

Outthink. Outperform.

A flat quarter, within expectations

UMW Holdings (UMWH) reported a flat set of results – 1Q18 core net profit dropped marginally by 1.6% to RM91.1m, weighed by lower revenue from the automotive segment (-14.3% yoy). Despite the weaker revenue, earnings were better off thanks to the higher contribution from associates (+39.6% yoy). All in, the results were within market and our expectations. Moving forward, we believe earnings will be supported by 1) strong associate contribution, 2) improved demand for industrial equipment segment and 3) lower losses from its oil & gas / aerospace business. At 18x 2019E PER, we believe the positives have been largely priced in at this level. Maintain HOLD.

1Q18 earnings dip 1.6% yoy

UMWH reported a core net profit of RM91.1m, in line with market and our expectations, accounting for 26.8% of street and our 2018 estimates. The 1Q18 earnings slipped by 1.6% yoy mainly attributable to lower revenue contribution from the automotive segment (-14.3% yoy). Toyota 1Q18 sales volume fell by 23.1% yoy as volume generative models like Vios and Avanza did poorly in 1Q18. Despite the weaker revenue, earnings were broadly lifted by higher contribution from associates (+39.6% yoy), driven by higher sales volume from Perodua. Perodua's 1Q18 sales volume grew 10.6% yoy, achieving its record first quarter in sales volume. Market share for Perodua for 1Q18 held firmly at 41.1% (1Q17 at 35.7%). UMWH's margins improved 5.6ppts predominantly attributed to the strengthening of the RM, we opine. Elsewhere, UMWH declared a 5 sen dividend for 1Q18.

Sequentially, core profit recovered from a loss

Sequentially, UMWH's 1Q8 core net profit recovered from a loss to RM91.1m on improved PBT margin of 6.1% (from 0.6%), thanks to higher equipment PBT margins of 12% (from 7.5%), lower losses from manufacturing & engineering and other businesses. Heavy equipment witnessed higher export sales of Komatsu equipment; Industrial equipment was bolstered by a major customer order on renewal of an entire fleet of older equipment.

Maintain HOLD and TP of RM5.90

We maintain our earnings forecasts and SOTP-based 12-month TP of RM5.90. Maintain HOLD. At 18x 2019E PER, we believe the group's positive earnings momentum is largely priced-in.

Earnings & Valuation Summary

FYE 31 Dec	2016A	2017A	2018E	2019E	2020E
Revenue (RMm)	10,436.8	11,066.6	11,225.4	11,315.4	11,615.3
EBITDA (RMm)	1,633.5	895.1	470.8	621.9	803.8
Pretax profit (RMm)	(282.1)	266.6	410.8	530.1	673.9
Net profit (RMm)	(1,658.0)	(640.6)	339.1	418.4	511.2
EPS (sen)	(141.9)	(54.8)	29.0	35.8	43.8
PER (x)	n.m.	n.m.	22.7	18.4	15.1
Core net profit (RMm)	(381.0)	(154.4)	339.1	418.4	511.2
Core EPS (sen)	(32.6)	(13.2)	29.0	35.8	43.8
Core EPS growth (%)	(167.1)	(59.5)	n.m.	23.4	22.2
Core PER (x)	n.m.	n.m.	22.7	18.4	15.1
Net DPS (sen)	0.0	0.0	13.0	13.0	13.0
Dividend Yield (%)	0.0	0.0	2.0	2.0	2.0
EV/EBITDA (x)	7.5	10.4	20.2	15.6	12.2
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	0.9	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

UMW Holdings

UMWH MK

Sector: Auto & Autoparts

RM6.60 @ 22 May 2018

HOLD (maintain)

Downside: 10.6%

Price Target: RM5.90

Previous Target: RM5.90



Price Performance

	1M	3M	12M
Absolute	+7.3%	0.0%	+21.5%
Rel to KLCI	+9.8%	+0.5%	+16.9%

Stock Data

Issued shares (m)	1,168
Mkt cap (RMm)/(US\$m)	7710.7/1943.5
Avg daily vol - 6mth (m)	1.6
52-wk range (RM)	4.7-6.98
Est free float	26.6%
BV per share (RM)	2.64
P/BV (x)	2.50
Net cash/ (debt) (RMm) (1Q18)	(303)
ROE (2018E)	11%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

ASB	40.7%
EPF	9.1%
KWAP	8.1%

Source: Affin Hwang, Bloomberg

Brian Yeoh
(603) 2146 7658
brian.yeoh@affinhwang.com

www.affinhwang.com

Out think. Out perform.

Key upside risks: a strong rebound in Toyota sales, strengthening of the Ringgit and recovery of consumer spending. Key downside risk: depreciation of Ringgit and tightening of hire purchase approvals.

Fig 1: Results Comparison

FYE Dec (RMm)	1Q17	4Q17	1Q18	QoQ % chg	YoY % chg	Comment
Revenue	2,695.2	2,954.7	2,415.3	-18.3	-10.4	Weaker sales were mainly due to lower contribution from Toyota sales volume (-23.1% yoy).
Op costs	-2,597.9	-2,938.6	-2,323.7	-20.9	-10.6	
EBIT	97.3	16.1	91.7	>100	-5.8	
<i>EBIT margin (%)</i>	<i>3.6</i>	<i>0.5</i>	<i>3.8</i>	<i>3.3ppt</i>	<i>0.2ppt</i>	EBIT margins improved on strengthening of the RM and better margins from Industrial segment.
Int expense	-17.8	-77.1	-23.6	-69.4	32.7	
Int income	18.1	20.3	21.6	6.4	19.4	
Associates	41.3	58.3	57.6	-1.2	39.6	Higher contribution from Perodua sales volume (+10.6% yoy).
Pretax from Cont. Operations	138.9	17.6	147.3	>100	6.1	
Discon- operations	-124.8	-413.2	-23.9	n.m.	-80.8	
Tax	-24.6	-33.0	-29.6	-10.4	20.2	
<i>Tax rate (%)</i>	<i>-175.1</i>	<i>8.3</i>	<i>-24.0</i>	<i>n.m.</i>	<i>n.m.</i>	
MI	30.7	-4.0	-19.7	>100	n.m.	
Net profit	20.2	-432.7	74.1	n.m.	>100	
Con. operations	92.6	-50.2	91.1	n.m.	-1.6	
Discon- operations	-72.4	-382.5	-17.1	-95.5	-76.4	
EPS (sen)	1.7	-37.0	6.3	n.m.	>100	
Core profit	92.6	-50.2	91.1	n.m.	-1.6	Results in line with expectations.

Source: Affin Hwang, Company

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, and may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com