



AmInvestment Bank

## Company report

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

26 Nov 2020

## Strong earnings rebound in 3Q20

### HOLD

(Maintained)

Jeremie Yap

jeremie-yap@ambankgroup.com

+603-2036 2304

**Rationale for report: Company results/update**

Price	RM2.68
Fair Value	RM2.40
52-week High/Low	RM4.70/RM1.65

#### Key Changes

Fair value	↔
EPS	⬇️

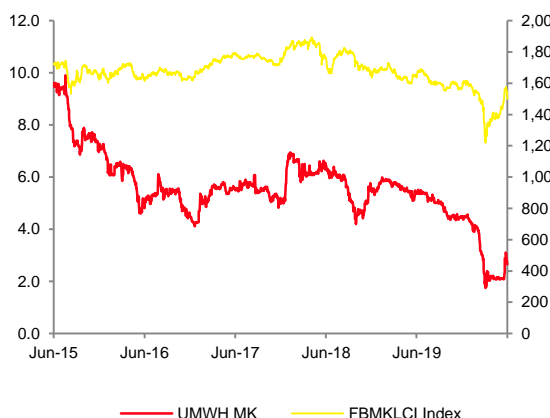
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	11,739.1	10,453.1	10,680.7	11,155.4
Core net profit (RM mil)	278.6	145.9	220.8	282.7
FD Core EPS (sen)	23.8	12.5	18.9	24.2
FD Core EPS growth (%)	(38.6)	(47.6)	51.4	28.0
Consensus Net Profit (RM mil)	-	136.7	226.8	266.1
DPS (sen)	6.0	3.7	5.7	7.3
PE (x)	11.2	21.5	14.2	11.1
EV/EBITDA (x)	2.7	10.0	7.0	5.8
Div yield (%)	2.2	1.4	2.1	2.7
ROE (%)	8.0	4.0	5.9	7.2
Net Gearing (%)	36.5	40.7	40.8	38.5

#### Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RM mil)	3,131.0
Book Value (RM/share)	3.08
P/BV (x)	0.9
ROE (%)	8.0
Net Gearing (%)	36.5

Major Shareholders	ASB (40.7%)
	EPF (8.8%)
	PNB (7.3%)
Free Float	32.6
Avg Daily Value (RM mil)	1.2

Price performance	3mth	6mth	12mth
Absolute (%)	3.9	27.6	(41.0)
Relative (%)	1.1	14.8	(41.2)



#### Investment Highlights

- We maintain our HOLD call on UMW Holdings (UMWH) with an unchanged SOP-derived fair value of RM2.40 (Exhibit 4), based on a FY21F PE of 10x for its motor segment.
- We raise our UMWH's FY20F core net profit forecast by 39% to account for: i) higher Toyota sales volume assumptions due to new model launches in 4QFY20 i.e. the Hilux, Yaris and Vios; and ii) a slight margin expansion due to successful cost-optimization measures (as per guided in the analyst briefing last night). We make no changes to our FY21–22F earnings estimates.
- UMWH's 9M20 core net profit of RM95.6mil was above ours, but within consensus expectations, accounting for 91% of ours and 70% of consensus full-year forecasts respectively. YoY, 9M20 core net profit plunged 62%.
- UMWH registered a 9M20 revenue of RM6.3bil, which was a 27% YoY decrease. The poorer performance was largely attributed to: i) lower revenue contribution from the automotive segment; and ii) weaker equipment segment contribution due to the MCO – which resulted in closures of dealerships, showrooms and manufacturing plants nationwide.
- To recap, Toyota sold 36.8K units in 9M20 (-23% YoY) vs. 47.6K units in 9M19. Toyota's market share in 9M20 was 10.8%. For the automotive segment, the group recorded a lower 9M20 revenue of RM4.8bil (-30% YoY) due to the smaller number of vehicles sold. Sales and production volume were severely impacted by the MCO which took effect on 18 March, with gradual reopenings of dealerships starting from 13 May. The automotive segment's 9M20 net profit took a massive dive to RM127.7mil (-72% YoY).
- We noted a drop in 9M20 associate earnings to RM96.5mil (-57% YoY) and we suspect that this was due to the weaker performance from Perodua. Perodua sold a total of 145.0K units in 9M20 vs. 178.8K units in 9M19 (-19% YoY) and we believe that the lower Perodua sales volume was a result of the nationwide MCO, although it is partially mitigated by the SST exemption.
- The M&E division registered a marginally lower 9M20 revenue of RM819.4mil (-8% YoY) but a higher net profit of RM24.1mil (+91% YoY). This was attributed to higher production of fan cases in the aerospace segment, which we think would improve margins via economies of scale, in addition to the group's measures to further improve its profitability through cost-containment measures.
- The group guided that production of the Trent 7000 has commenced in late Sept 2020, with its first deliveries executed in October 2020.

● Key highlights from the analyst briefing:

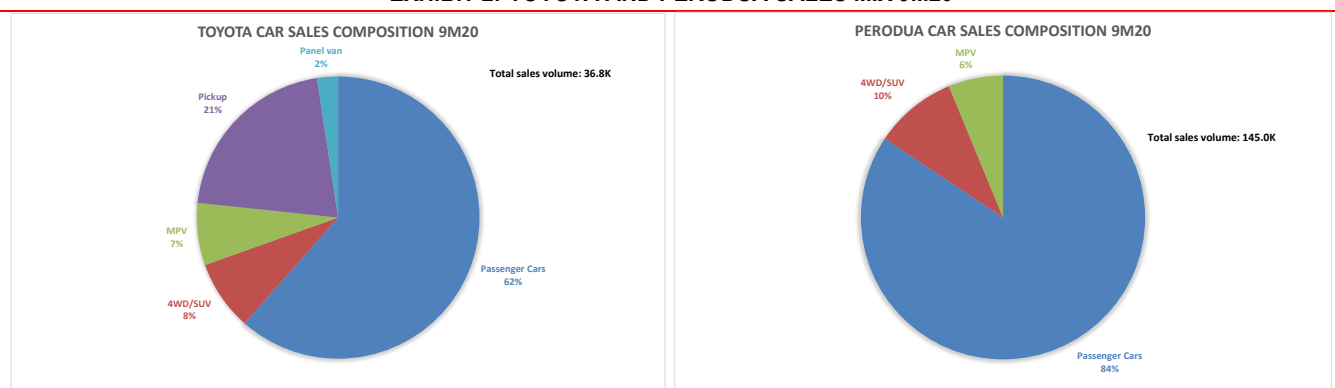
- 1) We gather that there will be multiple Toyota SUV launches in 2021, which will be a combination of both CKD and CBU models. However, management remained tight-lipped on specifics and the exact number of new launches.
- 2) Management reiterated that the A-segment Perodua SUV, more popularly known as the D55L, will be launched in “early 2021”, which we suspect would be in 1QCY21. We do not expect the model to be a direct competitor to the Proton X50 as we gather that the dimension of the vehicle is much smaller, coupled with a lower price point.
- 3) Management has hinted that the aerospace division will face a bumpy journey in 4Q20 and FY21, largely attributed to the down cycle of the global aviation industry due to the Covid-19 pandemic, which has led to a negative demand shock for plane parts, including fan casings. With that, management is currently studying the feasibility of locking in new customers (other than Rolls-Royce) to maintain the aerospace division’s earnings visibility, but nothing has been confirmed yet.
- 4) The group has guided for a QoQ growth in 4QFY20, as demand for both Toyota and Perodua vehicles remained robust – thanks to the SST exemption. However, we think that the growth in 4Q profits will be mitigated by the semi-annual perpetual sukuk interest repayment of RM34.9mil (due every 2Q and 4Q annually) which will be recognized net of tax, along with minority interest line in the income statement.

EXHIBIT 1: EARNINGS SUMMARY

RM mil	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
<b>Revenue</b>	<b>2,882.7</b>	<b>1,529.7</b>	<b>2,663.3</b>	74%	-8%	<b>8,628.7</b>	<b>6,312.3</b>	-27%
Operating Expenses	(2,835.2)	(1,561.4)	(2,604.3)	67%	-8%	(8,458.8)	(6,261.3)	-26%
Other Operating Income	32.7	17.7	22.5	27%	-31%	91.6	62.2	-32%
<b>Operating Profit</b>	<b>80.1</b>	<b>(14.0)</b>	<b>81.5</b>	-684%	2%	<b>261.5</b>	<b>113.2</b>	-57%
Finance Costs	(30.8)	(30.1)	(26.5)	-12%	-14%	(94.1)	(86.4)	-8%
Share of Profits of Associates & JV	85.2	(26.9)	94.3	-450%	11%	222.0	96.5	-57%
Investment Income	15.7	12.2	10.3	-15%	-34%	52.0	40.5	-22%
<b>Profit before tax</b>	<b>150.3</b>	<b>(58.8)</b>	<b>159.5</b>	-371%	6%	<b>441.3</b>	<b>163.8</b>	-63%
Tax	(21.0)	4.7	(41.9)	-984%	100%	(87.1)	(51.4)	-41%
<b>Profit after tax</b>	<b>129.3</b>	<b>(54.1)</b>	<b>117.6</b>	-317%	-9%	<b>354.3</b>	<b>112.3</b>	-68%
Minority interest								
Continuing operations	26.0	(10.5)	16.3	-256%	-37%	82.4	10.4	-87%
Discontinued operations	(5.0)	0.0	0.0	NA	-100%	(15.4)	0.0	-100%
<b>Total</b>	<b>20.9</b>	<b>(10.5)</b>	<b>16.3</b>	<b>-256%</b>	<b>-22%</b>	<b>67.0</b>	<b>10.4</b>	<b>-85%</b>
<b>Net profit</b>								
Continuing operations	<b>103.3</b>	<b>(78.4)</b>	<b>101.3</b>	-229%	-2%	<b>239.1</b>	<b>67.2</b>	-72%
Discontinued operations	6.9	0.0	0.0	NA	-100%	8.5	0.0	-100%
<b>Total</b>	<b>110.3</b>	<b>(78.4)</b>	<b>101.3</b>	-229%	-8%	<b>247.7</b>	<b>67.2</b>	-73%
<b>Core net profit</b>	<b>94.2</b>	<b>(29.2)</b>	<b>80.0</b>	-374%	-15%	<b>254.3</b>	<b>95.6</b>	-62%
<b>Margins</b>								
EBIT margin	2.8%	-0.9%	3.1%			3.0%	1.8%	
PBT Margin	5.2%	-3.8%	6.0%			5.1%	2.6%	
Net profit margin	3.6%	-5.1%	3.8%			2.8%	1.1%	
Core net profit margin	3.3%	-1.9%	3.0%			2.9%	1.5%	
<b>Toyota</b>								
Sales volume (units)	16,357	7,784	18,635	139%	14%	47,608	36,834	-23%
<b>Perodua</b>								
Sales volume (units)	56,972	29,193	70,842	143%	24%	178,754	145,012	-19%

Source: AmlInvestment Bank Bhd

EXHIBIT 2: TOYOTA AND PERODUA SALES MIX 9M20



Source: AmlInvestment Bank Bhd

EXHIBIT 3: SEGMENTAL BREAKDOWN

Segmental Breakdown	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
<b>Revenue</b>								
Automotive	2,296.9	1,102.0	2,127.5	93%	-7%	6,845.9	4,815.5	-30%
Equipment	353.7	233.2	297.0	27%	-16%	1,080.1	819.4	-24%
Manufacturing & Engineering	252.4	183.3	242.3	32%	-4%	734.0	674.1	-8%
Others	(20.3)	11.1	(3.4)	-131%	-83%	(31.3)	3.3	-111%
<b>Total</b>	<b>2,882.7</b>	<b>1,529.7</b>	<b>2,663.3</b>	<b>74%</b>	<b>-8%</b>	<b>8,628.7</b>	<b>6,312.3</b>	<b>-27%</b>
<b>PBT</b>								
Automotive	140.1	(41.7)	131.6	-415%	-6%	415.4	143.6	-65%
Equipment	30.8	24.6	34.0	38%	11%	108.4	84.4	-22%
Manufacturing & Engineering	15.4	8.0	20.3	153%	32%	30.9	38.8	26%
Eliminations	(35.9)	(49.8)	(26.4)	-47%	-27%	(113.4)	(103.1)	-9%
<b>Total</b>	<b>150.3</b>	<b>(58.8)</b>	<b>159.5</b>	<b>-371%</b>	<b>6%</b>	<b>441.3</b>	<b>163.8</b>	<b>-63%</b>
<b>Net profit</b>								
Automotive	104.4	(17.4)	94.6	-645%	-9%	292.4	127.7	-56%
Equipment	23.2	21.0	24.3	16%	5%	82.2	61.0	-26%
Manufacturing & Engineering	9.1	7.8	9.7	25%	7%	12.6	24.1	91%
Others	(60.3)	(55.1)	(27.4)	-50%	-55%	(113.3)	(110.8)	-2%
<b>Total</b>	<b>76.3</b>	<b>(43.6)</b>	<b>101.3</b>	<b>-332%</b>	<b>33%</b>	<b>239.1</b>	<b>67.2</b>	<b>-72%</b>
<b>PBT Margin</b>								
Automotive	6.1%	-3.8%	6.2%			6.1%	3.0%	
Equipment	8.7%	10.6%	11.5%			10.0%	10.3%	
Manufacturing & Engineering	6.1%	4.4%	8.4%			4.2%	5.8%	
<b>Net Profit Margin</b>								
Automotive	4.5%	-1.6%	4.4%			4.3%	2.7%	
Equipment	6.6%	9.0%	8.2%			7.6%	7.4%	
Manufacturing & Engineering	3.6%	4.3%	4.0%			1.7%	3.6%	

Source: AmlInvestment Bank Bhd

## EXHIBIT 4: SOP VALUATION MATRIX

FY21F SOP VALUATION						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	178	51%	10	908	0.78	1,168.3
Equipment	19	91%	11	186	0.16	
M&E	45		10	447	0.38	
					<b>1.32</b>	
Add: Others segment	80			80	0.07	
Add: Perodua	554	38%	8	1,684	1.44	
Add: Serendah land (821 acres at RM15/psf)				536	0.46	
Add: Company net debt				-1,038	-0.89	
<b>Fair Value</b>					<b>2.40</b>	

Source: AmlInvestment Bank Bhd

## EXHIBIT 5: TOYOTA PRICE LIST POST-SST EXEMPTIONS

Toyota Model	Variant	Price with SST	Price with 2020 SST Exemption (until December 31)	Price difference	Price difference in Percentage
Yaris	1.5J	RM70,888	RM69,576	-RM1,312	-1.85%
	1.5E	RM76,888	RM75,479	-RM1,409	-1.83%
	1.5G	RM83,888	RM82,475	-RM1,413	-1.68%
Vios	1.5J	RM77,200	RM76,101	-RM1,099	-1.42%
	1.5E	RM81,200	RM80,074	-RM1,126	-1.39%
	1.5G	RM87,300	RM86,132	-RM1,168	-1.34%
Corolla	1.8E	RM128,888	RM123,972	-RM4,916	-3.81%
	1.8G	RM139,888	RM134,505	-RM5,383	-3.85%
Camry	2.5V	RM196,888	RM188,763	-RM8,125	-4.13%
Rush	1.5G	RM93,000	RM88,314	-RM4,686	-5.04%
	1.5S	RM97,000	RM91,885	-RM5,115	-5.27%
C-HR	1.8L	RM150,000	RM144,336	-RM5,664	-3.78%
RAV4	2.0L	RM203,880	RM196,436	-RM7,444	-3.65%
	2.5L	RM223,880	RM215,665	-RM8,215	-3.67%
Harrier	2.0T Premium	RM243,000	RM234,510	-RM8,490	-3.49%
	2.0T Luxury	RM266,000	RM256,396	-RM9,604	-3.61%
Fortuner	2.4 4x4	RM171,500	RM162,178	-RM9,322	-5.44%
	2.4 VRZ 4x4	RM195,600	RM184,431	-RM11,169	-5.71%
	2.7 SRZ 4x4	RM181,200	RM172,523	-RM8,677	-4.79%
Hilux	5/Cab 2.4 MT 4x4	RM90,000	RM90,000	RM0	0.00%
	2.4 STD MT 4x4	RM100,000	RM100,000	RM0	0.00%
	2.4G MT 4x4	RM110,000	RM110,000	RM0	0.00%
	2.4G AT 4x4	RM118,100	RM118,100	RM0	0.00%
	2.4 L-Edition 4x4	RM124,888	RM124,888	RM0	0.00%
	2.8 Black Edition 4x4	RM139,888	RM139,888	RM0	0.00%
Avanza	1.5E	RM80,888	RM77,963	-RM2,925	-3.62%
	1.5S	RM83,888	RM80,849	-RM3,039	-3.62%
	1.5S+	RM87,888	RM84,849	-RM3,039	-3.46%
Innova	2.0E MT (Taxi)	RM84,325	RM84,325	RM0	0.00%
	2.0E	RM115,280	RM110,034	-RM5,246	-4.55%
	2.0G	RM123,400	RM117,364	-RM6,036	-4.89%
	2.0X	RM132,400	RM127,126	-RM5,274	-3.98%
Vellfire	2.5L	RM382,300	RM367,881	-RM14,419	-3.77%
Alphard	3.5L	RM464,000	RM446,609	-RM17,391	-3.75%
Hiace	Panel Van 2.5TD	RM98,000	RM98,000	RM0	0.00%

Source: AmlInvestment Bank Bhd, paultan.org

## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	11,303.6	11,739.1	10,453.1	10,680.7	11,155.4
EBITDA	815.9	1,640.7	464.5	668.0	815.8
Depreciation/Amortisation	(273.7)	(423.9)	(450.7)	(474.5)	(498.1)
Operating income (EBIT)	542.2	1,216.8	13.8	193.5	317.8
Other income & associates	270.7	206.5	167.6	210.5	235.4
Net interest	(12.6)	(27.8)	4.7	(6.5)	(11.2)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	800.3	1,395.5	186.1	397.5	541.9
Taxation	(124.1)	(149.4)	(4.4)	(44.9)	(73.3)
<b>Minorities/pref dividends</b>	<b>(155.4)</b>	<b>(321.8)</b>	<b>(105.6)</b>	<b>(201.6)</b>	<b>(252.7)</b>
Net profit	515.4	278.6	145.9	220.8	282.7
Core net profit	454.0	278.6	145.9	220.8	282.7
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	2,820.9	3,719.6	3,988.6	4,248.4	4,510.0
Intangible assets	-	-	-	-	-
<b>Other long-term assets</b>	<b>2,851.9</b>	<b>2,888.6</b>	<b>2,872.1</b>	<b>2,898.0</b>	<b>2,945.7</b>
Total non-current assets	5,672.9	6,608.1	6,860.7	7,146.4	7,455.7
Cash & equivalent	1,311.8	1,338.0	1,088.8	966.4	920.7
Stock	1,548.5	1,350.0	1,263.0	1,290.5	1,347.9
Trade debtors	1,076.6	918.3	859.2	877.9	916.9
<b>Other current assets</b>	<b>1,148.3</b>	<b>1,148.3</b>	<b>1,148.3</b>	<b>1,148.3</b>	<b>1,148.3</b>
Total current assets	5,085.1	4,754.6	4,359.3	4,283.1	4,333.8
Trade creditors	1,854.0	2,190.9	2,049.8	2,094.4	2,187.5
Short-term borrowings	535.0	1,277.9	1,534.9	1,791.9	2,048.9
<b>Other current liabilities</b>	<b>106.3</b>	<b>214.8</b>	<b>205.2</b>	<b>208.3</b>	<b>214.6</b>
Total current liabilities	2,495.3	3,683.6	3,790.0	4,094.6	4,451.0
Long-term borrowings	2,298.2	1,371.7	1,058.7	745.8	432.8
<b>Other long-term liabilities</b>	<b>250.0</b>	<b>90.5</b>	<b>86.4</b>	<b>87.7</b>	<b>90.4</b>
<b>Total long-term liabilities</b>	<b>2,548.3</b>	<b>1,462.3</b>	<b>1,145.2</b>	<b>833.5</b>	<b>523.3</b>
Shareholders' funds	3,344.6	3,595.1	3,697.2	3,851.8	4,049.7
Minority interests	2,369.8	2,621.7	2,657.5	2,789.3	2,972.1
BV/share (RM)	2.86	3.08	3.16	3.30	3.46
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	800.3	1,395.5	186.1	397.5	541.9
Depreciation/Amortisation	273.7	423.9	450.7	474.5	498.1
Net change in working capital	(1,075.1)	644.2	(6.7)	2.1	4.4
<b>Others</b>	<b>(640.4)</b>	<b>(1,073.2)</b>	<b>(353.9)</b>	<b>(424.8)</b>	<b>(472.0)</b>
Cash flow from operations	(641.6)	1,390.4	276.1	449.3	572.4
Capital expenditure	(847.8)	(670.4)	(522.7)	(534.0)	(557.8)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	<b>182.4</b>	<b>135.8</b>	<b>166.9</b>	<b>154.4</b>	<b>148.3</b>
Cash flow from investing	(665.4)	(534.6)	(355.8)	(379.6)	(409.4)
Debt raised/(repaid)	(56.0)	(56.0)	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	-	1.0
Dividends paid	(180.4)	(107.3)	(43.8)	(66.3)	(84.8)
<b>Others</b>	<b>1,064.6</b>	<b>(69.9)</b>	<b>(69.9)</b>	<b>(69.9)</b>	<b>(67.9)</b>
<b>Cash flow from financing</b>	<b>828.2</b>	<b>(233.2)</b>	<b>(169.6)</b>	<b>(192.1)</b>	<b>(207.6)</b>
<b>Net cash flow</b>	<b>(478.7)</b>	<b>622.7</b>	<b>(249.2)</b>	<b>(122.4)</b>	<b>(44.7)</b>
<b>Net cash/(debt) b/f</b>	<b>1,193.4</b>	<b>715.3</b>	<b>1,338.0</b>	<b>1,088.8</b>	<b>966.4</b>
Net cash/(debt) c/f	714.7	1,338.0	1,088.8	966.4	923.7
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	2.1	3.9	(11.0)	2.2	4.4
EBITDA growth (%)	109.7	101.1	(71.7)	43.8	22.1
Pretax margin (%)	7.1	11.9	1.8	3.7	4.9
Net profit margin (%)	4.6	2.4	1.4	2.1	2.5
Interest cover (x)	43.1	43.7	nm	29.9	28.3
Effective tax rate (%)	15.5	10.7	2.4	11.3	13.5
Dividend payout (%)	26.3	28.9	22.5	22.5	22.5
Debtors turnover (days)	34	31	31	30	29
Stock turnover (days)	48	45	46	44	43
Creditors turnover (days)	75	63	74	71	70

Source: Company, AmlInvestment Bank Bhd estimates

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