

## UMW Holdings (UMWH MK)

# 9M20 results in line, above consensus

### Maintain BUY and MYR3.30 TP

Earnings rebounded sharply in 3Q20 on robust vehicle sales and we expect a stronger QoQ performance (ex-Sukuk impact) in 4Q20. We anticipate the SST holiday to extend into 2021, a key positive, alongside several new lineups to spur vehicle sales. Our TP is unchanged, pegged to 14x FY21 PER, which equates to -1-SD valuation.

### 3Q20: An immense turnaround

UMW reported core net profit of MYR80m in 3Q20 (vs. -MYR27m in 2Q20), which took its 9M20 core earnings to MYR96m (-57% YoY), 50%/ 78% of ours/ consensus FY estimates. The QoQ strength was driven by: (i) improved performance at all its key divisions and (ii) the absence of Sukuk payment (MYR35m). Its automotive division reported PBT of MYR132m in 3Q20 (vs. -MYR42m in 2Q20), driven by higher vehicle sales (Toyota/ Lexus: +134%; Perodua aka P2: +143%), as consumers took advantage of the SST holiday (i.e. lower car price) since mid-Jun 2020. Meanwhile, its equipment and manufacturing & engineering (M&E) divisions reported a 38% and 153% QoQ rise in PBT, fuelled by its cost optimisation exercise and increased activities post lock-down in 2Q20.

### Stronger 4Q20 outlook (ex-Sukuk)

Our estimates are unchanged. We expect a stronger 4Q20 performance (ex-Sukuk) vs. 3Q20, mainly due to higher vehicle sales, anticipating consumers' rush to lock-in the purchases in 4Q20 (ahead of the expiry of the zero-SST impact by end-Dec 2020). We expect its automotive division to report higher vehicle sales in 2020 (Toyota: 54k units, P2: 228k units), which are above its internal target of 53k and 210k units respectively, a realistic assessment.

### Expects zero-SST policy to extend into 2021

Our FY21-22 forecasts are unchanged. The 7-36% growth over the next 2 years is premised on the vehicle sales boost from the: (i) much-anticipated launch of P2's new D55L B-segment compact SUV (aka Daihatsu Rocky) in early-2021, (ii) several new Toyota launches and (ii) expectation of a 3-6 months extension to the zero-SST policy beyond Dec 2020. The crystallisation of the latter will be a major boost.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	11,304	11,739	8,913	11,684	12,151
EBITDA	859	649	558	678	691
Core net profit	558	254	193	262	282
Core EPS (sen)	47.8	21.7	16.5	22.5	24.1
Core EPS growth (%)	92.6	(54.5)	(24.2)	36.2	7.3
Net DPS (sen)	7.5	6.0	2.4	3.3	3.6
Core P/E (x)	11.5	20.7	16.3	11.9	11.1
P/BV (x)	1.9	1.4	0.8	0.7	0.7
Net dividend yield (%)	1.4	1.3	0.9	1.2	1.3
ROAE (%)	16.3	13.4	4.3	6.5	6.5
ROAA (%)	5.4	2.3	1.7	2.3	2.3
EV/EBITDA (x)	10.7	11.7	9.6	7.8	7.3
Net gearing (%) (incl perp)	26.6	17.0	14.5	11.8	5.8
Consensus net profit	-	-	128	224	283
MKE vs. Consensus (%)	-	-	28.5	17.1	(0.4)

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# BUY

Share Price	MYR 2.68
12m Price Target	MYR 3.30 (+23%)
Previous Price Target	MYR 3.30

### Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

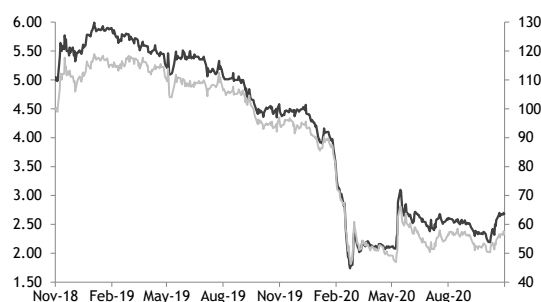
### Statistics

52w high/low (MYR)	4.57/1.74
3m avg turnover (USDm)	0.3
Free float (%)	81.3
Issued shares (m)	1,168
Market capitalisation	MYR3.1B
	USD766M

### Major shareholders:

Permodalan Nasional Bhd.	50.4%
Employees Provident Fund	10.8%
Bumiputra Investment Foundation	7.8%

### Price Performance



— UMW - (LHS, MYR) — UMW / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	13	4	(41)
Relative to index (%)	7	2	(41)

Source: FactSet

## Value Proposition

- Has 3 key business units: (i) automotive via Toyota, Lexus and 38%-owned Perodua, (ii) equipment with Komatsu and (iii) manufacturing & engineering (M&E) in auto components, lubricants and aerospace products.
- UMW Aerospace is a Tier 1 supplier to Rolls-Royce, the sole distributor of Toyota and Lexus models in MY.
- Divested its stake in UMW Oil & Gas (now known as Velesto Energy) in 2017 via the distribution in-specie of its 55.7% stake to UMW's shareholders.
- Has 861 acres of land in Serendah with strong monetisation prospect.

### Unlocking value of its assets (861 acres of land at Serendah)



- Close to **40 acres** of UMW's land in Serendah has been taken up so far

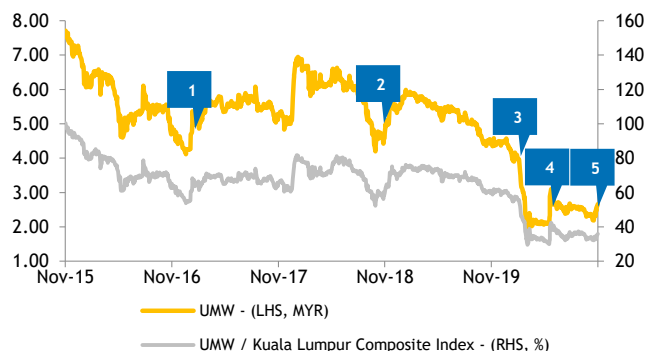
Company	Acreage
UMW Aerospace	24.0 acres
Multi-Code Electronics Industries (M) Bhd	8.25 acres
Private local company	5.3 acres
T7 Kilgour Sdn Bhd	2.0 acres

- We are actively negotiating with interested parties and hope to close some deals soon

Source: Company

## Price Drivers

### Historical share price trend



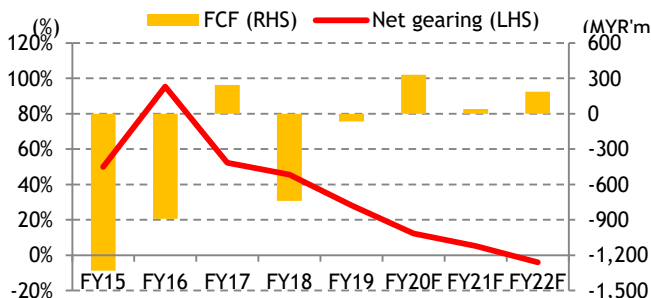
Source: Company, Maybank Kim Eng

- De-merger of UMW Oil & Gas (now known as Velesto Energy).
- Sold its industrial leasehold land in Shah Alam measuring 38.8 acres to Strategic Sonata S/B for MYR287.7m in Nov 2018.
- MCO started in 18 Mar 2020, affecting its vehicle sales & production in Apr, May & Jun 2020.
- SST exemption policy from mid-Jun 2020.
- Perodua continues to record new highs, registering 26,852 units in Sep 2020 (highest ever monthly sales in its 26-year history).

## Financial Metrics

- Order backlog/ replenishment, ASP, vehicle sales volume, margins, forex and opex are UMW's key earnings drivers for its operations. Variation in any of these parameters will impact profitability.
- Nimble balance sheet with low gearing level, which offers ample headroom for strategic expansion plans.
- Disposal of non-core assets will improve its operating focus/ integration and cost management.

### FCF and net gearing trend



Source: Company

## Swing Factors

### Upside

- New model launches, rebates, incentives (i.e. zero GST, SST) with will spur vehicle sales.
- Recovery in order replenishment and margin expansion are key catalysts.
- A successful corporate exercise (i.e. IPO, divestment, privatisation) would likely generate excitement.
- Higher/ special dividend payment serves as a potential positive.

### Downside

- Soft consumer sentiment and unattractive model launches are risks to its motors division.
- Forex volatility will affect its profitability and operational planning.
- Execution mishap, cost overruns and / or absence of new orders will cause adverse reaction.
- Acquisition of non-core assets or poor usage of capex will not be well received, particularly at this point of industry cycle.

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Fig 1: UMW's quarterly results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	3Q20	2Q20	%QoQ	3Q19	%YoY	9M20	9M19	% YoY
Turnover	2,663.4	1,529.7	74.1	2,885.1	(7.7)	6,312.3	8,636.3	(26.9)
EBIT	81.6	(14.0)	NM	81.2	0.5	113.3	277.7	(59.2)
Interest expense	(26.5)	(30.1)	(11.8)	(31.0)	(14.5)	(86.4)	(107.8)	(19.9)
Associates	94.3	(26.9)	NM	79.4	18.8	96.5	211.1	(54.3)
Investment Income	21.6	0.9	NM	15.8	36.5	40.5	52.0	(22.2)
<b>Pre-tax profit</b>	<b>159.5</b>	<b>(58.8)</b>	<b>NM</b>	<b>152.5</b>	<b>4.6</b>	<b>163.8</b>	<b>443.4</b>	<b>(63.1)</b>
Taxation	(41.9)	4.7	NM	(21.3)	97.0	(51.4)	(87.6)	(41.3)
Minority interest	(16.3)	10.5	NM	(20.9)	(21.9)	(10.4)	(67.0)	(84.5)
Sukuk	0.0	(34.8)	NM	0.0	NM	(34.8)	(34.8)	0.0
<b>Net profit / (loss)</b>	<b>101.3</b>	<b>(78.4)</b>	<b>NM</b>	<b>110.3</b>	<b>(8.2)</b>	<b>67.2</b>	<b>254.0</b>	<b>(73.6)</b>
Exceptional item	21.3	(51.7)	NM	9.4	127.6	(28.4)	33.5	(184.6)
<b>Recurring net profit / (loss)</b>	<b>80.0</b>	<b>(26.8)</b>	<b>NM</b>	<b>100.9</b>	<b>(20.8)</b>	<b>95.5</b>	<b>220.5</b>	<b>(56.7)</b>
	<b>3Q20</b>	<b>2Q20</b>	<b>%QoQ</b>	<b>3Q19</b>	<b>%YoY</b>	<b>9M20</b>	<b>9M19</b>	<b>% YoY</b>
EBIT margin (%)	3.1	(0.9)	4.0	2.8	0.2	1.8	3.2	(1.4)
Tax rate (%)	26.3	8.1	18.2	14.0	12.3	31.4	19.8	11.6
	<b>3Q20</b>	<b>2Q20</b>	<b>%QoQ</b>	<b>3Q19</b>	<b>%YoY</b>	<b>9M20</b>	<b>9M19</b>	<b>% YoY</b>
<b>Revenue</b>	<b>2,663.4</b>	<b>1,529.7</b>	<b>74.1</b>	<b>2,885.1</b>	<b>(7.7)</b>	<b>6,312.3</b>	<b>8,636.3</b>	<b>(26.9)</b>
Automotive	2,127.6	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	NM	(17.9)	(80.7)	3.3	(23.8)	NM
<b>Pre-tax profit</b>	<b>159.5</b>	<b>(58.8)</b>	<b>NM</b>	<b>152.5</b>	<b>4.6</b>	<b>163.8</b>	<b>443.4</b>	<b>(63.1)</b>
Automotive	131.6	(41.7)	NM	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	>100	15.4	32.4	38.8	30.9	25.6
Others	(26.4)	(49.8)	(47.0)	(33.7)	(21.6)	(103.1)	(111.4)	(7.4)
	<b>3Q20</b>	<b>2Q20</b>	<b>%QoQ</b>	<b>3Q19</b>	<b>%YoY</b>	<b>9M20</b>	<b>9M19</b>	<b>% YoY</b>
<b>Pre-tax margins (%)</b>	<b>6.0</b>	<b>(3.8)</b>	<b>9.8</b>	<b>5.3</b>	<b>0.7</b>	<b>2.6</b>	<b>5.1</b>	<b>(2.5)</b>
Automotive	6.2	(3.8)	10.0	6.1	0.1	3.0	6.1	(3.1)
Equipment	11.5	10.6	0.9	8.7	2.8	10.3	10.0	0.3
M&E	8.4	4.4	4.0	6.1	2.3	5.8	4.2	1.6
	<b>3Q20</b>	<b>2Q20</b>	<b>%QoQ</b>	<b>3Q19</b>	<b>%YoY</b>	<b>9M20</b>	<b>9M19</b>	<b>% YoY</b>
<b>Vehicle Unit Sales (MAA)</b>								
Toyota	18,870	8,054	134.3	16,628	13.5	37,339	48,151	(22.5)
Perodua	70,842	29,193	142.7	56,972	24.3	145,012	178,754	(18.9)

Source: Company

Fig 2: UMW: Vehicles sales

	2018	2019	2020F	2021F	2022F
Toyota	66,562	70,009	53,600	69,680	72,467
Perodua	227,243	240,341	228,000	248,000	250,000

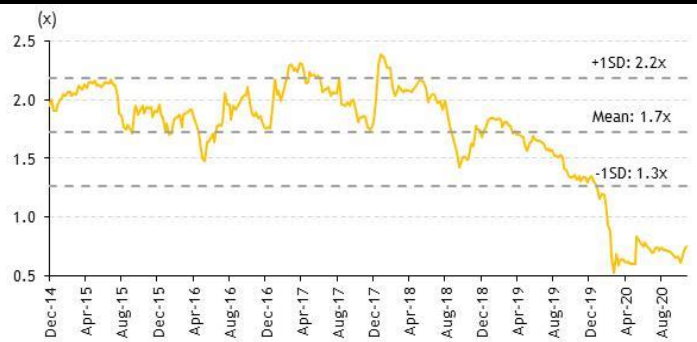
Source: Company, Maybank KE

**Fig 3: 1-year forward PER**



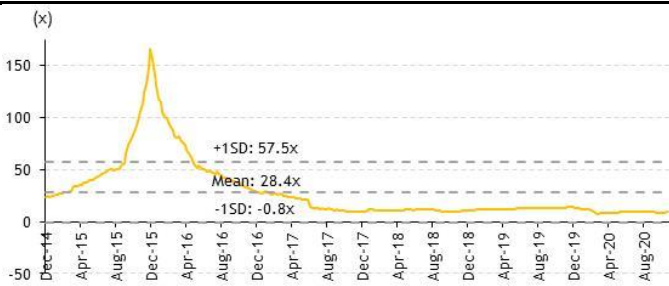
Source: Company, Maybank KE

**Fig 4: 1-year forward PBV**



Source: Company, Maybank KE

**Fig 5: 1-year forward EV/ EBITDA**



Source: Company, Maybank KE

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	13.2	12.9	19.1	11.9	11.1
Core P/E (x)	11.5	20.7	16.3	11.9	11.1
P/BV (x)	1.9	1.4	0.8	0.7	0.7
P/NTA (x)	1.9	1.4	0.8	0.7	0.7
Net dividend yield (%)	1.4	1.3	0.9	1.2	1.3
FCF yield (%)	nm	nm	nm	nm	5.7
EV/EBITDA (x)	10.7	11.7	9.6	7.8	7.3
EV/EBIT (x)	15.9	25.0	26.8	15.3	13.2

**INCOME STATEMENT (MYR m)**

Revenue	11,303.6	11,739.1	8,913.2	11,684.1	12,150.9
Gross profit	1,899.9	1,902.3	1,336.1	1,778.0	1,839.7
EBITDA	858.7	649.1	558.1	678.3	690.9
Depreciation	(279.3)	(346.2)	(357.6)	(330.9)	(312.1)
EBIT	579.4	302.9	200.5	347.3	378.9
Net interest income / (exp)	(12.6)	(57.6)	(58.6)	(71.0)	(72.3)
Associates & JV	270.7	291.6	261.7	274.1	279.5
Exceptionals	(37.2)	217.9	(28.3)	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	800.3	754.8	375.2	550.4	586.1
Income tax	(124.1)	(108.7)	(117.9)	(151.6)	(159.8)
Minorities	(120.0)	(104.6)	(23.4)	(66.8)	(75.1)
Perpetual securities	(35.4)	(69.7)	(69.7)	(69.7)	(69.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	520.8	471.8	164.3	262.3	281.6
Core net profit	558.0	253.9	192.6	262.3	281.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,311.8	1,472.1	1,595.4	1,719.2	2,099.7
Accounts receivable	1,076.6	1,450.5	1,151.3	1,444.7	1,494.1
Inventory	1,548.5	1,589.6	1,660.7	2,171.2	2,260.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,820.9	2,861.2	2,647.5	2,496.6	2,364.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,841.0	1,921.3	1,987.5	2,066.2	2,150.3
Other assets	2,159.2	1,853.2	1,853.2	1,853.2	1,854.2
<b>Total assets</b>	<b>10,758.0</b>	<b>11,147.8</b>	<b>10,895.6</b>	<b>11,751.1</b>	<b>12,222.8</b>
ST interest bearing debt	535.0	386.4	386.4	386.4	386.4
Accounts payable	1,854.0	2,093.4	1,612.5	2,108.1	2,194.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,298.2	2,123.4	2,123.4	2,123.4	2,123.4
Other liabilities	356.0	450.0	450.0	450.0	450.0
<b>Total Liabilities</b>	<b>5,043.6</b>	<b>5,053.4</b>	<b>4,572.5</b>	<b>5,068.2</b>	<b>5,154.4</b>
Shareholders Equity	3,344.6	3,692.6	3,898.0	4,191.0	4,500.4
Minority Interest	1,271.9	1,303.9	1,327.3	1,394.1	1,469.2
<b>Total shareholder equity</b>	<b>4,616.6</b>	<b>4,996.5</b>	<b>5,225.2</b>	<b>5,585.1</b>	<b>5,969.6</b>
Perpetual securities	1,097.9	1,097.9	1,097.9	1,097.9	1,097.9
<b>Total liabilities and equity</b>	<b>10,758.0</b>	<b>11,147.8</b>	<b>10,895.6</b>	<b>11,751.1</b>	<b>12,221.8</b>

**CASH FLOW (MYR m)**

Pretax profit	800.3	754.8	375.2	550.4	586.1
Depreciation & amortisation	279.3	346.2	357.6	330.9	312.1
Adj net interest (income)/exp	(139.2)	(133.5)	(120.5)	(120.5)	(120.5)
Change in working capital	(204.1)	(60.3)	(252.9)	(308.2)	(52.0)
Cash taxes paid	(139.0)	(129.6)	(117.9)	(151.6)	(159.8)
Other operating cash flow	(423.0)	(499.1)	(203.0)	(203.1)	(207.2)
Cash flow from operations	174.4	278.4	38.6	98.0	358.7
Capex	(915.0)	(345.5)	(144.0)	(180.0)	(180.0)
Free cash flow	(740.6)	(67.1)	(105.4)	(82.0)	178.7
Dividends paid	(123.1)	(172.2)	(28.6)	(39.0)	(41.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,177.7	(340.9)	0.0	0.0	0.0
Other invest/financing cash flow	560.9	767.3	257.3	244.9	243.6
Effect of exch rate changes	(732.7)	(26.8)	26.8	0.0	0.0
Net cash flow	142.2	160.3	150.1	123.9	380.4

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.1	3.9	(24.1)	31.1	4.0
EBITDA growth	537.5	(24.4)	(14.0)	21.5	1.9
EBIT growth	nm	(47.7)	(33.8)	73.2	9.1
Pretax growth	200.2	(5.7)	(50.3)	46.7	6.5
Reported net profit growth	1,374.4	(9.4)	(65.2)	59.7	7.3
Core net profit growth	92.6	(54.5)	(24.2)	36.2	7.3
<b>Profitability ratios (%)</b>					
EBITDA margin	7.6	5.5	6.3	5.8	5.7
EBIT margin	5.1	2.6	2.2	3.0	3.1
Pretax profit margin	7.1	6.4	4.2	4.7	4.8
Payout ratio	16.8	14.9	17.4	14.9	14.9
<b>DuPont analysis</b>					
Net profit margin (%)	4.6	4.0	1.8	2.2	2.3
Revenue/Assets (x)	1.1	1.1	0.8	1.0	1.0
Assets/Equity (x)	3.2	3.0	2.8	2.8	2.7
ROAE (%)	16.3	13.4	4.3	6.5	6.5
ROAA (%)	5.4	2.3	1.7	2.3	2.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	1.1	23.9	41.7	42.0	45.8
Days receivable outstanding	33.4	38.7	52.5	40.0	43.5
Days inventory outstanding	56.6	57.4	77.2	69.6	77.4
Days payables outstanding	89.0	72.2	88.0	67.6	75.1
Dividend cover (x)	5.9	6.7	5.7	6.7	6.7
Current ratio (x)	2.2	2.2	2.6	2.5	2.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.2	2.4	2.3	2.4
Net gearing (%) (incl perps)	26.6	17.0	14.5	11.8	5.8
Net gearing (%) (excl. perps)	33.0	20.8	17.5	14.2	6.9
Net interest cover (x)	46.1	5.3	3.4	4.9	5.2
Debt/EBITDA (x)	3.3	3.9	4.5	3.7	3.6
Capex/revenue (%)	8.1	2.9	1.6	1.5	1.5
Net debt/ (net cash)	1,521.4	1,037.7	914.4	790.5	410.1

Source: Company; Maybank



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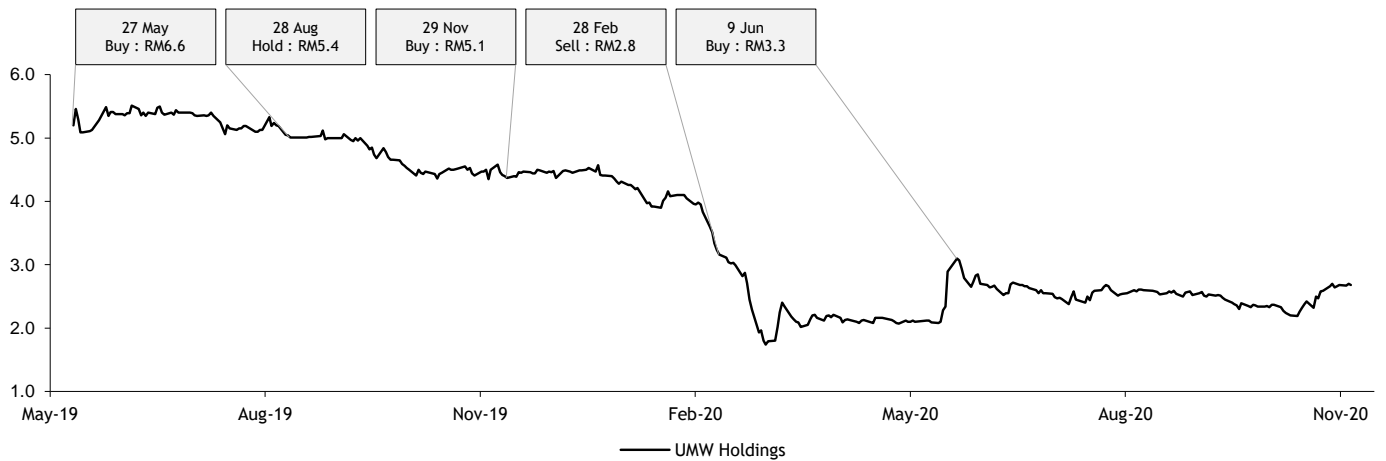
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