

26 Nov 2020

# Buy

**Price**  
 RM2.68

**Target Price**  
 RM3.20 (from RM3.00)

## Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,131.0
52-week high/low (RM)	4.70 / 1.65
Avg daily turnover (RMm)	1.2
KLCI (pts)	1,597.6

Source: Bloomberg, KAF

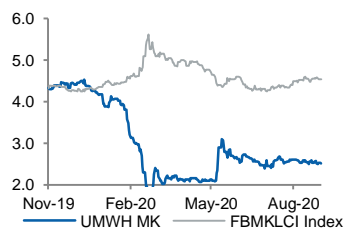
## Major Shareholder (%)

Skim Amanah Saham Bumiputera	(51.5%)
EPF	(12.7%)
Yayasan Perlaburan Bumiputera	(7.3%)
Free Float	27.4

Source: Bloomberg, KAF

## Performance

	3M	6M	12M
Absolute (%)	3.9	27.6	(41.0)
Rel Market (%)	1.1	14.8	(41.2)



Source: Bloomberg, KAF

## Analyst

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# UMW Holdings

## Reverses to the black in 3Q

UMW reversed to the black in 3Q, with RM80m core earnings. Auto sales rebounded following the MCO period in 2Q, with support from the sales tax exemption. We expect better 4Q sales and forecast 12% and 7% volume growth for UMWT and Perodua next year – to be supported by a facelifted Vios/Yaris and a potential new Harrier and Corolla Cross. A new Perodua SUV is also coming in 1Q21. Maintain Buy with higher TP.

## Financial Highlights

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue (RMm)	11,304	11,739	9,424	10,225	10,589
Core net profit (RMm)	326	169	152	170	187
Core EPS (Sen)	27.9	14.4	13.1	14.6	16.0
EPS growth (%)	93.2	(48.2)	(9.6)	11.6	10.1
DPS (Sen)	7.5	6.0	5.0	6.0	6.0
Core PE (x)	9.6	18.6	20.5	18.4	16.7
Div yield (%)	2.8	2.2	1.9	2.2	2.2
ROE (%)	16.1	12.0	4.0	4.3	4.6
Net Gearing (%)	45.5	28.1	11.2	Net Cash	Net Cash
PBV(x)	0.9	0.8	0.8	0.8	0.7

Source: Company, KAF

**A strong rebound in 3Q.** UMW reversed to the black with RM80m core earnings – compared to RM33m losses in 2Q. This was on the back of 74% top-line growth. The strong performance can be attributed to auto sales rebound following the Movement Control Order (MCO) which halted sales in 2Q. Sales were also supported by the sales tax exemption effective from June until year-end. Thus, 9M core earnings of RM96m make up 88% of our forecast and 68% of consensus.

**Strong UMWT and Perodua sales.** Toyota and Lexus sales rebounded strongly with 19k units sold in 3Q – up 139% from 8k in 2Q. It was also 13% higher from 17k a year earlier. Similarly, Perodua sales also grew 143% sequentially to 71k in 3Q. Hence, the auto division reported strong RM132m PBT in 3Q – a reversal from RM42m losses in 2Q. JV/associate contributions also reversed to RM94m profits (from RM27m losses in 2Q). Auto PBT margins also normalised to 6% in 3Q (vs. 3% in 1Q).

**Margin improvements for equipment.** The equipment division's PBT improved 38% qoq to RM34m on 27% top-line growth. This was mainly due to demand recovery for its industrial equipment (mitigating slowdown for heavy equipment sales) as well as cost optimisation initiatives. PBT margin improved to 11% from 9% last year due to higher margins for its leasing business. We expect margins to be sustained as demand normalises.

**Cost initiatives at M&E.** M&E division's 3Q PBT of RM20m is also a stark improvement from 2Q's RM8m. For the 9M period, PBT improved 26% on an 8% top-line decline due to cost optimisation exercises. Lubricant demand is expected to improve in tandem with auto sales; this will mitigate slowing orders for fan cases. That said, management made its first Trent 7000 delivery in Oct; it is also looking to utilise its aerospace production facility to manufacture new products. PBT margin improved by 2ppt for the 9M period.

**Outlook and adjustments.** Management expects stronger auto sales in 4Q given the ongoing sales tax exemption; it may exceed its 53k target. We have increased our forecast to 56k (from 54k earlier) – assuming 18k units in 4Q (similar to 3Q volume). To be sure, UMWT had launched seven models this year and began taking orders for the updated Vios and Yaris. Similarly, we had earlier adjusted our 2020 Perodua sales forecast upwards to 215k (from 186k). We forecast UMWT sales to grow 12% to 63k next year, and Perodua sales to grow 7% to 230k units next year. Hence, our FY20-21 earnings are adjusted upwards by 30-41% from RM108-130m earlier.

**Maintain Buy.** We maintain our Buy with a higher SOP-based TP of RM3.20 to reflect the stronger auto sales. We expect 2021 sales volume to be supported by the facelifted Vios and Yaris, as well as new launches (potentially a Harrier & Corolla Cross). We believe Perodua sales will be sustained given the competitive pricing of Myvi and Axia – in addition to the launch of the new SUV in 1Q21. Further extension of the sales tax exemption into 2021 is a positive upside risk, while weaker MYR and another severe lockdown are key downside risks. UMW is trading at 18x FY21 PE and 0.6x PBV.

**Exhibit 1: Results summary**

FYE 31 Dec	3Q19	1Q20	2Q20	3Q20	yoy %	qoq%	9M19	9M20	yoy %	FY20F	9M20/F
<b>Revenue</b>	<b>2883</b>	<b>2119</b>	<b>1530</b>	<b>2663</b>	<b>-8%</b>	<b>74%</b>	<b>8623</b>	<b>6312</b>	<b>-27%</b>	<b>9125</b>	<b>69%</b>
<b>Operating profit</b>	<b>80</b>	<b>46</b>	<b>(14)</b>	<b>82</b>	<b>2%</b>	<b>-684%</b>	<b>258</b>	<b>113</b>	<b>-56%</b>	<b>80</b>	<b>142%</b>
Investment income	16	18	12	10	-34%	-15%	52	40	-22%	92	44%
Finance cost	(31)	(30)	(30)	(27)	-14%	-12%	(93)	(86)	-7%	(109)	79%
JV & Associates	85	29	(27)	94	11%	-450%	227	96	-57%	201	48%
<b>Pretax profit</b>	<b>150</b>	<b>63</b>	<b>(59)</b>	<b>160</b>	<b>6%</b>	<b>-371%</b>	<b>443</b>	<b>164</b>	<b>-63%</b>	<b>264</b>	<b>62%</b>
Tax	(21)	(14)	5	(42)	100%	-984%	(88)	(51)	-41%	(36)	142%
<b>Profit after tax</b>	<b>129</b>	<b>49</b>	<b>(54)</b>	<b>118</b>	<b>-9%</b>	<b>-317%</b>	<b>356</b>	<b>112</b>	<b>-68%</b>	<b>228</b>	<b>49%</b>
MI & perpetual sukuk holders	(26)	(4)	(24)	(16)	-37%	-33%	(102)	(45)	-56%	(119)	38%
<b>Net profit</b>	<b>103</b>	<b>44</b>	<b>(78)</b>	<b>101</b>	<b>-2%</b>	<b>-229%</b>	<b>254</b>	<b>67</b>	<b>-74%</b>	<b>108</b>	<b>62%</b>
<b>Core net profit</b>	<b>92</b>	<b>49</b>	<b>(33)</b>	<b>80</b>	<b>-13%</b>	<b>-341%</b>	<b>220</b>	<b>96</b>	<b>-57%</b>	<b>108</b>	<b>88%</b>
EPS (sen)	8.8	3.8	(6.7)	8.7			21.7	5.7			
Core EPS (sen)	7.8	4.2	(2.8)	6.8			18.8	8.2			
Net DPS (sen)	4.0	0.0	0.0	0.0			4.0	0.0			
BV (RM)	3.04	3.20	3.16	3.25			3.04	3.25			
EBIT margin (%)	3%	2%	-1%	3%			3%	2%			
PBT margin (%)	5%	3%	-4%	6%			5%	3%			
PAT margin (%)	4%	2%	-4%	4%			4%	2%			
Net margin (%)	4%	2%	-5%	4%			3%	1%			
Effective tax rate (%)	14%	23%	8%	26%			20%	31%			

Source: Company, KAF

**Exhibit 2: Segmental breakdown**

	3Q19	1Q20	2Q20	3Q20	yoy %	qoq %	9M19	9M20	yoy %	FY20F	9M20/F
Automotive	2297	1586	1102	2128	-7%	93%	6846	4815	-30%	6,960	69%
Equipment	354	289	233	297	-16%	27%	1080	819	-24%	1,289	64%
Manufacturing	252	249	183	242	-4%	32%	734	674	-8%	903	75%
Others & Eliminations	(20)	(4)	11	(3)	-83%	-131%	(37)	3	-109%		
<b>Total Revenue (RM mil)</b>	<b>2883</b>	<b>2119</b>	<b>1530</b>	<b>2663</b>	<b>-8%</b>	<b>74%</b>	<b>8623</b>	<b>6312</b>	<b>-27%</b>	<b>9,125</b>	<b>69%</b>
Automotive	140	54	(42)	132	-6%	-415%	415	144	-65%	223	64%
Equipment	31	26	25	34	11%	38%	108	84	-22%	84	101%
Manufacturing	15	10	8	20	32%	153%	31	39	26%	40	98%
Others	(36)	(27)	(50)	(26)	-27%	-47%	(112)	(103)	-8%		
<b>Total PBT (RM mil)</b>	<b>150</b>	<b>63</b>	<b>(59)</b>	<b>159</b>	<b>6%</b>	<b>-371%</b>	<b>443</b>	<b>164</b>	<b>-63%</b>	<b>257</b>	<b>2%</b>
Automotive PBT margin (%)	6%	3%	-4%	6%			6.1%	3.0%		3%	
Equipment PBT margin (%)	9%	9%	11%	11%			10%	10%		7%	
Manufacturing PBT (%)	6%	4%	4%	8%			4%	6%		4%	
<b>Total PBT margin (%)</b>	<b>5%</b>	<b>3%</b>	<b>-4%</b>	<b>6%</b>			<b>5%</b>	<b>3%</b>		<b>3%</b>	
USD:MYR average	4.16	4.18	4.32	4.22			4.13	4.20	2%		
<b>Unit sales</b>	<b>3Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>yoy %</b>	<b>qoq %</b>	<b>9M19</b>	<b>9M20</b>	<b>yoy %</b>	<b>FY20</b>	<b>9M20/F</b>
Toyota & Lexus	16,628	10,583	7,886	18,870	13%	139%	48,151	37,339	-22%	53,800	69%
Perodua	56,972	44,977	29,193	70,842	24%	143%	178,754	145,012	-19%	215,000	67%
	<b>73,600</b>	<b>55,560</b>	<b>37,079</b>	<b>89,712</b>	<b>22%</b>	<b>142%</b>	<b>226,905</b>	<b>182,351</b>	<b>-20%</b>	<b>268,800</b>	<b>68%</b>
<b>Grand total</b>	2297	1586	1102	2128	-7%	93%	6846	4815	-30%	6,960	69%

Source: Company, KAF

**Exhibit 3: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 4: PE Band chart**



Source: Company, KAF, Bloomberg

## UMW Holdings

### Income Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
<b>Revenue</b>	<b>11,303.6</b>	<b>11,739.1</b>	<b>9,423.5</b>	<b>10,224.8</b>	<b>10,589.0</b>
<b>EBITDA</b>	<b>815.9</b>	<b>866.6</b>	<b>535.0</b>	<b>492.3</b>	<b>484.0</b>
Depreciation/Amortisation	(273.7)	(345.1)	(310.2)	(298.4)	(286.6)
Operating income (EBIT)	542.2	521.4	224.8	193.9	197.4
Other income & associates	270.7	291.6	194.5	234.4	235.2
Net interest	(12.6)	(58.2)	(58.8)	(34.9)	(4.2)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>800.3</b>	<b>754.8</b>	<b>360.5</b>	<b>393.4</b>	<b>428.3</b>
Taxation	(124.1)	(108.6)	(86.5)	(62.9)	(77.1)
Minorities/pref dividends	(160.8)	(223.4)	(121.5)	(160.3)	(163.9)
<b>Net profit</b>	<b>515.4</b>	<b>422.8</b>	<b>152.5</b>	<b>170.1</b>	<b>187.3</b>
<b>Core net profit</b>	<b>325.8</b>	<b>168.6</b>	<b>152.5</b>	<b>170.1</b>	<b>187.3</b>

### Balance Sheet

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	2,820.9	2,701.7	2,262.4	1,815.0	1,379.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	729.2	865.1	865.1	865.1	865.1
<b>Total non-current assets</b>	<b>5,391.2</b>	<b>5,488.2</b>	<b>5,049.0</b>	<b>4,601.5</b>	<b>4,165.8</b>
Cash & equivalent	1,312.0	1,472.1	1,651.8	2,100.4	2,645.5
Stock	1,548.5	1,589.6	1,403.1	1,549.9	1,603.7
Trade debtors	1,076.6	1,449.1	923.4	998.5	1,026.0
Other current assets	1,148.1	1,082.5	1,858.8	1,709.1	1,514.1
<b>Total current assets</b>	<b>5,085.1</b>	<b>5,593.2</b>	<b>5,837.1</b>	<b>6,357.9</b>	<b>6,789.4</b>
Trade creditors	1,854.0	2,076.6	1,979.1	2,018.7	2,035.2
Short-term borrowings	535.0	386.4	149.2	141.0	133.9
Other current liabilities	106.3	138.1	138.1	138.1	138.1
<b>Total current liabilities</b>	<b>2,495.3</b>	<b>2,601.0</b>	<b>2,266.4</b>	<b>2,297.7</b>	<b>2,307.2</b>
Long-term borrowings	2,298.2	2,123.4	1,935.3	1,569.6	1,204.7
Other long-term liabilities	250.0	312.1	312.1	389.5	389.5
<b>Total long-term liabilities</b>	<b>2,548.3</b>	<b>2,435.6</b>	<b>2,247.5</b>	<b>1,959.1</b>	<b>1,594.2</b>
<b>Shareholders' funds</b>	<b>3,344.6</b>	<b>3,696.4</b>	<b>3,848.9</b>	<b>4,019.0</b>	<b>4,206.3</b>
Minority interests	2,369.8	2,401.7	2,523.2	2,683.5	2,847.4

### Cash flow Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	800.3	754.8	360.5	393.4	428.3
Depreciation/Amortisation	273.7	345.1	310.2	298.4	286.6
Net change in working capital	(146.8)	(142.9)	614.7	(182.3)	(64.8)
Others	(752.8)	(702.0)	(357.2)	(262.4)	(308.0)
<b>Cash flow from operations</b>	<b>174.4</b>	<b>255.0</b>	<b>928.3</b>	<b>247.0</b>	<b>342.1</b>
Capital expenditure	(915.0)	(345.5)	(120.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	(1,496.0)	(1,187.9)	(1,251.2)	(1,251.2)	(1,251.2)
Others	2,092.4	1,963.0	1,227.5	2,078.4	2,088.5
<b>Cash flow from investing</b>	<b>(318.7)</b>	<b>429.7</b>	<b>(143.7)</b>	<b>727.2</b>	<b>737.4</b>
Debt raised/(repaid)	77.7	(323.0)	(378.0)	(371.0)	(368.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(58.4)	(75.9)	(70.1)	(58.4)	(70.1)
Others	1,000.0	(185.3)	(96.2)	(96.2)	(96.2)
<b>Cash flow from financing</b>	<b>1,019.2</b>	<b>(584.2)</b>	<b>(544.3)</b>	<b>(525.6)</b>	<b>(534.3)</b>
<b>Net cash flow</b>	<b>874.9</b>	<b>100.5</b>	<b>240.3</b>	<b>448.6</b>	<b>545.2</b>
<b>Cash b/f</b>	<b>1,181.5</b>	<b>1,315.2</b>	<b>1,411.5</b>	<b>1,651.8</b>	<b>2,100.4</b>
<b>Cash c/f</b>	<b>1,315.2</b>	<b>1,411.5</b>	<b>1,651.8</b>	<b>2,100.4</b>	<b>2,645.5</b>

### Key Ratios

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue growth (%)	2.1	3.9	(19.7)	8.5	3.6
EBITDA growth (%)	>100	6.2	(38.3)	(8.0)	(1.7)
Pretax margins (%)	7.1	6.4	3.8	3.8	4.0
Net profit margins (%)	4.6	3.6	1.6	1.7	1.8
Interest cover (x)	43.1	9.0	3.8	5.6	46.8
Effective tax rate (%)	10.8	8.3	0.0	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	34	39	46	34	35
Stock turnover (days)	48	49	58	53	54
Creditors turnover (days)	75	61	79	71	70

Source: Bloomberg, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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