

Company Update

25 September 2017

UMW Holdings Berhad

Reinvigorating business growth

HOLD

Maintained

Share Price	RM5.44
Target Price	RM5.20

What's new

- **We attended UMW's 2QFY2017 results briefing and came back feeling reassured** about the Group's rationalization plans and believe the Group is on track for earnings recovery. UMW also shed some light on its future business plans.
- To recap, the Group's 1H17 financial results were dragged down by operating losses in in O&G segment as well as aerospace business. The Group expects gradual earnings recovery for the businesses as the operating losses are expected to be minimized in the near future.

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6390.57
52-week price Range	RM4.09– 6.08
Beta (against KLCI)	1.43
3-m Average Daily Volume	0.31m
3-m Average Daily Value [^]	RM1.78m

Comment

- **Welcoming CH-R for its Automotive division.** According to UMW, the most awaited new model, Toyota CH-R will be officially launched in 1H18. Toyota CH-R is a CBU unit from Japan and is expected to open for order from October 2017 onwards. However, the selling price still yet to be determined. This compact SUV model is compatible to its peers' Honda HR-V and Mazda CX-5. Besides that, as a plan to capture bigger market share, the Group aims to introduce more numbers of CKD for various models. Currently, the Group has 6 CKD models and 6 CBU models. However, introduction of more new passenger car models will only be taken place upon commencement of its new manufacturing plant in Bukit Raja, Shah Alam in 2019.
- **Enhancing its Heavy Equipment segment through JV with Komatsu.** UMW has recently partnered with KOMATSU (Japan) to expand its Heavy Equipment segment by selling renowned Komatsu's products in Malaysia, Singapore, Myanmar and Papua New Guinea. We view this JV as a positive catalyst for the division to further drive its earnings.
- **Disposal of non-listed O&G asset well in progress.** Currently, the Group has 16 assets under non-listed O&G assets waiting to be exited. UMW has ceased its operations in Oman since April 2017, and in the midst of negotiating for selling other business units. The Group has been burdened by retrenchment costs as well as inventory losses amounting to RM55m during 1H17 in relation to ceasing operations in Oman. Overall, the Group envisages disposing all of its non-listed O&G assets by 2018.
- **Aerospace business is expected to be profitable from 2019 onwards.** Aerospace business incurred losses of RM25m in 1H17 due to operating losses of new fan case plant in Serendah. The Group expects to minimize its losses in 2H17 as a single-digit unit first fan case will be delivered to Rolls-Royce in October 2017. However, any

Share Performance

	1m	3m	12m
Absolute (%)	-4.0	-0.8	3.0
Relative (%-pts)	-4.1	-0.3	-3.6

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	42.11
EMPLOYEES PROVIDENT FUND	11.70
KUMPULAN WANG PERSARAAN	8.25
ESTIMATED FREE FLOAT	22.58

Historical Chart



Source: Bloomberg

Team Coverage

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substantial contribution is only realised upon reaching its full operation capacity (max capacity: 250units/pa), expecting in 2019 onwards.

- **Monetizing Serendah land.** The UMW plans to monetize its long-held land assets in Serendah. Currently, around 30 acres out of 861 acres are being utilized for fan case manufacturing plant. We believe the monetization of the remaining unused land in Serendah will render a positive catalyst to the Group as it could benefit from the disposal gain and improve its cash flows in the long term.

Earnings Outlook/Revision

- **We revise upward our earnings forecasts for FY18 and FY19 by 8.5% and 4.8%** respectively as we believe its business will be more stable after disposal of its O&G segment and have better focus on three core businesses.

Valuation & Recommendation

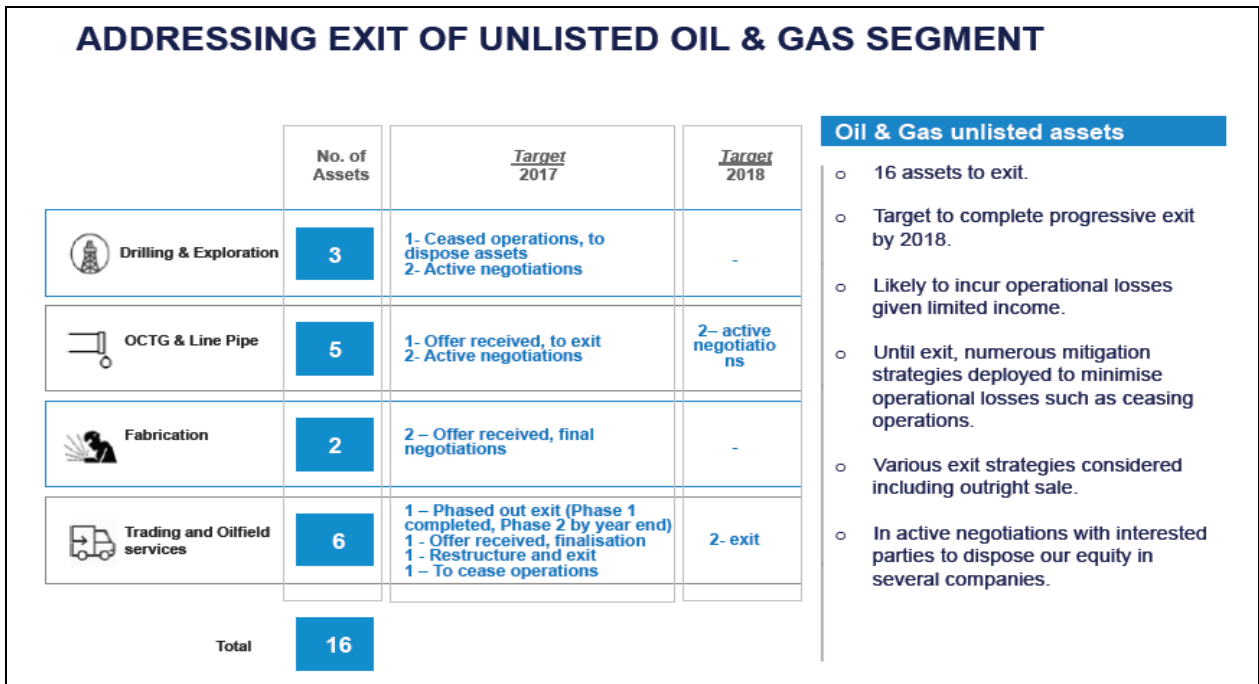
- **Maintain HOLD call on UMW with an unchanged target price of RM5.20.** Our valuation for UMW is pegged at 20x FY2018F PE based on revised EPS of 26 sen. Our target PE valuation is close to its mean PE of 22x.

Figure 1: Focusing on 3 core businesses



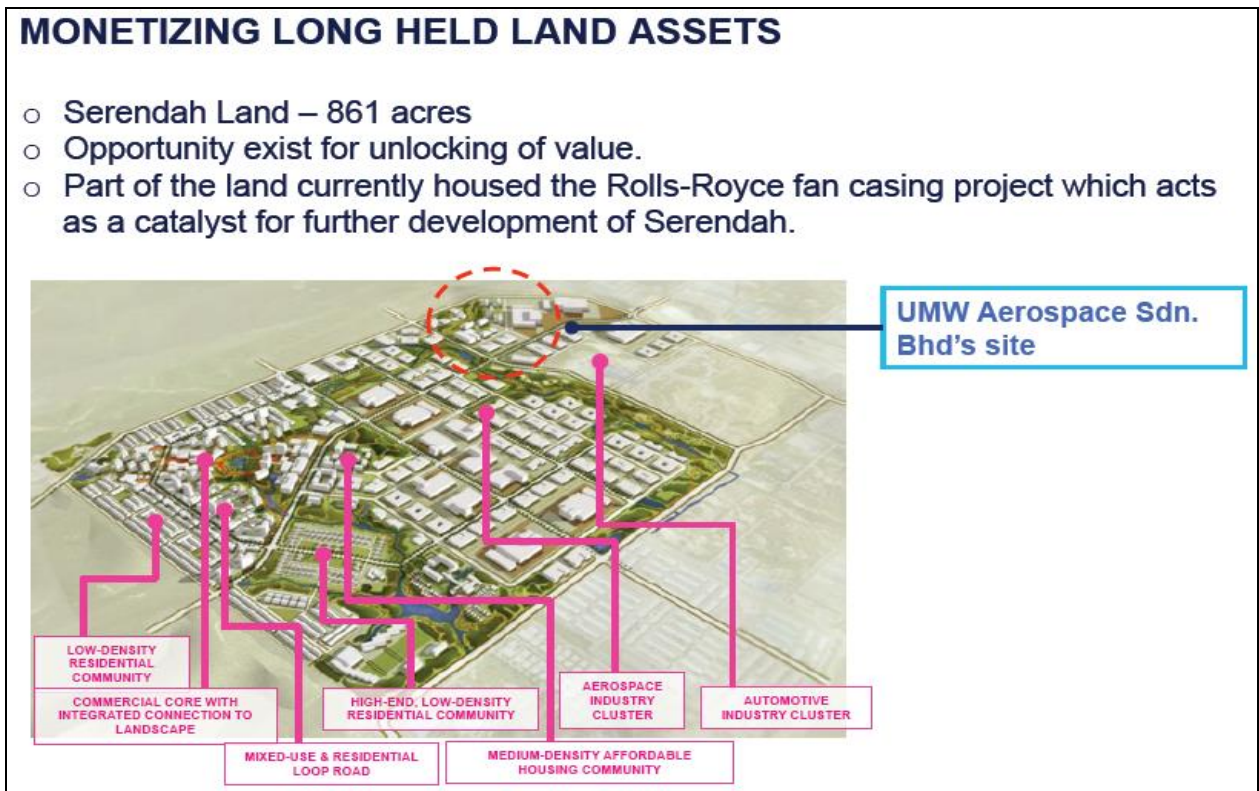
Source: Company, JF Apex

Figure 2: On track to dispose its non-listed O&G



Source: Company, JF Apex

Figure 3: Monetization of Serendah land



Source: Company, JF Apex

Figure 4: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017F	2018F
Revenue	13,951.46	14,958.91	14,419.75	10,965.07	9,109.47	9257.41
Operating profit	1,296.46	1,426.78	166.64	-2,202.81	307.90	383.26
PBT	1,435.67	1,620.83	265.36	-2,153.78	506.95	689.35
Net profit	679.61	650.70	-38.93	-1,690.58	212.92	299.87
Core net profit	960.40	836.80	338.00	-401.80	212.92	299.87
EPS (sen)	0.58	0.56	-0.03	-1.45	0.18	0.26
P/BV (x)	0.75	0.71	0.73	0.97	0.88	0.79
DPS (sen)	0.44	0.41	0.20	0.00	0.10	0.10
Dividend yield (%)	7.65%	7.13%	3.48%	0.00%	1.74%	1.74%
Operating margin (%)	9.29%	9.54%	1.16%	-20.09%	3.38%	4.14%
PBT margin (%)	10.29%	10.84%	1.84%	-19.64%	5.57%	7.45%
Net profit margin (%)	4.87%	4.35%	-0.27%	-15.42%	2.34%	3.24%
Net Gearing Ratio(x)	0.37	0.38	0.66	1.03	1.04	1.10
ROE (%)	7.57%	6.89%	-0.42%	-24.47%	2.78%	3.55%
ROA (%)	4.59%	3.96%	-0.22%	-10.43%	1.25%	1.65%

Source: Company, JF Apex

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STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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