

28 February 2020

UMW Holdings Bhd

FY19 Below Expectations

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FY19 core PATAMI of RM255m (-23%) came in below both our/consensus expectations at 68%/76% of full-year estimates due to lower-than-expected automotive and equipment segments' profit contributions. As such, we cut FY20E core PATAMI by 40% and our TP to RM3.25 (from RM5.45) based on unchanged 14x FY20E EPS (at -1.0SD of its 5-year historical mean PER). Downgrade to MP (from OP).

FY19 below expectations. FY19 core PATAMI of RM255m (-23%) came in below both our/consensus expectations at 68%/76% of full-year estimates due to lower-than-expected automotive and equipment segments' profit contributions. Final DPS of 2.0sen was declared for the quarter, bringing FY19 DPS to 6.0sen (FY18: 7.5sen), below our 7.5sen estimate. Note that, FY19 core PATAMI exclude: (i) one-off Shah Alam land disposal gain of RM188.1m (recognized in 4QFY19), and (ii) other impairment of RM11.3m.

YoY, FY19 core PATAMI plunged 23%, no thanks to: (i) weaker equipment segment profit contribution (-15%) following a slowdown in construction, manufacturing, mining and logging activities in countries that the segment operates in, and (ii) lower Automotive segment's profit contribution (-4%) despite higher UMW Toyota Motor sales at 70,009 units (+7% YoY), due to higher depreciation from the new Bukit Raja Plant (+70%). The decline was despite: (i) higher associate and joint-venture company contribution (+8%), especially from 38%-owned Perodua, which recorded better sales of 240,284 units (+6%), (ii) higher M&E segment profit contribution (+183%), due to the ramping up of fan case production by Aerospace sub-segment which has turned profitable, and (iii) lower effective tax rate of 14.4% (FY18: 15.5%).

QoQ. 4QFY19 core PATAMI plunged 57% suffering from: (i) lower Automotive segment profit contribution (-18%), mainly from lower associate and joint-venture company (-24%), especially from 38%-owned Perodua, despite recording higher unit sales of 61,587 (+8%) mainly due to higher year-end discounts and the phasing out of older models of Perodua Bezza as well as from higher Plant depreciation with the upgrading works for a newer model line, which more than offset stronger UMW Toyota Motor's sales of 21,483 units (+31%), and (ii) weaker equipment segment (-11%) in a challenging market for both Heavy and Industrial Equipment businesses. These was however cushioned by: (i) higher M&E segment profit contribution (+95%), due to the ramping up of fan case production by Aerospace sub-segment, and (iii) lower effective tax rate of 7% (3QFY19: 14%).

Outlook. We are cautious on its Automotive segment with its high level of Plant depreciation and stiff competition from local carmakers with UMW missing its 2019 target of 72k units and expecting lower sales for 2020 at 66k units (-6%). For Equipment division, the group will continue to leverage on its partners (KOMATSU & TICO)'s strengths, while UMW Aerospace has turned profitable in 2019. Elsewhere, 38%-owned Perodua is conservatively targeting flat 2020 sales of 240k units. Perodua planned to double investment spending to RM1.06bn for plant modernisation, building expansion and new model line platform.

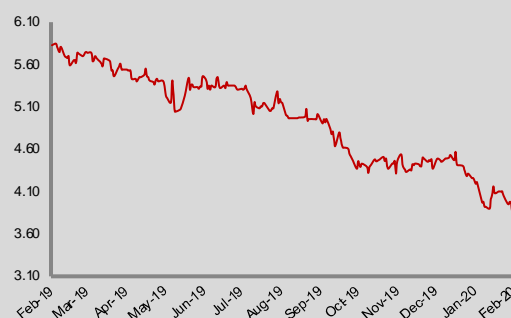
We cut FY20E core PATAMI by 40% to reflect lower-than-expected automotive and equipment segment profit contribution

Downgrade to MP (from OP), with a lower TP of RM3.25 (from RM5.45) based on unchanged 14x FY20E EPS (at -1.0SD of its 5-year historical mean PER). Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↓

Price: **RM3.23** ↓
Target Price: **RM3.25** ↓

Share Price Performance



KLCI	1,505.59
YTD KLCI chg	-5.2%
YTD stock price chg	-28.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	3,773.6
Shares Outstanding	1,168.3
52-week range (H)	5.82
52-week range (L)	3.20
3-mth avg daily vol:	434,892
Free Float	29%
Beta	0.7

Major Shareholders

Skim Amanah Saham Bumiputera	41.1%
Employees Provident Fund	11.6%
Yayasan Pelaburan Bumiputera	7.7%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	11,739.1	12,437.0	13,180.0
EBIT	880.7	773.1	876.6
PBT	754.8	610.9	634.0
PATAMI	454.4	271.7	273.0
CNP	255.0	271.7	273.0
Consensus NP	-	387.6	410.3
Earnings Revision	-	-40.3%	new
Core EPS (sen)	21.8	23.3	23.4
C.EPS growth (%)	-23.5	6.6	0.5
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	2.85	3.02	3.19
Core PER (x)	14.8	13.9	13.8
PBV (x)	1.1	1.1	1.0
Net Gearing (x)	0.5	0.4	0.3
Net Div. Yield (%)	1.9	1.9	1.9

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	3,115.7	2,882.7	8%	2,679.4	16%	11,739.1	11,303.6	4%
Associates and JV	64.6	85.2	-24%	100.4	-36%	291.6	270.7	8%
EBIT/LBIT	344.3	181.1	90%	204.7	68%	880.7	898.6	-2%
PBT/(LBT)	311.7	150.3	107%	151.2	106%	754.8	800.3	-6%
Taxation and Zakat	(21.9)	(21.0)	-4%	(11.4)	-91%	(108.7)	(124.1)	12%
PATAMI	200.5	103.3	94%	(62.8)	419%	454.4	344.5	32%
Core PATAMI	39.5	91.7	-57%	9.0	339%	255.0	333.2	-23%
Core EPS (sen)	3.4	7.8	-57%	0.8	339%	21.8	28.5	-23%
DPS (sen)	2.0	4.0		2.5		6.0	7.5	
EBIT/(LBIT) margin	11.1%	6.3%		7.6%		7.5%	7.9%	
PBT/(LBT) margin	10.0%	5.2%		5.6%		6.4%	7.1%	
Core NP/ (NL) margin	1.3%	3.2%		0.3%		2.2%	2.9%	
Effective tax rate	7.0%	14.0%		7.6%		14.4%	15.5%	

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	3,115.7	2,882.7	8.1%	2,679.4	16.3%	11,739.1	11,303.6	3.9%
Automotive	2,450.0	2,296.9	6.7%	2,043.6	19.9%	9,295.9	8,946.7	3.9%
Equipment	328.0	353.7	-7.2%	397.2	-17.4%	1,408.2	1,539.6	-8.5%
M&E	328.5	252.4	30.2%	242.8	35.3%	1,062.5	843.2	26.0%
Others	9.1	(20.3)		(4.3)		(27.4)	(25.9)	
Segment PBT/(LBT)	311.7	150.3	107.4%	151.2	106.2%	754.8	800.3	-5.7%
Automotive	114.9	140.1	-18.0%	130.3	-11.9%	530.3	550.0	-3.6%
Equipment	27.3	30.8	-11.4%	33.9	-19.5%	135.7	160.1	-15.3%
M&E	30.0	15.4	95.3%	9.4	219.2%	60.9	21.5	182.9%
Others	139.5	(35.9)		(22.4)		27.9	68.7	
Segment Margin								
Automotive	4.7%	6.1%		6.4%		5.7%	6.1%	
Equipment	8.3%	8.7%		8.5%		9.6%	10.4%	
M&E	9.1%	6.1%		3.9%		5.7%	2.6%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	1.75	2,033.8	Y	04/2020	0.6%	5.3%	-24.3%	25.0%	7.7	10.1	8.1	3.3	2.9	30.8%	8.6%	2.65	OP	
DRB-HICOM BHD	2.21	4,272.5	Y	12/2019	-33.3%	63.8%	-4.9%	77.1%	23.4	24.6	13.9	0.6	0.6	2.6%	1.4%	2.60	OP	
MBM RESOURCES BERHAD	3.82	1,493.2	Y	12/2020	-8.1%	1.2%	7.5%	3.4%	7.8	7.2	7.0	0.7	0.7	9.9%	3.4%	4.75	OP	
SIME DARBY BERHAD	2.02	13,738.9	Y	06/2020	4.1%	4.4%	6.3%	4.4%	14.5	13.6	13.1	0.9	0.9	6.8%	5.0%	2.05	MP	
TAN CHONG MOTOR HOLDINGS BHD	1.26	822.1	N	12/2019	-10.2%	1.0%	-44.7%	15.5%	7.8	14.1	12.2	0.3	0.3	2.1%	3.2%	1.05	UP	
UMW HOLDINGS BHD	3.23	3,773.6	Y	12/2020	5.9%	6.0%	6.5%	0.5%	14.8	13.9	13.8	0.7	0.6	4.4%	1.9%	3.25	MP	
Simple Average					-6.8%	13.6%	-8.9%	21.0%	12.7	13.9	11.3	1.1	1.0	9.4%	3.9%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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