

UMW Holdings (UMWH MK)

1H20 results in line

Maintain BUY and MYR3.30 TP

1H20 core earnings made up 10% of our FY estimate but we deem this to be in line, on stronger 2H outlook. The weak FY20 earnings are well-flagged. Focus should be on FY21 instead. Another key positive would be its cost optimisation program, (>MYR100m in savings) if it is realised. Our TP is pegged to 14x FY21 PER (unchanged).

Weaker 2Q20 expected; Els skewed financials

Headline net loss of MYR44m in 2Q20 comprised of the MYR52m one-offs from the: (i) MYR44m provision of the impact loan moratorium & unfavourable mark-to-market value of interest rates swaps at its 30%-owned Toyota Capital, (ii) net loss of MYR28m from the sale of its unlisted O&G investment, (iii) reversal of impairment on receivables (+MYR20m) and (iv) a MYR2m gain from the disposal of PPE. Excluding that, UMW reported core net profit of MYR8m (-81% QoQ) in 2Q20, which took its 1H20 core earnings to MYR16m (-87% YoY). The QoQ weakness was expected, for: (i) its operations were disrupted by the MCO effect and (ii) due to the half-yearly payment of its Sukuk (MYR35m). Operationally, its motor division reported a 53%/ 55% QoQ drop in Perodua/ Toyota vehicle sales to 29k units/ 8k units in 2Q20. Consequently, its equipment and M&E divisions too reported a 4%/ 24% drop in PBT in 2Q20.

Stronger 2H outlook

Our estimates are unchanged, on stronger 2H outlook. The sales tax exemption on passenger vehicles from mid-Jun has a positive effect on vehicles sales. Its Jul sales for Toyota/ Perodua jumped 70%/ 9% MoM to 7.5k units/ 23.3k units respectively. Overall, we expect UMW to sell 53.6k units (-23% YoY) of Toyota and 175k (-27% YoY) units of Perodua in 2020. While our Toyota vehicle sales estimates are comparatively higher than management's 45k units, our Perodua's sales target is 17% below Perodua's 210k units target.

Embarking cost optimization mode

UMW is adopting the digital approach to fuel its sales target, as it aims to optimise its A&P expenses from now on. Apart from the changes to its A&P approach, it is also restructuring its operating (i.e. vendors, capex) processes, as it targets to save about MYR100+m in expenses from this new approach.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	11,304	11,739	8,913	11,684	12,151
EBITDA	822	867	591	643	691
Core net profit	558	254	193	263	283
Core EPS (sen)	47.8	21.7	16.5	22.5	24.2
Core EPS growth (%)	92.6	(54.5)	(24.2)	36.4	7.8
Net DPS (sen)	7.5	6.0	2.4	3.3	3.6
Core P/E (x)	11.5	20.7	15.8	11.6	10.8
P/BV (x)	1.9	1.4	0.8	0.7	0.7
Net dividend yield (%)	1.4	1.3	0.9	1.3	1.4
ROAE (%)	16.3	13.4	5.1	6.4	6.5
ROAA (%)	5.4	2.3	1.8	2.4	2.4
EV/EBITDA (x)	11.2	8.8	8.8	8.2	7.6
Net gearing (%) (incl perps)	26.6	17.0	12.5	12.6	10.2
Consensus net profit	-	-	167	245	282
MKE vs. Consensus (%)	-	-	15.2	7.1	0.5

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BUY

Share Price	MYR 2.61
12m Price Target	MYR 3.30 (+26%)
Previous Price Target	MYR 3.30

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

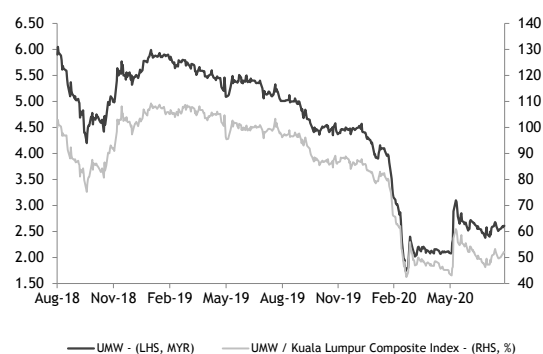
Statistics

52w high/low (MYR)	5.12/1.74
3m avg turnover (USDm)	1.4
Free float (%)	81.3
Issued shares (m)	1,168
Market capitalisation	MYR3.0B
	USD731M

Major shareholders:

Permodalan Nasional Bhd.	50.4%
Employees Provident Fund	10.8%
Bumiputra Investment Foundation	7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	10	23	(48)
Relative to index (%)	13	15	(47)

Source: FactSet

Fig. 1: UMWH's quarterly results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	2Q20	1Q20	%QoQ	2Q19	%YoY	1H20	1H19	% YoY
Turnover	1,529.7	2,119.2	(27.8)	2,976.4	(48.6)	3,648.9	5,751.2	(36.6)
EBIT	(14.0)	45.7	NM	106.8	NM	31.7	196.5	(83.9)
Interest expense	(30.1)	(29.7)	1.3	(44.1)	(31.7)	(59.9)	(76.8)	(22.0)
Associates	(26.9)	29.2	NM	71.1	NM	2.2	131.8	(98.3)
Investment Income	0.9	17.9	(94.8)	18.5	(95.0)	18.9	36.2	(47.9)
Pre-tax profit	(58.8)	63.0	NM	150.4	NM	4.2	290.9	(98.5)
Taxation	4.7	(14.2)	NM	(36.6)	NM	(9.5)	(66.3)	(85.7)
Minority interest	10.5	(4.5)	NM	(21.7)	NM	6.0	(46.1)	NM
Sukuk	(34.8)	0.0	NM	(34.8)	0.0	(34.8)	(34.8)	0.0
Net profit / (loss)	(43.6)	44.3	NM	92.0	NM	(34.1)	143.7	NM
Exceptional item	(51.7)	2.0	NM	25.3	NM	(49.7)	24.2	NM
Recurring net profit / (loss)	8.1	42.3	(81.0)	66.7	(87.9)	15.6	119.5	(87.0)
	2Q20	1Q20	+/- ppt	2Q19	%YoY	1H20	1H19	% YoY
EBIT margin (%)	(0.9)	2.2	(3.1)	3.6	(4.5)	0.9	3.4	(2.5)
Tax rate (%)	8.1	22.6	(14.5)	24.3	(16.3)	225.0	22.8	202.2
	2Q20	1Q20	%QoQ	2Q19	%YoY	1H20	1H19	% YoY
Revenue	1,529.7	2,119.2	(27.8)	2,976.4	(48.6)	3,648.9	5,751.2	(36.6)
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)	NM	(21.9)	NM	6.7	(5.9)	NM
Pre-tax profit	(58.8)	63.0	NM	150.4	NM	4.2	290.9	(98.5)
Automotive	(41.7)	53.7	NM	151.1	NM	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	(23.8)	13.2	(39.3)	18.5	15.6	18.9
Others	(49.8)	(26.9)	85.0	(49.5)	0.6	(76.7)	(77.7)	(1.3)
	2Q20	1Q20	+/- ppt	2Q19	%YoY	1H20	1H19	% YoY
Pre-tax margins (%)	(3.8)	3.0	(6.8)	5.1	(8.9)	0.1	5.1	(4.9)
Automotive	(3.8)	3.4	(7.2)	6.3	(10.1)	0.4	6.1	(5.6)
Equipment	10.6	8.9	1.7	10.3	0.2	9.6	10.7	(1.0)
M&E	4.4	4.2	0.2	5.4	(1.0)	4.3	3.2	1.1
	2Q20	1Q20	%QoQ	2Q19	%YoY	1H20	1H19	% YoY
Vehicle Unit Sales (MAA)								
Toyota	8,054	10,415	(22.7)	17,715	(54.5)	18,469	31,523	(41.4)
Perodua	29,193	44,977	(35.1)	61,123	(52.2)	74,170	121,782	(39.1)

Source: Company

UMW: Vehicles sales

	2018	2019	2020F	2021F	2022F
Toyota	66,562	70,009	53,600	69,680	72,467
Perodua	227,243	240,341	175,000	248,000	250,000

Source: Company, Maybank KE

Risk statement

There are several risk factors for our earnings estimates, target price and rating for UMW. Key risks are: (i) weaker consumer sentiment, affecting demand vehicle purchases while (ii) USD/ MYR forex volatility will affect UMW's margins and profitability.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	13.2	12.9	15.8	11.6	10.8
Core P/E (x)	11.5	20.7	15.8	11.6	10.8
P/BV (x)	1.9	1.4	0.8	0.7	0.7
P/NTA (x)	1.9	1.4	0.8	0.7	0.7
Net dividend yield (%)	1.4	1.3	0.9	1.3	1.4
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	11.2	8.8	8.8	8.2	7.6
EV/EBIT (x)	16.9	14.6	22.3	19.8	17.4
INCOME STATEMENT (MYR m)					
Revenue	11,303.6	11,739.1	8,913.2	11,684.1	12,150.9
Gross profit	163.9	205.6	1,396.9	1,731.4	1,827.5
EBITDA	821.5	867.0	590.6	643.4	690.8
Depreciation	(279.3)	(346.2)	(357.6)	(375.4)	(391.0)
EBIT	542.2	520.8	233.0	267.9	299.8
Net interest income / (exp)	(12.6)	(57.6)	(51.5)	(35.6)	(38.8)
Associates & JV	270.7	291.6	205.0	288.6	295.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	800.3	754.8	386.6	520.9	556.9
Income tax	(124.1)	(108.7)	(85.1)	(132.4)	(145.8)
Minorities	(120.0)	(104.6)	(39.2)	(56.1)	(58.3)
Perpetual securities	(35.4)	(69.7)	(69.7)	(69.7)	(69.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	520.8	471.8	192.6	262.7	283.2
Core net profit	558.0	253.9	192.6	262.7	283.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,311.8	1,472.1	1,716.7	1,661.4	1,787.9
Accounts receivable	1,076.6	1,450.5	1,151.3	1,444.7	1,494.1
Inventory	1,548.5	1,589.6	1,035.9	1,371.7	1,422.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,820.9	2,861.2	3,003.5	3,128.1	3,237.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,841.0	1,921.3	1,930.9	2,024.0	2,124.5
Other assets	2,159.2	1,853.2	1,853.2	1,853.2	1,854.2
Total assets	10,758.0	11,147.8	10,691.5	11,483.1	11,920.5
ST interest bearing debt	535.0	386.4	386.4	386.4	386.4
Accounts payable	1,854.0	2,093.4	1,364.3	1,806.5	1,873.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,298.2	2,123.4	2,123.4	2,123.4	2,123.4
Other liabilities	356.0	450.0	450.0	450.0	450.0
Total Liabilities	5,043.6	5,053.4	4,324.3	4,766.5	4,833.8
Shareholders Equity	3,344.6	3,692.6	3,926.3	4,219.6	4,531.4
Minority Interest	1,271.9	1,303.9	1,343.1	1,399.2	1,457.5
Total shareholder equity	4,616.6	4,996.5	5,269.4	5,618.8	5,988.8
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	10,758.0	11,147.8	10,691.5	11,483.1	11,920.5
CASH FLOW (MYR m)					
Pretax profit	800.3	754.8	386.6	520.9	556.9
Depreciation & amortisation	279.3	346.2	357.6	375.4	391.0
Adj net interest (income)/exp	(139.2)	(133.5)	(133.5)	(133.5)	(133.5)
Change in working capital	(204.1)	(60.3)	123.7	(187.0)	(33.2)
Cash taxes paid	(139.0)	(129.6)	(85.1)	(132.4)	(145.8)
Other operating cash flow	(423.0)	(499.1)	(153.6)	(252.9)	(257.1)
Cash flow from operations	174.4	278.4	495.8	190.5	378.4
Capex	(915.0)	(345.5)	(500.0)	(500.0)	(500.0)
Free cash flow	(740.6)	(67.1)	(4.2)	(309.5)	(121.6)
Dividends paid	(123.1)	(172.2)	(28.6)	(39.0)	(42.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,177.7	(340.9)	0.0	0.0	0.0
Other invest/financing cash flow	560.9	767.3	277.4	293.3	290.1
Effect of exch rate changes	(732.7)	(26.8)	26.8	0.0	0.0
Net cash flow	142.2	160.3	271.4	(55.3)	126.4

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.1	3.9	(24.1)	31.1	4.0
EBITDA growth	111.2	5.5	(31.9)	8.9	7.4
EBIT growth	338.3	(4.0)	(55.3)	15.0	11.9
Pretax growth	200.2	(5.7)	(48.8)	34.7	6.9
Reported net profit growth	1,374.4	(9.4)	(59.2)	36.4	7.8
Core net profit growth	92.6	(54.5)	(24.2)	36.4	7.8
Profitability ratios (%)					
EBITDA margin	7.3	7.4	6.6	5.5	5.7
EBIT margin	4.8	4.4	2.6	2.3	2.5
Pretax profit margin	7.1	6.4	4.3	4.5	4.6
Payout ratio	16.8	14.9	14.9	14.9	14.9
DuPont analysis					
Net profit margin (%)	4.6	4.0	2.2	2.2	2.3
Revenue/Assets (x)	1.1	1.1	0.8	1.0	1.0
Assets/Equity (x)	3.2	3.0	2.7	2.7	2.6
ROAE (%)	16.3	13.4	5.1	6.4	6.5
ROAA (%)	5.4	2.3	1.8	2.4	2.4
Liquidity & Efficiency					
Cash conversion cycle	6.1	26.1	32.6	26.2	28.1
Days receivable outstanding	33.4	38.7	52.5	40.0	43.5
Days inventory outstanding	47.8	49.0	62.9	43.5	48.7
Days payables outstanding	75.1	61.6	82.8	57.3	64.2
Dividend cover (x)	5.9	6.7	6.7	6.7	6.7
Current ratio (x)	2.2	2.2	2.7	2.4	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.2	2.5	2.4	2.5
Net gearing (%) (incl perps)	26.6	17.0	12.5	12.6	10.2
Net gearing (%) (excl. perps)	33.0	20.8	15.1	15.1	12.1
Net interest cover (x)	43.1	9.0	4.5	7.5	7.7
Debt/EBITDA (x)	3.4	2.9	4.2	3.9	3.6
Capex/revenue (%)	8.1	2.9	5.6	4.3	4.1
Net debt/ (net cash)	1,521.4	1,037.7	793.1	848.3	721.9

Source: Company; Maybank

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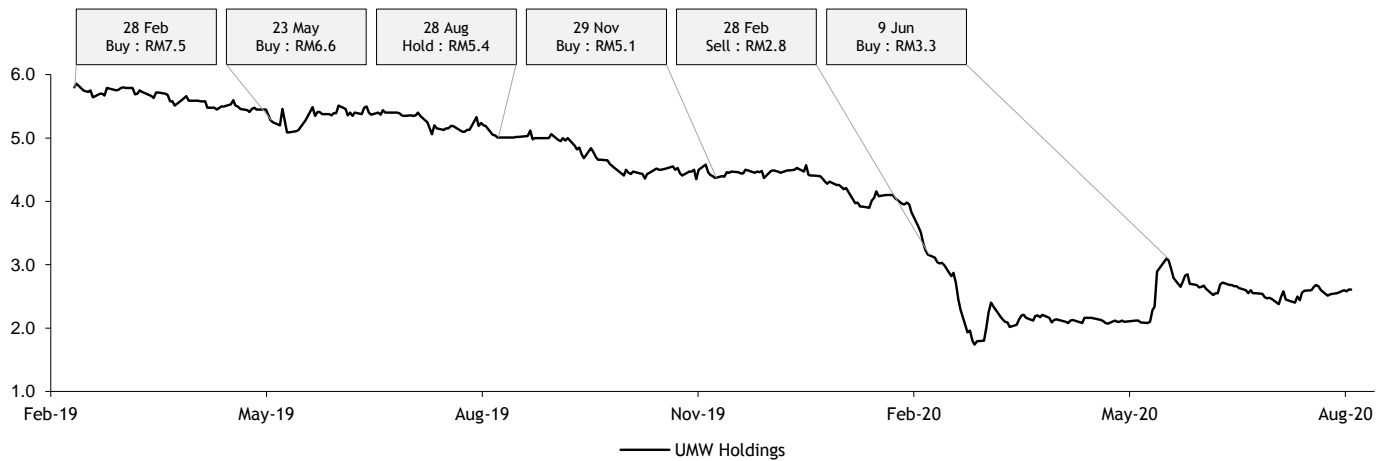
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