

26 November 2020

UMW Holdings Bhd

9MFY20 Above Our Expectation

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9MFY20 core PATAMI of RM95.6m (-56%) came in at 111%/70% of our/consensus full-year estimates. The positive variance from our estimate stemmed from stronger-than-expected contribution from Automotive division and associate Perodua. As such, we increase FY20E and FY21E CNP by 87% and 24%, respectively, and our TP to RM3.30 (from RM2.70). Upgrade to OP (from MP). The group is expected to launch two all-new models under Toyota, one all-new model under Perodua and one which is still undisclosed, next year.

9MFY20 above our expectation. 9MFY20 core PATAMI of RM95.6m (-56%) came in at 111%/70% of our/consensus full-year estimates. The positive variance from our estimate is due to stronger-than-expected contribution from Automotive division and associate Perodua. Note that, 9MFY20 core PATAMI excludes: (i) Toyota Capital Malaysia (TCM)'s provision of loan moratorium impact of RM33.8m, (ii) reversal of impairment and receivables (including debt recovery) of RM31.7m, (iii) unlisted O&G's forex loss (no more stake held) of RM27.9m, and (iv) other impairment reversal of RM1.6m. There was no dividend declared for the quarter, as expected.

QoQ, 3QFY20 recorded a significant turnaround to core PATAMI of RM87.8m compared to core loss of RM29.3m in 2QFY20 as it rebounded from the various MCOs in the preceding quarter which was further boosted by sales-tax exemption. Total Toyota & Lexus and Perodua unit sales soared higher at 18,870 units (>100%) and 70,842 units (>100%), respectively. Its equipment segment (+38% PBT) and M&E segment (+153% PBT) also contributed higher profit with the gradual re-opening of the economy.

YoY, 9MFY20 core PATAMI plunged 56% mainly due to lower Automotive segment pre-tax profit contribution (-65%), suffering from: (i) the closure of businesses during MCO starting 18th March 2020, until 4th May 2020, and (ii) higher Bukit Raja plant depreciation (+9%). Toyota & Lexus and Perodua recorded lower unit sales at 37,339 units (-23%) and 145,012 units (-19%), respectively. Furthermore, the equipment segment (-22%) faced a challenging market for both Heavy and Industrial Equipment especially during the MCO. This was, however, cushioned by: (i) higher M&E segment profit contribution (+26%), mainly due to cost optimisation strategy, and supported by ramp-up production of fan cases by Aerospace sub-segment (24-hour operations), but the closure during MCO also affected its performance.

Outlook. UMW derives its earnings mostly from: (i) the stream of new models (Vios and Yaris facelifted) launching in December 2020 and supported by Toyota RAV4 CBU and Lexus UX200, Toyota Hilux Rogue with two new CKD models expected, namely the Innova & Fortuner, expected in Jan 2021, with order-taking in 4QCY20, and (ii) its 38%-owned Perodua. For Equipment division, the group will continue to leverage on its partners (KOMATSU & TICO)'s strengths and new collaborative robots ("Cobots") venture with Universal Robot A/S, while UMW Aerospace has turned profitable in 2019.

We increased **FY20E and FY21E CNP by 87% and 24%, respectively**, to reflect stronger contribution from Automotive division and associate Perodua.

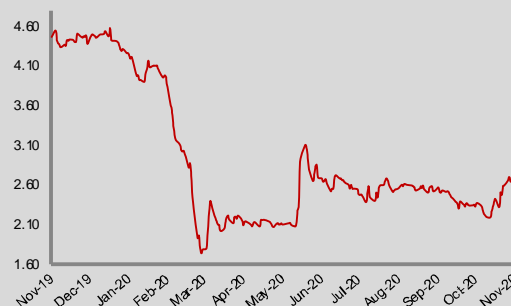
Upgrade to OP (from MP) with a higher TP of RM3.30 (from RM2.70) based on 17x FY21E EPS (at 5-year historical mean PER).

Risks to our call include: (i) lower-than-expected car sales volume, and (ii) higher-than-expected operating expenses.

OUTPERFORM

Price: RM2.68
Target Price: RM3.30 

Share Price Performance



KLCI	1,597.58
YTD KLCI chg	0.6%
YTD stock price chg	-40.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	3,131.0
Shares Outstanding	1,168.3
52-week range (H)	4.70
52-week range (L)	1.65
3-mth avg daily vol:	492,791
Free Float	27%
Beta	1.8

Major Shareholders

Amanah Saham Nasional	51.5%
Employees Provident Fund	13.3%
KWAP	7.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	11,739.1	10,465.3	11,934.1
EBIT	880.7	632.6	835.2
PBT	754.8	366.4	542.2
PATAMI	454.4	161.6	230.2
Core PATAMI	255.0	161.6	230.2
Consensus NP	-	136.7	226.8
Earnings Revision	-	+86.8%	+24.4%
Core EPS (sen)	21.8	13.8	19.7
C.EPS growth (%)	-23.5	-36.6	42.4
NDPS (sen)	6.0	3.0	6.0
BVPS (RM)	2.85	2.96	3.09
Core PER (x)	12.3	19.4	13.6
PBV (x)	0.9	0.9	0.9
Net Gearing (x)	0.5	0.6	0.6
Net Div. Yield (%)	2.2	1.1	2.2

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Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	2,663.3	1,529.7	74%	2,885.1	-8%	6,312.3	8,636.3	-27%
Associates and JV	94.3	(26.9)	450%	79.4	19%	96.5	211.1	-54%
EBIT	186.1	(28.7)	748%	183.5	1%	250.2	551.2	-55%
PBT	159.5	(58.8)	371%	183.5	-13%	163.8	443.4	-63%
Taxation and Zakat	(41.9)	4.7	-984%	(21.3)	-97%	(51.4)	(87.6)	41%
PATAMI	101.3	(78.4)	229%	110.3	-8%	67.2	254.0	-74%
Core PATAMI	87.8	(29.3)	399%	98.6	-11%	95.6	215.6	-56%
Core EPS (sen)	7.5	(2.5)	399%	8.4	-11%	8.2	18.5	-56%
DPS (sen)	-	-		4.0		-	4.0	
EBIT margin	7.0%	-1.9%		6.4%		4.0%	6.4%	
PBT margin	6.0%	-3.8%		6.4%		2.6%	5.1%	
Core NP margin	3.3%	-1.9%		3.4%		1.5%	2.5%	
Effective tax rate	26.3%	8.1%		11.6%		31.4%	19.8%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	2,663.3	1,529.7	74.1%	2,885.1	-7.7%	6,312.3	8,636.3	-26.9%
Automotive	2,127.5	1,102.0	93.1%	2,296.9	-7.4%	4,815.5	6,845.9	-29.7%
Equipment	297.0	233.2	27.3%	353.7	-16.0%	819.4	1,080.1	-24.1%
M&E	242.3	183.3	32.1%	252.4	-4.0%	674.1	734.0	-8.2%
Others	(3.4)	11.1	N.M	(17.9)	80.7%	3.3	(23.8)	N.M
Segment PBT/(LBT)	159.5	(58.8)	371.2%	183.5	-13.1%	163.8	443.4	-63.1%
Automotive	131.6	(41.7)	415.4%	140.1	-6.1%	143.6	415.4	-65.4%
Equipment	34.0	24.6	38.1%	30.8	10.6%	84.4	108.4	-22.1%
M&E	20.3	8.0	153.4%	15.4	32.4%	38.8	30.9	25.6%
Others	(26.4)	(49.8)	N.M	(2.7)	N.M	(103.1)	(111.4)	N.M
Segment Margin								
Automotive	6.2%	-3.8%		6.1%		3.0%	6.1%	
Equipment	11.5%	10.6%		8.7%		10.3%	10.0%	
M&E	8.4%	4.4%		6.1%		5.8%	4.2%	

Source: Company, Kenanga Research

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Peer Comparison																		
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	1.34	1,556.4	Y	04/2021	55.6%	5.0%	-7.2%	51.6%	15.5	16.7	11.0	3.0	2.4	16.0%	3.6%	1.40	MP	
DRB-HICOM BHD	2.00	3,866.5	Y	12/2020	-9.3%	30.1%	-215.7%	29.6%	23.4	N.A.	15.6	0.4	0.4	-1.9%	0.0%	2.10	MP	
MBM RESOURCES BERHAD	3.20	1,250.8	Y	12/2020	-8.1%	1.2%	-34.9%	16.7%	6.5	10.0	8.6	0.6	0.6	6.1%	3.8%	3.35	MP	
SIME DARBY BERHAD	2.40	16,326.1	Y	06/2021	5.3%	5.2%	13.5%	1.4%	15.7	13.8	13.6	1.1	1.1	7.7%	4.2%	2.30	MP	
TAN CHONG MOTOR HOLDINGS BHD	1.07	698.1	N	12/2020	-28.9%	17.8%	-281.6%	-61.8%	15.4	N.A.	22.1	0.2	0.2	-2.8%	1.4%	1.00	MP	
UMW HOLDINGS BHD	2.68	3,131.0	Y	12/2020	-10.9%	14.0%	-36.6%	42.5%	12.3	19.4	13.6	0.5	0.5	2.6%	1.1%	3.30	OP	
Simple Average					0.6%	12.2%	-93.8%	13.3%	14.8	15.0	14.1	1.0	0.9	4.6%	2.3%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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