

# UMW Holdings Berhad

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

## Maintain NEUTRAL

### Bumpy Ride

**Revised Target Price: RM3.40**

(Previously RM4.50)

#### KEY INVESTMENT HIGHLIGHTS

- **FY19 earnings missed estimates**
- **Core earnings fell 18%yoy dragged by weaker equipment and auto division**
- **Equipment division facing sluggish demand and margin contraction from intense competition**
- **FY19F/20F earnings revised lower to factor in weaker outlook for Toyota and equipment division; anticipating a contraction in UMW Toyota volumes**
- **Maintain NEUTRAL, TP trimmed to RM3.40 (from RM4.50)**

**UMW's FY19 missed estimates.** The group reported core earnings of just RM12m for its 4Q19, which brought FY19 core earnings to RM266m. This accounted for just 79% of our forecast and consensus. An interim dividend of 2sen/share was declared, bringing FY19 dividends to 6sen/share.

**Reason for deviation.** The key deviation against our forecast is lower than expected earnings contribution from the equipment division. In 4Q19 in particular, the equipment division registered a net profit of just RM6m (vs. RM82m in 9M19) given sluggish demand in Malaysia and Myanmar for both heavy equipment and industrial equipment. 4Q19 equipment revenues fell 17%yoy (FY19: -8.5%)

**Earnings eased.** Group core earnings fell by 18%yoy in the back of weaker automotive and equipment division earnings. The former was driven mainly by weaker associate earnings (comprising mainly by 38% stake in Perodua) given a high base in 4Q18 inflated by fulfillment of back orders after the production disruption for the MyVi production line was resolved. The weaker auto division earnings came despite much stronger Toyota TIV (+67%yoy). However, for FY20F, management is anticipating lower UMW volumes (Toyota and Lexus) of 66K units from ~70K in FY19 (-5.7%yoy) given macro headwinds and softer consumer sentiment.

**Bright spot in M&E division.** The M&E division is a bright spot for UMW. UMW aerospace in particular, saw earnings turnaround a year earlier than planned given higher volumes for fan cases and cost optimization. The group is looking at plant utilization to improve to 70% in FY20F from around 50% last year given further volume ramp-up and commencement of Trent 7000 fan case production in 4Q20.

**Earnings revision.** Given weaker than expected results (mainly from the equipment division) and a weaker outlook for autos (Toyota in particular), coupled with intense competition given Honda's model replacement cycle in FY20F, we trim our FY20F/FY21F by 18%/16%. Despite the cut, we still expect earnings to recover from FY19 depressed base driven by improved profitability of the aerospace division.

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> Feb 2020 (RM)	3.23
Expected share price return (%)	+5.3
Expected dividend yield (%)	+2.1
<b>Expected total return (%)</b>	<b>+7.4</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.1	-2.0
3 months	-9.4	-11.4
12 months	-12.0	-6.2

#### KEY STATISTICS

FBM KLCI	1505.59
Syariah compliant	Yes
Issue shares (m)	1168.29
Estimated free float (%)	30.09
Market Capitalisation (RM'm)	5,163.86
52-wk price range	RM4.32 - RM6.02
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	0.01
Monthly volatility (%)	13.91
3-mth average daily volume (m)	0.35
3-mth average daily value (RM'm)	1.68
Top Shareholders (%)	
Skim Amanah Saham Bumiputera	41.14
Employees Provident Fund Board	11.31
Yayasan Pelaburan Bumiputra	7.15

**Analyst(s)**

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## INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	11,046.5	11,306.3	11,739.1	8,849.3	9,149.4
EBIT (RM'm)	120.4	522.9	332.6	296.2	297.8
Pre-tax Profit (RM'm)	252.9	786.2	754.8	470.7	477.2
Core net profit (RM'm)	163.8	341.7	266.3	315.6	332.2
FD EPS (sen)	14.0	29.2	22.8	27.0	28.4
EPS growth (%)	NA	108.6	(22.1)	18.5	5.3
PER (x)	23.0	11.0	11.7	12.0	11.4
Net Dividend (sen)	6.5	7.5	6.0	6.8	7.1
Net Dividend Yield (%)	2.0	2.3	1.9	2.1	2.2

Source: Company, MIDFR

**Recommendation.** We remain NEUTRAL on UMW at a lower TP of RM3.40 (from RM4.50 previously) following the earnings downgrade in this report. We also peg the auto and equipment divisions to a lower 9x PER (from 10x) in view of a deteriorating outlook. For exposure to Perodua, we recommend investors switch to MBM which offers much cheaper entry, much more attractive dividend yields and a more leveraged exposure to Perodua earnings. 

**Table 1: UMW Sum-of-Parts Valuation**

Segments	FY20F net profit attributable to UMW (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive - UMWT	14	PER	9	128	
Automotive - P2	284	PER	9	2,558	
Equipment	58	PER	9	521	
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%)
Non-listed O&G		Book Value		26	50% discount to Book Value
<b>Total value</b>				<b>3,926</b>	
No of shares (m)				1,168	
<b>Fair value (RM)</b>				<b>3.40</b>	

Source: Company, MIDFR

## UMW: 4QFY19 RESULTS SUMMARY

FYE Dec (RMm)	4Q18	3Q19	4Q19	YoY	QoQ	FY18	FY19	YTD
<b>Revenue</b>	<b>2,681.8</b>	<b>2,882.7</b>	<b>3,115.7</b>	<b>16.2%</b>	<b>8.1%</b>	<b>11,306.3</b>	<b>11,739.1</b>	<b>3.8%</b>
EBITDA	72.5	162.1	167.9	131.7%	3.6%	726.3	678.8	-6.5%
<b>EBIT</b>	<b>18.2</b>	<b>80.1</b>	<b>75.1</b>	<b>313.1%</b>	<b>-6.3%</b>	<b>522.9</b>	<b>332.6</b>	<b>-36.4%</b>
Finance Cost	(32.1)	(30.8)	(32.6)	1.6%	6.0%	-88.1	(125.9)	42.9%
Associates	96.3	85.2	64.6	-32.9%	-24.2%	265.6	291.6	9.8%
Investment Income / Other gains	21.5	15.7	204.6	849.7%	1199.3%	85.8	256.4	198.9%
<b>Pretax Profit</b>	<b>103.9</b>	<b>150.3</b>	<b>311.7</b>	<b>199.8%</b>	<b>107.4%</b>	<b>786.2</b>	<b>754.8</b>	<b>-4.0%</b>
Taxation	(29.8)	(21.0)	(21.9)			-142.5	(108.7)	
Minorities / PERP	61.1	20.9	72.5	18.7%	246.2%	139.9	174.3	
Loss from discontinued operations (UMWOG)	2.0	1.9	(16.9)	-951.6%	-979.6%	-162.1	(17.4)	
Net Profit	15.1	110.3	200.5	1230.5%	81.8%	341.7	454.4	33.0%
<b>Core net profit incl. discontinued operations</b>	<b>15.1</b>	<b>110.3</b>	<b>12.3</b>	<b>-18.3%</b>	<b>-88.8%</b>	<b>341.7</b>	<b>266.3</b>	<b>-22.1%</b>
<i>Core net profit from continuing operations</i>	<i>126.4</i>	<i>136.7</i>	<i>105.9</i>	<i>-16.2%</i>	<i>-22.5%</i>	<i>476.6</i>	<i>493.1</i>	<i>3.5%</i>
EPS (FD, sen)	1.3	9.4	1.1			29.2	22.8	
DPS (sen)	2.5	4.0	2.0			7.5	6.0	
<b>Margins (%):</b>								
Operating	0.7%	2.8%	2.4%			4.6%	2.8%	
Pretax Profit	3.9%	5.2%	10.0%			7.0%	6.4%	
Core Net Profit	0.6%	3.8%	0.4%			3.0%	3.9%	
Tax Rate	28.7%	14.0%	7.0%			18.1%	14.4%	
EBITDA	2.7%	5.6%	5.4%			6.4%	5.8%	

Source: Company, MIDFR

## UMW: 4QFY19 RESULTS BREAKDOWN

Segmental Breakdown	4Q18	3Q19	4Q19	YoY	QoQ	FY18	FY19	YTD
Automotive	2,043.6	2,296.9	2,450.0	19.9%	6.7%	8,946.7	9,295.9	3.9%
Equipment	397.2	353.7	328.0	-17.4%	-7.2%	1,539.6	1,408.2	-8.5%
Manuf & Eng	242.8	252.4	328.5	35.3%	30.2%	843.2	1,062.5	26.0%
Others	(4.3)	0.0	9.1	-	#DIV/0!	(25.9)	(27.4)	6.0%
Oil & Gas (Unlisted)	4.8	2.5	8.3	70.7%	235.6%	72.4	21.1	-70.9%
<b>Revenue</b>	<b>2,684.2</b>	<b>2,905.5</b>	<b>3,123.9</b>	<b>16.4%</b>	<b>7.5%</b>	<b>11,376.0</b>	<b>11,760.2</b>	<b>3.4%</b>
Automotive	130.3	140.1	114.9	-11.9%	-18.0%	550.0	530.3	-3.6%
Equipment	33.9	30.8	27.3	-19.5%	-11.4%	160.1	135.7	-15.3%
Manuf & Eng	9.4	15.4	30.0	219.2%	95.3%	21.5	60.9	182.9%
Others	(22.4)	0.0	139.5	NA	NA	68.7	27.9	-59.4%
Oil & Gas (Unlisted) *	2.3	2.2	(13.8)	-	-	(161.1)	(13.6)	-91.6%
<b>Pretax profit</b>	<b>153.5</b>	<b>188.4</b>	<b>297.8</b>	<b>94.0%</b>	<b>58.1%</b>	<b>639.2</b>	<b>741.2</b>	<b>16.0%</b>
<b>Pretax margins</b>								
Automotive	6.4%	6.1%	4.7%			6.1%	5.7%	
Equipment	8.5%	8.7%	8.3%			10.4%	9.6%	
Manuf & Eng	3.9%	6.1%	9.1%			2.6%	5.7%	
Others	NA	NA	NA			NA	NA	
Oil & Gas (Unlisted)	47.5%	89.2%	NA			-222.5%	-64.4%	
Toyota TIV (units)	12,902	16,357	21,483	66.5%	31.3%	65,551	69,091	5.4%
Average revenue/car (RM)	158,395	140,426	114,042	-28.0%	-18.8%	136,485	134,545	-1.4%
USD:RM (Spot)	4.17	4.16	4.16	-0.1%	0.0%	4.03	4.14	
<b>Net profit</b>	<b>50.5</b>	<b>48.5</b>	<b>200.5</b>			<b>377.1</b>	<b>454.4</b>	
Automotive	105.0	104.4	82.4	-21.5%	-21.0%	362.7	374.8	3.3%
Equipment	18.2	23.2	5.5	-69.6%	-76.1%	117.5	87.8	-25.3%
Manuf & Eng	3.2	9.1	17.9	462.6%	96.6%	(3.5)	30.5	-
Oil & Gas (Unlisted)	(0.3)	6.9	(7.7)	NA	NA	(148.9)	7.2	NA
Others	(75.6)	(95.2)	102.2	NA	NA	49.4	(45.9)	NA
<b>Core net profit from continuing operations</b>	<b>126.4</b>	<b>136.7</b>	<b>105.9</b>	<b>-</b>	<b>-</b>	<b>476.6</b>	<b>493.1</b>	<b>3.5%</b>

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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