

COMPANY RESULTS

UMW Holdings (UMWH MK)

4Q20: Above Expectations; All Segments Outperformed

UMW's 2020 earnings beat our and consensus' expectations with a core net profit of RM284.9m accounting for 175%/190% of our/consensus' estimates. 2021 earnings will be supported by the sales tax exemption extension and deliveries of new models, ie Toyota Corolla Cross and Perodua D55L. Both models will be officially launched in March. Positive news on vaccine deployment should further boost consumer sentiment. Upgrade to BUY. Target price: RM3.50 (from RM3.30).

4Q20 RESULTS

Year to 31 Dec	4Q20 (RMm)	qoq % chg	yoy % chg	2020 (RMm)	yoy % chg	Remarks
Revenue	3,242.3	21.7	4.1	9,554.6	(18.6)	Stronger sales across all divisions
-Auto	2,668.2	25.4	8.9	7,483.7	(19.5)	
-Equipment	317.9	7.1	(3.1)	1,137.3	(19.2)	Higher Perodua contribution
-M&E	244.2	0.8	(25.7)	918.3	(13.6)	
Associates	107.6	14.2	66.6	204.1	(28.8)	
PBT	236.9	48.5	91.8	400.7	(29.7)	
-Auto	191.0	45.2	66.3	334.6	(36.9)	Above expectations
-Equipment	18.5	(45.6)	(32.2)	102.9	(24.1)	
-M&E	22.7	11.8	(24.2)	61.6	1.1	
PATAMI	137.4	35.7	(34.0)	204.6	(55.0)	
Core PATAMI	189.4	136.8	1,118.5	284.9	27.0	
Toyota unit sales	21,981	16.5	2.3	59,320	(14.1)	
Perodua unit sales	75,151	6.1	22.0	220,162	(8.4)	
PBT Margins	(%)	ppts	ppts	(%)	ppts	
-Overall	7.3	9.8	0.8	4.2	(66.0)	Supported by cost savings initiatives
-Auto	7.2	10.0	0.1	4.5	(123.4)	
-Equipment	5.8	0.9	2.8	9.1	(58.5)	
-M&E	9.3	4.0	2.3	6.7	97.3	

Source: UMW Holdings, UOB Kay Hian

RESULTS

• **2020 earnings above expectations.** UMW Holdings (UMW) reported 4Q20 core net profit of RM189m (+>100% yoy, +>100% qoq). This brings 2020 core net profit to RM285m (+27% yoy), which accounted for 175%/190% of our/consensus' full-year estimates respectively. The positive variance was mainly attributable to higher-than-expected contribution by all divisions and a better margin of its automobile division, which reflected the company's cost savings efforts.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	11,739	9,554	9,651	10,670	10,789
EBITDA	679	712	814	852	855
Operating profit	333	338	419	465	476
Net profit (rep./act.)	447	205	294	341	358
Net profit (adj.)	259	285	294	341	358
EPS (sen)	22.2	24.4	25.2	29.2	30.7
PE (x)	13.0	11.8	11.4	9.9	9.4
P/B (x)	0.7	0.7	0.7	0.6	0.6
EV/EBITDA (x)	9.1	8.7	7.6	7.3	7.3
Dividend yield (%)	2.1	1.7	1.7	2.0	2.1
Net margin (%)	3.8	2.1	3.0	3.2	3.3
Net debt/(cash) to equity (%)	21.7	28.8	26.2	24.3	21.1
Interest cover (x)	11.8	11.7	16.3	14.7	14.7
ROE (%)	9.7	4.2	5.8	6.4	6.4
Consensus net profit	-	-	247	294	353
UOBKH/Consensus (x)	-	-	1.19	1.16	1.01

Source: UMW Holdings Berhad, Bloomberg, UOB Kay Hian

BUY (Upgraded)

Share Price	RM2.88
Target Price	RM3.50
Upside	+21.5%
(Previous TP)	RM3.30

COMPANY DESCRIPTION

UMW, through its 51%-owned subsidiary UMW-Toyota, imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. It also owns 38% stake in Perodua.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	3,364.7
Market cap (US\$m):	832.8
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

52-week high/low	RM3.60/RM1.74			
1mth	3mth	6mth	1yr	YTD
(3.7)	7.5	11.6	(17.9)	(15.3)

Major Shareholders

Major Shareholders	%
Skim Amanah Saham Bumiputra	41.9
EPF	10.4
Permodalan Nasional Berhad	6.1
FY21 NAV/Share (RM)	4.43
FY21 Net Debt/Share (RM)	1.16

PRICE CHART



Source: Bloomberg

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- **Automobile division reported a 66.3% yoy and 45.2% qoq higher PBT in 4Q20**, after both Toyota and Perodua reported a big jump in its car sales in Dec 20.
- **Manufacturing & engineering (M&E)** profitability was lifted by the auto components & lubricants unit, thanks to the strong recovery in automobile sales in 2H20. The aerospace unit's profitability dropped by 20% in 2020 due to lower delivery of fan cases, and the unit's profitability is expected to decline further in 2021.
- **The equipment division's** profitability will continue to be supported by demand for industrial equipment, especially from the fast-moving consumer goods sector, which will offset the lacklustre heavy equipment sales.

STOCK IMPACT

- **MCO 2.0 impact would be a lot less severe.** UMW's operation will operate as normal during the movement control order (MCO) 2.0 period. This will allow the company to clear backlog orders which have been building up due to consumers taking advantage of the sales tax exemption prior to the MCO. We understand that the current outstanding bookings stand at 11,000 units. The introduction of several new models such as the Toyota Corolla Cross and Perodua D55L might also help to bolster 2021 sales.
- **The chip shortage crisis** that is currently affecting the automobile industry worldwide could pose a downside risk to our earnings forecasts if it lasts longer than expected. According to UMW, the chip shortage is currently only affecting its non-volume models ie Toyota Corolla and Toyota Camry. Toyota Vios and Toyota Yaris remain unaffected. For Perodua, production of Myvi, Aruz and Alza will be affected. Taking a more conservative view on this, we reduce our Toyota/Lexus and Perodua sales forecast (see RHS table).
- **Shifts up a gear in SUV race.** UMW Toyota has officially revealed that it will be launching the fully imported all-new Toyota Corolla Cross in March and will introduce the locally assembled model later in 4Q21. Once it is locally assembled, we expect the Cross to be more competitively priced, which will give it a better chance of gaining a more sizeable market share. It could be priced around RM145,000-165,000 vs its closest competitors Honda CR-V at RM140,000-160,000 and Proton X70 at RM137,000-181,000. We have input a sales assumption of 3,000/8,000 units of Toyota Corolla Cross to be sold in 2021/2022 respectively. The group is allocating RM628m for 2021 capex, with a portion of it possibly going to new model launches.
- **Perodua D55L SUV** will be launched on 3 March and priced between RM62,500-73,400. Our channel check suggests that the price is within market expectations. Our Perodua 2021 sales forecast of 240,000 units (Perodua sales target: 240,000 units), implies an increment of 20,000, or 9% yoy mainly due to the D55L's contribution. This is after considering the potential cannibalisation of Perodua Myvi and Aruz sales.
- **Sales tax exemption ending soon.** We foresee sales slowing down for 2-3 months after the year-long sales tax exemption ends on 30 Jun 21, but to gradually recover going into 4Q21 as distributors will gear up their year-end promotional activities to bolster sales.

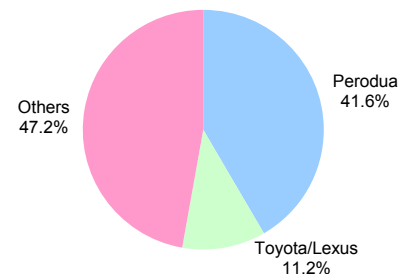
EARNINGS REVISION/RISK

- **Earnings revision.** We revise our 2021-22 net profit forecasts upwards by 6% and 11% respectively to reflect higher margins of the automobile division, higher contribution from M&E and equipment divisions and lower Perodua and Toyota sales assumption.
- **Key risks.** a) A longer-than-expected MCO implementation which could lead to order cancellations and cause a downside risk to our earnings forecasts, b) worse-than-expected impact of the chip shortage.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with a new target price of RM3.50** (from RM3.30), based on revised FY21F earnings (unchanged target PE of 14x). We believe the earnings will be supported by launches of the new models Toyota Corolla Cross and Perodua D55L as well as the sales tax exemption extension. The positive news on vaccine deployment should further boost consumer sentiment.

MARKET SHARE AS OF END-20



Source: Malaysian Automotive Association

KEY ASSUMPTIONS

Units	FY21F	FY22F	FY22F
Toyota/Lexus (current)	62,000	67,000	67,000
Toyota/Lexus (previous)	65,000	68,000	-
Perodua (current)	240,000	260,000	260,000
Perodua (previous)	250,000	260,000	-

Source: UOB Kay Hian

EBIT SEGMENTAL FORECASTS

MYRm	FY21F	FY22F	FY22F
Auto	370.4	389.6	389.7
Equipment	140.6	164.2	172.4
Manufacturing	67.4	70.8	74.3
Others	(160.0)	(160.0)	(160.0)
Total	418.5	464.6	476.4

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	9,554	9,651	10,670	10,789
EBITDA	712	814	852	855
Deprec. & amort.	374	396	387	379
EBIT	338	419	465	476
Associate contributions	204	272	299	307
Net interest income/(expense)	(61)	(50)	(58)	(58)
Pre-tax profit	401	641	706	726
Tax	(78)	(139)	(150)	(153)
Minorities	(118)	(208)	(215)	(215)
Net profit	205	294	341	358
Net profit (adj.)	285	294	341	358

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	2,920	2,920	2,921	2,921
Other LT assets	2,952	3,224	3,524	3,831
Cash/ST investment	679	697	678	792
Other current assets	3,964	3,907	4,160	4,190
Total assets	10,515	10,748	11,283	11,734
ST debt	500	450	400	400
Other current liabilities	1,812	1,721	1,889	1,908
LT debt	1,600	1,600	1,600	1,600
Other LT liabilities	312	312	312	312
Shareholders' equity	4,938	5,174	5,446	5,733
Minority interest	1,352	1,490	1,635	1,781
Total liabilities & equity	10,515	10,748	11,283	11,734

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	608	532	496	573
Pre-tax profit	401	641	706	726
Tax	(78)	(139)	(150)	(153)
Deprec. & amort.	374	396	387	379
Associates	(204)	(272)	(299)	(307)
Working capital changes	169	(34)	(86)	(10)
Other operating cashflows	(54)	(60)	(62)	(62)
Investing	(574)	(140)	(138)	(138)
Capex (growth)	(628)	(200)	(200)	(200)
Investments	0	0	0	0
Others	54	60	62	62
Financing	(467)	(109)	(118)	(72)
Dividend payments	(57)	(59)	(68)	(72)
Proceeds from borrowings	(410)	(50)	(50)	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(433)	283	240	363
Beginning cash & cash equivalent	1,472	575	933	1,241
Changes due to forex impact	(465)	75	68	0
Ending cash & cash equivalent	575	933	1,241	1,604

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	7.5	8.4	8.0	7.9
Pre-tax margin	4.2	6.6	6.6	6.7
Net margin	2.1	3.0	3.2	3.3
ROA	1.9	2.8	3.1	3.1
ROE	4.2	5.8	6.4	6.4
Growth				
Turnover	(18.6)	1.0	10.6	1.1
EBITDA	4.9	14.4	4.6	0.4
Pre-tax profit	(46.9)	59.9	10.1	2.9
Net profit	(54.2)	43.7	15.9	5.1
Net profit (adj.)	10.0	3.2	15.9	5.1
EPS	10.0	3.2	15.9	5.1
Leverage				
Debt to total capital	25.0	23.5	22.0	21.0
Debt to equity	42.5	39.6	36.7	34.9
Net debt/(cash) to equity	28.8	26.2	24.3	21.1
Interest cover (x)	11.7	16.3	14.7	14.7

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