

“Saved by the Sales Tax exemption”

### Share price performance



	1M	3M	12M
Absolute (%)	13.1	3.9	-41.0
Rel KLCI (%)	5.8	1.1	-41.2

	BUY	HOLD	SELL
Consensus	6	8	1

Source: Bloomberg

### Stock Data

Sector	Auto & Autoparts
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	3131/766.2
Avg daily vol - 6mth (m)	1.3
52-wk range (RM)	1.65-4.70
Est free float	27.4%
Stock Beta	1.82
Net cash / (debt)(RMm)	(426.88)
ROE (2021E)	5.7%
Derivatives	Nil
Shariah Compliant	Yes

### Key Shareholders

ASB	51.5%
EPF	13.3%
KWAP	7.3%

Source: Affin, Bloomberg

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## UMW Holdings (UMWH MK)

**HOLD (maintain)**

Up/Downside: +8.2%

**Price Target: RM2.90**

Previous Target (Rating): RM2.80 (HOLD)

### Getting back on track

- **UMWH's 9M20 core net profit came in at RM96m (-51% yoy), accounting for 82% and 70% of our and consensus full-year estimates.**
- **UMWH'3 3Q20 results recorded a strong qoq improvement as revenue rebounded to RM2.7bn (+74% qoq) and earnings returned to the black.**
- **Reaffirm HOLD on UMWH with a higher TP of RM2.90.**

#### 9M20 core net profit of RM96m; above expectations

UMWH's 9M20 core net profit fell by 51% yoy to RM96m on the back of dismal sales (-27% yoy) owing to a temporary production halt during the Movement Control Order period, decline in contribution from associates and a higher effective tax rate of 31% (vs 9M19 tax rate of 20% due to losses incurred in non-core subsidiary companies). However, the results were above our and consensus expectations, accounting for 82% and 70% of our and consensus full-year estimates. The variance to our estimate was due to higher-than-expected revenue and contribution from associates.

#### 3Q20 core earnings returned to the black

Sequentially, UMWH's revenue rose to RM2.7bn (+74% qoq) and core earnings recovered to RM80m (vs. 2Q20 core loss of RM47m) respectively. The recovery was largely due to the lockdown ease, and Toyota sales 3Q20 more than doubled to 18.6k units, helped by the sales & service tax (SST) exemption. This had also led to a stronger contribution from associates to RM94m (vs. 2Q20: RM3m), its highest since 4Q18; UMWH's 38%-owned Perodua sales volume doubled to 70.8k units in 3Q20. UMWH's EBITDA margins have also recovered by 0.3ppts qoq to 5.6% on cost optimisation initiatives.

#### In a recovery mode

During the briefing, UMWH guided that there will be launches for the facelifted versions of the Toyota Vios and Yaris in early-Dec 2020, and has received about 1k prelaunch bookings. We also gather that both Toyota and Perodua are slated to launch an SUV model in 2021. While the automotive outlook should improve sequentially, we think the segment could weaken assuming the government does not extend the SST exemption period. Elsewhere, the heavy equipment division remained lacklustre due to the slowdown/lockdowns from the key sectors abroad (ie, Myanmar mining, construction-related activities), but partly cushioned by the gradual recovery from the industrial equipment in sectors such as manufacturing, logistics and warehousing. As for the M&E segment, the Group expects the pick-up in auto sales from the SST exemption to support demand for the auto components sub-segment but cautioned that delivery for the aerospace sub-segment has slowed down due to the challenging market conditions.

#### Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	11,303.6	11,739.1	9,141.0	9,443.5	9,922.0
EBITDA (RMm)	853.2	593.7	463.2	494.4	550.1
Pretax profit (RMm)	800.3	754.8	405.6	454.9	493.5
Net profit (RMm)	344.5	454.4	221.1	238.8	259.1
EPS (sen)	29.5	38.9	18.9	20.4	22.2
PER (x)	9.1	6.9	14.2	13.1	12.1
Core net profit (RMm)	558.1	198.9	151.1	183.8	224.1
Core EPS (sen)	47.8	17.0	12.9	15.7	19.2
Core EPS growth (%)	238.8	(64.4)	(24.0)	21.7	21.9
Core PER (x)	5.6	15.7	20.7	17.0	14.0
Net DPS (sen)	7.5	6.0	4.0	5.0	6.0
Dividend Yield (%)	2.8	2.2	1.5	1.9	2.2
EV/EBITDA	5.5	7.0	8.2	7.4	5.7

Chg in EPS (%)		+29.2	+2.1	+2.8
Affin/Consensus (x)		1.1	0.8	0.8

Source: Company, Affin Hwang estimates

### Maintain Hold with a higher TP of RM2.90

We raise our 2020E core EPS by 29%, after taking into consideration the better 9M20 results but also a Sukuk payment of RM35m which falls due in the coming quarter. We also increase by c.2%-3% our 2021-22E core EPS to account for a softer recovery in Toyota sales volume. Post revision, we raise UMW's TP to RM2.90 based on lower valuation multiples for automotive and M&E segments – we anticipate car sales volume to moderate post the SST exemption period in 2021, and considering a continued downturn for the aerospace segment respectively. At 13x 2021E PER, valuation looks fair; the stock is trading close to the auto sector 5-year mean PER of 12.5x. Reaffirm HOLD.

### Key risks

Key upside risks: a strong rebound in vehicle sales, pick-up in equipment sales and strengthening of the RM (vs. US\$). Key downside risks: intense competition in automotive and equipment segments and higher-than-expected losses of O&G assets.

Fig 1: Results Comparison

FYE Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg	Comments
Revenue	2,885.1	1,529.7	2,663.3	74.1	-7.7	8,636.3	6,312.3	-26.9	Lower revenue due to production halt and softer export activities during the Covid-19 MCO period.
Op costs	-2,723.9	-1,447.5	-2,513.4	73.6	-7.7	-8,153.8	-5,937.9	-27.2	
<b>EBITDA</b>	<b>161.2</b>	<b>82.3</b>	<b>149.9</b>	82.2	-7.0	<b>482.4</b>	<b>374.4</b>	-22.4	YTD margin improvement on cost optimisation efforts.
<i>EBITDA margin (%)</i>	<i>5.6</i>	<i>5.4</i>	<i>5.6</i>	<i>0.3ppt</i>	<i>0ppt</i>	<i>5.6</i>	<i>5.9</i>	<i>0.3ppt</i>	
Deprn and amort	-82.0	-95.1	-89.7	-5.7	9.5	-253.4	-276.9	9.3	Bulk of EIs: reversal of impairment on receivables (RM32m), loss on sale of investment RM28m) and reversal from Toyota Capital (RM34m).
EBIT	79.3	-12.9	60.2	n.m.	-24.0	229.0	97.5	-57.4	
Int expense	-31.0	-30.1	-26.5	-11.8	-14.5	-107.8	-86.4	-19.9	
Int and other inc	15.8	12.2	10.3	-15.2	-34.6	52.0	40.5	-22.2	
Associates	79.4	3.1	94.3	>100	18.8	211.1	140.6	-33.4	
EI	9.1	-31.1	21.3	-168.5	n.m.	59.0	-28.4	n.m.	
<b>PBT/(LBT)</b>	<b>152.5</b>	<b>-58.8</b>	<b>159.5</b>	n.m.	4.6	<b>443.4</b>	<b>163.8</b>	-63.1	
Tax	-21.3	4.7	-41.9	n.m.	97.0	-87.6	-51.4	-41.3	Higher effective tax rate due to losses incurred from non-core subsidiaries.
<i>Tax rate (%)</i>	<i>-14.0</i>	<i>-8.1</i>	<i>-26.3</i>	<i>14.5ppt</i>	<i>-12.3ppt</i>	<i>-19.8</i>	<i>-31.4</i>	<i>-11.6ppt</i>	
MI	-20.9	-24.4	-16.3	-32.9	-21.9	-101.8	-45.2	-55.6	Above expectations.
<b>Net profit/(loss)</b>	<b>110.3</b>	<b>-78.4</b>	<b>101.3</b>	n.m.	-8.2	<b>254.0</b>	<b>67.2</b>	-73.6	
EPS (sen)	9.4	-6.7	8.7	n.m.	-8.2	21.7	5.7	-73.6	
<b>Core net profit</b>	<b>101.2</b>	<b>-47.3</b>	<b>80.0</b>	n.m.	-20.9	<b>195.0</b>	<b>95.6</b>	-51.0	

Source: Affin Hwang, Company

Fig 2: SOTP of RM2.90

Segmental	multiple	Equity value per share (RM)	Comment
<b>Automotive</b>			
- Toyota	PE 7.0x	0.46	Pegged to 7x forward earnings (from 10x)
- Perodua	PE 7.0x	1.47	Pegged to 7x forward earnings (from 10x)
<b>Equipment</b>	<b>PE 5.0x</b>	0.30	Pegged to 5x forward earnings
<b>M&amp;E</b>	<b>PE 6.0x</b>	0.36	Pegged to 6x forward earnings (from 8x)
Serendah land		0.77	RM25/sq ft
Total equity value (RMm)		<b>3.36</b>	
Add: net cash/(debt) per share		<b>(0.46)</b>	
<b>SOP (RM)</b>		<b>2.90</b>	

Source: Affin Hwang



## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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