

HLIB Research

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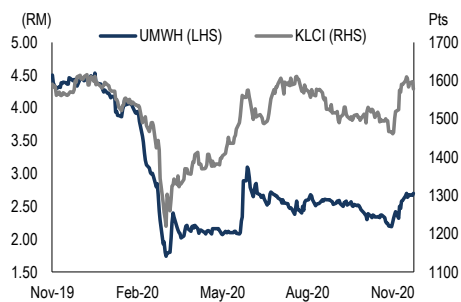
HOLD (Maintain)

Target Price:	RM2.75
Previously:	RM2.75
Current Price:	RM2.68

Capital upside	2.6%
Dividend yield	0.7%
Expected total return	3.3%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


	1M	3M	12M
Absolute	13.1	3.9	-41.0
Relative	5.8	1.1	-41.2

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,131
3-mth average volume ('000)	493
SC Shariah compliant	Yes

Major shareholders

Permodalan Nasional Berhad	61.3%
Employess Provident Fund	13.3%
Kumpulan Wang Persaraan	7.2%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	253	121	292
EPS - core (sen)	21.6	10.4	25.0
P/E (x)	12.4	25.8	10.7

UMW Holdings

Swings back to profitability

Adjusted for quarterly RM13.4m distribution for Perpetual Sukuk, core PATMI at RM64.6m for 3QFY20, reverted 9MFY20 to PATMI RM8.3m, in line with HLIB's full year PATMI forecast of RM121.2m and consensus RM136.7m. We expect continued strong earnings in 4QFY20 mainly driven by higher automotive sales and automotive components sales under SST exemption period. Maintain HOLD with unchanged TP: RM2.75 based on 10% discount to SOP: RM3.03 as we expect stiff competitions in 2021 due to several concurrent new model introductions by close competitors.

Within expectation. UMW reported core PATMI of RM64.6m (adjusted for quarterly provision of RM13.4m Perpetual Sukuk distribution) for 3QFY20, which reverted 9MFY20 back to PATMI of RM8.3m as compared to HLIB's FY20 forecast of RM121.2m and consensus of RM136.7m. We deem the result within expectations as we expect much stronger earnings momentum in 4QFY20, driven mainly by strong car sales prior to the ending of SST exemptions. We have excluded net EIs of +RM34.1m in 9MFY20, mainly due to reversal of impairments, PPE disposal gain and forex gain (offset by investment disposal loss).

Dividend. None.

QoQ. Adjusted for quarterly distribution for Perpetual Sukuk, UMW returned to core PATMI RM64.6m from LATMI -RM69.8m (in 2QFY20) mainly driven by strong recovery of automotive sales volume since SST exemptions implemented in Jun 2020 as well as recovery to Toyota Capital (from loan moratorium impact in 2QFY20).

YoY. Core earnings declined 22.9% YoY, due to lower actual Toyota car sales (to dealers) which was partially offset by higher contribution from Perodua as well as improved margins from both manufacturing and equipment segments.

YTD. Core earnings declined 96.4% YoY, as group operations were affected by Covid-19 and implementation of MCO.

Automotive. Management is upbeat on strong automotive sales in 4QFY20 (due to SST exemption). Entering FY21, UMW will be banking on several attractive new models from Toyota (confirmed Vios facelift, Yaris facelift and an entry level SUV model) and Perodua (confirmed D55L SUV and expected Myvi facelift). We are cautiously optimistic on the outlook for the segment due to concurrent new model introductions by competitors in the same period.

Equipment. Demand for heavy equipment (mining, construction and logging) remains sluggish in the near term, given the slowdown of domestic as well as regional economic activity. Nevertheless, the management has been able to improve the margins from on-going cost optimization initiatives.

M&E. Automotive parts will leverage on the recovery of local car production volume, for earnings sustainability. Kayaba has completed its +20% capacity expansion in Nov 2020. Management is strategizing for product diversification into both aero and non-aero manufacturing, while implementing cost-optimization initiatives.

Forecast. Unchanged.

Maintain HOLD, TP: RM2.75. Maintain HOLD recommendation on UMW with unchanged TP: RM2.75, based on unchanged discount of 10% to SOP of RM3.03. We believe Toyota will continue to face stiff market competition in 2021, post ending of SST exemptions, while the recovery of equipment and aerospace manufacturing will be relatively weak.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	1,312	1,472	1,811	1,840	1,695
Receivables	1,549	1,590	1,277	1,453	1,542
Inventories	960	1,243	851	1,077	1,142
PPE	2,821	2,702	2,603	2,674	2,741
Others	4,116	4,128	4,226	4,367	4,518
Assets	10,758	11,135	10,768	11,411	11,638
Payables	708	941	642	809	862
Debt	3,931	3,608	3,396	3,511	3,305
Others	405	488	488	488	488
Liabilities	5,044	5,037	4,525	4,808	4,655
Shareholder's equity	3,345	3,696	3,794	4,040	4,314
Perpetual sukuk	1,098	1,098	1,098	1,098	1,098
Minority interest	1,272	1,304	1,351	1,465	1,572
Equity	5,714	6,098	6,243	6,603	6,983

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	800	755	250	504	532
D&A	274	345	349	349	353
Working capital	(438)	(90)	405	(234)	(101)
Taxation	(163)	(112)	(33)	(79)	(82)
Others	(206)	(570)	(196)	(280)	(303)
CFO	268	328	774	260	399
Capex	(915)	(345)	(250)	(420)	(420)
Asset disposal	62	506	0	0	0
Acquisitions	132	(9)	0	0	0
Others	309	205	98	140	151
CFI	(412)	357	(152)	(280)	(269)
Changes in debt	78	(342)	(211)	115	(206)
Shares issued	0	0	0	0	0
Dividends	(58)	(76)	(23)	(47)	(47)
Distribution to Perps	(35)	(70)	(70)	(70)	(70)
Others	1,035	(96)	21	51	47
CFF	1,019	(584)	(284)	49	(275)
Net cash flow	875	101	339	29	(145)
Forex	(741)	(4)	0	0	0
Others	8	64	0	0	(0)
Beginning cash	1,170	1,312	1,472	1,811	1,840
Ending cash	1,312	1,472	1,811	1,840	1,695

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	11,304	11,739	8,512	10,765	11,421
EBITDA	816	867	493	649	646
EBIT	542	521	144	300	293
Net finance cost	(13)	(58)	(90)	(76)	(64)
Associates & JV	271	292	196	280	303
Profit before tax	800	755	250	504	532
Tax	(124)	(109)	(33)	(79)	(82)
Operation net profit	676	646	217	425	450
Discontinued operation	(177)	(17)	0	0	0
Reported net profit	499	629	217	425	450
Minority interest	(120)	(105)	(26)	(64)	(59)
Perpetual sukuk	(121)	(99)	(9)	(41)	(33)
Reported PATMI	344	454	121	292	321
Exceptionals	(54)	(202)	0	0	0
Core PATMI	290	253	121	292	321
Concensus			137	227	266
HLIB/Concensus (%)			88.7%	128.7%	120.5%

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Reported EPS (sen)	29.4	38.9	10.4	25.0	27.5
Core EPS (sen)	24.8	21.6	10.4	25.0	27.5
Core P/E (x)	10.8	12.4	25.8	10.7	9.8
DPS (sen)	7.5	6.0	2.0	4.0	6.0
Dividend yield (%)	2.8%	2.2%	0.7%	1.5%	2.2%
BVPS (RM)	2.86	3.16	3.25	3.46	3.69
P/B (x)	0.9	0.8	0.8	0.8	0.7
EBITDA margin	7.2%	7.4%	5.8%	6.0%	5.7%
EBIT margin	4.8%	4.4%	1.7%	2.8%	2.6%
PBT margin	7.1%	6.4%	2.9%	4.7%	4.7%
Net margin	-1.1%	-0.8%	-0.1%	-0.4%	-0.3%
ROE	9.1%	7.2%	3.2%	7.5%	7.7%
ROA	2.8%	2.3%	1.1%	2.6%	2.8%
Net gearing*	-78.3%	-57.8%	-41.8%	-41.4%	-37.3%

Assumptions

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Sales (Unit)					
Toyota	65,551	69,391	48,000	62,000	66,000
Lexus	1,020	918	600	800	800
Perodua	227,243	240,341	193,476	236,397	248,354
Average Price (RM)					
UMW	134,375	132,153	128,188	128,188	126,906
Perodua	39,748	42,758	42,758	42,994	43,430

Figure #1 Quarterly results comparison

FYE Dec (RMm)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MY19	9MY20	YoY (%)
Revenue	2,882.7	1,529.7	2,663.3	74.1%	-7.6%	8,623.5	6,312.3	-26.8%
EBITDA	161.8	87.3	155.9	78.5%	-3.7%	560.3	376.6	-32.8%
EBIT	79.8	(7.8)	66.2	N.M.	-17.1%	306.9	99.7	-67.5%
Net finance expense	(23.9)	(25.5)	(20.3)	N.M.	-15.1%	(66.8)	(66.5)	-0.4%
Associates	85.2	(26.9)	94.3	N.M.	10.6%	227.0	96.5	-57.5%
Eis	9.1	1.4	19.4			(23.9)	34.1	
Reported PBT	150.3	(58.8)	159.5	N.M.	6.1%	443.1	163.8	-63.0%
Tax	(21.0)	(4.7)	(41.9)	783.9%	99.6%	(86.8)	(60.9)	-29.8%
Reported operation net profit	129.3	(63.6)	117.6	N.M.	-9.0%	356.3	102.9	-71.1%
Discontinued operation	1.9	0.0	0.0	N.M.	N.M.	(0.5)	0.0	N.M.
Reported net profit	131.2	(63.6)	117.6	N.M.	-10.4%	355.8	102.9	-71.1%
Reported PATMI	110.3	(87.9)	101.3	N.M.	-8.2%	288.8	57.7	-80.0%
Eis & Sukuk Adjustments	(26.5)	18.1	(36.7)	N.M.	38.4%	(55.9)	(49.4)	-11.6%
Core PATMI	83.8	(69.8)	64.6	N.M.	-22.9%	233.0	8.3	-96.4%
Reported EPS (Sen)	9.4	(7.5)	8.7	N.M.	-8.2%	21.7	4.9	-77.3%
Core EPS (Sen)	7.2	(6.0)	5.5	N.M.	-22.9%	19.9	0.7	-96.4%
				<u>pts</u>	<u>pts</u>			<u>pts</u>
EBITDA margin (%)	5.6%	5.7%	5.9%	0.1	0.2	6.5%	6.0%	(0.5)
EBIT margin (%)	2.8%	-0.5%	2.5%	3.0	(0.3)	3.6%	1.6%	(2.0)
Core PATMI margin (%)	2.9%	-4.6%	2.4%	2.9	(0.3)	2.7%	0.1%	(3.4)

Bursa, HLIB Research

Figure #2 Quarterly results comparison by segment

FYE Dec (RMm)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MY19	9MY20	YoY (%)
Reported Revenue								
Automotive	2,882.7	1,529.7	2,663.3	74.1%	-7.6%	8,623.5	6,312.3	-26.8%
Equipment	2,296.9	1,102.0	2,127.5	93.1%	-7.4%	6,845.9	4,815.5	-29.7%
Manufacturing & Engineering	353.7	233.2	297.0	27.3%	-16.0%	1,080.1	819.4	-24.1%
Others	(71.3)	11.1	(3.4)	N.M.	N.M.	(36.6)	3.3	N.M.
Total	5,533.3	2,865.0	5,087.8	77.6%	-8.0%	16,549.5	11,947.1	-27.8%
Reported PATMI								
Automotive	104.4	(17.4)	94.6	-645.1%	-9.4%	292.4	127.7	-56.3%
Equipment	23.2	21.0	24.3	15.7%	5.0%	82.2	61.0	-25.8%
Manufacturing & Engineering	9.1	7.8	9.7	24.6%	7.1%	12.6	24.1	90.6%
Others	(26.4)	(99.4)	(27.4)	-72.4%	3.9%	0.0	(38.0)	N.M.
Total	110.3	(87.9)	101.3	-215.2%	N.M.	387.2	174.9	-54.8%
Core PATMI	83.8	(69.8)	64.6	-192.5%	N.M.	233.0	8.3	-96.4%

Bursa, HLIB Research

Figure #3 UMW automotive sales statistics

FYE Dec (RMm)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MY19	9MY20	YoY (%)
Toyota	16,357	7,784	18,635	139.4%	13.9%	47,608	36,834	-22.6%
Lexus	271	102	235	130.4%	-13.3%	543	505	-7.0%
Perodua	56,972	29,193	70,842	142.7%	24.3%	178,754	145,012	-18.9%
Total	73,600	37,079	89,712	141.9%	21.9%	226,905	182,351	-19.6%

Bursa, HLIB Research

Figure #4 UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,147.5	2.69	FY21 PE 10x
Equipment	Various	647.8	0.55	FY21 PE 8x
Manufacturing & Engineering	Various	1,388.4	1.19	FY21 PE 18x
Others (including O&G unlisted)	Various	35.9	0.03	Book value based on FY2019
700 acres Serendah land	100.00	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	90.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2019 Annual Report
Holding Co Net Debt		(1,647.8)	(1.41)	Based on 2019 Annual Report
Total		3,541.5	3.03	

Holding Co Discount 10.0%

Target Price 2.75

* No of Shares 1,168.3 As at end FY2018

HLIB Research

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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