



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

26 Feb 2021

Strong earnings rebound in 2HFY20

BUY

(Maintained)

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Rationale for report: Company results/update

Price	RM2.88
Fair Value	RM4.07
52-week High/Low	RM3.66/RM1.65

Key Changes

Fair value	i
EPS	i

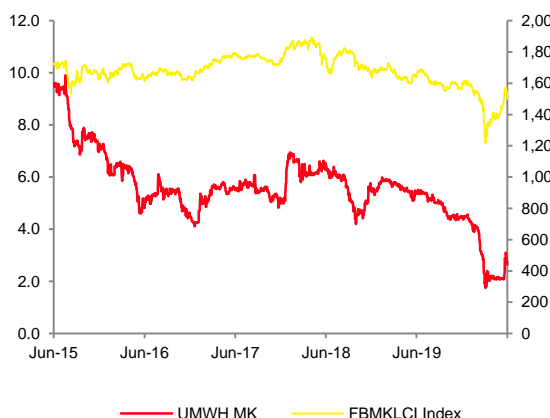
YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	9,554.6	10,703.9	10,931.4	11,226.3
Core net profit (RM mil)	284.9	288.4	300.2	315.4
FD Core EPS (sen)	24.4	24.7	25.7	27.0
FD Core EPS growth (%)	5.6	1.2	4.1	5.0
Consensus Net Profit (RM mil)	-	246.7	293.8	-
DPS (sen)	4.0	7.4	7.7	35.0
PE (x)	11.8	11.7	11.2	10.7
EV/EBITDA (x)	7.7	7.1	7.1	16.8
Div yield (%)	1.3	2.6	2.7	12.1
ROE (%)	5.6	7.6	7.5	7.7
Net Gearing (%)	40.7	39.6	38.7	43.1

Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RM mil)	3,364.7
Book Value (RM/share)	3.16
P/BV (x)	0.9
ROE (%)	5.6
Net Gearing (%)	40.7

Major Shareholders	ASB (40.7%)
	EPF (8.8%)
	PNB (7.3%)
Free Float	32.6
Avg Daily Value (RM mil)	3.3

Price performance	3mth	6mth	12mth
Absolute (%)	7.5	11.6	(17.9)
Relative (%)	8.6	9.8	(22.1)



Investment Highlights

- We maintain our BUY call on UMW Holdings (UMWH) with a higher SOP-derived fair value of RM4.06 (Exhibit 4), based on a FY21F PE of 10x for its motor segment.
- We raise our FY21–22F core net profit forecasts by 20–20% to account for higher Toyota sales volume assumptions.
- UMWH's FY20 core net profit of RM284.9mil (predominantly adjusted for reversal of impairment on receivables of RM54.9mil; and loss on disposal of non-core assets of RM108.6mil) came in above expectations, beating our full-year forecasts and full-year consensus estimates by 95% and 90% respectively. FY20 core net profit was up 6% YoY.
- UMWH registered a FY20 revenue of RM9.6bil, which was a 19% YoY decrease. The poorer performance was largely attributed to: i) lower revenue contribution from the automotive segment; and ii) a smaller equipment segment contribution due to the MCO – which resulted in closures of dealerships, showrooms and manufacturing plants nationwide in 2QFY20.
- To recap, Toyota sold 58.5K units in FY20 (-15% YoY) vs. 69.1K units in FY19. Toyota's market share in FY20 was 11.1%. For the automotive segment, the group registered a weaker FY20 revenue of RM7.5bil (-19% YoY) due to the lower number of vehicles sold. Sales and production volume were severely impacted by the MCO which took effect on 18 March, with gradual reopenings of dealerships starting from 13 May. Hence, the automotive segment's FY20 net profit took a dip to RM204.6mil (-38% YoY).
- We noted a drop in FY20 associate earnings to RM204.1mil (-29% YoY) and we suspect that this was due to the weaker performance from Perodua. Perodua sold a total of 220.2K units in FY20 vs. 240.3K units in FY19 (-8% YoY) and we believe that the lower Perodua sales volume was a result of the nationwide MCO, although it was partially mitigated by the SST exemption.
- The M&E division registered a marginally lower FY20 revenue of RM918.3mil (-14% YoY) but a higher net profit of RM34.3mil (+12% YoY). Despite lower production and deliveries of fan cases in the aerospace segment, we believe the division's improvement was due to: 1) cost-saving initiatives; and 2) heightened operational efficiencies – which were achieved via economies of scale. The group guided that production of the Trent 7000 has commenced in late Sept 2020, with its first bulk of deliveries in October 2020.

● Key highlights from the analyst briefing:

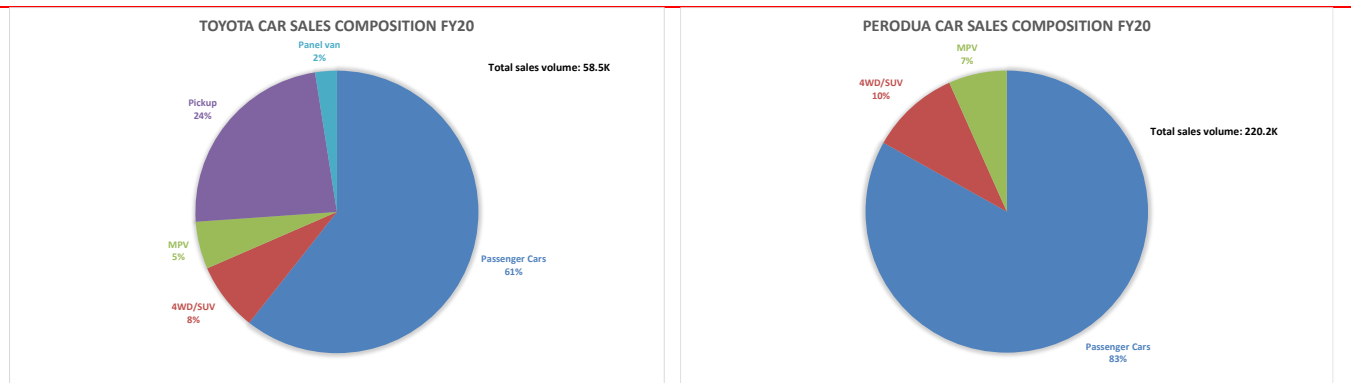
- 1) We gather that the C-segment Corolla Cross SUV will make its debut next month (in March 2021) as a CBU model. Management guided that there is a CKD plan for the model, targeted for 4QFY21.
- 2) UMW Toyota has introduced its sales volume target for 2021 at 62.0K units. Note that Honda's sales volume target is 80.0K units in 2021.
- 3) Management has guided that the aerospace division will face a bumpy journey in 2021, largely attributed to the down cycle of the global aviation industry due to the Covid-19 pandemic, which has led to a negative demand shock for plane parts, and these include fan casings. We understand that the demand has tumbled 20% YoY in 2020, and is expected to drop another 20% in 2021.
- 4) The mainstay models of Vios and Yaris CKDs will not be affected by the chip supply shortage, which has been causing a production slowdown globally. Meanwhile on the 38%-owned Perodua level, we gathered from various news sources that the Myvi, Aruz and Alza was impacted by the same issue, and that the production issue would linger on until March for the Myvi. No further information is available at the moment.

EXHIBIT 1: EARNINGS SUMMARY

RM mil	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Revenue	2,882.7	2,663.3	3,242.3	22%	4%	11,744.4	9,554.6	-19%
Operating Expenses	(2,835.2)	(2,604.3)	(3,128.0)	20%	2%	(11,539.2)	(9,389.2)	-19%
Other Operating Income	32.7	22.5	30.1	34%	-24%	131.4	92.3	-30%
Operating Profit	80.1	81.5	144.5	77%	92%	336.6	257.7	-23%
Finance Costs	(30.8)	(26.5)	(29.1)	10%	-11%	(126.7)	(115.5)	-9%
Share of Profits of Associates & JV	85.2	94.3	107.6	14%	67%	286.6	204.1	-29%
Investment Income	15.7	10.3	13.9	35%	-15%	68.4	54.4	-20%
Profit before tax	150.3	159.5	236.9	48%	92%	564.9	400.7	-29%
Tax	(21.0)	(41.9)	(26.3)	-37%	20%	(108.9)	(77.7)	-29%
Profit after tax	129.3	117.6	210.6	79%	107%	455.9	322.9	-29%
Minority interest								
Continuing operations	26.0	16.3	38.1	133%	-19%	129.2	48.5	-62%
Discontinued operations	(5.0)	0.0	0.0	NA	-100%	(24.6)	0.0	-100%
Total	20.9	16.3	38.1	133%	1%	104.6	48.5	-54%
Net profit								
Continuing operations	103.3	101.3	137.4	36%	-34%	447.2	204.6	-54%
Discontinued operations	6.9	0.0	0.0	NA	-100%	0.9	0.0	-100%
Total	110.3	101.3	137.4	36%	-31%	448.1	204.6	-54%
Core net profit	94.2	80.0	189.3	137%	1118%	269.8	284.9	6%
Margins								
EBIT margin	2.8%	3.1%	4.5%			2.9%	2.7%	
PBT Margin	5.2%	6.0%	7.3%			4.8%	4.2%	
Net profit margin	3.6%	3.8%	4.2%			3.8%	2.1%	
Core net profit margin	3.3%	3.0%	5.8%			2.3%	3.0%	
Toyota								
Sales volume (units)	16,357	18,635	21,667	139%	14%	69,091	58,501	-15%
Perodua								
Sales volume (units)	56,972	70,842	75,151	143%	24%	240,341	220,163	-8%

Source: AmlInvestment Bank Bhd

EXHIBIT 2: TOYOTA AND PERODUA SALES MIX FY20



Source: AmlInvestment Bank Bhd

EXHIBIT 3: SEGMENTAL BREAKDOWN

Segmental Breakdown	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Revenue								
Automotive	2,450.0	2,127.5	2,668.2	93%	-7%	9,295.9	7,483.7	-19%
Equipment	328.0	297.0	317.9	27%	-16%	1,408.2	1,137.3	-19%
Manufacturing & Engineering	328.5	242.3	244.2	32%	-4%	1,062.5	918.3	-14%
Others	9.1	(3.4)	12.0	-131%	-83%	(22.2)	15.3	-169%
Total	3,115.7	2,663.3	3,242.3	74%	-8%	11,744.4	9,554.6	-19%
PBT								
Automotive	114.9	131.6	191.0	-415%	-6%	530.3	334.6	-37%
Equipment	27.3	34.0	18.5	38%	11%	135.7	102.9	-24%
Manufacturing & Engineering	30.0	20.3	22.7	153%	32%	60.9	61.6	1%
Eliminations	(48.6)	(26.4)	4.6	-47%	-27%	(162.0)	(98.4)	-39%
Total	123.5	159.5	236.9	-371%	6%	564.9	400.7	-29%
Net profit								
Automotive	82.4	94.6	135.1	-645%	-9%	374.8	262.8	-30%
Equipment	5.5	24.3	15.8	16%	5%	87.8	76.8	-12%
Manufacturing & Engineering	17.9	9.7	10.2	25%	7%	30.5	34.3	12%
Others	(51.1)	(27.4)	11.4	-50%	-55%	(164.3)	(99.5)	-39%
Total	54.8	101.3	172.5	-332%	33%	328.8	204.6	-38%
PBT Margin								
Automotive	4.7%	6.2%	7.2%			5.7%	4.5%	
Equipment	8.3%	11.5%	5.8%			9.6%	9.1%	
Manufacturing & Engineering	9.1%	8.4%	9.3%			5.7%	6.7%	
Net Profit Margin								
Automotive	3.4%	4.4%	5.1%			4.0%	3.5%	
Equipment	1.7%	8.2%	5.0%			6.2%	6.8%	
Manufacturing & Engineering	5.5%	4.0%	4.2%			2.9%	3.7%	

Source: AmlInvestment Bank Bhd

EXHIBIT 4: SOP VALUATION MATRIX

FY21F SOP VALUATION						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	254	51%	10	1,294	1.11	1,168.3
Equipment	46	91%	9	380	0.33	
M&E	27		10	268	0.23	
					1.66	
Add: Others segment	80			80	0.07	
Add: Perodua	790	38%	9	2,702	2.31	
Add: Serendah land (821 acres at RM15/psf)				1,073	0.92	
Add: Company net debt				-1,038	-0.89	
Fair Value					4.07	

Source: AmlInvestment Bank Bhd

EXHIBIT 5: TOYOTA PRICE LIST POST-SST EXEMPTIONS

Toyota Model	Variant	Price with SST	Price with 2020 SST Exemption (until December 31)	Price difference	Price difference in Percentage
Yaris	1.5J	RM70,888	RM69,576	-RM1,312	-1.85%
	1.5E	RM76,888	RM75,479	-RM1,409	-1.83%
	1.5G	RM83,888	RM82,475	-RM1,413	-1.68%
Vios	1.5J	RM77,200	RM76,101	-RM1,099	-1.42%
	1.5E	RM81,200	RM80,074	-RM1,126	-1.39%
	1.5G	RM87,300	RM86,132	-RM1,168	-1.34%
Corolla	1.8E	RM128,888	RM123,972	-RM4,916	-3.81%
	1.8G	RM139,888	RM134,505	-RM5,383	-3.85%
Camry	2.5V	RM196,888	RM188,763	-RM8,125	-4.13%
Rush	1.5G	RM93,000	RM88,314	-RM4,686	-5.04%
	1.5S	RM97,000	RM91,885	-RM5,115	-5.27%
C-HR	1.8L	RM150,000	RM144,336	-RM5,664	-3.78%
RAV4	2.0L	RM203,880	RM196,436	-RM7,444	-3.65%
	2.5L	RM223,880	RM215,665	-RM8,215	-3.67%
Harrier	2.0T Premium	RM243,000	RM234,510	-RM8,490	-3.49%
	2.0T Luxury	RM266,000	RM256,396	-RM9,604	-3.61%
Fortuner	2.4 4x4	RM171,500	RM162,178	-RM9,322	-5.44%
	2.4 VRZ 4x4	RM195,600	RM184,431	-RM11,169	-5.71%
	2.7 SRZ 4x4	RM181,200	RM172,523	-RM8,677	-4.79%
Hilux	5/Cab 2.4 MT 4x4	RM90,000	RM90,000	RM0	0.00%
	2.4 STD MT 4x4	RM100,000	RM100,000	RM0	0.00%
	2.4G MT 4x4	RM110,000	RM110,000	RM0	0.00%
	2.4G AT 4x4	RM118,100	RM118,100	RM0	0.00%
	2.4 L-Edition 4x4	RM124,888	RM124,888	RM0	0.00%
	2.8 Black Edition 4x4	RM139,888	RM139,888	RM0	0.00%
Avanza	1.5E	RM80,888	RM77,963	-RM2,925	-3.62%
	1.5S	RM83,888	RM80,849	-RM3,039	-3.62%
	1.5S+	RM87,888	RM84,849	-RM3,039	-3.46%
Innova	2.0E MT (Taxi)	RM84,325	RM84,325	RM0	0.00%
	2.0E	RM115,280	RM110,034	-RM5,246	-4.55%
	2.0G	RM123,400	RM117,364	-RM6,036	-4.89%
	2.0X	RM132,400	RM127,126	-RM5,274	-3.98%
Vellfire	2.5L	RM382,300	RM367,881	-RM14,419	-3.77%
Alphard	3.5L	RM464,000	RM446,609	-RM17,391	-3.75%
Hiace	Panel Van 2.5TD	RM98,000	RM98,000	RM0	0.00%

Source: AmlInvestment Bank Bhd, paultan.org

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	11,744.4	9,554.6	10,703.9	10,931.4	11,226.3
EBITDA	682.8	631.7	690.9	699.4	302.8
Depreciation/Amortisation	(346.2)	(374.1)	(474.5)	(497.9)	(113.0)
Operating income (EBIT)	336.6	257.7	216.4	201.6	189.8
Other income & associates	355.0	258.5	300.2	317.9	351.0
Net interest	(126.7)	(115.5)	(6.5)	(10.0)	(13.7)
Exceptional items	-	-	-	-	-
Pretax profit	564.9	400.7	510.1	509.5	527.1
Taxation	(108.9)	(77.7)	(50.4)	(45.7)	(41.8)
Minorities/pref dividends	104.6	48.5	(241.2)	(230.4)	(165.0)
Net profit	448.1	204.6	288.4	300.2	314.4
Core net profit	269.8	284.9	288.4	300.2	315.4
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	3,719.6	3,988.6	4,249.5	4,500.6	-
Intangible assets	-	-	-	-	-
Other long-term assets	2,888.6	2,872.1	2,987.8	3,116.9	3,454.1
Total non-current assets	6,608.1	6,860.7	7,237.3	7,617.5	3,454.1
Cash & equivalent	1,338.0	1,088.8	992.0	891.0	693.8
Stock	1,350.0	1,263.0	1,374.0	1,485.5	1,610.2
Trade debtors	918.3	859.2	879.8	898.5	922.7
Other current assets	1,148.3	1,148.3	1,148.3	1,148.3	1,148.3
Total current assets	4,754.6	4,359.3	4,394.0	4,423.3	4,375.0
Trade creditors	2,190.9	2,049.8	2,208.9	2,368.2	2,547.4
Short-term borrowings	1,277.9	1,534.9	1,791.9	2,048.9	2,305.9
Other current liabilities	214.8	205.2	208.6	211.6	215.5
Total current liabilities	3,683.6	3,790.0	4,209.4	4,628.7	5,068.9
Long-term borrowings	1,371.7	1,058.7	745.8	432.8	119.9
Other long-term liabilities	90.5	86.4	87.9	89.2	90.8
Total long-term liabilities	1,462.3	1,145.2	833.7	522.0	210.7
Shareholders' funds	3,595.1	3,697.2	3,899.1	4,109.2	4,014.9
Minority interests	2,621.7	2,657.5	2,828.8	2,989.4	3,154.4
BV/share (RM)	3.08	3.16	3.34	3.52	3.44
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	564.9	400.7	510.1	509.5	527.1
Depreciation/Amortisation	346.2	374.1	474.5	497.9	113.0
Net change in working capital	644.2	(6.7)	31.7	32.7	35.1
Others	(164.8)	(491.9)	(520.0)	(528.3)	(552.3)
Cash flow from operations	1,390.4	276.1	496.3	511.8	122.9
Capital expenditure	(670.4)	(522.7)	(535.2)	(546.6)	-
Net investments & sale of fixed assets	-	-	-	-	-
Others	135.8	166.9	154.4	149.6	144.5
Cash flow from investing	(534.6)	(355.8)	(380.8)	(397.0)	144.5
Debt raised/(repaid)	(56.0)	(56.0)	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	1.0	2.0
Dividends paid	(107.3)	(43.8)	(86.5)	(90.1)	(408.7)
Others	(69.9)	(69.9)	(69.9)	(67.9)	4.0
Cash flow from financing	(233.2)	(169.6)	(212.3)	(212.9)	(458.6)
Net cash flow	622.7	(249.2)	(96.8)	(98.0)	(191.2)
Net cash/(debt) b/f	715.3	1,338.0	1,088.8	992.0	891.0
Net cash/(debt) c/f	1,338.0	1,088.8	992.0	894.0	699.8
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	3.9	(18.6)	12.0	2.1	2.7
EBITDA growth (%)	(16.3)	(7.5)	9.4	1.2	(56.7)
Pretax margin (%)	4.8	4.2	4.8	4.7	4.7
Net profit margin (%)	3.8	2.1	2.7	2.7	2.8
Interest cover (x)	2.7	2.2	33.5	20.2	13.9
Effective tax rate (%)	19.3	19.4	9.9	9.0	7.9
Dividend payout (%)	18.0	16.0	22.5	22.5	97.5
Debtors turnover (days)	31	34	30	30	30
Stock turnover (days)	45	50	45	48	50
Creditors turnover (days)	63	81	73	76	80

Source: Company, AmlInvestment Bank Bhd estimates

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