

HLIB Research

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HOLD (Maintain)

Target Price: RM6.30

Previously: RM6.10

Current Price: RM6.60

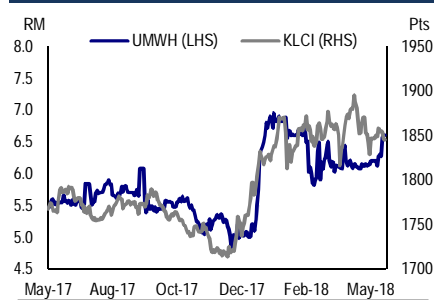
Capital upside -4.5%

Dividend yield 0.8%

Expected total return -3.7%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


Historical return (%)	1M	3M	12M
Absolute	8.2	-0.2	20.9
Relative	10.3	0.7	15.8

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	7,711
3-mth average volume ('000)	2,058
SC Shariah compliant	Yes

Major shareholders

Permodalan Nasional Berhad	57.6%
Employess Provident Fund	9.4%
Kumpulan Wang Persaraan	6.3%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	(99)	320	446
EPS - core (sen)	(8.5)	27.4	38.2
P/E (x)	N.M.	24.1	17.3

UMW Holdings

Turnaround start with 5 sen dividend

UMW reported strong PATMI of RM77.4m for 1QFY18, above HLIB expectation, following higher profit from automotive segment and smaller loss from oil & gas unlisted and other segments. Declared surprise interim net dividend of 5 sen. We raise FY18-19 earnings by 20.4% and 9.5% respectively. Maintain HOLD with higher SOP-derived TP of RM6.30.

Above expectation. UMW reported core PATMI for 1QFY18 at RM77.4m, which was above HLIB's FY18 expectation (29.1%), but within consensus (22.8%). The stronger than expected earnings was mainly attributed to higher profit from automotive segment and lower losses from oil & gas unlisted and other segments, as the group continued to cease and scale down the operations.

Surprise dividend. Declared an interim net dividend of 5 sen following the group's restructuring exercises.

QoQ & YoY. Core operation returned back into profit of RM77.4m in 1QFY18, following losses in 4QFY17 and 1QFY17, due to: (i) improved margins of automotive segment (on RM appreciation and strong sales of Perodua) and equipment segment (on higher export sales); and (ii) lower losses drag from oil & gas unlisted and other segments.

Outlook. UMW is expected to maintain its profit momentum in 2QFY18 following the RM appreciation and implementation of zero-rated GST in June 2018. However the upcoming implementation of SST in 2H18 will increase automotive prices and have negative impact on automotive sales demand, while depreciation of RM/USD towards 2H18 will affect the automotive margins. UMW Aerospace is expected to remain in the red in FY18 as the facility gradually ramps up its production before starting to turn to profit in FY19.

Forecast. Increased profit forecast for FY18 by 20.4% and FY19 by 9.5% to reflect the lower loss of oil & gas and other segments. We introduce FY20 earnings at RM563m.

Maintain HOLD, TP: RM6.30. We raise our SOP-derived TP to RM6.30 from RM6.10 following the adjustment in earnings. Do note that we have already assigned nil valuation for its unlisted and other segments which are loss-making. We believe the current share price has already priced in the potential earnings accretion from the acquisition of stakes in MBMR and Perodua and hence retain our HOLD rating.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Cash	2,194	1,170	1,011	925	1,173
Receivables	1,931	1,411	1,412	1,538	1,704
Inventories	868	902	903	984	1,090
PPE	7,679	2,658	3,611	3,917	4,028
Others	3,615	3,955	4,005	4,062	3,885
Assets	16,286	10,096	10,942	11,426	11,880
Payables	996	949	910	992	1,096
Debt	6,355	2,762	3,297	3,353	3,249
Others	2,071	2,206	2,206	2,206	2,206
Liabilities	9,422	5,917	6,413	6,551	6,551
Shareholder's equity	4,719	3,047	3,368	3,697	4,131
Minority interest	2,146	1,131	1,161	1,178	1,198
Equity	6,864	4,178	4,529	4,875	5,329

Cash Flow Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	(282)	267	663	695	835
D&A	229	265	294	341	337
Working capital	(1,803)	440	(42)	(125)	(167)
Taxation	(166)	(137)	(141)	(136)	(144)
Others	2,388	381	(199)	(228)	(236)
CFO	366	1,215	576	548	624
Capex	(1,182)	(870)	(1,247)	(647)	(447)
Asset disposal	47	69	0	0	0
Acquisitions	(22)	(935)	0	0	0
Others	(250)	(201)	149	171	413
CFI	(1,406)	(1,937)	(1,098)	(476)	(35)
Changes in debt	380	195	536	56	(104)
Shares issued	0	0	0	0	0
Dividends	(117)	0	0	(117)	(129)
Others	(96)	(76)	(171)	(97)	(108)
CCF	167	119	364	(158)	(341)
Net cash flow	(873)	(602)	(158)	(86)	248
Forex	(141)	177	0	0	0
Others	332	(422)	0	0	0
Beginning cash	2,734	2,194	1,170	1,011	925
Ending cash	2,194	1,170	1,011	925	1,173

Income Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Revenue	10,416	11,067	11,076	12,069	13,368
EBITDA	(255)	389	848	914	1,038
EBIT	(485)	124	553	573	701
Net finance cost	19	(39)	(89)	(106)	(102)
Associates & JV	184	182	199	228	236
Profit before tax	(282)	267	663	695	835
Tax	(134)	(122)	(141)	(136)	(144)
Operation net profit	(416)	145	522	560	690
Discontinued operation	(1,854)	(805)	0	0	0
Reported net profit	(2,270)	(660)	522	560	690
Minority interest	612	20	(202)	(114)	(128)
Reported PATMI	(1,658)	(641)	320	446	563
Exceptionals	1,756	542	0	0	0
Core PATMI	98	(99)	320	446	563
Concensus			339	443	518
HLIB/Consensus (%)			94.4%	100.7%	108.7%

Valuation & Ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Reported EPS (sen)	(141.9)	(54.8)	27.4	38.2	48.2
Core EPS (sen)	8.3	(8.5)	27.4	38.2	48.2
Core P/E (x)	79.1	N.M.	24.1	17.3	13.7
DPS (sen)	0.0	5.0	5.0	10.0	12.0
Dividend yield (%)	0.0%	0.8%	0.8%	1.5%	1.8%
BVPS (RM)	4.0	2.6	2.9	3.2	3.5
P/B (x)	1.6	2.5	2.3	2.1	1.9
EBITDA margin	-2.5%	3.5%	7.7%	7.6%	7.8%
EBIT margin	-4.7%	1.1%	5.0%	4.7%	5.2%
PBT margin	-2.7%	2.4%	6.0%	5.8%	6.2%
Net margin	-15.9%	-5.8%	2.9%	3.7%	4.2%
ROE	1.7%	-2.5%	10.0%	12.6%	14.4%
ROA	0.6%	-0.8%	3.0%	4.0%	4.8%
Net gearing	-88.2%	-52.2%	-67.9%	-65.7%	-50.2%

Assumptions

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Sales (Unit)					
Toyota	63,757	69,492	65,322	71,855	78,322
Lexus	1,353	953	1,000	1,000	1,000
Perodua	207,100	204,887	217,000	223,000	229,690
Average Price (RM)					
UMW	129,772	127,322	131,142	128,519	129,804
Perodua	39,609	39,142	38,933	40,449	40,842

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)
Revenue	2,693.1	2,966.0	2,415.3	-18.6%	-10.3%
EBITDA	116.0	145.8	154.9	6.2%	33.6%
EBIT	71.0	81.2	104.1	28.2%	46.6%
Net finance expense	-16.1	-68.6	-11.1	-83.8%	-31.0%
Associates	40.0	58.3	57.6	-1.2%	44.0%
Exceptional items	24.4	-53.3	-3.3		
Reported PBT	119.3	17.6	147.3	737.7%	23.5%
Tax	-24.9	-29.8	-29.6	-0.5%	18.7%
Reported operation net profit	94.4	-12.2	117.7	N.M.	24.7%
Reported discontinued operation	-104.9	-413.2	-23.9	N.M.	N.M.
Reported net profit	-10.6	-425.4	93.8	N.M.	N.M.
Reported PATMI	20.2	-429.2	74.1	N.M.	N.M.
Core PATMI	-4.2	-22.7	77.4	N.M.	N.M.
Reported EPS (Sen)	1.7	-36.7	6.3	N.M.	N.M.
Core EPS (Sen)	-0.4	-1.9	6.6	N.M.	N.M.
EBITDA margin (%)	4.3%	4.9%	6.4%	1.5%	2.1%
EBIT margin (%)	2.6%	2.7%	4.3%	1.6%	1.7%
Core PATMI margin (%)	-0.2%	-0.8%	3.2%	4.0%	3.4%

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- The lower group revenue was dragged by lower sales volume of Toyota and Lexus.
- Group EBITDA improved QoQ and YoY mainly on improved margins of automotive segment (RM appreciation) and equipment segment (on higher export sales).
- Reported PATMI of RM74.1m inclusive of attributed RM17.1m loss from oil & gas unlisted segment, which is currently recognised as discontinued operations.

Figure #2 Template for table/ charts

FYE Dec (RM m)	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)
Reported Revenue					
Automotive	2,190.9	2,386.7	1,877.1	-21.4%	-14.3%
Equipment	342.4	393.5	373.0	-5.2%	8.9%
Manufacturing & Engineering	165.9	170.0	168.5	-0.9%	1.6%
Oil & Gas unlisted	0.0	0.0	0.0	N.M.	N.M.
Others	13.2	38.3	15.9	-58.5%	20.7%
Intersegment	(19.3)	(22.5)	(19.1)	-15.1%	-0.9%
Total	2,693.1	2,966.0	2,415.3	-18.2%	-10.6%
Reported PATMI					
Automotive	56.0	85.7	81.4	-5.1%	45.4%
Equipment	31.1	24.9	36.6	46.9%	17.6%
Manufacturing & Engineering	(2.4)	(9.3)	(9.2)	-1.1%	275.9%
UMWOG	(58.0)	0.0	0.0	N.M.	N.M.
Oil & Gas unlisted (discontinued)	(10.7)	(371.3)	(17.1)	N.M.	N.M.
Others	4.3	(162.8)	(17.7)	N.M.	N.M.
Total	20.2	(432.7)	74.1	N.M.	267.4%
Core PATMI	(4.2)	(22.7)	77.4	N.M.	N.M.

Bursa, HLIB Research

- Automotive revenue dropped substantially on lower sales volume of Toyota and Lexus.
- Manufacturing & Engineering remained in the red in 1QFY18 due to start-up loss of Rolls Royce fan cowl manufacturing plant. The plant is in the ramp-up schedule in FY18 before full production capacity by end FY19.
- Earnings continued to be dragged by oil & gas unlisted segment pending the complete disposal exercise of the segment by end FY18.

Figure #3 **UMW automotive sales statistics**

Unit Sales	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Toyota (51% ownership)	10,216	17,033	17,271	19,237	16,503	17,220	15,567	20,202	12,683
Lexus (51% ownership)	272	359	334	388	191	219	240	303	143
Perodua (38% ownership)	47,181	50,189	53,519	56,211	50,265	49,410	51,905	53,307	55,568
Total	57,669	67,581	71,124	75,836	66,959	66,849	67,712	73,812	68,394
Growth YoY (%)	-21.8%	-9.2%	-2.3%	-14.0%	16.1%	-1.1%	-4.8%	-2.7%	2.1%
Growth QoQ (%)	-34.6%	17.2%	5.2%	6.6%	-11.7%	-0.2%	1.3%	9.0%	-7.3%

Company

Figure #4 **UMW sum-of-parts valuation**

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,341.0	2.86	FY19 PE 10x
Equipment	Various	1,193.5	1.02	FY19 PE 8x
Manufacturing & Engineering	Various	2,429.3	2.08	FY20 PE 18x
Others	Various	0.0	0.00	
50.1% MBMR & 10% Perodua	Various	1,206.9	1.03	FY19 PE 12x
Total (RM)		8,170.8	6.99	
Holding Co Discount			10%	
Target Price (RM)			6.30	
No of Shares		1,168.3		

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BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
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