

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 11th 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 energy-efficient 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%).

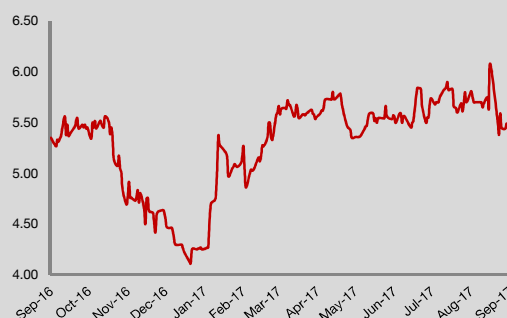
Outlook. The strategic exit from the O&G industry is expected to improve the group's profitability with a more solid balance sheet. Additionally, the anticipated new car models should spur consumer sentiment bringing in more sales volume to the group. Nonetheless, we maintain our neutral stance on UMWH 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 : **RM5.44**
Target Price : **RM5.77** ↔

Share Price Performance



KLCI	1,776.66
YTD KLCI chg	8.2%
YTD stock price chg	28.8%

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

AUTOMOTIVE
Enhancing and optimizing profitability



EQUIPMENT
Strengthening of heavy equipment segment with Komatsu



✓ GAME CHANGER

M&E
Continued expansion of core business and HVM



Source: Company, Kenanga Research

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 Aerospace Sdn. Bhd's site

Source: Company, Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @ 19/09/17	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			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

Source: Bloomberg, Kenanga Research

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20 September 2017

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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