

26 Aug 2021

Buy

Price
 RM3.20

Target Price
 RM3.80

Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	3,738.6
52-week high/low (RM)	5.23 / 1.65
Avg daily turnover (RMm)	5.8
KLCI (pts)	1,85.74

Source: Bloomberg, KAF

Major Shareholder (%)

Skim Amanah Saham Bumiputera	(51.5%)
EPF	(12.7%)
Yayasan Perlaburan Bumiputera	(7.3%)
Free Float	27.9

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	23.1	(19.2)	(47.7)
Rel Market (%)	15.0	(21.8)	(46.5)

Analyst

Max Koh
 (603) 2171 0505
 maxkoh@kaf.com.my

UMW Holdings

A decent 1H; expecting a strong 2H

UMW reported RM66m profits at the half-point – a significant improvement from RM61m core losses last year. 1H earnings were slightly impacted by the FMCO lockdown in June, as well as slower Perodua contributions. Nevertheless, we expect a strong 2H (similar to the trajectory last year) as UMW ramps up deliveries to make up for the 2.5-month lockdown period. We maintain Buy.

Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	11,739	9,555	10,064	10,327	10,612
Core net profit (RMm)	169	285	278	318	336
Core EPS (Sen)	14.5	24.4	23.8	27.3	28.8
EPS growth (%)	(48)	69	(2)	15	6
DPS (Sen)	6.0	4.0	4.0	6.0	6.0
Core PE (x)	31	13	13	12	11
Div yield (%)	1	1	1	2	2
ROE (%)	13	5	7	7	7
Net Gearing (%)	28	11	18	(7)	(28)
PBV(x)	1.41	0.97	0.9	0.8	0.8

Source: Company, KAF

A slower 2Q. UMW fell into the red with core losses of RM39m in 2Q. However, after stripping off the scheduled RM35m sukuk payment, UMW would have reported minor RM4m core losses – a significant improvement from the RM80m losses last year. The weaker 2Q was mainly due to the impact of FMCO in June, lower Perodua contribution, and losses for its manufacturing division.

A decent 1H. At the half-point, UMW reported RM66m core earnings – a turnaround from RM61m losses last year. We deem earnings to be in line as we expect a stronger 2H with the resumption of sales and production in mid-Aug. Recall that UMW reported RM346m earnings in 2H20 to make up for losses in the first half. We expect a similar trajectory for 2H21.

Sales volume up 42%. UMW's car sales volume rose 42% in 1H – in line with TIV's 44% growth. Sales was higher due to the low base as well as support from the sales tax exemption. Nevertheless, sales were also impacted by FMCO in June. To be sure, UMWT sales jumped 85% to 34k in 1H, while Perodua sales rose 31%. Hence, auto PBT jumped to RM180m – from RM12m last year.

A stronger 2H. With the lifting of economic restrictions on 16 August, we expect a stronger 2H – similar to the trajectory seen in 2H20. Supporting this – UMWT is already running at 80% and 95% utilisation rate at both its Bukit Raja and Shah Alam plants, respectively, with 20k bookings backlog (2-4 months waiting list). UMWT is also able to deliver cars to customers immediately, as management had continued to build CBU inventories during the 2.5-month lockdown period. Hence, management is confident of achieving its 62k sales target. We maintain our 63.8k sales forecast.

Slower Perodua sales. Meanwhile, Perodua is likely to revise its 240k downwards as it is already running at 100% capacity, with little room to make up for the shortfall during the 2.5-month lockdown period. We had earlier revised our forecast downwards to 204k – implying 3% decline. We also believe the launch of the all-new Alza will likely be delayed to 2022. Notwithstanding, we expect stronger Perodua contributions in 2H.

Outlook. Looking ahead, FY22 earnings will be supported by the new Alza, while UMWT will commence local production of the hybrid Corolla Cross in 4Q21. According to management, the aerospace unit's volume is expected to pick up to result in profitability next year. Further out, UMWT will focus on increasing its hybrid offerings with RM270m investment on hybrid production capabilities.

Maintain Buy. All in, we maintain Buy and TP of RM3.80 – as we expect a strong recovery in 2H; FY22 will be supported by the potential extension of sales tax holiday, equipment division recovery, and turnaround at its aerospace unit. Our TP also implies 0.8x PBV. Upside includes further extension of sales tax holiday, while another severe economic lockdown is a key downside risk.

Exhibit 1: Results summary

FYE 31 Dec	2Q20	1Q21	2Q21	yoy %	qoq%	1HFY20	1HFY21	yoy %	FY21F	1H/F
Revenue	1530	2954	2445	60%	-17%	3649	5399	48%	10064	54%
Operating profit	(14)	90	21	-248%	-77%	32	110	248%	375	29%
Investment income	12	13	12	2%	-3%	30	25	-16%	55	46%
Finance cost	(30)	(27)	(26)	-15%	-6%	(60)	(53)	-11%	(116)	46%
JV & Associates	(27)	87	25	-194%	-71%	2	113	4928%	244	46%
Pretax profit	(59)	163	33	-155%	-80%	4	195	4527%	559	35%
Tax	5	(39)	(11)	-333%	-72%	(9)	(50)	431%	(106)	47%
Profit after tax	(54)	123	22	-140%	-83%	(5)	145	-2845%	453	32%
MI & perpetual sukuk holders	(24)	(26)	(43)	75%	63%	(29)	(69)	138%	(175)	39%
Net profit	(78)	97	(21)	-73%	-122%	(34)	76	-323%	278	27%
Core net profit	(80)	105	(39)	-52%	-137%	(61)	66	-209%	278	24%
EPS (sen)	(6.7)	8.3	(1.8)			(2.9)	6.5			
Core EPS (sen)	(6.9)	9.0	(3.3)			(5.2)	5.7			
Net DPS (sen)	0.0	0.0	0.0			0.0	0.0			
BV (RM)	3.16	3.40	3.35			3.16	3.35			
EBIT margin (%)	-1%	3%	1%			1%	2%		4%	
PBT margin (%)	-4%	6%	1%			0%	4%		6%	
PAT margin (%)	-4%	4%	1%			0%	3%		4%	
Net margin (%)	-5%	3%	-1%			-1%	1%		3%	
Core net margin (%)	-5%	4%	-2%			-2%	1%		3%	
Effective tax rate (%)	8%	24%	34%			225%	26%		19%	

Source: Company, KAF

Exhibit 2: Segmental breakdown

	2Q20	1Q21	2Q21	yoy %	qoq %	1HFY20	1HFY21	yoy %	FY21F	1H/F
Automotive	1102	2396	1982	80%	-17%	2688	4378	63%	8,078	54%
Equipment	233	332	300	29%	-10%	522	632	21%	1,160	55%
Manufacturing	183	230	160	-13%	-31%	432	390	-10%	811	48%
Others & Eliminations	11	(4)	3	-70%	-175%	7	(1)	-117%		
Total Revenue (RM mil)	1530	2954	2445	60%	-17%	3649	5399	48%	10,064	54%
Automotive	(42)	146	35	-183%	-76%	12	180	1403%	448	40%
Equipment	25	22	32	29%	45%	50	54	7%	151	36%
Manufacturing	8	8	(6)	-175%	-172%	19	2	-87%	43	5%
Others	(50)	(13)	(28)	-44%	112%	(77)	(41)	-47%		
Total PBT (RM mil)	(59)	163	33	-156%	-80%	4	195	4527%	559	35%
Automotive PBT margin (%)	-4%	6%	2%			0%	4%		6%	
Equipment PBT margin (%)	10.6%	6.6%	10.6%			10%	9%		13%	
Manufacturing PBT (%)	4%	4%	-4%			4%	1%		5%	
Total PBT margin (%)	-4%	6%	1%			0%	4%		6%	

Unit sales	2Q20	1Q21	2Q21	yoy %	qoq %	1HFY20	1HFY21	yoy %	FY21F	1H/F
Toyota & Lexus	7,886	17,151	16,960	115%	-1%	18,469	34,111	85%	63,800	53%
Perodua	29,193	57,909	39,381	35%	-32%	74,170	97,290	31%	204,000	48%
Grand total	37,079	75,060	56,341	52%	-25%	92,639	131,401	42%	267,800	49%

Source: Company, KAF

UMW Holdings

Income Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Revenue	11,739	9,555	10,064	10,327	10,612
EBITDA	872	632	676	717	737
Depreciation/Amortisation	(345)	(374)	(301)	(294)	(288)
Operating income (EBIT)	527	258	375	423	449
Other income & associates	276	204	244	286	292
Net interest	(62)	(61)	(61)	(98)	(106)
Exceptional items	0	0	0	0	0
Pretax profit	741	401	559	611	635
Taxation	(112)	(78)	(106)	(116)	(121)
Minorities/pref dividends	(174)	(118)	(175)	(176)	(178)
Net profit	455	205	278	318	336
Core net profit	169	285	278	318	336

Balance Sheet

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	2,702	2,463	2,077	1,697	1,325
Intangible assets	0	0	0	0	0
Other long-term assets	2,787	2,992	2,992	2,992	2,992
Total non-current assets	5,488	5,455	5,069	4,690	4,317
Cash & equivalent	1,472	2,051	1,767	2,913	4,052
Stock	1,590	1,439	1,553	1,581	1,615
Trade debtors	1,449	1,188	1,151	1,169	1,191
Other current assets	1,082	1,314	2,239	2,030	1,813
Total current assets	5,593	5,992	6,710	7,694	8,670
Trade creditors	2,077	2,156	1,970	1,981	1,994
Short-term borrowings	386	524	125	117	110
Other current liabilities	138	116	116	116	116
Total current liabilities	2,601	2,796	2,211	2,215	2,221
Long-term borrowings	2,123	1,942	2,407	2,492	2,578
Other long-term liabilities	312	291	291	289	287
Total long-term liabilities	2,436	2,234	2,698	2,781	2,865
Shareholders' funds	3,696	3,868	4,146	4,465	4,801
Minority interests	2,402	2,549	2,724	2,900	3,078

Cash flow Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	741	401	559	611	635
Depreciation/Amortisation	346	374	301	294	288
Net change in working capital	(143)	496	(263)	(35)	(43)
Others	(689)	(325)	(230)	(244)	(247)
Cash flow from operations	255	946	366	626	633
Capital expenditure	(345)	(95)	(100)	(100)	(100)
Net investments & sale of fixed assets	63	18	0	0	0
Others	712	(33)	(468)	656	662
Cash flow from investing	430	(110)	(568)	556	562
Debt raised/(repaid)	(323)	(43)	79	81	84
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(76)	(23)	(47)	(47)	(70)
Others	(185)	(171)	(70)	(70)	(70)
Cash flow from financing	(584)	(238)	(38)	(36)	(56)
Net cash flow	101	598	(239)	1,146	1,138
Cash b/f	1,315	1,411	2,006	1,767	2,913
Cash c/f	1,411	2,006	1,767	2,913	4,052

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	-98.9	-98.9	-99.0
Pretax margins (%)	6.3	4.2	5.6	5.9	6.0
Net profit margins (%)	3.9	2.1	2.8	3.1	3.2
Interest cover (x)	4.0	2.2	3.2	2.7	2.7
Effective tax rate (%)	15.2	19.4	19.0	19.0	19.0
Net dividend payout (%)	41.5	16.4	16.8	22.0	20.8
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.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)