UMW Holdings (UMWH MK)

BUY (upgrade)
Up/Downside: +21.5%

Price Target: RM3.50
Previous Target (Rating): RM3.20 (Hold)

"Stellar 4Q20 performance"

Share price performance

	1M	3M	12M
Absolute (%)	-3.7	7.5	-17.9
Rel KLCI (%)	-4.0	8.6	-22.1

	BUY	HOLD	SELL
Consensus	9	5	-

Source: Bloomberg

Stock Data

Sector	Auto & Autoparts
Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	3364.7/832.8
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	1.65-3.66
Est free float	29.3%
Stock Beta	1.83
Net cash/(debt) (RMm)	(416)
ROE (CY21E)	8.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

PNB	52.6%
EPF	13.2%
KWAP	7.1%

Source: Affin Hwang, Bloomberg

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2020: Above expectations

- **UMW posted a 2020 core net profit of RM284.9m (+27.4% yoy) – above our and consensus expectations**
- **4Q20 core net profit saw a strong rebound to RM212.1m (>100% yoy), backed by higher car sales and margin expansion**
- **We raised our earnings forecasts by 20-32% for 2021-22E, mainly accounting for lower overall opex. Post revision, we upgrade UMW to BUY with a higher TP of RM3.50**

Above expectations

UMW's 4Q20 core net profit rebounded strongly to RM212.1m (>100% yoy), on the back of higher revenue at RM3.2bn (+4.1% yoy) – predominantly from higher vehicle sales, amid easing of lockdown and sales tax exemption. Importantly, PBT margin for the Auto segment expanded strongly to 7.2% (+2.5ppt), posting RM191m (+66% yoy) in tandem with the higher sales volume. On the flipside, equipment and manufacturing & engineering (M&E) segments posted softer PBTs of RM18.5m (-32%) and RM22.7 (-24%) respectively. Tracking the stellar 4Q20 performance, UMW registered a 2020 core net profit of RM284.9m (+27.4% yoy) – coming in above ours and consensus expectations. The variance to ours was mainly on higher than expected contribution from the auto segment and stronger margins.

Sequentially better across most segments

On a qoq basis, revenue and core net profit rose +21% and >100% respectively. Better sequential performances were seen with Auto (sales tax exemption and improved models introduced during the quarter) as well as M&E (higher contribution from aerospace segment) following easing of lockdown. To note, Toyota/Lexus unit sales rose to 21.9k in 4Q20 (+16% qoq / flat yoy) whereas Perodua stood at 75.2k (+6% qoq / +23% yoy). Elsewhere, the group declared a 4sen DPS for 2020 (vs 2019: 6 sen), within expectations.

Upgrade to BUY

In view of the results tracking ahead of our forecasts, we lift our earnings estimates by 20-32% for 2021-22E, mainly inputing lower opex. Post earnings revision, our TP is lifted to RM3.50 (from RM3.20). Upgrade to BUY considering the potential upside to current share price. Notwithstanding the early challenges to the year, we believe sales tax exemption and new launches would likely continue to support sales through 1H21 and going into 2H21. Also, we expect Perodua to remain in vogue given the attractive and affordable pricing nature of the national marque.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	11,760.2	9,554.6	10,750.4	11,500.7	11,999.8
EBITDA (RMm)	642.5	712.0	663.2	693.9	719.8
Pretax profit (RMm)	741.2	400.7	663.4	674.6	699.3
Net profit (RMm)	454.4	204.6	348.3	354.2	367.1
EPS (sen)	37.7	17.5	29.8	30.3	31.4
PER (x)	7.6	16.4	9.7	9.5	9.2
Core net profit (RMm)	223.7	284.9	293.3	319.2	332.1
Core EPS (sen)	19.5	24.4	25.1	27.3	28.4
Core EPS growth (%)	(59.2)	25.2	2.9	8.8	4.1
Core PER (x)	14.8	11.8	11.5	10.5	10.1
Net DPS (sen)	6.0	2.0	5.0	6.0	6.0
Dividend Yield (%)	2.1	0.7	1.7	2.1	2.1
EV/EBITDA	6.9	5.3	5.8	4.8	4.7
Chg in EPS (%)			+32.6	+20.2	new
Affin/Consensus (x)			1.2	1.1	new

Source: Company, Affin Hwang estimates

Key Risks

Key upside risk to our call: higher-than-expected car sales volume; key downside risk: (i) supply constraint on Mazda models, and (ii) forex risks

Fig 1: Results Comparison

FYE Dec (RMm)	4Q19	3Q20	4Q20	QoQ % chg	YoY % chg	2019	2020	YoY % chg	Comments
Revenue	3,116	2,663	3,242	*21.7*	*4.1*	11,760	9,555	*(18.8)*	Lower revenue in all segments hampered by the pandemic QoQ higher on improvement from all segments, particularly Autos (+25%)
Op costs	(2,974)	(2,513)	(2,926)	*16.4*	*(1.6)*	(11,118)	(8,843)	*(20.5)*	
EBITDA	**142.1**	**149.9**	**316.3**	***111.0***	***122.6***	**642.5**	**712.0**	*10.8*	
EBITDA margin (%)	*4.6*	*5.6*	*9.8*	*4.1ppt*	*5.2ppt*	*5.5*	*7.5*	*2ppt*	Higher margins across all segments
Depn and amort	(92.8)	(89.7)	(97.2)	*8.3*	*4.8*	(346.2)	(374.1)	*8.1*	
EBIT	**49.4**	**60.2**	**219.1**	***263.9***	***343.9***	296.3	338.0	*14.1*	
EBIT margin (%)	1.6	2.3		*n.m.*	*n.m*	2.5	3.5	*1ppt*	
Int expense	(32.6)	(26.5)	(29.1)	*9.7*	*(10.7)*	(130.5)	(115.5)	*(11.5)*	
Int and other inc	16.4	10.3	13.9	*34.9*	*(15.1)*	68.9	54.4	*(21.1)*	
Associates	64.6	94.3	107.6	*14.2*	*66.6*	275.7	204.1	*(26.0)*	
EI	213.9	21.3	(74.6)	*(450.4)*	*(134.9)*	230.8	(80.3)	*(134.8)*	2019 includes one-off gain on property disposal of RM188m
Pretax	**311.7**	**159.5**	**236.9**	*48.5*	*(24.0)*	**741.2**	**400.7**	*(45.9)*	
Tax	(21.9)	(41.9)	(26.3)	*(37.2)*	*20.2*	(112.5)	(77.7)	*(30.9)*	
Tax rate (%)	(7.4)	(26.3)	(11.1)	*-3.7 ppt*	*-3.7 ppt*	(15.2)	(19.4)	*-4.2 ppt*	
MI	(37.6)	(16.3)	(73.1)	*347.6*	*94.4*	(174.3)	(118.3)	*(32.1)*	
Net profit	**252.1**	**101.3**	**137.4**	*35.7*	*(45.5)*	**454.4**	**204.6**	*(55.0)*	
EPS (sen)	21.6	8.7	11.8	*35.7*	*(45.5)*	38.9	17.5	*(55.0)*	
Core net profit	**38.2**	**80.0**	**212.1**	*165.2*	*454.6*	**223.7**	**284.9**	*27.4*	Above ours and consensus expectations

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

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