

26 February 2021

Consumer Cyclical | Auto & Autoparts

UMW (UMWH MK)

Neutral (Maintained)

Boosted By Auto Sales

Target Price (Return): MYR2.98 (3.5%)
Price: MYR2.88
Market Cap: USD833m
Avg Daily Turnover (MYR/USD) 3.04m/0.75m

- **Still NEUTRAL, new MYR2.98 TP from MYR2.54, 4% upside.** FY20 core net profit of MYR285m exceeded expectations and a final 4 sen dividend was declared in 4Q20 (4Q19: 2 sen). UMW targets to sell 62,000 Toyota/Lexus units in FY21 (+5% YoY) while Perodua aims to sell 240,000 units (+9% YoY). Management reaffirms that the Toyota/Lexus sales target is achievable despite semiconductor chip shortages, with both its top-selling models – Vios and Yaris – listed as “non-affected”.
- **Ahead of expectations.** UMW posted a 4Q20 core net profit of MYR189m (+137% QoQ, +380% YoY), which brought FY20 core earnings to MYR285m (+12 YoY). The positive variance was mainly on higher-than-expected contributions from the automotive segment during the quarter. Automotive sales was up 25% QoQ (+9% YoY) on strong Toyota sales in 4Q, driven by the vehicle sales tax exemption that was initially slated to end during the month. We note that 4Q20 auto sales contributed 36% and 57% of the automotive segment’s revenue and PBT during this period. PBT for the manufacturing & engineering (M&E) segment improved by 12% QoQ on flattish revenue – however, the equipment unit saw narrowing PBT margins.
- **What is up ahead?** The long-awaited Perodua D55L or Ativa is finally open for booking, with an estimated price of MYR63-73k – it is slated for launch on 3 Mar. We think this feature-packed offering could outstrip demand from not only its closest SUV peer, the X50, but also the B-segment sedans like Toyota and Honda’s Vios and City from a bang-for-the-buck perspective – potentially cannibalising from Toyota. On the latter’s Corolla Cross, we understand the CBU model will be launching soon, with the CKD variant to follow in 4Q21. Management remains tight-lipped on the pricing details for the Corolla Cross, but guided that the CBU and CKD variants should be closely priced.
- **Earnings assumptions lifted.** Post results, we lift our FY21F-22F core earnings by 12% and 22%. We leave our Toyota/Lexus’ sales volumes for this period unchanged at 65,000 and 70,000, but impute better ASPs and margins. Subsequently, our TP increases to MYR2.98 based on an unchanged 13x FY21F P/E. We expect lower FY21F earnings due to potential losses from the aerospace industry after imputing a 20-30% YoY decline in revenue. UMW’s share price looks fairly valued, trading close to the 13x P/E sector average.
- **Risks.** A resurgence in COVID-19 cases may affect all segments’ earnings, while stiff competition in the automotive sector might exert downwards pressure on the bottomline.

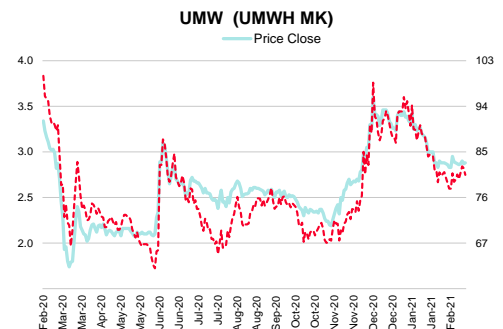
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.3)	(3.7)	7.5	11.6	(18.0)
Relative	(12.5)	(4.0)	8.5	9.9	(23.4)
52-wk Price low/high (MYR)				1.74 – 3.60	



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: Good

UMW has taken efforts to monitor and improve its environmental standing, especially with energy consumption, carbon emissions, and water management. Its carbon footprint increased 2.36% in FY19.

S: Good

Aside from up-to-date health and safety policies and guidelines, UMW is also consistent in CSR participation – achieving 9,241 volunteer hours in 2019. It recorded average training hours of 12.36 hours per employee in FY19.

G: Good

Management has held regular engagements with the market and media while adhering to Global Reporting Initiative Sustainability Reporting standards and principles.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	11,739	9,555	10,675	11,433	11,602
Recurring net profit (MYRm)	255	285	268	340	363
Recurring net profit growth (%)	(33.3)	11.7	(6.0)	26.8	6.9
Recurring P/E (x)	13.19	11.81	12.56	9.91	9.27
P/B (x)	0.9	0.9	0.8	0.7	0.7
P/CF (x)	13.19	3.66	49.01	7.49	6.54
Dividend Yield (%)	2.1	1.4	2.1	2.1	2.1
EV/EBITDA (x)	4.27	11.38	4.78	4.08	3.62
Return on average equity (%)	14.9	(2.6)	8.4	9.3	9.0
Net debt to equity (%)	18.6	7.6	10.5	7.2	3.1

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.22	0.24	0.23	0.29	0.31
Consumer Cyclical	DPS	0.06	0.04	0.06	0.06	0.06
UMW	BVPS	3.16	3.31	3.60	3.95	4.32
UMWH MK	Return on average equity (%)	14.9	(2.6)	8.4	9.3	9.0
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	13.19	11.81	12.56	9.91	9.27
	P/B (x)	0.9	0.9	0.8	0.7	0.7
	FCF Yield (%)	(2.7)	20.3	(9.8)	1.5	3.4
	Dividend Yield (%)	2.1	1.4	2.1	2.1	2.1
	EV/EBITDA (x)	4.27	11.38	4.78	4.08	3.62
	EV/EBIT (x)	7.10	na	10.00	7.94	7.01
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	11,739	9,555	10,675	11,433	11,602
	Gross profit	1,902	1,418	1,828	1,909	1,943
	EBITDA	867	258	658	722	738
	Depreciation and amortisation	(345)	(374)	(344)	(350)	(356)
	Operating profit	521	(116)	314	371	382
	Net interest	(127)	(116)	(112)	(108)	(103)
	Pre-tax profit	737	27	503	594	622
	Taxation	(109)	(78)	(68)	(83)	(87)
	Reported net profit	524	(100)	338	409	433
	Recurring net profit	255	285	268	340	363
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(144)	450	(394)	(60)	(14)
	Cash flow from operations	255	920	69	449	514
	Capex	(345)	(237)	(400)	(400)	(400)
	Cash flow from investing activities	430	(100)	(182)	(149)	(140)
	Dividends paid	(99)	(23)	(70)	(70)	(70)
	Cash flow from financing activities	(584)	(602)	(197)	(203)	(203)
	Cash at beginning of period	1,312	1,472	2,051	1,741	1,838
	Net change in cash	101	218	(310)	97	172
	Ending balance cash	1,408	1,686	1,741	1,838	2,010
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	1,472	2,051	1,741	1,838	2,010
	Tangible fixed assets	2,702	2,463	2,519	2,569	2,613
	Total investments	2,098	2,370	2,370	2,370	2,370
	Total assets	11,135	11,447	11,299	11,649	11,907
	Short-term debt	424	548	448	348	248
	Total long-term debt	2,180	1,990	1,990	1,990	1,990
	Total liabilities	5,037	5,030	4,641	4,684	4,613
	Total equity	6,098	6,417	6,658	6,964	7,294
	Total liabilities & equity	11,135	11,447	11,299	11,649	11,907
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	3.9	(18.6)	11.7	7.1	1.5
	Recurrent EPS growth (%)	(33.3)	11.7	(6.0)	26.8	6.9
	Gross margin (%)	16.2	14.8	17.1	16.7	16.7
	Operating EBITDA margin (%)	7.4	2.7	6.2	6.3	6.4
	Net profit margin (%)	4.5	(1.0)	3.2	3.6	3.7
	Capex/sales (%)	2.9	2.5	3.7	3.5	3.4
	Interest cover (x)	4.12	(1.01)	2.80	3.45	3.71

Source: Company data, RHB

Results At a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Revenue	3,123.9	2,663.3	3,242.3	21.7	3.8	11,760.2	9,554.6	(18.8)	Boosted by higher Toyota sales in 4Q20.
EBIT	297.8	159.5	236.9	48.5	(20.5)	741.2	400.7	(45.9)	
EBIT margin (%)	9.5	6.0	7.3			6.3	4.2		
Finance costs	(34.6)	(26.5)	(29.1)	9.7	(15.9)	(142.4)	(115.5)	(18.9)	
Associates	64.6	94.3	107.6	14.2	66.6	275.7	204.1	(26.0)	In line with stronger Perodua sales volume.
Investment income	16.9	10.3	13.9	34.9	(17.4)	68.9	54.4	(21.1)	
Pre-tax profit	297.8	159.5	236.9	48.5	(20.5)	741.2	400.7	(45.9)	
Pre-tax margin (%)	9.5	6.0	7.3			6.3	4.2		
Tax	(24.9)	(41.9)	(26.3)	(37.2)	5.7	(112.5)	(77.7)	(30.9)	
Eff tax rate (%)	(8.4)	(26.3)	(11.1)			(15.2)	(19.4)		
MI	(37.6)	(16.3)	(38.1)	133.3	1.3	(104.6)	(48.5)	(53.7)	
Core net profit	39.5	80.0	189.4	136.8	379.9	255.0	284.9	11.7	Above our and consensus expectations.
Net margin (%)	1.3	3.0	5.8			2.2	3.0		

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Automotive	2,450.0	2,127.5	2,668.2	25.4	8.9	9,295.9	7,483.7	(19.5)	Toyota reported higher sales volumes.
Equipment	328.0	297.0	317.9	7.1	(3.1)	1,408.2	1,137.3	(19.2)	Revenue increased following the relaxation of lockdown measures
Manufacturing & engineering	328.5	242.3	244.2	0.8	(25.7)	1,062.5	918.3	(13.6)	Lower contributions from the aerospace and lubricants sub-segments.
Others	17.4	(3.4)	12.0	(447.1)	(31.2)	(6.4)	15.3	(339.0)	
Revenue	3,123.9	2,663.3	3,242.3	21.7	3.8	11,760.2	9,554.6	(18.8)	
Automotive	114.9	131.6	191.0	45.2	66.3	530.3	334.6	(36.9)	Higher share of profits from Perodua.
Equipment	27.3	34.0	18.5	(45.6)	(32.2)	135.7	102.9	(24.1)	
Manufacturing & engineering	30.0	20.3	22.7	11.8	(24.2)	60.9	61.6	1.1	
Others	125.7	(26.4)	4.6	117.5	96.3	14.3	(98.4)	(787.2)	
PBT	297.8	159.5	236.9	48.5	(20.5)	741.2	400.7	(45.9)	
PBT Margins									
Automotive	4.7	6.2	7.2			5.7	4.5		Margins improved on higher contributions from associates.
Equipment	8.3	11.5	5.8			9.6	9.1		
Manufacturing & engineering	9.1	8.4	9.3			5.7	6.7		
Others	723.2	766.3	38.7			(224.4)	(645.4)		
	9.5	6.0	7.3			6.3	4.2		


Source: Company data

Figure 3: UMW vehicle sales summary

FYE Dec (units)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19 YTD	FY20 YTD	YoY (%)
Toyota/Lexus	16,694	20,505	12,826	(37.4)	(23.2)	65,110	70,474	8.2
- Passenger	12,297	13,647	8,614	(36.9)	(30.0)	45,939	48,585	5.8
- Commercial	4,397	6,858	4,212	(38.6)	(4.2)	19,171	21,889	14.2
Perodua	50,265	53,307	55,568	4.2	10.6	207,110	204,887	(1.1)
- Passenger	50,265	53,307	55,568	4.2	10.6	207,110	204,887	(1.1)
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	66,959	73,812	68,394	(7.3)	2.1	272,220	275,361	1.2


Source: Malaysian Automotive Association

Figure 4: Operational updates and outlook – automotive segment



New launch and attractive model line-up to support sales

Order taking for Perodua D55L SUV, Perodua's most advanced model to-date started on 19 February 2021.



Continue supporting Malaysia's automotive eco-system

- **Expects to purchase a record RM6.5 billion worth of locally-sourced components in 2021**
- **Via the recently launched Perodua Smart Build, its first sustainable blueprint - includes almost the entire Malaysian automotive supplier and dealer ecosystem to rationalise the gap in quality, cost and delivery within the automotive ecosystem.**

Source: Company




Figure 5: Operational updates and outlook – industrial segment

A

 Industrial Equipment	<ul style="list-style-type: none"> • Secured renewal of key rental contracts and embarking on acquiring new rental contracts. • Focus on extending various recovery packages to customers. • Strategise sales efforts on growth sectors such as warehouse & logistics, food & beverages and manufacturing of essential products.
 Heavy Equipment	<ul style="list-style-type: none"> • Strong CPO prices may lead to increased demand for equipment in the plantation sector. • Equipment sales to the construction sector, underpinned by infrastructure development is projected to increase in Papua New Guinea, while strong gold prices is expected to sustain sales to the mining sector. • Operations in Myanmar will have a short-term impact from the Emergency declared there.

Source: Company

Figure 6: Operational updates and outlook – M&E segment

 Auto Components	<ul style="list-style-type: none"> • Leveraging on the sales tax exemption for the automotive industry <ul style="list-style-type: none"> □ Rising demand in OEM and REM markets. • Completion of KYB-UMW plant expansion and modernisation <ul style="list-style-type: none"> □ Additional 15% capacity. □ Improved logistics and efficiency.
 Lubricants	<ul style="list-style-type: none"> • Leveraging on the sales tax exemption for the automotive industry. <ul style="list-style-type: none"> □ Lubricant plant running at almost full-capacity since September 2020. • Grantt lubricants sales expected to grow with entry into Singapore, Vietnam, Brunei and Myanmar. • Sales of Pennzoil lubricants is expected to increase following a 2-year contract extension.
 Aerospace	<ul style="list-style-type: none"> • Continue to receive orders for fan cases albeit slightly lower numbers. • Explore opportunities to improve plant utilisation in line with its products and end-customer diversification strategy.

Source: Company

Figure 7: FY20 exceptional items

	RM million	Remarks
Reported PATAMI	204.6	Includes distribution to Perpetual Sukuk holders of RM69.9 million in April and October 2020.
ADJUSTMENTS		
Amount recognised in PATAMI		
Reversal of impairment on receivables	(54.9)	Mainly debt recovery from an earlier investment.
Loss on sale on investment (net)	108.6	Disposal / liquidation of subsidiaries, JV and associates, mainly pertaining to those in Unlisted O&G.
Net gain on disposal of PPE not relating to business operations	(2.3)	Excluding RM20.9 million, which is mainly sale of leased asset in the Equipment segment (normal business operations).
Share of results from Toyota Capital Malaysia (TCM)	28.9	<ul style="list-style-type: none"> Share of results from TCM in 4Q20 was RM4.9 million, reducing the share of losses in 2020 to RM28.9 million. The losses in 1H20 were due to present value impact of loan moratorium and unfavourable mark-to-market value of interest rate swaps. The provision of the impact of loan moratorium, was fully recognised in 2Q20.
CORE PATAMI	284.9	

Source: Company

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-26	Neutral	2.65	2.78
2020-08-28	Neutral	2.40	2.60
2020-06-08	Neutral	2.65	2.89
2020-03-27	Neutral	2.40	2.34
2020-02-28	Sell	2.90	3.16
2019-11-29	Neutral	4.45	4.37
2019-11-18	Neutral	4.60	4.47
2019-08-28	Neutral	5.30	5.01
2019-05-23	Neutral	5.75	5.28
2019-02-28	Neutral	6.20	5.80
2019-01-07	Neutral	5.85	5.45
2018-12-03	Buy	5.70	5.40

Source: RHB, Bloomberg

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