



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

23 May 2018

A steady 1Q

HOLD

(Maintained)

Al Zaquan

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Rationale for report: Company results

Price RM6.60
Fair Value RM6.06
52-week High/Low RM6.98/RM4.70

Key Changes

Fair value ↗
EPS ↕

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	11,066.6	11,385.8	12,077.6	12,770.5
Core net profit (RM mil)	(79.1)	316.2	403.6	487.7
FD Core EPS (sen)	(6.8)	27.1	34.5	41.7
FD Core EPS growth (%)	(105.3)	(499.7)	27.7	20.8
Consensus Net Profit (RM mil)	-	339.4	442.1	505.1
DPS (sen)	6.5	9.5	10.4	12.5
PE (x)	nm	24.4	19.1	15.8
EV/EBITDA (x)	23.9	12.4	9.8	8.2
Div yield (%)	1.0	1.4	1.6	1.9
ROE (%)	0.9	10.0	11.9	13.2
Net Gearing (%)	52.2	37.1	35.2	28.2

Stock and Financial Data

Shares Outstanding (million) 1,168.3
Market Cap (RMmil) 7,710.7
Book Value (RM/share) 2.61
P/BV (x) 2.5
ROE (%) 0.9
Net Gearing (%) 52.2

Major Shareholders ASB (40.7%)
EPF (8.8%)
PNB (7.3%)
Free Float 32.6
Avg Daily Value (RMmil) 12.4

Price performance	3mth	6mth	12mth
Absolute (%)	-	23.4	21.5
Relative (%)	0.5	15.2	16.9



Investment Highlights

- We maintain HOLD on UMW Holdings but raise our FV to RM6.06/share from RM5.85/share as we roll over to FY19 earnings.
- 1Q18 core net profit of RM79mil — taking out exceptional items namely gains on disposal of PPE and forex losses totalling RM14.4mil — was in line with expectations, making up 25% of our FY estimate and 23% of consensus.
- Revenue fell 10% YoY while net profit from the continuing operations slipped 2% YoY.
- The auto segment was cushioned by a stronger ringgit against the USD, which saw its PBT margin strengthened 3ppts to 7% despite a drop in Toyota sales. UMW launched the new Harrier and C-HR during the quarter, in addition to facelifts of the Hilux, Sienta, Alphard and Vellfire. The stronger ringgit will provide some margin relief amid the group's guidance of flat car sales this year.
- The equipment segment held its own, seeing better exports of Komatsu equipment and support from the renewal of a major contract for its industrial sub-segment. Earnings saw fair growth and margins rebounded to 12% amid activities in the local construction sector and regional demand for Toyota forklifts.
- The M&E segment remained in the red as the aerospace unit ramps up production to meet a profit target of FY19. We believe the worst is over as pre-tax losses of the segment have shrunk from RM10mil to RM3mil over the period of one year.
- The group also declared a dividend of 5 sen/share, amounting to a payout of 64% of its EPS. This is the first dividend paid out in two years, as it has come out of the woods following the demerger of the O&G business. We project a payout of 9 sen/10 sen for FY18/19.
- We are assured of the earnings clarity and the group's holistic growth plans. The auto segment will see a second Toyota plant come onboard next year, M&E playing a bigger role as aerospace earnings kick in and equipment starting to benefit from the restructuring of its Komatsu distribution last year.
- We retain a HOLD as the share price is still well above our SOP-based FV of RM6.06, for which we have imputed a 5% sales growth for Toyota and PE of 13x on the auto segment.
- Our FV, pegged to FY19F, includes the additional 10% shareholdings in Perodua but excludes a stake in MBM, given the ambiguities that need to be resolved by its latest deadline of end-October.

EXHIBIT 1: EARNINGS SUMMARY

	1Q18	QoQ	YoY
Revenue	2,415.3	-18%	-10%
Operating Expenses	(2,343.0)	-22%	-11%
Other Operating Income	19.3	-67%	-11%
Operating Profit	91.7	>100%	-6%
Finance Costs	(23.6)	-69%	33%
Share of Profits of Associates & JV	57.6	-1%	40%
Investment Income	21.6	6%	19%
Profit before tax	147.3	>100%	6%
Tax	(29.6)	-10%	20%
Profit after tax	117.7	>100%	3%
Minority interest			
Continuing operations	26.5	-24%	23%
Discontinued operations	(6.8)	-78%	-87%
Total	19.7	>100%	>100%
Net profit			
Continuing operations	91.1	>100%	-2%
Discontinued operations	(17.1)	-96%	-76%
Total	74.1	>100%	>100%
Core net profit	79.6	-78%	>100%
<u>Margins</u>			
EBITDA margin	5.9%		
EBIT margin	3.8%		
PBT Margin	6.1%		
Net profit margin	3.8%		
Core net profit margin	3.3%		
Toyota			
Sales volume	12,683	-37%	-23%
Revenue per car (RM)	147,998	25%	11%
Net profit per car (RM)	6,416	51%	89%
Perodua			
Sales volume	55,568	4%	11%
Implied Perodua Net profit (RM mil)	152	-1%	40%
Net profit per car (RM)	2,729	-5%	26%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: SEGMENTAL BREAKDOWN

Segmental Breakdown	1Q18	QoQ	YoY
Revenue			
Automotive	1,877.1	-21%	-14%
Equipment	373.0	-5%	9%
Manufacturing & Engineering	168.5	-1%	2%
Eliminations	(3.2)	-172%	-20%
Total	2,415.3	-18%	-10%
PBT			
Automotive	125.9	-11%	45%
Equipment	44.9	52%	14%
Manufacturing & Engineering	(2.9)	-6%	>100%
Eliminations	(20.7)	-86%	>100%
Total	147.3	>100%	6%
PBT Margin			
Automotive	6.7%		
Equipment	12.0%		
Manufacturing & Engineering	-1.7%		

Source: AmInvestment Bank Bhd, Company

EXHIBIT 3: SOP-BASED FV

Pegged to FY19F						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	388.1	51%	13	2,669.8	2.19	1,217.6
Equipment	160.3		12	2,002.7	1.64	
M&E	67.7		10	676.6	0.56	
					4.39	
Add: Perodua	521.5	48%	13	3,254.2	2.67	
Add: Serendah land (831 acres at RM15/psf)				543.0	0.45	
Add: Company net debt				(1,773.3)	(1.46)	
FV:					6.06	

* On enlarged share base of RM1,218 mil following 49.3 mil new shares issued

Source: AmInvestment Bank Bhd

EXHIBIT 4: PB BAND CHART

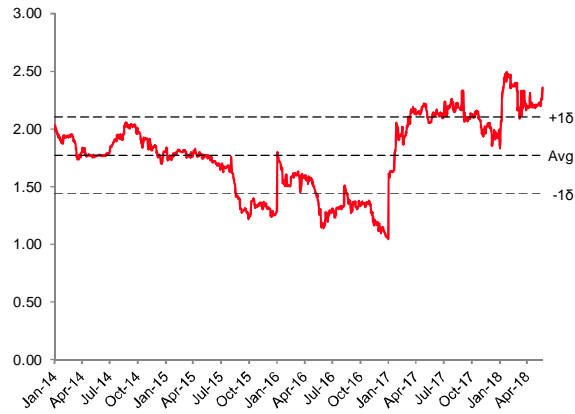


EXHIBIT 5: PE BAND CHART

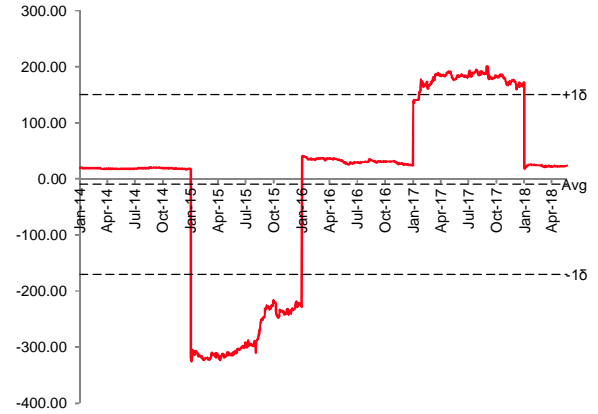


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	10,436.8	11,066.6	11,385.8	12,077.6	12,770.5
EBITDA	(255.3)	389.0	720.9	911.5	1,069.4
Depreciation/Amortisation	(229.3)	(265.3)	(274.9)	(310.4)	(341.0)
Operating income (EBIT)	(484.6)	123.7	446.1	601.1	728.3
Other income & associates	183.6	182.0	185.8	198.2	211.1
Net interest	18.8	(39.1)	(6.5)	11.3	8.0
Exceptional items	-	-	-	-	-
Pretax profit	(282.1)	266.6	625.4	810.6	947.4
Taxation	(125.0)	(121.7)	(105.5)	(147.0)	(176.7)
Minorities/pref dividends	611.7	19.8	(203.7)	(260.0)	(283.0)
Net profit	204.7	35.3	316.2	403.6	487.7
Core net profit	1,494.8	(79.1)	316.2	403.6	487.7
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	7,678.5	2,658.1	3,293.3	3,775.6	4,150.3
Intangible assets	-	-	-	-	-
Other long-term assets	2,822.9	2,520.8	2,547.2	2,579.2	2,615.0
Total non-current assets	10,501.4	5,178.9	5,840.4	6,354.8	6,765.3
Cash & equivalent	1,857.4	1,169.6	1,497.2	1,404.8	1,501.3
Stock	1,931.2	1,410.7	1,384.3	1,459.3	1,543.0
Trade debtors	988.5	1,021.3	935.8	992.7	1,049.6
Other current assets	1,008.0	1,315.2	1,315.2	1,315.2	1,315.2
Total current assets	5,785.1	4,916.8	5,132.5	5,172.0	5,409.1
Trade creditors	1,878.6	2,795.5	2,244.4	2,368.3	2,504.2
Short-term borrowings	2,639.3	691.9	1,020.9	1,277.9	1,534.9
Other current liabilities	234.0	165.5	263.8	273.0	282.2
Total current liabilities	4,752.0	3,652.9	3,529.1	3,919.3	4,321.4
Long-term borrowings	3,715.8	2,069.7	1,684.7	1,371.7	1,058.7
Other long-term liabilities	954.4	194.7	106.4	110.3	114.3
Total long-term liabilities	4,670.2	2,264.4	1,791.1	1,482.1	1,173.0
Shareholders' funds	4,718.6	3,047.2	3,252.8	3,535.3	3,876.7
Minority interests	2,145.7	1,131.2	2,400.0	2,590.1	2,803.3
BV/share (RM)	4.04	2.61	2.78	3.03	3.32
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	(282.1)	266.6	625.4	810.6	947.4
Depreciation/Amortisation	229.3	265.3	274.9	310.4	341.0
Net change in working capital	200.7	1,099.3	(425.8)	3.3	6.5
Others	142.8	(501.9)	(349.8)	(420.0)	(458.1)
Cash flow from operations	290.7	1,129.3	124.7	704.3	836.9
Capital expenditure	(1,181.6)	(869.8)	(853.9)	(724.7)	(638.5)
Net investments & sale of fixed assets	225.3	(234.8)	-	-	-
Others	183.7	(746.1)	158.5	174.9	170.2
Cash flow from investing	(772.5)	(1,850.7)	(695.5)	(549.8)	(468.3)
Debt raised/(repaid)	380.1	194.8	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(212.7)	(75.9)	(110.7)	(121.1)	(146.3)
Others	(558.3)	-	1,065.1	(69.9)	(69.9)
Cash flow from financing	(390.8)	118.9	898.4	(246.9)	(272.1)
Net cash flow	(872.6)	(602.4)	327.7	(92.4)	96.5
Net cash/(debt) b/f	2,621.1	1,607.3	1,169.6	1,497.2	1,404.8
Net cash/(debt) c/f	1,607.3	1,181.5	1,497.2	1,404.8	1,501.3
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(27.7)	6.0	2.9	6.1	5.7
EBITDA growth (%)	(139.5)	(252.4)	85.3	26.4	17.3
Pretax margin (%)	(2.7)	2.4	5.5	6.7	7.4
Net profit margin (%)	2.0	0.3	2.8	3.3	3.8
Interest cover (x)	nm	3.2	69.1	nm	nm
Effective tax rate (%)	44.3	45.6	16.9	18.1	18.7
Dividend payout (%)	42.8	161.3	26.3	22.5	22.5
Debtors turnover (days)	49	33	31	29	29
Stock turnover (days)	67	55	45	43	43
Creditors turnover (days)	72	77	81	70	70

Source: Company, AmInvestment Bank Bhd estimates

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