

UMW Holdings Berhad

(4588 | UMWH MK) Consumer Products & Services | Automotive & Parts

Maintain BUY

FY20 Result Shatters Estimates

Revised Target Price: RM4.30

(Previously RM3.10)

KEY INVESTMENT HIGHLIGHTS

- **FY20 results thrashed estimates accounting for 168% and 161% of our and consensus' FY20 projections**
- **4Q20 earnings (+>100%yoy) driven by strong recovery in auto sales, improved margins and associate contribution**
- **UMWT/Perodua targeting 6%/yoy/9%/yoy FY21F volume growth; new launches, including Perodua D55L, and stronger RM to sustain strong momentum**
- **Sitting on 2-months of order backlog**
- **FY21F earnings revised up by 33%; implies 20%yoy growth**
- **Re-affirm BUY at higher TP of RM4.30**

FY20 result shatters estimates. UMW reported a very strong 4Q20 core net profit of RM174m (+>100%yoy), which brought FY20 core earnings to RM241m. This was well ahead of expectations, accounting for 168% and 161% of our and consensus full year estimates respectively. The FY20 core earnings is derived after normalizing for: (1) RM29m share of loss from 30%-owned Toyota Capital, which was impacted by present value impact of loan-moratorium mainly – this was recognized mainly in 2Q20, provision made up to 30th Sep 2020, (2) RM109m loss on sale and liquidation of unlisted O&G investments, (3) RM55m reversal of receivables impaired previously, (4) RM24m gain on disposal of assets & properties, (5) RM6m reversal of inventory write-down, (6) RM7m forex loss, (7) RM10m gain on derivatives.

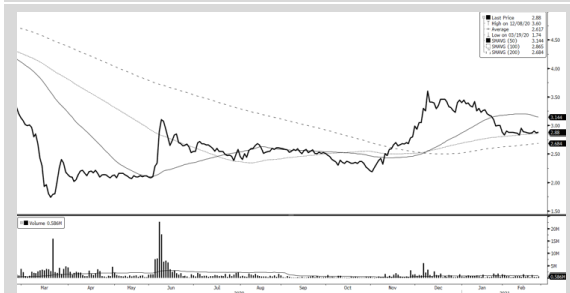
Auto division leading the strong earnings recovery. The auto division registered a +66%yoy increase in pretax earnings to RM191m during the 4Q20, driven by improved Perodua TIV (+22%yoy) and Toyota TIV (+0.6%yoy). The latter also saw margin improvement given improved plant utilization and cost efficiency. Meanwhile, associate contribution (which captures UMW's 38% share of Perodua earnings) rose +67%yoy to RM108m. The strong 4Q20 TIV performance was due to the consumer rush to place orders ahead of the earlier scheduled expiry of the *PENJANA* tax holiday on 31st December 2020 (the tax holiday has now been extended to 30th June 2021).

Targeting 6% volume growth in FY21F. UMW Toyota (UMWT) is targeting FY21F sales volume to grow by +6%yoy to 62K units (inclusive of Lexus). FY21F new launches include the facelift Fortuner and Innova. Meanwhile, the all-new Corolla Cross (B/C-segment SUV) is expected to be launched initially as a CBU in March 2021 and is be an important model that fills a critical vacuum in UMWT's model mix, likely to be positioned against the likes of the HRV (B-segment SUV). Local production of the Corolla Cross is targeted in 4Q21, when chip shortage issues is expected to have been resolved. The facelift Vios and Yaris were launched in December 2020 and should reflect a full year contribution in FY21F, while one sedan and one GR model are targeted to be launched in 4Q21.

RETURN STATISTICS

Price @ 25 th Feb 2021 (RM)	2.88
Expected share price return (%)	+49.3
Expected dividend yield (%)	+1.7
Expected total return (%)	+51.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	15.0	7.6
3 months	6.8	-0.4
12 months	-39.4	-39.9

KEY STATISTICS

FBM KLCI	1,581.54
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	1168.29
Estimated free float (%)	29.34
Market Capitalisation (RM'm)	3,364.69
52-wk price range	RM1.65 - RM3.66
Beta vs FBM KLCI (x)	1.83
Monthly velocity (%)	0.00
Monthly volatility (%)	13.91
3-mth average daily volume (m)	1.03
3-mth average daily value (RM'm)	3.25
Top Shareholders (%)	
Amanah Saham Nasional Bhd	52.56
Employees Provident Fund Board	13.21
Kumpulan Wang Persaraan	7.11

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INVESTMENT STATISTICS

FYE Dec	FY18	FY19	FY20	FY21F	FY22F
Revenue (RM'm)	11,306.3	11,739.1	9,554.6	11,060.9	11,271.8
EBIT (RM'm)	522.9	332.6	257.7	426.8	421.2
Pre-tax Profit (RM'm)	786.2	754.8	400.7	555.5	559.1
Core net profit (RM'm)	341.7	266.3	240.9	290.1	299.3
FD EPS (sen)	29.2	22.8	20.6	24.8	25.6
EPS growth (%)	108.6	(22.1)	(9.5)	20.4	3.2
PER (x)	9.8	12.4	18.3	11.6	11.2
Net Dividend (sen)	7.5	6.0	4.0	5.0	5.1
Net Dividend Yield (%)	2.6	2.1	1.4	1.7	1.8

Source: Company, MIDFR

Key models not impacted by chip shortage. While UMWT is not immune to the global chip shortage situation, key models, the Yaris and Vios are not impacted given differing specs and high localization (the Vios, Yaris and Hilux account for 79% of UMWT's sales volume). Models that are impacted will be repositioned for 2H21 and will result in longer waiting period. Importantly, UMWT's 62K volume target and Perodua's 240K FY21F volume target (+9%yoy) already takes into account the chip shortage situation.

Healthy two-months order backlog to sustain momentum. UMWT is currently sitting on circa 2 months of order backlog (~11K units), while Perodua is also sitting on a similar booking bank i.e. 60K backlog orders (around 2 months waiting list). Perodua's January 2021 TIV (which was down 3.4%yoy) was impacted by insufficient inventories as most of its stock were exhausted in 4Q20 given strong demand, while in January 2021, its plant underwent scheduled maintenance. Both UMWT's plants (Bukit Raja: 50K capacity on 2 shift and Shah Alam: 30K capacity on 1 shift) as well as Perodua's plants are expected to run at full capacity at least in 1H21, in order to catch up with outstanding orders and to rebuild inventory buffers.

Earnings revised up. Given the much stronger than expected FY20 earnings, we raise our FY21F projections by +33%. Our revised FY21F earnings imply a +20%yoy growth, driven mainly by higher margins for the auto division as a result of improved plant utilization and a stronger Ringgit assumption (USD:RM4.05 vs. USD:RM4.22 previously). Our FY21F Toyota and Perodua TIV are slightly more conservative than management's, at 60,830 units (+4%yoy) and 237,107 units (+7.7%yoy, to be driven mainly by Perodua's all new B-segment SUV) respectively. We have yet to factor in the new Corolla Cross which will be mostly reflected in FY22F once the CKD model kicks in. For now, we project a conservative FY22F UMWT volume growth of +2.6%yoy and FY22F overall group earnings growth of +3.2%yoy.


Recommendation. Re-affirm **BUY** on UMW at a higher sum-of-parts derived **TP of RM4.30** (from RM3.10 previously), following the upward earnings revision in this report. Our new SOP valuation also pegs UMW's auto and equipment divisions to higher PE multiples of 12x and 11x (from 10x previously) as the sector transitions into a recovery cycle. Our revised TP implies an FY21F PER of 17x, marginally higher than its 10-year historical average of 16x, but well below +1sd levels. Key catalysts: (1) Launch of the all-new Corolla Cross (2) A stronger Ringgit (3) Sustained earnings improvement on the back of a low interest rate environment, underlying macro recovery and a boost from the tax holiday till June 2021. Key risk to our call is a weaker than expected demand recovery, a weakening of the Ringgit and a worse than expected global chip shortage situation. 

Exhibit 1: UMW Sum-of-Parts Valuation

Segments	FY21F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	310	PER	12	3,719	
Equipment	59	PER	11	647	
Serendah land		RNAV		558	RNAV of Serendah land (791acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Total value				5,058	
No of shares (m)				1,168	
Fair value (RM)				4.30	

Source: Company, MIDFR

Exhibit 2: 4QFY20 Result Summary

FYE Dec (RMm)	4Q19	3Q20	4Q20	YoY	QoQ	FY19	FY20	YTD
Revenue	3,242.3	2,663.3	3,242.3	0.0%	21.7%	11,760.2	9,554.6	-18.8%
EBITDA	155.6	171.2	241.7	55.3%	41.1%	685.1	631.7	-7.8%
Operating Profit	62.8	81.5	144.5	129.9%	77.2%	339.0	257.7	-24.0%
Finance Cost	(34.6)	(26.5)	(29.1)	-15.9%	9.7%	(130.5)	(115.5)	-11.5%
Associates	64.6	94.3	107.6	66.6%	14.2%	275.7	204.1	-26.0%
Investment Income / Other gains	205.0	10.3	13.9	-93.2%	34.9%	257.1	54.4	-78.8%
Pretax Profit	297.8	159.5	236.9	-20.5%	48.5%	741.2	400.7	-45.9%
Taxation	(24.9)	(41.9)	(26.3)			(112.5)	(77.7)	
Minorities / PERP	72.5	16.3	73.1			174.3	118.3	
Net Profit	200.5	101.3	137.4	-31.4%	35.7%	454.4	204.6	-55.0%
Core net profit	28.8	80.0	174.1	505.4%	117.7%	282.7	240.9	-14.8%
EPS (FD, sen)	2.5	6.8	14.9			24.2	20.6	
DPS (sen)	2.0	0.0	4.0			6.0	4.0	
Margins (%):								
Operating	1.9%	3.1%	4.5%			2.9%	2.7%	
Pretax Profit	9.2%	6.0%	7.3%			6.3%	4.2%	
Core Net Profit	0.9%	3.0%	5.4%			3.9%	2.5%	
Tax Rate	8.4%	26.3%	11.1%			15.2%	19.4%	
EBITDA	4.8%	6.4%	7.5%			5.8%	6.6%	
Segmental Breakdown	4Q19	3Q20	4Q20	YoY	QoQ	FY19	FY20	YTD
Automotive	2,450.0	2,127.5	2,668.2	8.9%	25.4%	9,295.9	7,483.7	-19.5%
Equipment	328.0	297.0	317.9	-3.1%	7.1%	1,408.2	1,137.3	-19.2%
Manuf & Eng	328.5	242.3	244.2	-25.7%	0.8%	1,062.5	918.3	-13.6%
Others	17.4	(3.4)	12.0	-31.2%	447.1%	(6.4)	15.3	339.0%
Revenue	3,123.9	2,663.3	3,242.3	3.8%	21.7%	11,760.2	9,554.6	-18.8%
Automotive	114.9	131.6	191.0	66.3%	45.2%	530.3	334.6	-36.9%
Equipment	27.3	34.0	18.5	-32.2%	-45.6%	135.7	102.9	-24.1%
Manuf & Eng	30.0	20.3	22.7	-24.2%	11.8%	60.9	61.6	1.1%
Others	125.7	(26.4)	4.6	-96.3%	117.5%	14.3	(98.4)	-787.2%
Pretax profit	297.8	159.5	236.9	-20.5%	48.5%	741.2	400.7	-45.9%
Pretax margins								
Automotive	4.7%	6.2%	7.2%			5.7%	4.5%	
Equipment	8.3%	11.5%	5.8%			9.6%	9.1%	
Manuf & Eng	9.1%	8.4%	9.3%			5.7%	6.7%	
Others	NA	NA	NA			NA	NA	
Toyota TIV (units)	21,483	18,635	21,667	0.9%	16.3%	69,091	58,501	-15.3%
Average revenue/car (RM)	114,042	114,168	123,148	8.0%	7.9%	134,545	127,924	-4.9%
USD:RM (delayed by 3-months)	4.16	4.32	4.20	0.9%	-2.7%	4.14	4.22	1.7%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology