

28 August 2020

# UMW Holdings Bhd

## 1HFY20 Below Expectations

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1HFY20 core PATAMI of RM7.8m (-93%) came in below our/consensus expectation at 5%/6% of full-year estimates, due to higher-than-expected operating expenses and plant depreciation. As such, we cut our FY20E CNP by 34% but increase FY21E CNP by 25% to factor in the delayed all-new launches such as Perodua D55L, Toyota Fortuner, and Toyota Innova. Maintain UP but with a higher TP of RM2.40 (from RM1.80) based on 15x FY21E EPS (at -1.0SD of its 5-year historical mean PER).

**1HFY20 below expectations.** 1HFY20 core PATAMI of RM7.8m (-93%) came in below our/consensus expectation at 5%/6% of full-year estimates, due to higher-than-expected operating expenses and plant depreciation. Note that, 1HFY20 core PATAMI excludes: (i) Toyota Capital Malaysia (TCM) provision of loan moratorium impact of RM44.1m, (ii) reversal of impairment and receivables (including debt recovery) of RM25.7m, (iii) unlisted O&G's forex loss (no more stake held) of RM28.4m, and (iv) other impairment reversal of RM4.9m. There was no dividend declared for the quarter, as expected.

**YoY, 1HFY20 core PATAMI** plunged 93% mainly due to lower Automotive segment profit contribution (-96%), suffering from (i) the closure of businesses during MCO starting 18<sup>th</sup> March 2020, until 4<sup>th</sup> May 2020, and (ii) higher Bukit Raja plant depreciation (+79%). Toyota & Lexus and Perodua recorded lower unit sales at 18,469 units (-41%) and 74,170 units (-39%), respectively. Furthermore, the equipment segment (-35%) faced a challenging market for both Heavy and Industrial Equipment especially during MCO. These was, however, cushioned by: (i) higher M&E segment profit contribution (+19%), mainly due to cost optimisation strategy, and supported by ramp-up production of fan cases by Aerospace sub-segment (24-hour operations), but the closure during MCO also affected its performance.

**QoQ, 2QFY20** plunged into the red with core losses of RM29.3m compared to core PATAMI of RM37.1m in 1QFY20 suffering from the closure of businesses during MCO starting 18<sup>th</sup> March 2020, until 4<sup>th</sup> May 2020, and higher Bukit Raja plant depreciation (+75%). Toyota & Lexus and Perodua recorded lower unit sales at 7,886 units (-55%) and 29,193 units (-52%), respectively.

**Outlook.** UMW derives its earnings mostly from: (i) the stream of all-new models (especially Vios, and Yaris, and recently launched Toyota RAV4 CBU and Lexus UX200, Toyota Hilux CKD (open for order-taking) with two new CKD models expected, namely the Innova & Fortuner, expected in Jan 2021, with order-taking in 4QCY20), and (ii) its deep value stake in 38%-owned Perodua. We are cautious on its Automotive segment with its high level of plant depreciation and stiff competition from local carmakers. For Equipment division, the group will continue to leverage on its partners (KOMATSU & TICO)'s strengths and new collaborative robots ("Cobots") from Universal Robot A/S., while UMW Aerospace had turned profitable in 2019.

**Shifting new launches to FY21.** We cut our FY20E CNP by 34% to factor in higher operating expenses and plant depreciation. Nevertheless, we increased FY21E CNP by 25% to factor in the delayed all-new launches such as Perodua D55L, Toyota Fortuner, and Toyota Innova.

**Maintain UP but with a higher TP of RM2.40 (from RM1.80)** based on 15x FY21E EPS (at -1.0SD of its 5-year historical mean PER).

**Risks to our call include:** (i) higher-than-expected car sales volume, and (ii) lower-than-expected operating expenses.

## UNDERPERFORM ↔

Price: RM2.61  
Target Price: RM2.40 ↑

### Share Price Performance



KLCI 1,554.78  
YTD KLCI chg -2.1%  
YTD stock price chg -41.9%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker UMWH MK EQUITY  
Market Cap (RM m) 3,049.2  
Shares Outstanding 1,168.3  
52-week range (H) 5.23  
52-week range (L) 1.65  
3-mth avg daily vol: 2,177,705  
Free Float 28%  
Beta 1.9

### Major Shareholders

Amanah Saham Nasional 51.5%  
Employees Provident Fund 12.8%  
KWAP 7.3%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	11,739.1	9,057.0	11,598.9
EBIT	880.7	544.3	821.4
PBT	754.8	199.8	445.4
<b>PATAMI</b>	<b>454.4</b>	<b>86.5</b>	<b>185.0</b>
<b>Core PATAMI</b>	<b>255.0</b>	<b>86.5</b>	<b>185.0</b>
Consensus NP	-	169.0	246.1
Earnings Revision	-	-33.7%	+24.8%
Core EPS (sen)	21.8	7.4	15.8
C.EPS growth (%)	-23.5	-66.1	113.9
NDPS (sen)	6.0	3.0	6.0
BVPS (RM)	2.85	2.89	2.99
Core PER (x)	12.1	35.8	16.7
PBV (x)	0.9	0.9	0.9
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	2.3	1.1	2.3



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<b>Result Highlight</b>								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	1,529.7	2,119.2	-28%	2,971.2	-49%	3,648.9	5,751.2	-37%
Associates and JV	(26.9)	29.2	>100%	71.1	>100%	2.2	131.8	-98%
EBIT	(28.7)	92.8	>100%	194.5	>100%	64.1	367.7	-83%
PBT	(58.8)	63.0	>100%	150.4	>100%	4.2	290.9	-99%
Taxation and Zakat	4.7	(14.2)	>100%	(36.6)	>100%	(9.5)	(66.3)	86%
<b>PATAMI</b>	<b>(78.4)</b>	<b>44.3</b>	<b>&gt;100%</b>	<b>57.2</b>	<b>&gt;100%</b>	<b>(34.1)</b>	<b>143.7</b>	<b>&gt;100%</b>
<b>Core PATAMI</b>	<b>(29.3)</b>	<b>37.1</b>	<b>&gt;100%</b>	<b>38.3</b>	<b>&gt;100%</b>	<b>7.8</b>	<b>117.0</b>	<b>-93%</b>
Core EPS (sen)	(2.5)	3.2	>100%	3.3	>100%	0.7	10.0	-93%
DPS (sen)	-	-	-	-	-	-	-	-
EBIT margin	N.M	4.4%		6.5%		1.8%	6.4%	
PBT margin	N.M	3.0%		5.1%		0.1%	5.1%	
Core NP margin	N.M	1.8%		1.3%		N.M	2.0%	
Effective tax rate	N.M	22.6%		24.3%		N.M	22.8%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
<b>Revenue</b>	<b>1,529.7</b>	<b>2,119.2</b>	<b>-27.8%</b>	<b>2,971.2</b>	<b>-48.5%</b>	<b>3,648.9</b>	<b>5,751.2</b>	<b>-36.6%</b>
Automotive	1,102.0	1,585.9	-30.5%	2,386.4	-53.8%	2,687.9	4,549.0	-40.9%
Equipment	233.2	289.2	-19.3%	343.6	-32.1%	522.4	726.5	-28.1%
M&E	183.3	248.5	-26.2%	244.5	-25.0%	431.9	481.6	-10.3%
Others	11.1	(4.4)	N.M	(3.3)	435.4%	6.7	(5.9)	N.M
<b>Segment PBT/(LBT)</b>	<b>(58.8)</b>	<b>63.0</b>	<b>&gt;100%</b>	<b>150.4</b>	<b>-139.1%</b>	<b>4.2</b>	<b>290.9</b>	<b>-98.5%</b>
Automotive	(41.7)	53.7	>100%	151.1	-127.6%	12.0	275.3	-95.6%
Equipment	24.6	25.8	-4.4%	35.5	-30.5%	50.4	77.6	-35.1%
M&E	8.0	10.5	-23.4%	13.2	-39.3%	18.5	15.6	18.9%
Others	(49.8)	(26.9)	N.M	(49.5)	N.M	(76.7)	(77.6)	N.M
<b>Segment Margin</b>								
Automotive	N.M	3.4%		6.3%		0.4%	6.1%	
Equipment	10.6%	8.9%		10.3%		9.6%	10.7%	
M&E	4.4%	4.2%		5.4%		4.3%	3.2%	

Source: Company, Kenanga Research

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Peer Comparison																		
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
<b>STOCKS UNDER COVERAGE</b>																		
BERMAZ AUTO BHD	1.36	1,580.6	Y	04/2021	36.6%	8.8%	17.0%	42.6%	15.7	13.4	9.4	3.0	2.5	20.4%	6.3%	1.30	UP	
DRB-HICOM BHD	2.01	3,885.8	Y	12/2020	-22.2%	24.6%	-215.6%	-21.9%	23.5	N.A.	26.1	0.6	0.6	-2.7%	0.0%	1.30	UP	
MBM RESOURCES BERHAD	3.24	1,266.5	Y	12/2020	-8.1%	1.2%	-37.1%	29.0%	6.6	10.5	8.1	0.6	0.6	5.9%	4.6%	2.80	UP	
SIME DARBY BERHAD	2.19	14,895.2	Y	06/2021	5.3%	5.2%	13.5%	1.4%	14.3	12.6	12.5	1.0	1.0	7.7%	4.6%	2.30	MP	
TAN CHONG MOTOR HOLDINGS BHD	1.03	672.0	N	12/2020	-30.5%	17.7%	-168.8%	0.9%	14.8	N.A.	21.3	0.2	0.2	-1.1%	1.9%	0.700	UP	
UMW HOLDINGS BHD	2.61	3,049.2	Y	12/2020	-22.8%	28.1%	-66.1%	113.9%	12.0	35.3	16.5	0.5	0.5	1.4%	1.1%	2.40	UP	
<b>Simple Average</b>					<b>-6.9%</b>	<b>14.3%</b>	<b>-76.2%</b>	<b>27.6%</b>	<b>14.5</b>	<b>17.9</b>	<b>15.6</b>	<b>1.0</b>	<b>0.9</b>	<b>5.3%</b>	<b>3.1%</b>			

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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