

HLIB Research

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BUY (from Hold)

Target Price: RM3.45

Previously: RM3.25

Current Price: RM2.88

Capital upside	19.8%
Dividend yield	1.4%
Expected total return	21.2%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price



Historical return (%)	1M	3M	12M
Absolute	-3.7	7.5	-17.9
Relative	-4.0	8.6	-22.1

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	3,365
3-mth average volume ('000)	1,030
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

Permodalan Nasional Berhad	59.6%
Employess Provident Fund	13.2%
Kumpulan Wang Persaraan	7.1%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	208	405	415
EPS - core (sen)	17.8	34.6	35.5
P/E (x)	16.2	8.3	8.1

UMW Holdings

Improved FY21 outlook

Reported core PATMI at RM195.1m for 4QFY20 and RM207.5m for FY20, above HLIB's forecast (172.4%) and consensus (138.4%) due to stronger than expected automotive sales volume and margins as well lower core loss from Other segment. Increased earnings for FY21-22 by 19.4% and 18.8% respectively after imputing stronger earnings for Automotive segment (extended SST exemptions to 30 Jun 2021 and several attractive new models) and lower loss for Other segment. Upgrade to BUY (from Hold) with higher TP: RM3.45 (from RM3.25) based on 10% discount to SOP: RM3.83.

Above expectations. UMW reported core PATMI of RM195.1m (adjusted for quarterly provision of RM13.5m Perpetual Sukuk distribution) for 4QFY20 (+203.3% QoQ; +892.7% YoY) and RM207.5m for FY20 (-17.8% YoY), above HLIB's FY20 forecast (172.4%) and consensus (138.4%). The strong momentum in 4QFY20 was driven mainly by strong car sales from SST exemption and lower core losses in other segment. We have excluded net EIs of -RM12.4m in FY20, mainly due to net impairments and provisions, net disposal gain and forex gain.

Dividend. Declared a final dividend of 4 sen/share (ex-date: 15 April 2021).

QoQ & YoY. Adjusted for quarterly distribution for Perpetual Sukuk, UMW core PATMI expanded 203.3% QoQ and 892.7% YoY to RM195.1m, mainly driven by stronger group automotive sales volume since SST exemptions implemented in Jun 2020 and lower core operating loss at Other segment (including Holding-co).

YTD. Core earnings declined -17.8% YoY, as group operations were affected by Covid-19 and implementation of MCO in 1HFY21.

Automotive. Management is upbeat on strong automotive sales in FY21 due to extension of SST exemption to 30 Jun 2021 as well as several attractive new models from Toyota (confirmed Vios facelift, Yaris facelift and new Corolla Cross) and Perodua (confirmed Ativa and expected Myvi facelift). The group has set sales target of 302k units for 2021 (62k units for Toyota and 240k units for Perodua).

Equipment. Demand for heavy equipment (mining, construction and logging) remains sluggish in the near term, given the slowdown of domestic as well as regional economic activity during the year. Management expects some recovery in demand from domestic construction and plantation sector, while mining sector in Myanmar may continue to see weakness in the near term due to the country's emergency status.

M&E. Automotive parts will leverage on the recovery of local car production volume, for earnings sustainability. Kayaba has completed its +15% capacity expansion in Nov 2020. On the other hand, Aerospace manufacturing is expected to face further slowdown in 2021.

Forecast. Increased earnings for FY21-22 by 19.4% and 18.8% respectively after imputing stronger earnings for Automotive segment and lower loss for Other segment.

Upgrade to BUY, TP: RM3.45. Upgrade to BUY (from Hold) with higher TP: RM3.45 (from RM3.25), based on unchanged discount of 10% to SOP of RM3.83 (from RM3.60) post earnings upgrade. UMW will continue to leverage onto the strong automotive sales in 2021 with the extension of SST exemptions, attractive new models and economic recovery (driven by stimulus plan and vaccination program).

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	11,304	11,739	9,555	10,765	10,994
EBITDA	816	867	658	781	770
EBIT	542	521	284	427	413
PBT	800	755	401	682	687
Operation PAT	676	646	313	580	583
Discontinued operation	(177)	(17)	0	0	0
PATMI – Reported	344	454	195	405	415
PATMI – Core	290	253	208	405	415
% change YoY – Core PATMI		-12.9%	-17.8%	94.9%	2.6%
HLIB/ Consensus (%) – Core PATMI				80.2%	73.0%
Core EPS (sen)	24.8	21.6	17.8	34.6	35.5
P/E (x)	11.6	13.3	16.2	8.3	8.1
DPS (sen)	7.5	6.0	4.0	4.0	6.0
Yield (%)	2.6%	2.1%	1.4%	1.4%	2.1%
Shareholder's equity	3,345	3,696	3,868	4,225	4,593
BVPS (RM/share)	2.86	3.16	3.31	3.62	3.93
P/B (x)	1.0	0.9	0.9	0.8	0.7
ROE (%)	2.8%	2.3%	1.8%	3.6%	3.6%

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Figure #2 Quarterly results comparison

FYE Dec (RMm)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	3,115.7	2,663.3	3,242.3	21.7%	4.1%	11,739.1	9,554.6	-18.6%
EBITDA	149.3	154.9	284.9	83.9%	90.9%	866.6	657.8	-24.1%
EBIT	56.5	65.2	187.7	187.9%	232.0%	521.4	283.7	-45.6%
Net finance expense	(23.4)	(20.3)	(20.6)	1.7%	-11.9%	(58.2)	(87.1)	49.6%
Associates	64.6	94.3	107.6	14.2%	66.6%	291.6	204.1	-30.0%
Eis	213.9	20.3	(37.9)			0.0	0.0	
Reported PBT	311.7	159.5	236.9	48.5%	-24.0%	754.8	400.7	-46.9%
Tax	(21.9)	(41.9)	(26.3)	-37.2%	20.2%	(108.7)	(87.2)	-19.7%
Reported operation net profit	289.8	117.6	210.6	79.0%	-27.3%	646.1	313.4	-51.5%
Discontinued operation	(16.9)	0.0	0.0	N.M.	N.M.	(17.4)	0.0	-100.0%
Reported net profit	272.9	117.6	210.6	79.0%	-22.8%	628.7	313.4	-50.1%
Reported PATMI	200.5	101.3	137.4	35.7%	-31.4%	454.4	195.1	-57.1%
Eis & Sukuk Adjustments	(180.8)	(37.0)	57.6	-255.8%	-131.9%	(201.8)	12.4	-106.2%
Core PATMI	19.7	64.3	195.1	203.3%	892.7%	252.6	207.5	-17.8%
Reported EPS (Sen)	17.2	8.7	11.8	35.7%	-31.4%	38.9	16.7	-57.1%
Core EPS (Sen)	1.7	5.5	16.7	203.3%	892.7%	21.6	17.8	-17.8%
				<u>pts</u>	<u>pts</u>			<u>pts</u>
EBITDA margin (%)	4.8%	5.8%	8.8%	3.0	4.0	7.4%	6.9%	(0.5)
EBIT margin (%)	1.8%	2.4%	5.8%	3.3	4.0	4.4%	3.0%	(1.5)
Core PATMI margin (%)	0.6%	2.4%	6.0%	3.6	4.2	2.2%	2.2%	(2.3)

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Figure #3 Quarterly results comparison by segment

	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Reported Revenue								
Automotive	3,115.7	2,663.3	3,242.3	21.7%	4.1%	11,739.1	9,554.6	-18.6%
Equipment	2,450.0	2,127.5	2,668.2	25.4%	8.9%	9,291.5	7,483.7	-19.5%
Manufacturing & Engineering	328.0	297.0	317.9	7.1%	-3.1%	1,380.6	1,137.3	-17.6%
Others	9.1	(3.4)	12.0	-447.2%	31.1%	35.6	15.3	-57.2%
Total	5,893.7	5,087.8	6,228.5	22.4%	5.7%	22,411.2	18,175.6	-18.9%
Reported PATMI								
Automotive	82.4	94.6	135.1	42.8%	63.9%	374.8	262.8	-29.9%
Equipment	5.5	24.3	15.8	-34.9%	186.3%	149.6	76.8	-48.6%
Manufacturing & Engineering	17.9	9.7	10.2	4.2%	-43.2%	96.0	34.3	-64.3%
Others	94.6	(27.4)	(23.7)	-13.7%	-125.0%	(96.3)	(178.8)	N.M.
Total	200.5	101.3	137.4	35.7%	N.M.	524.1	195.1	-62.8%
Core PATAMI	19.7	64.3	195.1	203.3%	N.M.	252.6	207.5	-17.8%

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Figure #4 UMW automotive sales statistics

FYE Dec (RMm)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Toyota	21,783	18,635	21,667	16.3%	-0.5%	69,391	58,501	-15.7%
Lexus	375	235	314	33.6%	-16.3%	918	819	-10.8%
Perodua	61,587	70,842	75,151	6.1%	22.0%	240,341	220,163	-8.4%
Total	83,745	89,712	97,132	8.3%	16.0%	310,650	279,483	-10.0%

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Figure #5 UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,094.9	3.51	FY21 PE 10x
Equipment	Various	634.4	0.54	FY21 PE 8x
Manufacturing & Engineering	Various	1,383.4	1.18	FY21 PE 18x
Others (including O&G unlisted)	Various	35.9	0.03	Book value based on FY2019
700 acres Serendah land	100.00	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	90.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2019 Annual Report
Holding Co Net Debt		(1,647.8)	(1.41)	Based on 2019 Annual Report
Subtotal		4,470.5	3.83	
Holding Co Discount			10.0%	
Subtotal			3.45	
* No of Shares		1,168.3		As at end FY2020

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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