

UMW Holdings Berhad

(4588 | UMWH MK) Consumer Products & Services | Automotive & Parts

Maintain BUY

Strong Momentum to Sustain into Final Quarter

Unchanged Target Price: RM3.10

KEY INVESTMENT HIGHLIGHTS

- **Returned to the black in 3Q20; recovery across all segments**
- **Earnings improvement driven by recovery in auto sales, cost optimization**
- **UMWT confident of delivering even better performance in 4Q20, possibly breaching 53K units target for FY20F**
- **New CKD model launches scheduled for FY21F, including Perodua D55L, to sustain momentum post-tax holiday period**
- **Maintain BUY at unchanged TP of RM3.10**

Returns to the black. UMW returned to the black in its 3Q20 driven by a recovery across all segments. UMW reported a core net profit of RM80m for its 3Q20, which brought 9M20 core earnings to RM96m. As we had alluded to, FY20F will be a backloaded year – the 3Q20 results accounted for 83% of the 9M20 core earnings. While the 3Q20 performance should be sustainable in 4Q20, we deem the results in-line considering semi-annual profit payments to perpetual sukuk holders, which will be reflected in 4Q20. The 9M20 core earnings is derived after normalizing for: (1) RM34m share of 30%-owned Toyota Capital loss, which was impacted by present value impact of loan-moratorium mainly – this was recognized mainly in 2Q20, provision made up to 30th Sep 2020 (2) 28m loss on sales of unlisted O&G investment (3) RM32m reversal of receivables impaired previously (4) RM2m gain on disposal of properties.

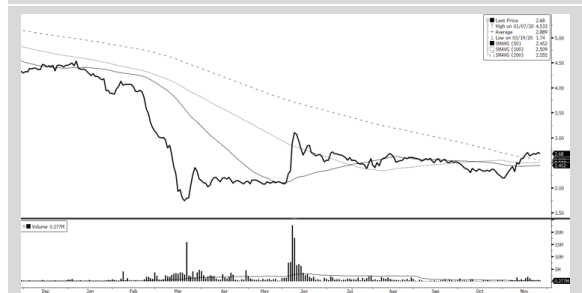
Automotive division. The auto division returned to a pretax profit of RM132m in 3Q20 (from a loss of RM42m in 2Q20). This is mainly due to a 139%qoq rise in Toyota TIV to 18,635 units in 3Q20 driven by the sales tax holiday under *PENJANA*. UMW Toyota is confident of delivering even better numbers in the final quarter with the possibility of breaching its official target of 53K units for FY20F. The facelift Yaris (early-Nov) and Vios (mid-Nov) was opened for bookings in November, but official launch (which is when the models will be available at showrooms) is only expected from December. A few new models are scheduled to launch in FY21F (inclusive of 2 new CKDs indicated earlier), some within the SUV/crossover segment, should sustain momentum after the tax holiday ends on 31st December 2020. UMWT is targeting FY21F TIV to be much stronger than that of FY20F, mainly on the back of improving economic growth and new model launches. Any extension of the tax holiday would be a bonus.

Equipment division. The equipment division registered a 38%qoq improvement (+11%yoy). Revenue recovery drove the sequential earnings improvement but on year-on-year basis, the improvement was driven largely by cost optimization which resulted in pretax margins expanding 2.8ppts to 11.5% in 3Q20.

RETURN STATISTICS

Price @ 25 th Nov 2020 (RM)	2.68
Expected share price return (%)	+15.7
Expected dividend yield (%)	+1.4
Expected total return (%)	+17.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	15.0	7.6
3 months	6.8	-0.4
12 months	-39.4	-39.9

KEY STATISTICS

FBM KLCI	1597.58
Syariah compliant	Yes
Issue shares (m)	1168.29
Estimated free float (%)	27.44
Market Capitalisation (RM'm)	3,131.03
52-wk price range	RM1.65 - RM4.7
Beta vs FBM KLCI (x)	1.82
Monthly velocity (%)	NA
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.49
3-mth average daily value (RM'm)	1.23
Top Shareholders (%)	
Amanah Saham Nasional Bhd	51.50
Employees Provident Fund Board	13.25
Kumpulan Wang Persaraan	7.23

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INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	11,046.5	11,306.3	11,739.1	10,364.3	11,013.9
EBIT (RM'm)	120.4	522.9	332.6	197.0	271.3
Pre-tax Profit (RM'm)	252.9	786.2	754.8	268.0	383.7
Core net profit (RM'm)	163.8	341.7	266.3	143.1	216.6
FD EPS (sen)	14.0	29.2	22.8	12.2	18.5
EPS growth (%)	NA	108.6	(22.1)	(46.3)	51.4
PER (x)	19.1	9.2	11.6	21.9	14.5
Net Dividend (sen)	6.5	7.5	6.0	2.4	3.7
Net Dividend Yield (%)	2.4	2.8	2.2	0.9	1.4

Source: Company, MIDFR

M&E division. The M&E division saw similar trends; earnings improved sequentially (+153%qoq) on the back of a resumption in operations and recovery in auto sales, while year-on-year improvement was largely driven by cost optimization initiatives, reflected in a 2.3ppts expansion in pretax margins to 8.4%. The aerospace division has commenced delivery of the Trent 7000 fan case from October. However, orders are likely to be slower in the upcoming quarter given the pandemic which has impacted the airline industry. Nonetheless, UMW expects any slowing in order from Rolls Royce to be tapered, while positive developments on the vaccine front should ultimately be positive for the aerospace business. Positively, UMW Aerospace is exploring widening its customer base, as the precision machining ability has a much wider application both in the aerospace and non-aerospace sectors.


Recommendation. Maintain BUY on UMW at unchanged sum-of-parts derived TP of RM3.10. Key catalysts: (1) A turnaround in group earnings from 3Q20 driven mainly by the automotive division (2) Launches of four updated models by year-end (3) Launch of two new CKD models in FY21F (4) Commencement of Trent 7000 engine assembly in 4Q20 (5) A stronger Ringgit. Key risk to our call is a second wave of the pandemic and a weaker than expected demand recovery. 

Exhibit 1: UMW Sum-of-Parts Valuation

Segments	FY21F net profit	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	234	PER	10	2,340	
Equipment	58	PER	10	577	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Total value				3,609	
No of shares (m)				1,168	
Fair value (RM)				3.10	

Source: Company, MIDFR

Exhibit 2: 3QFY20 Result Summary

FYE Dec (RMm)	3Q19	2Q20	3Q20	YoY	QoQ	9M19	9M20	YTD
Revenue	2,885.1	1,529.7	2,663.3	-7.7%	74.1%	8,623.5	6,312.3	-26.8%
EBITDA	170.3	81.2	171.2	0.5%	110.9%	541.5	390.1	-28.0%
Operating Profit	88.4	(14.0)	81.5	-7.8%	684.2%	288.0	113.2	-60.7%
Finance Cost	(31.0)	(30.1)	(26.5)	-14.5%	-11.8%	(107.8)	(86.4)	-19.9%
Associates	79.4	(26.9)	94.3	18.8%	-449.8%	211.1	96.5	-54.3%
Investment Income / Other gains	15.8	12.2	10.3	-34.6%	-15.2%	52.0	40.5	-22.2%
Pretax Profit	152.5	(58.8)	159.5	4.6%	371.2%	443.4	163.8	-63.1%
Taxation	(21.3)	4.7	(41.9)			(87.6)	(51.4)	
Minorities / PERP	20.9	24.4	16.3			101.8	45.2	
Net Profit	110.3	(78.4)	101.3	-8.2%	229.1%	253.5	67.2	-73.5%
Core net profit	110.3	(33.2)	80.0	-27.5%	340.6%	253.5	95.5	-62.3%
EPS (FD, sen)	9.4	-2.8	6.8			21.7	8.2	
DPS (sen)	4.0	0.0	0.0			4.0	0.0	
Margins (%):								
Operating	3.1%	-0.9%	3.1%			3.3%	1.8%	
Pretax Profit	5.3%	-3.8%	6.0%			5.1%	2.6%	
Core Net Profit	3.8%	-2.2%	3.0%			2.9%	1.5%	
Tax Rate	14.0%	8.1%	26.3%			19.8%	31.4%	
EBITDA	5.9%	5.3%	6.4%			6.3%	6.2%	
Segmental Breakdown	3Q19	2Q20	3Q20	YoY	QoQ	9M19	9M20	YTD
Automotive	2,296.9	1,102.0	2,127.5	-7.4%	93.1%	6,845.9	4,815.5	-29.7%
Equipment	353.7	233.2	297.0	-16.0%	27.3%	1,080.1	819.4	-24.1%
Manuf & Eng	252.4	183.3	242.3	-4.0%	32.1%	734.0	674.1	-8.2%
Others	(17.9)	11.1	(3.4)	-80.7%	-131.0%	(23.8)	3.3	-113.9%
Revenue	2,885.1	1,529.7	2,663.3	-7.7%	74.1%	8,636.3	6,312.3	-26.9%
Automotive	140.1	(41.7)	131.6	-6.1%	415.4%	415.4	143.6	-65.4%
Equipment	30.8	24.6	34.0	10.6%	38.1%	108.4	84.4	-22.1%
Manuf & Eng	15.4	8.0	20.3	32.4%	153.4%	30.9	38.8	25.6%
Others	(33.7)	(49.8)	(26.4)	-21.7%	-47.0%	(111.4)	(103.1)	-7.4%
Pretax profit	152.5	(58.8)	159.5	4.6%	-371.2%	443.4	163.8	-63.1%
Pretax margins								
Automotive	6.1%	-3.8%	6.2%			6.1%	3.0%	
Equipment	8.7%	10.6%	11.5%			10.0%	10.3%	
Manuf & Eng	6.1%	4.4%	8.4%			4.2%	5.8%	
Others	NA	NA	NA			NA	NA	
Toyota TIV (units)	16,357	7,784	18,635	13.9%	139.4%	47,608	36,834	-22.6%
Average revenue/car (RM)	140,426	141,578	114,168	-18.7%	-19.4%	143,797	130,734	-9.1%
USD:RM (delayed by 3-months)	4.16	4.18	4.32	3.7%	3.3%	4.14	4.22	

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.