

### UOBKH HIGHLIGHTS

## UMW Holdings (UMWH MK/HOLD/RM2.61/Target: RM2.20)

2Q20: Incurs Losses, Earnings To Remain Lacklustre In 2020

### 2Q20 RESULTS

Year to 31 Dec	2Q20 (RMm)	qoq % chg	yoy % chg	1H20 (RMm)	yoy % chg	Remark	Year	EPS (sen)	Revision (%)	DPS (sen)	PE (x)
Revenue	1,529.7	(27.8)	(48.4)	3,648.9	(68.8)	Mainly on lower sales in across all segment due to MCO disruption	FY20F	7.7	-49.8	1.5	47.0
- Auto	1,102.1	(30.5)	(53.8)	2,687.9	(70.9)		FY21F	21.8	-	4.4	12.0
- Equipment	233.2	(19.3)	(32.1)	522.4	(65.8)		FY22F	22.0	-	4.4	11.9
- Mfg & Eng	183.3	(26.2)	(25.0)	431.9	(55.8)						
Associates	(26.9)	n.a.	n.a.	2.2	(99.2)						
PBT	(58.8)	n.a.	n.a.	4.2	(99.3)	Lower amid higher depreciation in Auto alongside operational deleveraging in Heavy Equipment					
- Auto	(41.7)	n.a.	n.a.	12.0	(97.8)						
- Equipment	24.6	(5.5)	(30.5)	50.4	(65.8)						
- Mfg & Eng	8.0	(65.1)	(39.3)	18.5	(54.4)						
Net Profit	(78.4)	n.a.	n.a.	(34.1)	n.a.						
Core Net Profit	(33.1)	n.a.	n.a.	15.6	(91.0)	a) Lower car sales					
- Toyota unit sales	7,784	(25.3)	(55.6)	18,199	(58.8)	b) losses from associate contribution					
- Perodua unit sales	29,192	(35.1)	(52.2)	74,169	(59.0)	c) Weak demand from Heavy Equipment and M&E					
<b>PBT Margins</b>	<b>(%)</b>	<b>ppts</b>	<b>ppts</b>	<b>(%)</b>	<b>ppts</b>						
Overall	(3.8)	n.a.	n.a.	0.1	(97.7)						
-Auto	(3.8)	n.a.	n.a.	0.4	(92.5)						
-Equipment	10.6	1.7	0.2	9.6	0.2						
-Mfg & Eng	4.4	0.2	(1.0)	4.3	3.3						

Source: UMWH, UOB Kay Hian

### RESULTS

- 1H20 earnings below expectation.** UMW Holdings (UMW) reported 2Q20 core losses of RM33.1m (core net profit in 2Q19: RM38.5m; 1Q20: RM48.8m). The lacklustre results were adversely dragged by the Movement Control Order (MCO) disruption amid the COVID-19 outbreak. At a closer look, the main culprits were: a) lower car sales volume (-53% yoy), b) RM26.9m loss from associate Perodua (profitable in 2Q19: RM76.1m; 1Q20: RM29.2m), and c) sluggish demand from both the heavy equipment and M&E businesses. This brings 1H20 core net profit to RM15.6m (-91% yoy), accounting for 9% of our full-year forecast.
- Automobile segment hit by MCO, while higher depreciation continues to pressure margins.** 2Q20 sale volume slumped 53% yoy to 36,977 units (both Toyota and Perodua) amid the MCO disruption that resulted in a two-month production halt for the quarter. UMW sold 7,784 units (-56% yoy) of Toyota and Lexus in 2Q20, bringing 1H20 car sales to 18,199 units (-59% yoy). This accounts for 40% of its full-year target of 45,000 units for Toyota, partly supported by the new SUV model such as the Lexus UX200 (launched on Mar 20) and the all-new RAV4 (launched on Jun 20). For associate Perodua, 2Q20 car sales was 52% yoy lower at 29,192 units, with 1H20 car sales of 74,169 units (-59% yoy) making up only 35% of its full-year target of 210,000 units. Note that the launch of flagship SUV model D55L will be delayed to 2021. In addition, higher depreciation from the new Bukit Raja plant as well as inventories clearance by way of higher discounts contributed to the losses.
- Equipment segment corroded by sluggish demand and stiff competition.** 2Q20 revenue slumped 32% yoy due to sluggish demand on the back of the delay in project implementation, following a slowdown in construction, manufacturing and mining activities in Malaysia and Myanmar. Consequently, operational deleveraging alongside competitive pricing for both heavy equipment and industrial equipment businesses led to a 31% yoy drop in PBT. **In terms of outlook,** the group believes local demand could be supported by the government's commitment to roll out major infrastructure projects in a bid to boost the economy.
- Manufacturing and engineering (M&E) segment was weak.** For M&E, 2Q20 sales contracted 25% yoy mainly due to MCO disruption. As such, PBT for the segment dropped 39% yoy.
- Frontloading purchases amid sales tax waiver.** While TIV for July 20 came in stronger at 57,552 units (+13% yoy), this is widely expected given sales tax waiver leading to the front-loading of purchases. The higher sales should also reflect the spill-over pent-up demand since Jun 20 when the economy reopened from the COVID-19 lockdown. Having said that, the impact should be much milder this round as it is still far below the 65,000 units sold during the zero-rated GST period back in 2018. We believe consumers are conserving cash, given current economic uncertainties where such front-loading purchases will lead to a base normalisation in 2021 but potentially negative growth thereafter.

### RECOMMENDATION

- We have slashed FY20 earnings by 50% to account for weaker-than-expected revenue contributions from all segments as well as lower associates' earnings.
- Maintain HOLD with a lower SOTP-based target price of RM2.20** as we ascribe a lower 2021F PE of 9x (from 10x previously) in view of the challenging industry outlook. Entry price is RM1.80.

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