

Company Update

UMW Holdings



Bloomberg: UMWK MK | Reuters: UMWS.KL

Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

22 Sep 2020

BUY (Upgrade from HOLD)

Last Traded Price (21 Sep 2020): RM2.55 (KLCI : 1,499.43)

Price Target 12-mth: RM3.35 (31% upside) (Prev RM2.75)

Analyst

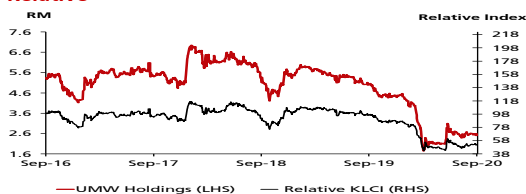
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What's New

- Auto sales continued to its robust uptrend in August
- All business segments set for strong rebound in FY21 driven by higher sales and improved margins
- Raise FY20-22F earnings forecast by 7-10%
- Upgrade to BUY with higher TP of RM3.35

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	11,739	8,312	10,720	11,184
EBITDA	679	517	723	766
Pre-tax Profit	755	202	537	555
Net Profit	447	93.0	282	291
Net Pft (Pre Ex.)	260	128	282	291
Net Pft Gth (Pre-ex) (%)	(35.6)	(50.9)	120.9	3.3
EPS (sen)	38.3	7.96	24.1	24.9
EPS Pre Ex. (sen)	22.2	10.9	24.1	24.9
EPS Gth Pre Ex (%)	(36)	(51)	121	3
Diluted EPS (sen)	22.2	10.9	24.1	24.9
Net DPS (sen)	6.00	0.80	4.83	4.99
BV Per Share (sen)	316	323	343	362
PE (X)	6.7	32.0	10.6	10.2
PE Pre Ex. (X)	11.5	23.3	10.6	10.2
P/Cash Flow (X)	10.7	9.3	15.5	10.8
EV/EBITDA (X)	9.4	12.8	9.7	9.6
Net Div Yield (%)	2.4	0.3	1.9	2.0
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	0.2	0.2	0.2	0.2
ROAE (%)	12.7	2.5	7.2	7.1
Earnings Rev (%):		9	7	10
Consensus EPS (sen):		12.4	21.1	25.5
Other Broker Recs:		B: 5	S: 2	H: 9

Switching into high gear

Investment Thesis:

Upgrade to BUY with RM3.35 TP. UMW Holdings (UMWH) is trading at an undemanding valuation of 11x FY21 EPS. This is equivalent to -1.5 SD of its 3-year mean. We think the stock could re-rate, as earnings improve in the upcoming quarters.

Expect earnings to rebound in FY21. We believe all of UMWH's business divisions are set to rebound strongly in FY21 driven by higher sales volume. For its automotive division, demand has remained resilient despite the lack of new launches. FY21 is going to be an exciting year with two additional completely knocked-down (CKD) models in the pipeline. Demand for its equipment division is expected to be boosted by the resumption of government mega projects. For its manufacturing division, we expect stronger earnings from the aerospace business. This is on the back of an increase in delivery of fan cases for Rolls Royce's Trent 7000 engines.

Margins set to improve. The stronger revenue growth from its key divisions should support margin improvement. In addition, margins for UMWH's automotive division should expand as it adds more CKD models to its lineup.

Valuation:

Post-earnings adjustments, we raise our SOP-based TP to RM3.35, which implies ~1x BV and 14x FY21 EPS. We value the company's automotive business at 14x earnings (RM2.25/share), while its equipment and manufacturing segments are valued at 11x earnings (RM1.57/share), in line with their peers

Where we differ:

We expect stronger earnings supported by improvement in margins on the back of the robust sales recovery, restructuring initiatives and new CKD models in the pipeline.

Key Risks to Our View:

Resurgence of COVID-19. A resurgence of COVID-19 cases might force the government to tighten movement restrictions, or worse, implement another lockdown. The potential closure of showrooms could adversely affect auto sales.

At A Glance

Issued Capital (m shrs)	1,168
Mkt. Cap (RMm/US\$m)	2,979 / 724
Major Shareholders (%)	
Pemodalan Nasional Bhd	62.5
Employee Provident Fund	12.5
Kumpulan Wang Persaraan Diperbadankan	7.3
Free Float (%)	37.5
3m Avg. Daily Val (US\$m)	0.51

GIC Industry : Consumer Discretionary / Automobiles & Components



UMW Holdings

WHAT'S NEW

Improvement expected in upcoming quarters

Automotive: Sales momentum continues

Sales recovery in this sector has been faster than we had anticipated. Its subsidiary UMW Toyota Motor Sdn Bhd (UMWT) and associate company Perodua continued to record year-on-year (y-o-y) sales growth in August.

Y-o-y growth in August. UMWT sold 5,756 units in August (+4% y-o-y), bringing its year-to-date (YTD) total sales to 31,734 units. YTD sales make up about 66% and 71% of our and UMWT's full-year target respectively. The Vios, Hilux and Yaris models remain volume drivers for UMWT, constituting c.76% of total sales. Perodua sold 22,604 units in August (+13% y-o-y), bringing YTD sales to 119,973 units. This makes up 62% and 57% of our and Perodua's full-year targets respectively.

The y-o-y sales growth in July and August was impressive, indicating that demand is still strong despite the lack of new launches this year. To date, UMWT has launched the Lexus UX 200 (completely built-up (CBU)) and RAV4 (CBU), while the new Hilux (CKD) is now open for bookings. So far, Perodua has had only one new launch – the Bezza back in January.

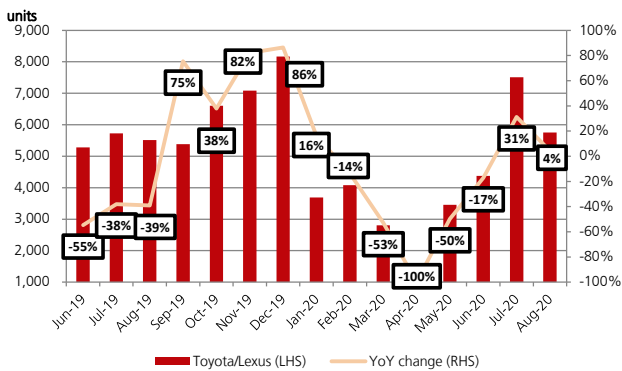
To recap, UMWT and Perodua's sales last year were supported by the new Toyota Vios as well as the maiden contribution from Toyota Yaris and Perodua Aruz.

Raise FY20 sales volume assumptions for UMWT and Perodua by 3% and 7% respectively.

Following the impressive sales performance, we raise our sales volume assumption for Toyota by 3% to 50k units for FY20. We think it is achievable and will be driven by; 1) the ongoing Sales and Services Tax (SST) exemption, 2) additional rebates and promotions, 3) Toyota EZ Beli's auto-financing plan from Toyota Capital (UMWH's 30% associate). Introduced late last year, the financing package has boosted take-up rates, comprising 18% of July and August sales. In addition, sales volume will be further supported by the new Hilux, a brand which has been a volume driver for the group.

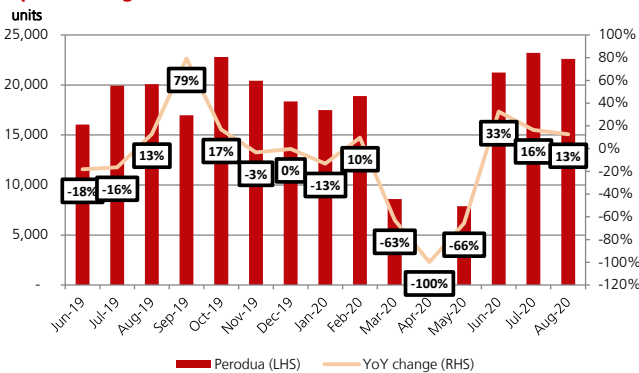
We expect UMWT to revise its 45k sales target soon. The initial target was made prior to the SST exemption announcement in May.

Strong recovery of Toyota car sales post- MCO



Sources: Company, AllianceDBS

Expect stronger Perodua sales in 2HFY20



Sources: Company, AllianceDBS

EZ Beli: Encouraging take-up rate

9 YEARS FINANCING PLAN

- 1st - 3rd YEARS:** Even Lower Installment. **RM538**
- 4th - 6th YEARS:** Installment slightly up as you move up in your career. **RM878**
- 7th - 9th YEARS:** No worries. Trade in for a brand new Toyota again. **RM1,188**

START FROM RM538 TO OWN A VIOS NOW!

Model	Price
VIOS	RM538
Vios	RM498
ALANZA	RM608
HILUX	RM775
Rush	RM748
COROLLA	RM978
INNOVA	RM958

Sources: Toyota Capital

For Perodua, we raise our sales volume assumption by 7% to 210k, in line with company's sales target for this year. The company is expecting to produce 25k cars monthly from August to December, which is almost at its full capacity.

UMW Holdings

More CKD models in the pipeline. Going into FY21, UMW plans to introduce two new CKD models. Details are still scarce at this point but we suspect at least one of the models will likely be in the sport utility vehicle (SUV) space, given rising popularity of SUV in Malaysia. According to our channel checks, the first CKD model will likely be launched early next year and should be open for bookings by the end of this year. There could be a potential facelift for the Yaris and Vios models that would be in their 3rd year in 2021.

As for Perodua, another SUV model - codenamed D55L - is expected to be launched next year. We do not discount the possibility of Perodua introducing a facelift model for Myvi in FY21.

Equipment: Revival of mega projects to drive demand

Heavy equipment demand, which was heavily affected by the lockdown, is expected to pick up with the revival of government mega projects such as Rapid Transit System (RTS), Bandar Malaysia and potentially – High-Speed Rail (HSR) and Mass Rapid Transit Line 3 (MRT3). On top of that, demand could be boost by ad-hoc projects that could be rolled out if the government calls for a snap general election.

Manufacturing: Trent 7000 to drive growth

Outlook for this segment remains firm. The company's manufacturing division has still been receiving orders for fan cases since the outbreak, though at slightly lower numbers. We expect delivery to be supported by fan cases for the Rolls Royce Trent 7000 engines. The maiden delivery is expected in October this year. Its auto components and lubricants business should improve in tandem with higher auto sales.

More CKDs and cost optimisation to support margins

Overall, we are positive on the plans for more CKDs in the pipeline as they typically carry higher margins and are usually volume drivers. UMW also has been undertaking cost optimisation to reduce its operating expenses including; 1) completing the transfer of several sales outlets to its dealers

to streamline its business and increase operational efficiencies. This could reduce overheads, depreciation and maintenance costs. Apart from that, it is looking to defer 10%-15% of its planned capital expenditure (capex) this year. It initially guided for around RM600m capex for FY20. For its aerospace business, it has reduced reliance on foreign expertise by hiring more locals. Currently, an estimated 97% of the division's employees are Malaysians.

Valuation and recommendation

Raise FY20-22F forecast by 7-10%; upgrade to BUY. We raise our FY20-22F earnings forecasts by 7-10% on the back of higher assumptions for auto sales and margins. We think that the worst is likely over for the group and expect its earnings to pick up in upcoming quarters. The stock is trading at an undemanding valuation of 11x of FY21 EPS, at -1.5SD of its 3-year mean. We upgrade our call to BUY with a higher TP of RM3.35. Our TP implies ~1x BV and 14x FY21 EPS. We value the automotive business at 14x earnings (RM2.25 /share) from 12x previously and value the equipment and manufacturing segments at 11x earnings (RM1.57/share) from 10x previously, in line with their peers.

Company Background

UMWH has three main business segments - automotive (assembler and distributor for Toyota and Lexus), equipment (distributor for heavy, industrial and marine equipment) and manufacturing & engineering (for automotive and aerospace industries)

UMW Holdings

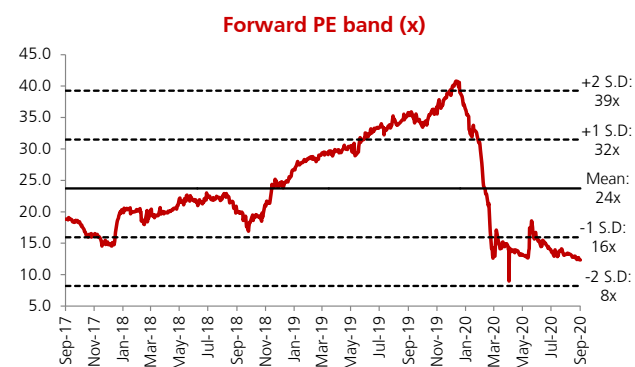
SOP-valuation

2021			
Division	Valuation	Value (RM m)	Per share
Auto			
Toyota	14x PE	1,203.1	1.03
Perodua	14x PE	1,424.8	1.22
Equipment	11x PE	1,176.8	1.01
Manufacturing & engineering	11x PE	662.9	0.57
Serendah land	RM15/ sqft	542.3	0.46
Perpetual Sukuk		(1097.9)	(0.94)
Total		3,912.0	3.35

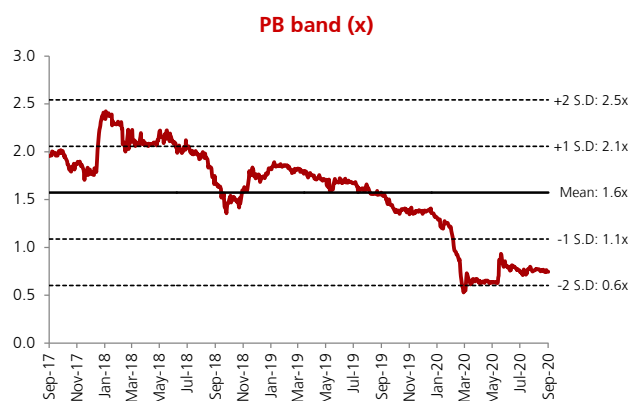
Peer Comparison

	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/B		ROE (%)		Net Dividend Yield (%)	
		CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21
Sime Darby	15,643	9.7	4.5	16.6	14.3	1.0	1.0	7.0	7.0	4.3	4.8
DRB-Hicom Bhd	4,156	N/A	551.9	N/A	17.4	0.6	0.6	(1.2)	4.1	1.4	1.4
UMW Holdings Bhd	2,979	(50.1)	120.9	31.7	10.4	0.8	0.7	2.5	7.2	0.3	1.9
Bermaz Auto Bhd	1,652	(13.3)	18.2	12.5	10.5	3.2	2.8	26.0	26.7	8.1	4.8
MBM Resources BHD	1,231	(41.7)	29.2	9.7	7.5	0.7	0.7	7.3	9.3	4.5	5.6
Tan Chong Motor Holdings Bhd	699	(198.5)	198.5	N/A	16.0	0.2	0.2	(1.3)	1.7	1.4	2.3
Average		(8.0)	110.8	14.6	13.8	1.0	1.0	6.5	7.7	3.5	3.9

Historical PE and PB bands



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

UMW Holdings

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Toyota sales (k units)	66.6	70.0	50.1	57.6	60.5
Perodua sales (k units)	227	240	210	221	225
Toyota PBT Margin %	3.32	2.57	1.00	2.70	2.70

Improved margins on the back on higher volume and better CKD mix.

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (RMm)					
Auto	8,949	9,296	6,127	7,869	8,262
Equipment	1,540	1,408	1,197	1,436	1,479
Manufacturing	843	1,063	988	1,415	1,442
Others	(25.9)	(27.4)	0.0	0.0	0.0
Total	11,306	11,739	8,312	10,720	11,184

PBT (RMm)

Auto	545	530	205	476	492
Equipment	152	136	108	141	141
Manufacturing	21.6	60.9	49.4	79.3	82.1
Others	67.1	27.9	(160)	(160)	(160)
Total	786	755	202	537	555

PBT Margins (%)

Auto	6.1	5.7	3.3	6.1	6.0
Equipment	9.9	9.6	9.0	9.8	9.5
Manufacturing	2.6	5.7	5.0	5.6	5.7
Total	7.0	6.4	2.4	5.0	5.0

All segments expected to rebound strongly.

Income Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	11,306	11,739	8,312	10,720	11,184
Cost of Goods Sold	(8,968)	(9,458)	(6,608)	(8,522)	(8,891)
Gross Profit	2,338	2,282	1,704	2,198	2,293
Other Opng (Exp)/Inc	(1,903)	(1,948)	(1,663)	(2,057)	(2,145)
Operating Profit	436	333	151	339	366
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	266	292	144	264	269
Net Interest (Exp)/Inc	(2.3)	(57.6)	(57.6)	(66.5)	(79.9)
Exceptional Gain/(Loss)	87.0	187	(34.6)	0.0	0.0
Pre-tax Profit	786	755	202	537	555
Tax	(142)	(109)	(14.0)	(65.4)	(68.6)
Minority Interest	(153)	(199)	(95.1)	(189)	(195)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	491	447	93.0	282	291
Net Profit before Except.	404	260	128	282	291
EBITDA	639	679	517	723	766

Growth

Revenue Gth (%)	2.2	3.8	(29.2)	29.0	4.3
EBITDA Gth (%)	64.3	6.3	(23.9)	40.0	5.9
Opg Profit Gth (%)	252.4	(23.5)	(54.8)	125.1	7.8
Net Profit Gth (Pre-ex) (%)	145.0	(35.6)	(50.9)	120.9	3.3

Margins & Ratio

Gross Margins (%)	20.7	19.4	20.5	20.5	20.5
Opg Profit Margin (%)	3.9	2.8	1.8	3.2	3.3
Net Profit Margin (%)	4.3	3.8	1.1	2.6	2.6
ROAE (%)	15.4	12.7	2.5	7.2	7.1
ROA (%)	4.7	4.1	0.8	2.5	2.5
ROCE (%)	4.5	3.2	1.6	3.2	3.4
Div Payout Ratio (%)	11.9	15.7	10.0	20.0	20.0
Net Interest Cover (x)	187.8	5.8	2.6	5.1	4.6

Source: Company, AllianceDBS

UMW Holdings

Quarterly Income Statement (RMm)

FY Dec	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	2,966	2,883	3,116	2,119	1,530
Other Oper. (Exp)/Inc	(2,865)	(2,803)	(2,852)	(2,074)	(1,544)
Operating Profit	101	80.1	263	45.7	(14.0)
Other Non Opg (Exp)/Inc	31.9	(5.9)	(214)	(8.0)	42.6
Associates & JV Inc	76.1	85.2	64.6	29.2	(26.9)
Net Interest (Exp)/Inc	(24.9)	(15.0)	(16.2)	(11.8)	(17.9)
Exceptional Gain/(Loss)	(31.9)	5.89	214	8.02	(42.6)
Pre-tax Profit	152	150	312	63.1	(58.8)
Tax	(36.3)	(21.0)	(21.9)	(14.2)	4.74
Minority Interest	(65.7)	(26.0)	(81.7)	(4.5)	(24.4)
Net Profit	50.1	103	208	44.3	(78.4)
Net Profit bef Except.	82.0	97.5	(6.4)	36.3	(35.8)
EBITDA	186	162	356	138	81.2

Growth

Revenue Gth (%)	6.9	(2.8)	8.1	(32.0)	(27.8)
EBITDA Gth (%)	14.0	(12.8)	119.6	(61.3)	(41.0)
Opg Profit Gth (%)	31.9	(20.6)	228.6	(82.7)	(130.6)
Net Profit Gth (Pre-ex) (%)	(5.3)	18.8	(106.5)	(671.1)	(198.6)

Margins

Opg Profit Margins (%)	3.4	2.8	8.4	2.2	(0.9)
Net Profit Margins (%)	1.7	3.6	6.7	2.1	(5.1)

In our view, 2Q20 is UMW's worst quarter and expect earnings to improve from 3Q20 onwards.

Balance Sheet (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	3,119	2,861	3,027	3,174	3,306
Invt in Associates & JVs	1,844	1,921	2,065	2,329	2,598
Other LT Assets	542	722	998	1,273	1,526
Cash & ST Invt	1,312	1,472	1,279	990	788
Inventory	1,532	1,590	1,496	1,608	1,678
Debtors	1,032	1,451	1,247	1,286	1,342
Other Current Assets	1,309	1,131	1,034	857	677
Total Assets	10,691	11,148	11,147	11,518	11,914
ST Debt	535	386	386	386	386
Creditor	1,812	941	831	858	895
Other Current Liab	162	1,290	1,290	1,290	1,290
LT Debt	2,298	2,123	2,123	2,123	2,123
Other LT Liabilities	188	312	312	312	312
Shareholder's Equity	3,327	3,693	3,776	4,002	4,235
Minority Interests	2,369	2,402	2,427	2,547	2,672
Total Cap. & Liab.	10,691	11,148	11,147	11,518	11,914

Non-Cash Wkg. Capital	1,900	1,939	1,656	1,604	1,512
Net Cash/(Debt)	(1,521)	(1,038)	(1,231)	(1,520)	(1,722)
Debtors Turn (avg days)	33.1	38.6	59.2	43.1	42.9
Creditors Turn (avg days)	95.9	55.1	51.8	37.9	37.7
Inventory Turn (avg days)	61.3	62.5	90.2	69.6	70.6
Asset Turnover (x)	1.1	1.1	0.7	0.9	1.0
Current Ratio (x)	2.1	2.2	2.0	1.9	1.7
Quick Ratio (x)	0.9	1.1	1.0	0.9	0.8
Net Debt/Equity (X)	0.3	0.2	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.5	0.3	0.3	0.4	0.4
Capex to Debt (%)	29.5	11.2	21.2	21.2	21.2
Z-Score (X)	2.0	2.1	1.7	1.9	1.9

Expect inventory to normalise

Source: Company, AllianceDBS

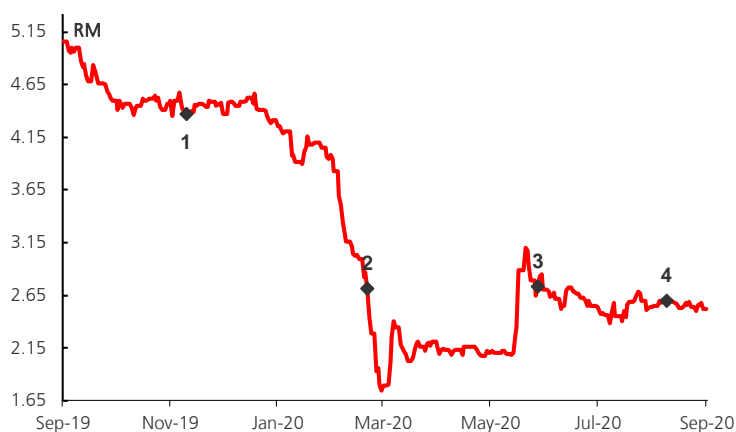
UMW Holdings

Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	786	741	202	537	555
Dep. & Amort.	203	346	366	384	401
Tax Paid	(139)	(130)	(14.0)	(65.4)	(68.6)
Assoc. & JV Inc/(loss)	(266)	(292)	(144)	(264)	(269)
Chg in Wkg.Cap.	(937)	(60.3)	187	(125)	(88.2)
Other Operating CF	(261)	(327)	(276)	(274)	(253)
Net Operating CF	(612)	278	322	192	277
Capital Exp.(net)	(835)	(282)	(532)	(532)	(532)
Other Invt.(net)	(2.5)	1,321	0.0	0.0	0.0
Invt in Assoc. & JV	146	(9.3)	0.0	0.0	0.0
Div from Assoc & JV	137	195	96.3	177	180
Other Investing CF	246	(734)	0.0	0.0	0.0
Net Investing CF	(308)	491	(436)	(355)	(351)
Div Paid	(58.4)	(75.9)	(9.3)	(56.4)	(58.3)
Chg in Gross Debt	1,285	(392)	(69.7)	(69.7)	(69.7)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(64.7)	(115)	0.0	0.0	0.0
Net Financing CF	1,162	(583)	(79.0)	(126)	(128)
Currency Adjustments	(111)	(26.7)	0.0	0.0	0.0
Chg in Cash	131	160	(193)	(289)	(203)
Opg CFPS (sen)	27.8	29.0	11.5	27.1	31.2
Free CFPS (sen)	(124)	(0.3)	(18.0)	(29.1)	(21.8)

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Nov 19	4.37	4.65	HOLD
2:	11 Mar 20	2.71	3.05	HOLD
3:	16 Jun 20	2.73	2.75	HOLD
4:	28 Aug 20	2.60	2.75	HOLD

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

UMW Holdings

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

UMW Holdings

DISCLAIMER

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