

# UMW Holdings Berhad

(4588 | UMWH MK) Consumer Products & Services | Automotive & Parts

**Maintain BUY**

## Moving Past the Weakness

### KEY INVESTMENT HIGHLIGHTS

- **Slipped into a core loss of RM33m in 2Q20 given full impact of MCO, but weak quarter not unexpected given expectation of significantly backloaded year**
- **Two new CKD models to commence order taking from Dec20, positioned to sustain momentum post-tax holiday**
- **Four model updates by year-end, Toyota TIV showing strong recovery, up 31%yoy in July, now the largest non-national**
- **Trent 7000 fan case deliveries targeted for October, exploring new applications for precision machining**
- **Maintain BUY at unchanged TP of RM3.40**

**Normalised 2Q20 broadly within expectation.** UMW reported a core net loss of RM33m for its 2Q20. This pulled down 1H20 core net profit to RM16m. Though this accounts for just 8.4% and 7.2% of our and consensus' FY20F, the weak quarter was not entirely a surprise as we had expected earnings to be significantly backloaded this year. The 1H20 core net profit is derived after normalizing for: (1) RM44m share of loss of 30%-owned Toyota Capital Malaysia (TCM) from present value impact of the loan moratorium – provision made up to 30<sup>th</sup> Sep 2020 (2) RM28m forex loss on sale of unlisted O&G investment (3) RM20m reversal of receivables impaired previously (4) RM2m gain on disposal of properties.

**Weak quarter, but not unanticipated.** The 2Q20 reflects the full impact of the lockdowns between mid-March till early-May, hence the weak quarter was not entirely unexpected. 2Q20 Toyota TIV dropped 56%yoy to 7784 units while Perodua TIV dropped 52%yoy to 29,193 units. As a result, the auto division reported a pretax loss of RM42m. Equipment division PBT dropped 31%yoy to RM25m while M&E division PBT dropped 39%yoy to RM8m.

**Expect a strong bounce from 3Q20.** We expect earnings from 3Q20 onwards to bounce strongly driven by the tax-holiday announced under PENJANA. Toyota TIV has shown significant improvement in July, up 31%yoy to 7,429 units with a 12.9% market share, overtaking Honda as the largest non-national. Perodua too, has shown significant TIV improvement, up by 33%yoy and 17%yoy in June and July respectively. Management stopped short of giving a new Toyota TIV target for FY20F, but assuming the July momentum sustains till year end, it could easily breach the 60K mark, on our estimates. We keep our FY20F Toyota TIV of 62,981 units unchanged at this juncture.

**Unchanged Target Price: RM3.40**

### RETURN STATISTICS

Price @ 27 <sup>th</sup> August 2020 (RM)	2.61
Expected share price return (%)	+30.3
Expected dividend yield (%)	+1.5
<b>Expected total return (%)</b>	<b>+31.7</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.8	8.5
3 months	2.4	15.4
12 months	-47.4	-46.2

### KEY STATISTICS

FBM KLCI	1554.78
Syariah compliant	Yes
Issue shares (m)	1168.29
Estimated free float (%)	27.86
Market Capitalisation (RM'm)	3,049.25
52-wk price range	RM1.65 - RM5.23
Beta vs FBM KLCI (x)	1.85
Monthly velocity (%)	#DIV/0!
Monthly volatility (%)	13.91
3-mth average daily volume (m)	2.17
3-mth average daily value (RM'm)	5.82
Top Shareholders (%)	
Amanah Saham Nasional Bhd	51.50
Employees Provident Fund Board	12.75
Kumpulan Wang Persaraan	7.32

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## INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	11,046.5	11,306.3	11,739.1	11,229.8	11,494.6
EBIT (RM'm)	120.4	522.9	332.6	111.7	210.3
Pre-tax Profit (RM'm)	252.9	786.2	754.8	266.5	362.9
Core net profit (RM'm)	163.8	341.7	266.3	186.0	224.1
FD EPS (sen)	14.0	29.2	22.8	15.9	19.2
EPS growth (%)	NA	108.6	(22.1)	(30.2)	20.5
PER (x)	18.6	8.9	11.3	16.4	13.6
Net Dividend (sen)	6.5	7.5	6.0	3.2	3.9
Net Dividend Yield (%)	2.5	2.9	2.3	1.2	1.5

Source: Company, MIDFR

**New CKD launches to sustain momentum.** The two new CKD launches is pushed out to early-FY21F (instead of 2H20 indicated previously), but order taking will commence in Dec20. This should help to sustain Toyota's sales momentum once the tax holiday ends on 31<sup>st</sup> Dec 2020. Nevertheless, four updates of existing CKD models i.e. Vios, Yaris, Fortuner and Hilux are expected to be launched by end of the year to take advantage of the current strong demand. Both the Bukit Raja and Shah Alam plants are currently running at 75% utilization rate, while waiting period for Toyota's key model, the Vios, is around 1.5 – 2 months.

**Aerospace unit exploring new customers.** There has been some minor impact on orders for Trent 1000 fan cases from Rolls Royce, though at the moment this is negligible, according to management. The Trent 1000 fan case orders are backed by a backlog of orders for the Boeing 787 Dreamliner, which forms the pipeline of order for the parts. Should the travel restriction from the pandemic prolong however, we would not rule out a larger impact on orders. Positively, the group will be commencing production/delivery of the Trent 7000 fan case (for the A330 Neo) in October, which could improve volumes in the near-term. The aerospace division now accounts for 38% of M&E division PBT in 1H20, and registered its maiden profit back in FY19. Furthermore, the aerospace unit is exploring widening its customer base, as the precision machining ability has a much wider application both in the aerospace and non-aerospace sectors.

**Recommendation.** Maintain **BUY** on UMW at unchanged sum-of-parts derived **TP of RM3.40**. Key catalysts: (1) A turnaround in group earnings from 3Q20 driven mainly by the automotive division (2) Launches of four updated models by year-end (3) Launch of two new CKD models in FY21F (4) Commencement of Trent 7000 engine assembly in 4Q20. Key risk to our call is a second wave of the pandemic and a weaker than expected demand recovery. 

**Table 1: UMW Sum-of-Parts Valuation**

Segments	FY21F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	266	PER	10	2,656	
Equipment	58	PER	10	577	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		PBV		26	50% discount to Net Book Value
<b>Total value</b>				<b>3,951</b>	
No of shares (m)				1,168	
<b>Fair value (RM)</b>				<b>3.40</b>	

Source: Company, MIDFR

**Table 2: 2QFY20 Result Summary**

FYE Dec (RMm)	2Q19	1Q20	2Q20	YoY	QoQ	1H19	1H20	YTD
<b>Revenue</b>	<b>2,971.2</b>	<b>2,119.2</b>	<b>1,529.7</b>	<b>-48.5%</b>	<b>-27.8%</b>	<b>5,751.2</b>	<b>3,648.9</b>	<b>-36.6%</b>
EBITDA	189.8	137.7	81.2	-57.2%	-41.0%	371.1	218.9	-41.0%
<b>Operating Profit</b>	<b>104.9</b>	<b>45.7</b>	<b>(14.0)</b>	<b>-113.3%</b>	<b>-130.6%</b>	<b>199.7</b>	<b>31.7</b>	<b>-84.1%</b>
Finance Cost	(44.1)	(29.7)	(30.1)	-31.7%	1.3%	(76.8)	(59.9)	-22.0%
Associates	71.1	29.2	(26.9)	-137.9%	-192.3%	131.8	2.2	-98.3%
Investment Income / Other gains	18.5	17.9	12.2	-34.0%	-32.1%	36.2	30.1	-16.8%
<b>Pretax Profit</b>	<b>150.4</b>	<b>63.0</b>	<b>(58.8)</b>	<b>-139.1%</b>	<b>-193.3%</b>	<b>290.9</b>	<b>4.2</b>	<b>-98.5%</b>
Taxation	(36.6)	(14.2)	4.7			(66.3)	(9.5)	
Minorities / PERP	56.6	4.5	24.4			80.9	28.8	
Net Profit	57.2	44.3	(78.4)	-237.2%	-277.0%	143.7	(34.1)	-123.7%
<b>Core net profit</b>	<b>57.2</b>	<b>48.8</b>	<b>(33.2)</b>	<b>-158.1%</b>	<b>-168.1%</b>	<b>143.7</b>	<b>15.6</b>	<b>-89.2%</b>
EPS (FD, sen)	4.9	4.2	-2.8			12.3	1.3	
DPS (sen)	0.0	0.0	0.0			0.0	0.0	
<b>Margins (%):</b>								
Operating	3.5%	2.2%	-0.9%			3.5%	0.9%	
Pretax Profit	5.1%	3.0%	-3.8%			5.1%	0.1%	
Core Net Profit	1.9%	2.3%	-2.2%			2.5%	0.4%	
Tax Rate	24.3%	22.6%	8.1%			22.8%	225.0%	
EBITDA	6.4%	6.5%	5.3%			6.5%	6.0%	
<b>Segmental Breakdown</b>	<b>2Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>YoY</b>	<b>QoQ</b>	<b>1H19</b>	<b>1H20</b>	<b>YTD</b>
Automotive	2,386.4	1,585.9	1,102.0	-53.8%	-30.5%	4,549.0	2,687.9	-40.9%
Equipment	343.6	289.2	233.2	-32.1%	-19.3%	726.5	522.4	-28.1%
Manuf & Eng	244.5	248.5	183.3	-25.0%	-26.2%	481.6	431.9	-10.3%
Others	(3.3)	(4.4)	11.1	-435.2%	-354.0%	(5.9)	6.7	-214.6%
<b>Revenue</b>	<b>2,971.2</b>	<b>2,119.2</b>	<b>1,529.7</b>	<b>-48.5%</b>	<b>-27.8%</b>	<b>5,751.2</b>	<b>3,648.9</b>	<b>-36.6%</b>
Automotive	151.1	53.7	(41.7)	-127.6%	-177.7%	275.3	12.0	-95.6%
Equipment	35.5	25.8	24.6	-30.5%	-4.4%	77.6	50.4	-35.1%
Manuf & Eng	13.2	10.5	8.0	-39.3%	-23.4%	15.6	18.5	18.9%
Others	(49.5)	(26.9)	(49.8)	NA	NA	(77.6)	(76.7)	-1.2%
<b>Pretax profit</b>	<b>150.4</b>	<b>63.0</b>	<b>(58.8)</b>	<b>-139.1%</b>	<b>-193.3%</b>	<b>290.9</b>	<b>4.2</b>	<b>-98.5%</b>
<b>Pretax margins</b>								
Automotive	6.3%	3.4%	-3.8%			6.1%	0.4%	
Equipment	10.3%	8.9%	10.6%			10.7%	9.6%	
Manuf & Eng	5.4%	4.2%	4.4%			3.2%	4.3%	
Others	NA	NA	NA			NA	NA	
Toyota TIV (units)	17,529	10,415	7,784	-55.6%	-25.3%	31,251	18,199	-41.8%
Average revenue/car (RM)	136,142	152,269	141,578	4.0%	-7.0%	145,562	147,697	1.5%
USD:RM (delayed by 3-months)	4.09	4.16	4.18	2.3%	0.4%	4.05	4.15	

Source: Company, MIDFR

<b>Income Statement (RMm)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Revenue</b>	<b>11,046.5</b>	<b>11,306.3</b>	<b>11,739.1</b>	<b>11,229.8</b>	<b>11,494.6</b>
Operating expenses	(10,926.1)	(10,783.4)	(11,513.6)	(11,118.1)	(11,284.3)
<b>EBIT</b>	<b>120.4</b>	<b>522.9</b>	<b>332.6</b>	<b>111.7</b>	<b>210.3</b>
Net interest expense	(39.2)	(88.1)	(125.9)	(106.4)	(119.0)
Associates	171.7	265.6	291.6	261.2	271.6
<b>PBT</b>	<b>252.9</b>	<b>786.2</b>	<b>754.8</b>	<b>266.5</b>	<b>362.9</b>
Taxation	(122.3)	(142.5)	(108.7)	(1.3)	(22.8)
Minority Interest/PERP	(22.8)	139.9	174.3	79.2	115.0
Net profit	(651.2)	341.7	454.4	186.0	225.1
<b>Core net profit</b>	<b>163.8</b>	<b>341.7</b>	<b>266.3</b>	<b>186.0</b>	<b>224.1</b>
<i>Consensus net profit</i>				216.1	278.2
<i>MIDF vs. consensus</i>				-14.0%	-19.4%
<b>Balance Sheet (RMm)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Non-current assets</b>	<b>4,833.8</b>	<b>5,391.2</b>	<b>5,504.9</b>	<b>5,980.8</b>	<b>6,441.8</b>
PPE	2,658.1	2,820.9	2,756.8	2,971.5	3,160.8
Investments in associate	1,661.5	1,792.4	1,866.4	2,127.6	2,399.2
Others	514.2	777.9	881.8	881.8	881.8
<b>Current assets</b>	<b>5,261.9</b>	<b>5,366.8</b>	<b>5,642.9</b>	<b>5,281.3</b>	<b>5,103.8</b>
Inventories	1,410.7	1,548.5	1,589.6	1,783.0	1,825.0
Receivables	1,029.1	960.4	1,243.0	1,105.8	1,131.9
Others	1,658.6	1,546.1	1,338.3	1,338.3	1,338.3
Cash & equivalent	1,163.4	1,311.8	1,472.1	1,054.3	808.6
<b>TOTAL ASSETS</b>	<b>10,095.7</b>	<b>10,758.0</b>	<b>11,147.8</b>	<b>11,262.1</b>	<b>11,545.6</b>
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	1,131.2	2,369.8	2,401.7	2,411.1	2,456.2
Reserves	2,463.1	2,760.5	3,108.5	3,257.3	3,437.4
<b>TOTAL EQUITY</b>	<b>4,178.4</b>	<b>5,714.4</b>	<b>6,094.4</b>	<b>6,252.6</b>	<b>6,477.8</b>
<b>Non-current liabilities</b>	<b>2,264.4</b>	<b>2,548.3</b>	<b>2,435.6</b>	<b>2,435.7</b>	<b>2,435.9</b>
Long-term borrowings	2,069.7	2,298.2	2,123.4	2,123.6	2,123.7
Deferred tax liabilities	34.0	26.9	39.1	39.1	39.1
Others	160.7	223.2	273.1	273.1	273.1
<b>Current liabilities</b>	<b>3,652.9</b>	<b>2,495.3</b>	<b>2,617.9</b>	<b>2,573.9</b>	<b>2,631.9</b>
Short-term borrowings	685.3	534.5	386.4	386.4	386.4
Payables	2,795.5	1,854.0	2,093.4	2,134.8	2,185.1
Others	172.0	106.7	138.1	52.7	60.4
<b>TOTAL LIABILITIES</b>	<b>5,917.3</b>	<b>5,043.6</b>	<b>5,053.4</b>	<b>5,009.6</b>	<b>5,067.8</b>

Cash Flow Statement (RMm)	FY17	FY18	FY19	FY20F	FY21F
<b>Operating activities</b>					
PBT	109.5	619.8	547.8	266.5	362.9
Depreciation & Amortization	105.1	281.9	346.2	338.3	364.6
Chgs in working capital	1,124.6	(950.0)	(63.1)	(54.7)	(10.1)
Interest expense	(175.9)	(74.6)	(130.6)	(106.4)	(119.0)
Tax paid	(131.9)	(138.8)	(64.5)	(1.3)	(22.8)
Others	(585.9)	436.0	(357.3)	(203.8)	(152.6)
<b>CF from Operations</b>	<b>445.6</b>	<b>174.4</b>	<b>278.4</b>	<b>238.5</b>	<b>423.1</b>
<b>Investing activities</b>					
Capex	(1,003.8)	(914.7)	(345.5)	(700.0)	(700.0)
Others	(976.7)	596.0	837.0	147.0	146.0
<b>CF from Investments</b>	<b>(1,980.5)</b>	<b>(318.7)</b>	<b>491.5</b>	<b>(553.0)</b>	<b>(554.0)</b>
<b>Financing activities</b>					
Dividends paid	(75.9)	(6.2)	(70.6)	(37.2)	(45.0)
Net proceeds in borrowings	176.0	104.1	480.2	0.2	0.2
Others	0.0	921.3	(992.4)	(69.9)	(69.9)
<b>CF from Financing</b>	<b>100.1</b>	<b>1,019.2</b>	<b>(582.8)</b>	<b>(106.9)</b>	<b>(114.7)</b>
<b>Net changes in cash</b>	<b>(1,434.8)</b>	<b>874.9</b>	<b>187.1</b>	<b>(421.4)</b>	<b>(245.6)</b>
Beginning cash	1,607.3	1,181.5	1,315.2	1,475.6	1,054.3
Overdrafts & Deposits	176.6	(741.1)	(26.7)	0.0	0.0
<b>Ending cash</b>	<b>1,187.9</b>	<b>1,315.2</b>	<b>1,475.6</b>	<b>1,054.3</b>	<b>808.6</b>
<b>Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue growth	8.7%	-11.4%	22.0%	-5.7%	2.4%
EBIT growth	-6.0%	67.6%	-24.0%	-71.3%	88.3%
Core net profit growth	-140.8%	108.6%	-22.1%	-30.2%	20.5%
PBT margin	2.3%	7.0%	6.4%	2.4%	3.2%
Core net profit margin	1.5%	3.0%	2.3%	1.7%	1.9%
ROE	2.2%	11.0%	8.0%	4.9%	5.7%
ROA	2.1%	4.9%	3.5%	1.0%	1.8%
Net gearing (%)	38.1%	26.6%	17.0%	23.3%	26.3%
Book value/share (RM)	2.61	2.86	3.16	3.29	3.44
PBV (x)	1.11	1.01	0.91	0.88	0.84
EV/EBITDA (x)	12.1	6.2	6.0	10.7	8.8
EBIT margin	1.1%	4.6%	2.8%	1.0%	1.8%

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.