# **UMW Holdings Bhd**

Continued Expansion of Three Core Businesses

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We came away from UMW's 2Q17/1H17 results briefing with our cautious view unchanged premised on the group's mixed prospects. Post-briefing, we made no changes to our earnings assumption. Maintain MARKET PERFORM with unchanged Target Price of RM5.77.

**Further details on 1H17 results.** 1H17 revenue increased by 15% due to higher contribution from the Auto segment (+19%) while supported by the M&E segment (+6%), with higher sales of shock absorbers, which was mitigated by the Equipment segment (-2%). The higher contribution from Auto Segment was attributed to the surge in demand for Toyota Innova and Toyota Fortuner. While there is a slowdown in the heavy equipment sub-segment, the industrial equipment sub-segment (64% of total revenue of Equipment segment) continued to perform well, particularly the leasing business. Moving forward, the financial reporting will be separated into continued and discontinued operations attributed to demerger of UMW-OG from UMWH group on 11<sup>th</sup> July 2017. Correspondingly, the strategic exit from 16 unlisted O&G entities is expected to be completed by end-2018.

Automotive segment sales volume for 1H17 on track, clinching 49% of target. As per MAA's data, automotive segment sales volume for 1H17 registered a higher growth of 7% to 133,621 units, within expectation of the group's targeted total sales volume of 70,000 units for Toyota &Lexus and 202,000 units from Perodua. The group have introduced a few new variants for this year, which are the face-lifted variants of Toyota existing models (Vios, Camry, Hilux, Fortuner), Lexus LC 500 while for next year, there is a replacement model for Perodua Myvi and the anticipated new Toyota CH-R which is expected to be launched in 1Q18. For future growth, the new Bukit Raja manufacturing plant (670k sq m in size) is expected to be operational in early 2019, for production of both passengers as well as energyefficient vehicles, with initial production capacity of 50k units annually based on one shift. (Current plant at 75k units annually is based on two shifts).

**M&E segment to be in a gestation period until 2019.** The group reiterated that the first delivery of Rolls-Royce's fan case is still on track to be delivered in 4Q17 and the full details of the arrangement will be disclosed at that time. With this, the group is expected to manufacture the fan case in single-digit units for FY17, double-digit units for FY18 and reaching full operation capacity in FY19 (maximum capacity at 250 units), under 25+5-year contract with revenue in USD.

**Equipment segment will be strengthened through partnership with Komatsu.** Equipment segment will be strengthened through heavy equipment business with Komatsu and expansion of market penetration of Komatsu's products in Malaysia, Singapore, Myanmar and Papua New Guinea, while supported by the expansion of equipment leasing business in which the group plans to further increase leasing revenue contribution to 50% of total equipment revenue (currently, at 30%).

**Outlook**. The strategic exit from the O&G industry is expected to improve the group's profitability with a more solid balance sheet. Additionally, the anticipated new car models should spur consumer sentiment bringing in more sales volume to the group. Nonetheless, we maintain our neutral stance on UMWH in view of the single-digit growth of its automotive segment sales volume pending the completion of its new Bukit Raja Plant (expected to be operational in early 2019) and the gestation period for its Rolls-Royce plant (expected to be profitable in FY19).

We made no changes to our earnings assumptions, which are based on the continued operation. **Maintain MARKET PERFORM with unchanged Target Price of RM5.77** based on 13x PER against FY18E EPS.



# MARKET PERFORM ↔

Price : Target Price : RM5.44 RM5.77 ↔



YTD KLCI chg8.2%YTD stock price chg28.8%

# **Stock Information**

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,355.5
Issued shares	1,168.3
52-week range (H)	6.08
52-week range (L)	4.09
3-mth avg daily vol:	307,172
Free Float	38%
Beta	1.4

# **Major Shareholders**

Skim Amanah Saham	42.1%
Employees Provident Fund	11.7%
Kumpulan Wang Persaraan	8.3%

## **Summary Earnings Table**

FY Dec (RM'm)	2016A	2017E	2018E
Turnover	10,981.3	9,201.9	9,407.1
EBIT/ (LBIT)	(2,202.8)	349.9	450.0
PBT/ (LBT)	(2,153.8)	450.0	564.4
Net Profit/(NL)	(1,690.6)	455.7	518.5
Core NP/(NL)	(362.2)	455.7	518.5
Consensus NP	-	196.5	351.4
Earnings Revision	-	-	-
Core EPS (sen)	-31.0	39.0	44.4
Core EPS growth	-251.1%	-225.8%	13.8%
NDPS (sen)	-	-	-
BVPS (RM)	4.04	3.19	4.01
PER (x)	N.M	13.9	12.3
PBV (x)	1.3	1.7	1.4
Net Gearing (x)	0.9	0.4	0.2
Net Div. Yield (%)	-	-	-

UMW core business segmentation

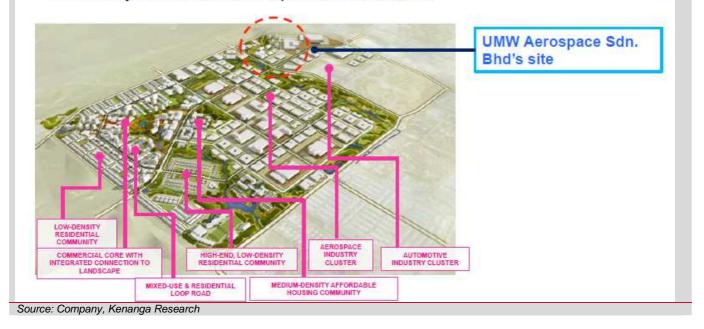
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# Monetizing Serendah Land

# MONETIZING LONG HELD LAND ASSETS

Serendah Land – 861 acres

- Opportunity exist for unlocking of value.
- Part of the land currently housed the Rolls-Royce fan casing project which acts as a catalyst for further development of Serendah.





# **UMW Holdings Bhd**

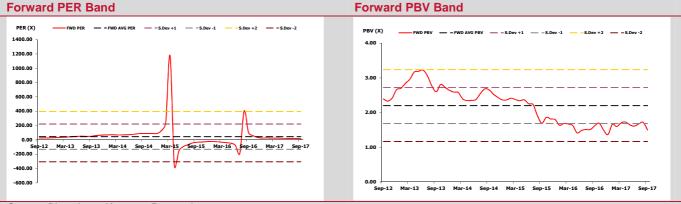
# 20 September 2017

Company Upd
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Income Statement						Financial Data & Ra					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	14,932	14,442	10,981	9,202	9,407	Growth (%)					
EBITDA	1,433	136	-2,203	350	450	Turnover	7.0	-3.3	-24.0	-16.2	2.2
Depreciation	-379	-511	-555	-243	-243	EBITDA	7.0	-3.3	-24.0	-16.2	2.2
Interest Inc/(Exp)	-85	-127	-186	-107	-107	Operating Profit	10.5	-90.5	-1724.3	-116.4	28.0
Associate	140	134	155	121	130	PBT	12.9	-83.4	-898.7	-121.6	25.4
PBT	1,621	270	-2,154	450	564	Core Net Profit	-7.8	-69.5	-251.1	-128.6	13.
Taxation	-394	-262	-141	-101	-113						
Minority Interest	-561	-39	604	106	67	Profitability (%)					
PATAMI	652	-37	-1,691	456	518	Operating Margin	9.6	0.9	-20.1	3.8	4.8
Core PATAMI	786	240	-362	456	518	PBT Margin	10.9	1.9	-19.6	4.9	6.0
						Core Net Margin	5.3	1.7	-3.3	5.0	5.5
						ROA	4.2	-0.3	-12.8	4.7	5.2
						ROE	10.1	-0.8	-34.9	12.7	12.0
Balance Sheet								0.0	0.10		
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E						
F. Assets	5,670	8,103	7,639	2,860	3,146	DuPont Analysis					
Int. Assets	26	25	6	6	6	Net Margin (%)	5.3	1.7	-3.3	5.0	5.
Other F.Assets	2,353	2,430	2,425	2,083	2,083	Assets Turnover(x)	0.9	0.8	0.7	0.9	0.9
Inventories	1,830	1,890	1,922	1,399	1,435	Leverage Factor(x)	2.5	2.8	3.4	2.6	2.3
Receivables	2,079	1,833	754	489	507	ROE (%)	10.1	-0.8	-7.5	12.7	12.0
Other C. Assets	1,191	1,210	1,280	1,388	1,388		10.1	0.0	7.0	12.1	12.0
Cash	3,371	2,734	2,179	1,463	1,609	Leverage					
Total Assets	16,520	18,225	16,206	9,689	10,175	Debt/Asset (x)	0.3	0.3	0.4	0.3	0.3
	,	,	,	0,000	,	Debt/Equity (x)	0.6	0.9	1.4	0.8	0.6
Payables	2,217	2,241	898	829	850	Net (Cash)/Debt	819	3,281	4,226	1,412	979
ST Borrowings	2,387	3,725	2,617	1,229	1,106	Net Debt/Equity (x)	0.1	0.5	4,220	0.4	0.2
Other ST Liability	466	372	1,104	272	372		0.1	0.5	0.5	0.4	0.2
LT Borrowings	1,803	2,290	3,789	1,647	1,482	Valuations					
Other LT Liability	214	2,230	889	580	580	Core EPS (sen)	67.3	20.5	(31.0)	39.0	44.4
Net Assets	9,433	9,384	6,909	5,132	5,785	NDPS (sen)	41.0	20.3	(31.0)	- 39.0	44.4
Net Assets	3,433	3,304	0,505	5,152	5,705	BV/sh (RM)	5.6		4.0	3.2	3.9
S.holders' Equity	6,580	6,584	4,722	3,612	4,398	PER (x)		5.6			
Minority Interests	2,853	2,799	2,187	1,521	4,398	Div. Yield (%)	8.1	26.5	(17.5)	13.9	12.3
Total Equity	2,003 9,433	2,799 9,384	2,187 <b>6,909</b>	5,132	5,785	· · /	7.5	3.7	-	-	
	5,433	5,304	0,909	5,152	5,765	PBV (x)	1.0	1.0	1.3	1.7	1.4
						EV/EBITDA (x)	3.2	3.9	(1.8)	9.4	8.7
Cashflow Stateme	nt										
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E						
Operating CF	1,378	949	-151	802	573						
Investing CF	-328	-1,740	-596	-635	-400						
Financing CF	204	517	221	-107	-400						
Change In Cash	1,254	-274	-526	60	66						
Free CF	-808			46	43						
	-000	-1,331	-1,117	40	43						

Source: Kenanga Research

# **Forward PER Band**



Source: Bloomberg, Kenanga Research



# Malaysian Automotive Peers Comparison

NAME	Price @ 19/09/17	Mkt Cap		PER (x)		Est. Div. Yld.	Hist. ROE	Ne	et Profit (RI	Mm)	1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RM m)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
BERMAZ AUTO BHD	2.06	2,359.6	20.3	12.3	10.8	7.5%	43.5%	117.6	193.3	220.8	64.3%	14.2%	2.40	OP
DRB-HICOM BHD	1.67	3,228.4	N.M.	N.M.	N.M.	1.2%	6.3%	-732.0	-186.1	-101.4	N.M	N.M	1.65	MP
MBM RESOURCES BERHAD	2.12	828.3	11.2	10.6	9.7	2.1%	5.0%	74.0	78.1	85.2	5.5%	9.0%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.73	1,129.3	N.M.	N.M.	N.M.	1.2%	2.0%	-46.1	-66.0	-40.4	N.M	N.M	1.45	UP
UMW HOLDINGS BHD	5.44	6,355.6	N.M.	13.9	12.3	0.0%	4.0%	-362.2	455.7	518.6	N.M	13.8%	5.77	MP

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### Stock Ratings are defined as follows:

# **Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
	: 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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