

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/BUY/RM2.68/Target: RM3.10)

3Q20: Strong Turnaround From Automotive Segment; Upgrade To BUY

Year to 31 Dec	3Q20 (RMm)	qoq % chg	yoy % chg	9M20 (RMm)	yoy % chg	Remark	Year	EPS (sen)	Revision (%)	DPS (sen)	PE (x)
Revenue	2,663.3	74.1	(7.6)	6,312.3	(26.8)	Stronger sales across all segments on base normalisation post MCO disruption	FY20F	11.2	+17	2.2	24.0
-Auto	2,127.5	93.1	(7.4)	4,815.5	(29.7)		FY21F	22.0	-	4.4	12.2
-Equipment	297.0	27.3	(16.0)	819.4	(24.1)		FY22F	22.2	-	4.4	12.1
-Mfg & Eng	242.3	32.1	(4.0)	674.1	(8.2)						
Associates	94.3	449.8	10.6	96.5	(56.5)						
PBT	159.5	371.2	6.1	163.8	(63.3)						
-Auto	131.6	415.4	(6.1)	143.6	(65.4)						
-Equipment	34.0	38.1	10.6	84.4	(22.1)						
-M&E	20.3	153.4	32.4	38.8	25.6						
Net Profit	101.3	229.1	(2.0)	67.2	(72.8)						
Core Net Profit	84.2	354.0	(8.2)	99.8	(52.2)	a) Stronger car sales b) Stronger associate contribution c) Better demand from Heavy Equipment and M&E					
Toyota unit sales	18,870	139.3	15.4	37339	(21.6)						
Perodua unit sales	70,842	142.7	24.3	145011	(18.9)						
PBT Margins	(%)	ppts	ppts	(%)	ppts						
Overall	6.0	9.8	0.8	2.6	(258.0)						
-Auto	6.2	10.0	0.1	3.0	(308.7)						
-Equipment	11.5	0.9	2.8	10.3	26.8						
-M&E	8.4	4.0	2.3	5.8	155.0						

Source: UMWH, UOB Kay Hian

RESULTS

- 9M20 earnings above our expectation.** UMW Holdings (UMW) reported 3Q20 core net profit of RM84.2m (+>100% qoq, -8% yoy), bringing 9M20 core net profit to RM99.8m (-52%) which made up 90%/73% of our/consensus expectations. The positive deviation was due to the stronger-than-expected turnaround from its automotive segment which saw PBT reverse from 2Q20's losses of RM42m to pre-tax profit of RM131.6m, thanks to the positive spill-over from the sales tax exemption for completely knocked down (CKD) (100%) and completely built up (CBU) (50%) vehicles.
- Automobile segment helped by sales tax exemption, while further boosted by better associate earnings from Perodua.** 3Q20 sales volume rebounded strongly (at 89,712 from 37,078) from the low base in 2Q20 which was affected by the MCO disruption (two-month operational halt), while sales tax exemption from the government's PENJANA initiative have also revitalised sales. In terms of volume. UMW sold 18,870 Toyota and Lexus units (+15% yoy) during the quarter, bringing 9M20 car sales to 37,339 units (-22% yoy). This accounts for 71% of its full-year target of 53,000 units (from 45,000 units) for Toyota, with Vios, Yaris and Hilux being the main volume drivers. For associate Perodua, 3Q20 car sales was 24% yoy higher at 70,842 units, with 9M20 car sales of 145,011 units (-18% yoy) making up 69% of its full-year target of 210,000 units. Note that the launch of flagship SUV model D55L has been delayed to 2021. All in all, with better sales volumes boosted by the sales tax exemption alongside a base normalisation (hence, 3Q revenue +74% qoq), PBT swung back to RM131.6m in 3Q20 (+>100% qoq, +6% yoy), bringing 9M20 PBT to RM143.6m (-65% yoy).
- Equipment segment corroded by sluggish demand and stiff competition.** 9M20 revenue slumped 24% yoy due to sluggish demand on the back of the delay in project implementation, following a slowdown in construction, manufacturing and mining activities in Malaysia and Myanmar. Consequently, operational deleveraging alongside competitive pricing for both heavy equipment and industrial equipment businesses led to a 22% yoy drop in PBT. In terms of outlook, the group believes the heavy equipment segment will remain challenging due to the frail economy outlook. Nonetheless, the shortfall could be partly negated by the recovery from its industrial equipment sub-segment which will be boosted by the resumption of most business sectors. The segment is proactively engaging in cost containment measures across its businesses, process improvement and digitalisation.
- Better recovery in manufacturing and engineering (M&E) segment.** With a stronger rebound in 3Q20 following the sales tax holiday-which drove domestic sales of auto components, the 9M20 sales weakness gap has narrowed to 8% yoy. Nonetheless, PBT grew 26% on better cost optimisation initiatives. Despite the adverse impact of the COVID-19 pandemic, the aerospace sub-segment has made its maiden delivery of Trent 7000 fan cases in Oct 20, and aligning its strategies on products and end-customer diversification.

RECOMMENDATION

- We forecast 2020 earnings of RM130m (from RM111m) to account for stronger-than-expected sales assumption and better operational efficiency from the automotive segment, which is in line with our total industry volume revision of +9%.
- Upgrade to BUY with a higher target price of RM3.10 (from RM2.20)** as we ascribe a higher 2021F PE of 14x (from 9x previously) in view of the improving industry outlook.

ANALYSTS

Desmond Chong

+603 2147 1980

desmondchong@uobkayhian.com

Chloe Tan Jie Ying

+603 2147 1916

chloetan@uobkayhian.com

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