipment PBT margin (%)	10%	9%	11%			11%	10%		7%	
Manufacturing PBT (%)	5%	4%	4%			3%	4%		8%	
Total PBT margin (%)	5%	3%	-4%			5%	0%		4%	
USD:MYR average	4.15	4.18	4.32			4.12	4.25	3%		
Unit sales	2Q19	1Q20	2Q20	yoy %	qoq %	1HFY19	1HFY20	yoy %	FY20	1H20/F
Toyota & Lexus	17,658	10,583	7,886	-55%	-25%	31,523	18,469	-41%	53,800	34%
Perodua	61,123	44,977	29,193	-52%	-35%	121,782	74,170	-39%	185,680	40%
Grand total	78,781	55,560	37,079	-53%	-33%	153,305	92,639	-40%	239,480	39%

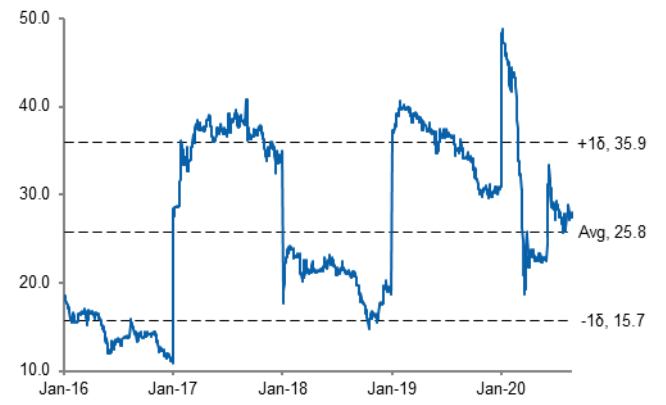
Source: Company, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Revenue	11,303.6	11,739.1	9,125.3	10,224.8	10,589.0
EBITDA	815.9	866.6	443.5	473.6	516.2
Depreciation/Amortisation	(273.7)	(345.1)	(363.9)	(407.4)	(450.9)
Operating income (EBIT)	542.2	521.4	79.6	66.1	65.2
Other income & associates	270.7	291.6	201.1	267.8	275.9
Net interest	(12.6)	(58.2)	(16.8)	4.1	22.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	800.3	754.8	263.9	338.0	364.0
Taxation	(124.1)	(108.6)	(36.2)	(47.3)	(51.0)
Minorities/pref dividends	(160.8)	(223.4)	(119.4)	(160.3)	(163.9)
Net profit	515.4	422.8	108.3	130.4	149.1
Core net profit	325.8	168.5	108.3	130.4	149.1

Balance Sheet

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	2,820.9	2,701.7	2,888.7	3,032.2	3,132.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	729.2	865.1	865.1	865.1	865.1
Total non-current assets	5,391.2	5,488.2	5,675.2	5,818.7	5,918.7
Cash & equivalent	1,312.0	1,472.1	1,586.7	1,332.5	1,302.7
Stock	1,548.5	1,589.6	1,388.4	1,592.6	1,647.2
Trade debtors	1,076.6	1,449.1	915.9	1,020.3	1,048.2
Other current assets	1,148.1	1,082.5	1,258.8	1,109.1	914.1
Total current assets	5,085.1	5,593.2	5,149.8	5,054.6	4,912.2
Trade creditors	1,854.0	2,076.6	1,964.4	2,018.7	2,035.2
Short-term borrowings	535.0	386.4	149.2	141.0	133.9
Other current liabilities	106.3	138.1	138.1	138.1	138.1
Total current liabilities	2,495.3	2,601.0	2,251.7	2,297.7	2,307.2
Long-term borrowings	2,298.2	2,123.4	1,935.3	1,569.6	1,204.7
Other long-term liabilities	250.0	312.1	312.1	389.5	389.5
Total long-term liabilities	2,548.3	2,435.6	2,247.5	1,959.1	1,594.2
Shareholders' funds	3,344.6	3,696.4	3,804.7	3,935.1	4,084.2
Minority interests	2,369.8	2,401.7	2,521.1	2,681.4	2,845.4

Cash flow Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	800.3	754.8	263.9	338.0	364.0
Depreciation/Amortisation	273.7	345.1	363.9	407.4	450.9
Net change in working capital	(146.8)	(142.9)	622.2	(254.4)	(65.9)
Others	(752.8)	(702.0)	(355.3)	(319.2)	(349.7)
Cash flow from operations	174.4	255.0	894.6	171.9	399.3
Capital expenditure	(915.0)	(345.5)	(800.0)	(800.0)	(800.0)
Net investments & sale of fixed assets	(1,496.0)	(1,187.9)	(1,251.2)	(1,251.2)	(1,251.2)
Others	2,092.4	1,963.0	1,876.0	2,139.1	2,144.6
Cash flow from investing	(318.7)	429.7	(175.1)	87.9	93.5
Debt raised/(repaid)	77.7	(323.0)	(378.0)	(371.0)	(368.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(58.4)	(75.9)	(70.1)	(46.7)	(58.4)
Others	1,000.0	(185.3)	(96.2)	(96.2)	(96.2)
Cash flow from financing	1,019.2	(584.2)	(544.3)	(513.9)	(522.6)
Net cash flow	874.9	100.5	175.2	(254.2)	(29.9)
Cash b/f	1,181.5	1,315.2	1,411.5	1,586.7	1,332.5
Cash c/f	1,315.2	1,411.5	1,586.7	1,332.5	1,302.7

Key Ratios

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue growth (%)	2.1	3.9	(22.3)	12.0	3.6
EBITDA growth (%)	>100	6.2	(48.8)	6.8	9.0
Pretax margins (%)	7.1	6.4	2.9	3.3	3.4
Net profit margins (%)	4.6	3.6	1.2	1.3	1.4
Interest cover (x)	43.1	9.0	4.7	nm	nm
Effective tax rate (%)	4.5	6.3	0.0	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	34	39	47	35	36
Stock turnover (days)	48	49	60	53	56
Creditors turnover (days)	75	61	81	71	70

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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