

26 Feb 2021

# Buy

**Price**  
 RM2.88

**Target Price**  
 RM4.00 (from RM3.90)

## Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,364.7
52-week high/low (RM)	4.70 / 1.65
Avg daily turnover (RMm)	1.2
KLCI (pts)	1,581.5

Source: Bloomberg, KAF

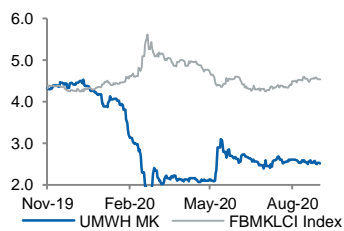
## Major Shareholder (%)

Skim Amanah Saham Bumiputera	(51.5%)
EPF	(12.7%)
Yayasan Perlaburan Bumiputera	(7.3%)
Free Float	27.4

Source: Bloomberg, KAF

## Performance

	3M	6M	12M
Absolute (%)	3.9	27.6	(41.0)
Rel Market (%)	1.1	14.8	(41.2)



Source: Bloomberg, KAF

## Analyst

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# UMW Holdings

## A strong 4Q finish

UMW reported a strong 4Q core earnings of RM189m – a 137% jump from 3Q's RM80m due to strong auto sales. Thus, FY20 earnings beat forecasts. Management is targeting 5% sales growth for this year, while Perodua is targeting 9% growth. Perodua Ativa will be launched on 3 March while the Corolla Cross will make its debut as a CBU model before it is locally assembled. Buy with a higher TP to reflect improving margins.

## Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	11,739	9,555	10,223	10,492	10,783
Core net profit (RMm)	169	285	308	338	380
Core EPS (Sen)	14.5	24.4	26.4	28.9	32.5
EPS growth (%)	(48)	69	8	10	12
DPS (Sen)	6.0	4.0	6.0	6.0	6.0
Core PE (x)	31	12	11	10	9
Div yield (%)	1	1	2	2	2
ROE (%)	13	5	8	8	8
Net Gearing (%)	28	11	5	(20)	(41)
PBV(x)	1.41	0.87	0.8	0.7	0.7

Source: Company, KAF

**A strong 4Q.** UMW reported a strong 4Q core earnings of RM189m – a 137% jump from 3Q's RM80m, and significantly higher than last year's RM8m. The strong performance was mainly due to strong auto sales delivery in 4Q (as consumers take advantage of tax exemption) and higher contribution from Perodua

**FY20 beat expectations.** Hence, UMW ended the year with RM285m core earnings – 69% higher from a year earlier. This is on the back of 19% topline decline. Core earnings exceeded our expectations due mainly to stronger auto sales in 4Q, better-than-expected Perodua contribution, and low effective tax rate of 19% (vs. our 24% forecast). A final 4 sen DPS was declared – which was within estimate.

**Strong UMW and Perodua sales.** It was a strong 4Q for UMW with 22k units sold in 4Q – up 16% from 19k in 3Q. Sales were flattish from a year earlier. Perodua sales volume also grew 6% in 4Q. Hence, auto division reported a 45% PBT growth qoq with margin improving 1ppt to 7%. For FY20, both UMW and Perodua sales volume of 59k and 220k exceeded management's target of 53k and 210k, respectively.

**Weaker equipment division.** As expected, the equipment division PBT fell 24% on 19% topline decline for FY20 as sales were impacted by the Covid-19 pandemic. Nevertheless, margin was sustained at 9%.

**Flattish M&E with cost improvements.** Positively, the M&E division PBT were flattish at RM62m (despite a 14% topline decline) due mainly to cost optimisation exercises. Lubricant demand is expected to improve in tandem with auto sales; this will mitigate slowing orders for fan cases. Fan case deliveries had reduced 20% in FY20, and is expected to reduce by another 20% this year. Recall that UMW delivered its first Trent 7000 delivery in Oct; it is also looking to utilise its aerospace production facility to manufacture new products. PBT margin improved by 1ppt to 7% last year.

**Outlook.** Management is targeting 62k UMW sales for 2021 (close to our 63.8k forecast) – a 5% yoy increase. Thai-imported Corolla Cross is expected to debut in the market soon, before local assembly commences in 2H (expected sale in 4Q). UMW recently launched facelifts for the Innova and Fortuner. Other models to come include an expected Camry facelift and a GR model. Management noted that its three best-selling models – Yaris, Vios and Hilux are not affected by the global semiconductor supply shortage. Meanwhile, Perodua is targeting 240k sales this year (up 9%) with record 272k production. It will launch the all-new Ativa on 3 March. UMW's auto plants will run at 100% capacity in 1H to meet demand.

**Maintain Buy.** We maintain our Buy with a higher SOP-based TP of RM4.00 to reflect improved auto sales margin. We expect auto sales to be supported by its new models as well as the sales tax exemption. Improved equipment sales is a positive upside, while weaker MYR and another severe lockdown are key downside risks. UMW is trading at 11x FY21 PE and 0.8x PBV.

**Exhibit 1: Results summary**

FYE 31 Dec	4Q19	3Q20	4Q20	yoy %	qoq%	FY19	FY20	yoy %	FY20F	FY20/F
<b>Revenue</b>	<b>3124</b>	<b>2663</b>	<b>3243</b>	<b>4%</b>	<b>22%</b>	<b>11760</b>	<b>9555</b>	<b>-19%</b>	<b>9424</b>	<b>101%</b>
<b>Operating profit</b>	<b>251</b>	<b>82</b>	<b>144</b>	<b>-42%</b>	<b>77%</b>	<b>527</b>	<b>258</b>	<b>-51%</b>	<b>225</b>	<b>115%</b>
Investment income	17	10	14	-17%	35%	69	54	-21%	50	109%
Finance cost	(35)	(27)	(29)	-16%	10%	(131)	(116)	-11%	(109)	106%
JV & Associates	65	94	108	67%	14%	276	204	-26%	195	105%
<b>Pretax profit</b>	<b>298</b>	<b>160</b>	<b>237</b>	<b>-20%</b>	<b>48%</b>	<b>741</b>	<b>401</b>	<b>-46%</b>	<b>361</b>	<b>111%</b>
Tax	(25)	(42)	(26)	6%	-37%	(112)	(78)	-31%	(87)	90%
<b>Profit after tax</b>	<b>273</b>	<b>118</b>	<b>211</b>	<b>-23%</b>	<b>79%</b>	<b>629</b>	<b>323</b>	<b>-49%</b>	<b>274</b>	<b>118%</b>
MI & perpetual sukuk holders	(72)	(16)	(73)	1%	348%	(174)	(118)	-32%	(122)	97%
<b>Net profit</b>	<b>200</b>	<b>101</b>	<b>137</b>	<b>-31%</b>	<b>36%</b>	<b>454</b>	<b>205</b>	<b>-55%</b>	<b>152</b>	<b>134%</b>
<b>Core net profit</b>	<b>8</b>	<b>80</b>	<b>189</b>	<b>2302%</b>	<b>137%</b>	<b>169</b>	<b>285</b>	<b>69%</b>	<b>152</b>	<b>187%</b>
EPS (sen)	17.2	8.7	11.8			38.9	17.5			
Core EPS (sen)	0.7	6.8	16.2			14.5	24.4			
Net DPS (sen)	2.0	0.0	4.0			6.0	4.0			
BV (RM)	3.16	3.25	3.25			3.16	3.25			
EBIT margin (%)	8%	3%	4%			4%	3%		2%	
PBT margin (%)	10%	6%	7%			6%	4%		4%	
PAT margin (%)	9%	4%	6%			5%	3%		3%	
Net margin (%)	6%	4%	4%			4%	2%		2%	
Core net margin (%)	0%	3%	6%			1%	3%		2%	
Effective tax rate (%)	8%	26%	11%			15%	19%		24%	

Source: Company, KAF

**Exhibit 2: Segmental breakdown**

	4Q19	3Q20	4Q20	yoy %	qoq %	FY19	FY20	yoy %	FY20F	FY20/F
Automotive	2450	2128	2668	9%	25%	9296	7484	-19%	7,258	103%
Equipment	328	297	318	-3%	7%	1408	1137	-19%	1,289	88%
Manufacturing	329	242	244	-26%	1%	1063	918	-14%	903	102%
Others & Eliminations	17	(3)	12	-31%	-447%	(6)	15	-339%		
<b>Total Revenue (RM mil)</b>	<b>3124</b>	<b>2663</b>	<b>3242</b>	<b>4%</b>	<b>22%</b>	<b>11760</b>	<b>9555</b>	<b>-19%</b>	<b>9,424</b>	<b>101%</b>
Automotive	115	132	191	66%	45%	530	335	-37%	232	144%
Equipment	27	34	19	-32%	-46%	136	103	-24%	120	85%
Manufacturing	30	20	23	-24%	12%	61	62	1%	45	138%
Others	126	(26)	5	-96%	-118%	14	(98)	-787%		
<b>Total PBT (RM mil)</b>	<b>298</b>	<b>160</b>	<b>237</b>	<b>-20%</b>	<b>48%</b>	<b>741</b>	<b>401</b>	<b>-46%</b>	<b>361</b>	<b>111%</b>
Automotive PBT margin (%)	5%	6%	7%			5.7%	4.5%		3%	
Equipment PBT margin (%)	8%	11.5%	5.8%			9.6%	9.1%		9%	
Manufacturing PBT (%)	9%	8%	9%			6%	7%		5%	
<b>Total PBT margin (%)</b>	<b>10%</b>	<b>6%</b>	<b>7%</b>			<b>6%</b>	<b>4%</b>		<b>4%</b>	

Unit sales	4Q19	3Q20	4Q20	yoy %	qoq %	FY19	FY20	yoy %	FY20	FY20/F
Toyota & Lexus	21,858	18,870	21,981	1%	16%	70,009	59,320	-15%	56,200	106%
Perodua	61,587	70,842	75,151	22%	6%	240,341	220,163	-8%	215,000	102%
<b>Grand total</b>	<b>83,445</b>	<b>89,712</b>	<b>97,132</b>	<b>16%</b>	<b>8%</b>	<b>310,350</b>	<b>279,483</b>	<b>-10%</b>	<b>271,200</b>	<b>103%</b>

Source: Company, KAF

## UMW Holdings

### Income Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
<b>Revenue</b>	<b>11,739</b>	<b>9,555</b>	<b>10,223</b>	<b>10,492</b>	<b>10,783</b>
<b>EBITDA</b>	<b>872</b>	<b>632</b>	<b>649</b>	<b>666</b>	<b>683</b>
Depreciation/Amortisation	(345)	(374)	(298)	(287)	(275)
Operating income (EBIT)	<b>527</b>	<b>258</b>	<b>351</b>	<b>379</b>	<b>408</b>
Other income & associates	276	204	286	295	303
Net interest	(62)	(61)	(42)	(35)	(13)
Exceptional items	0	0	0	0	0
<b>Pretax profit</b>	<b>741</b>	<b>401</b>	<b>594</b>	<b>639</b>	<b>698</b>
Taxation	(112)	(78)	(112)	(125)	(140)
Minorities/pref dividends	(174)	(118)	(175)	(176)	(178)
<b>Net profit</b>	<b>455</b>	<b>205</b>	<b>308</b>	<b>338</b>	<b>380</b>
<b>Core net profit</b>	<b>169</b>	<b>285</b>	<b>308</b>	<b>338</b>	<b>380</b>

### Balance Sheet

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	2,702	2,463	1,815	1,379	955
Intangible assets	0	0	0	0	0
Other long-term assets	2,787	2,992	2,992	2,992	2,992
<b>Total non-current assets</b>	<b>5,488</b>	<b>5,455</b>	<b>4,807</b>	<b>4,371</b>	<b>3,947</b>
Cash & equivalent	1,472	2,051	1,493	2,224	2,972
Stock	1,590	1,439	1,534	1,564	1,593
Trade debtors	1,449	1,202	1,153	1,172	1,192
Other current assets	1,082	1,299	2,009	1,814	1,640
<b>Total current assets</b>	<b>5,593</b>	<b>5,992</b>	<b>6,189</b>	<b>6,775</b>	<b>7,396</b>
Trade creditors	2,077	2,156	1,978	1,990	2,002
Short-term borrowings	386	524	141	133	126
Other current liabilities	138	116	116	116	116
<b>Total current liabilities</b>	<b>2,601</b>	<b>2,796</b>	<b>2,235</b>	<b>2,239</b>	<b>2,245</b>
Long-term borrowings	2,123	1,942	1,570	1,205	841
Other long-term liabilities	312	291	291	289	287
<b>Total long-term liabilities</b>	<b>2,436</b>	<b>2,234</b>	<b>1,861</b>	<b>1,494</b>	<b>1,127</b>
<b>Shareholders' funds</b>	<b>3,696</b>	<b>3,868</b>	<b>4,176</b>	<b>4,514</b>	<b>4,894</b>
Minority interests	<b>2,402</b>	<b>2,549</b>	<b>2,724</b>	<b>2,900</b>	<b>3,078</b>

### Cash flow Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	741	401	594	639	698
Depreciation/Amortisation	346	374	298	287	275
Net change in working capital	(143)	489	(224)	(38)	(36)
Others	(689)	(344)	(312)	(340)	(387)
<b>Cash flow from operations</b>	<b>255</b>	<b>920</b>	<b>357</b>	<b>547</b>	<b>551</b>
Capital expenditure	(345)	(237)	(100)	(100)	(100)
Net investments & sale of fixed assets	63	74	0	0	0
Others	712	63	(327)	794	803
<b>Cash flow from investing</b>	<b>430</b>	<b>(100)</b>	<b>(427)</b>	<b>694</b>	<b>703</b>
Debt raised/(repaid)	(323)	(43)	(371)	(369)	(366)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(76)	(23)	(47)	(70)	(70)
Others	(185)	(171)	(70)	(70)	(70)
<b>Cash flow from financing</b>	<b>(584)</b>	<b>(238)</b>	<b>(488)</b>	<b>(509)</b>	<b>(506)</b>
<b>Net cash flow</b>	<b>101</b>	<b>582</b>	<b>(558)</b>	<b>732</b>	<b>747</b>
<b>Cash b/f</b>	<b>1,315</b>	<b>1,472</b>	<b>2,051</b>	<b>1,493</b>	<b>2,224</b>
<b>Cash c/f</b>	<b>1,411</b>	<b>2,051</b>	<b>1,493</b>	<b>2,224</b>	<b>2,972</b>

### Key Ratios

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue growth (%)	-99.0	-99.2	-98.9	-99.0	-99.0
EBITDA growth (%)	-98.9	-99.3	-99.0	-99.0	-99.0
Pretax margins (%)	6.3	4.2	5.8	6.1	6.5
Net profit margins (%)	3.9	2.1	3.0	3.2	3.5
Interest cover (x)	4.0	2.2	3.6	4.1	5.7
Effective tax rate (%)	15.2	19.4	18.8	19.5	20.1
Net dividend payout (%)	41.5	16.4	22.8	20.7	18.4
Debtors turnover (days)	34.3	44.1	44.1	44.1	44.1
Stock turnover (days)	18.9	29.8	18.0	18.0	18.0
Creditors turnover (days)	62.6	72.5	67.0	67.0	67.0

Source: Bloomberg, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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