

Company Result

23 May 2018

UMW Holdings Berhad

A rosy start

HOLD
Maintained

Share Price	RM6.60
Target Price	RM7.04

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	7710.74
52-week price Range	RM4.70-6.98
Beta (against KLCI)	1.36
3-m Average Daily Volume	2.01m
3-m Average Daily Value [^]	RM12.37

Share Performance

	1m	3m	12m
Absolute (%)	7.3	7.7	21.5
Relative (%-pts)	9.8	0.5	16.9

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	40.71
EMPLOYEES PROVIDENT FUND	9.35
KUMPULAN WANG PERSARAAN	7.26
ESTIMATED FREE FLOAT	26.59

Historical Chart



Source: Bloomberg

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- **UMW Holdings Berhad (UMW) posted a headline net profit of RM91.1m in 1Q18.** After excluding the exceptional items such as impairment of receivables, write down of inventories, loss on sale on investment, gain on derivatives and disposal of property, plant and equipment as well as forex loss, the Group reported a core net profit of RM79m, improved from core net loss of RM26.1m recorded in last quarter and RM4.5m from a year ago. Meanwhile, revenue stood at RM2.4b, which decreased by 18.3% qoq and 13.9% yoy.
- **1Q18 core net earnings within our estimate but below market expectation.** The Group registered a core net profit of RM79m in 1Q18 which accounts for 27.6% of our full year estimate and 18.3% of market forecast. The performance was mainly supported by improved margins in core segments.

Comment

- **Disappointing Toyota sales.** Auto segment revenue in 1Q18 decelerated 21.4% qoq and 14.3% yoy. The tepid performance was due to slowdown in domestic Toyota sales during the quarter which contracted 37.2% qoq and 23.2% yoy. However, auto PBT margin improved 0.8ppts qoq and 2.7ppts yoy, thanks to strengthening of Ringgit against US Dollar. The Group announced to consider a price review for Toyota and Lexus models following the zero-rated Goods and Services Tax (GST) which comes into effect on 1st June. This is to ensure consumers will benefit from 2~3-months tax holiday before implementation of any sales and service tax (SST) which will be announced soon. We could witness price reduction for its recent models such as Toyota Harrier and Toyota CH-R and further boost the auto segment.
- **Marginal hike in Perodua car sales.** Perodua's sales performance rose sharply by 10.5% yoy and 4.2% qoq in 1Q18, mainly lifted back by its new Proton Myvi. Cumulatively, this model has secured more than 60k order year-to-date, with c.28k units has been delivered. Besides, the market share also trends higher, elevating from 35.5% to 41.1%. Overall, the Group foresees to achieve sales of 209k units in 2018, with 2% projection growth.
- **Stellar Equipment division.** The Equipment division for 1Q18 registered higher revenue of 8.9% yoy but contracted 5.2% qoq. The higher yoy revenue was buoyed by higher export sales in KOMATSU equipment coupled with major order from customer on renewal of the entire fleet of older equipment under industrial equipment.

Besides, PBT margin also improved 11.7ppts qoq and 0.5ppts yoy as a result of improved revenue. The Group foresees the demand for heavy equipment will be spurred by steady growth in construction sector as well as infrastructure development in local market whilst industrial equipment will be bolstered by strong demand in local and overseas markets.

- **Narrowing losses in unlisted Oil & Gas (O&G) segment.** For discontinued operation, revenue and PBT for unlisted O&G in this quarter narrowed as compared to last quarter and a year ago. This was in line with the group strategy to exit its O&G business. To recap, the Group completed its demerger of UMW Oil and Gas Corporation in June 2017 while classified its unlisted O&G segments as a disposal group.
- **Higher operating cost in Aerospace business weigh down M&E division.** Manufacturing & Engineering's PBT posted a net loss of RM2.9m in this quarter as compared to net loss of RM3m in last quarter and a net profit of RM3.1m in a year ago. The sluggish performance posted by this segment was due to the higher operating cost in aerospace business. Meanwhile, the revenue improved 1.6% yoy on the back of higher revenue in auto component business despite slid 0.9% qoq. UMW Aerospace has delivered its first unit of fan case since Nov'17 and has completed 6 units of fan case in 2017. The Group expects to ramp up another 80 units and 160 units of fan cases in FY18 and FY19 respectively with full capacity of 250 units fan cases in 2020. We believe break-even will likely happen in FY19 onwards as the Group's aerospace business needs to bear high operating cost to build up the plant and high depreciation charges. Thereafter, the Group expects to see a double-digit revenue and net profit growth from the Manufacturing and Engineering (M&E) segment by 2021.
- **Dividend declared.** The Group has declared a single-tier dividend of 5 sen/share amounting RM58.4m for FY18. The dividend will be paid on 21 June 2018.

Earnings Outlook/Revision

- **We lift our earnings forecast for FY18 and FY19 by 31.3% and 20.8% respectively to reflect higher-than-expected margins in core segments as well as higher car sales.**
- **We expect the Group to re-focus on three core businesses which will resume positive growth momentum over the longer term** - 1) Auto division is expected to register a robust growth with new launch and updated models; 2) M&E division is expected to move towards into high value-added manufacturing; 3) New plant in Bukit Raja (initial 50K capacity p.a.) to be fully completed and operational in 2019; and 4) Exit of O&G segment that will help to improve the Group's overall profitability.

- **Maintain HOLD call on UMW with a higher target price of RM7.04 (previously RM6.00) following our earning upgrade.** Our valuation for UMW is pegged at PE of 22x FY2018F EPS. The target PE valuation is close to its +1 standard deviation of 22x.

Figure 1: Quarterly Figures

Year to 31 Dec	1Q18 (RMm)	4Q17 (RMm)	1Q17 (RMm)	QoQ % chg	YoY % chg
Revenue	2,415.3	2,954.7	2,803.6	-18.25%	-13.85%
Operating Profit	91.7	16.1	19.7	469.31%	365.18%
Pre-tax Profit	147.3	17.6	14.4	737.69%	923.77%
Profit After Tax	117.7	(428.7)	(10.6)	N/A	N/A
Net Profit	91.1	(432.7)	20.2	N/A	352.01%
Core Profit	79.0	(26.1)	(4.5)	N/A	N/A
Operating Margin (%)	3.8%	0.5%	0.7%	3.3 ppts	3.1 ppts
PBT Margin (%)	6.1%	0.6%	0.5%	5.5 ppts	5.6 ppts
Net Margin (%)	4.9%	-14.5%	-0.4%	N/A	N/A
Core Margin (%)	3.3%	-0.9%	-0.2%	N/A	N/A

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY18	1Q18 (RMm)	4Q17 (RMm)	1Q17 (RMm)	Q-O-Q (%)	Y-O-Y (%)
Segmental Revenue					
<u>Continuing operation</u>					
Automotive	1,877.1	2,386.7	2,190.9	-21.35%	-14.32%
Equipment	373.0	393.5	342.4	-5.19%	8.94%
M & E	168.5	170.0	165.9	-0.93%	1.56%
<u>Discontinued operation</u>					
Oil & Gas (Listed)	-	-	74.3	N/A	N/A
Oil & Gas (Unlisted)	23.4	26.2	36.3	-10.56%	-35.38%
Segmental PBT					
<u>Continuing operation</u>					
Automotive	125.9	141.6	87.1	-11.06%	44.64%
Equipment	44.9	1.5	39.5	2930.07%	13.62%
M & E	(2.9)	(3.0)	3.1	N/A	N/A
<u>Discontinued operation</u>					
Oil & Gas (Listed)	-	-	(104.9)	N/A	N/A
Oil & Gas (Unlisted)	(23.7)	(412.3)	(15.0)	N/A	N/A
Segmental Margin					
<u>Continuing operation</u>					
Automotive	6.71%	5.93%	3.97%	0.78 ppts	2.74 ppts
Equipment	12.05%	0.38%	11.55%	11.67 ppts	0.5 ppts
M & E	-1.69%	-1.78%	1.87%	N/A	N/A
<u>Discontinued operation</u>					
Oil & Gas (Listed)	-	-	-141.24%	N/A	N/A
Oil & Gas (Unlisted)	-101.30%	-1574.07%	-41.46%	N/A	N/A

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2015	2016	2017	2018F	2019F
Revenue	14,441.58	10,436.80	11,066.64	11,394.27	11,874.34
Operating profit	135.62	(484.55)	123.70	426.01	453.85
PBT	269.65	(282.10)	266.57	554.45	628.85
Net profit	(37.17)	(1,658.04)	(640.63)	375.69	424.76
Core profit	19.56	(401.80)	(85.77)	375.69	424.76
Core EPS (sen)	0.02	(0.31)	(0.07)	0.32	0.36
P/BV (x)	0.84	1.12	1.85	1.67	1.51
DPS (sen)	0.20	0.00	0.00	0.10	0.15
Dividend yield (%)	3.03%	0.00%	0.00%	1.46%	2.20%
Operating margin (%)	0.94%	-4.64%	1.12%	3.74%	3.82%
PBT margin (%)	1.87%	-2.70%	2.41%	4.87%	5.30%
Net profit margin (%)	-0.26%	-15.89%	-5.79%	3.30%	3.58%
Net Gearing Ratio(x)	1.26	1.66	2.19	2.21	2.22
ROE (%)	-0.40%	-24.00%	-15.34%	8.14%	8.33%
ROA (%)	-0.21%	-10.23%	-6.44%	3.19%	3.41%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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