

22 May 2018

Hold

Price
 RM6.60

Target Price
 RM6.30

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	7,710.7
52-week high/low (RM)	6.98 / 4.70
Avg daily turnover (RMm)	12.4
KLCI (pts)	1,845.0

Source: Bloomberg, KAF

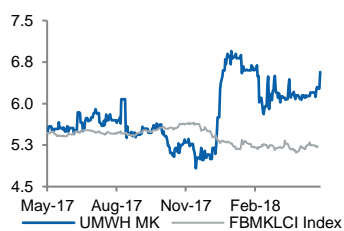
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.7%)
EPF	(9.1%)
Yayasan Perlaburan Bumiputera	(8.0%)
Free Float	25.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	-	23.4	21.5
Rel Market (%)	0.5	15.2	16.9



Source: Bloomberg, KAF

UMW Holdings

1Q meets expectations

UMW's 1Q earnings of RM91m was on point at 24% of our FY18 forecast. Net margin expanded 1ppt to 4% on a firmer MYR and higher Perodua contribution. A 5 sen DPS was declared. We expect sales to improve in the coming months from Hari Raya festivities and 0% GST rate, but MYR remains a concern. We forecast 1% Toyota vehicle sales growth (1Q: -23%). We maintain Hold as we deem UMW fairly valued.

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	10,437	11,067	11,581	11,951	12,380
Core net profit (RMm)	437	169	381	439	499
Core EPS (Sen)	37.4	14.4	32.6	37.6	42.7
EPS growth (%)	35.5	(61.4)	>100	15.3	13.6
DPS (Sen)	0.0	0.0	20.0	25.0	25.0
Core PE (x)	17.7	45.7	20.3	17.6	15.5
Div yield (%)	0.0	0.0	3.0	3.8	3.8
ROE (%)	(7.4)	3.7	11.8	12.0	12.1
Net Gearing (%)	95.3	52.2	17.1	Net Cash	Net Cash
PBV(x)	1.1	1.8	1.6	1.5	1.3

Source: Company, KAF

1Q results meet expectations. UMW reported flattish net earnings growth to RM91m for 1Q18, on the back of an 18% topline decline. Earnings met our expectations – making up 24% of our full-year forecast and 27% of consensus' estimate.

Auto sales fell 14% but... The lower revenue can be mainly attributed to slower auto revenue of 14%. In 1Q, Toyota sales fell 23% yoy to 12.7k, while Lexus sales also fell 25% to 143 units. This is despite the introduction of Harrier, Lexus LS 500, C-HR, Alphard, and Vellfire during the quarter. We believe the slower sales can be attributed to competition as well as following year-end promotions in 4Q17.

Margin expanded on favourable forex. Nevertheless, the auto division benefited from the stronger MYR with PBT margin expanding to 7% from 4% a year earlier. Note that the MYR averaged 3.92 in 1Q18 vs. 4.45 a year earlier. Hence, the auto division's PBT rose 45% to RM126m – partly due to a higher contribution from 38%-owned associate Perodua.

Perodua sales up 11%. Perodua sold 11% more vehicles in 1Q – 56k vs. 50k a year earlier and up 4% on a sequential basis. The strong showing was mainly due to its new Myvi, which achieved 70k bookings at end-April (38k delivered). Hence, contribution from associate and JVs at the group level rose 31%.

M&E remains in the red. The M&E division reported a RM3m loss in 1Q on gestation period for its aerospace business. The aerospace losses are expected to narrow to RM20m this year (from RM60m last year) on targeted delivery of 80 fan cases. It is expected to return to the black next year on 160 deliveries. Meanwhile, the equipment division held steady with PBT of RM45m (vs. RM40m a year earlier).

Declares 5 sen DPS. After a two-year hiatus, UMW declared an interim DPS of 5 sen/share. This represents 64% payout of its 1Q earnings. We have a DPS forecast of 20 sen for 2018 – premised on 61% of our full-year earnings forecast. The ex and payment dates are 4 June and 21 June, respectively.

Sales boost from 0% GST rate but MYR is a concern. We believe sales in the coming months will improve given the Hari Raya festivities and 0% GST rate, but a weaker MYR remains a concern. Ytd, Toyota sales have declined 23%; we forecast 1% growth to 70k. Also, the MYR has weakened to 3.97 currently against the USD.

Maintain Hold. We maintain our Hold recommendation and TP of RM6.30 as we believe UMW is fairly valued at this juncture. Our TP does not take into account the proposed consolidation of Perodua as negotiations are still ongoing. We expect auto sales to normalise when sales and service tax (SST) is reintroduced.

Analyst

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Exhibit 1: Results summary

FYE 31 Dec	1Q17	2Q17	3Q17	4Q17	1Q18	yoy %	qoq%	FY18F	FY18/F
Continued operations									
Revenue	2695	2786	2671	2955	2415	-10%	-18%	11581	21%
Operating profit	97	(35)	(11)	16	92	-6%	469%	439	21%
Investment income	18	20	21	20	22	19%	6%	80	27%
Finance cost	(18)	(24)	(20)	(77)	(24)	33%	-69%	(21)	113%
JV & Associates	41	28	30	58	58	40%	-1%	188	31%
Pretax profit	139	(11)	20	18	147	6%	738%	686	21%
Tax	(25)	(35)	(30)	(33)	(30)	20%	-10%	(165)	18%
Profit after tax (continued ops)	114	(46)	(10)	(15)	118	3%	-862%	521	23%
MI	(22)	(8)	29	(35)	(27)	23%	-24%	(140)	19%
Net profit (continuing ops)	93	(54)	20	(50)	91	-2%	-282%	381	24%
Discontinued Operations									
Revenue	108	140	0	26	23	-78%	-11%		
Loss before tax from discontinued ops	(124)	(178)	0	(412)	(24)	-81%	-94%		
Loss after tax from discontinued ops	(125)	(178)	0	(413)	(24)	-81%	-94%		
MI	52	23	0	31	7	-87%	-78%		
Net loss from discontinued ops	(72)	(155)	0	(382)	(17)	-76%	-96%		
Consolidated									
Revenue	2804	2926	2671	2981	2439	-13%	-18%		
(Loss)/profit before tax	14	(189)	20	(395)	124	759%	-131%		
Profit after tax	(11)	(225)	(10)	(429)	94	-988%	-122%		
MI	31	16	29	(4)	(20)	-164%	393%		
Net profit	20	(209)	20	(433)	74	267%	-117%		
Core net profit	20	(82)	20	105	74	267%	-30%		
Consolidated									
EPS (sen)	1.7	(17.9)	1.7	(37.0)	6.3				
Core EPS (sen)	1.7	(7.1)	1.7	9.0	6.3				
Net DPS (sen)	0.0	0.0	0.0	0.0	5.0				
BV (RM)	4.07	3.02	3.01	2.64	2.67				
PBT margin (%)	1%	-6%	1%	-13%	5%				
PAT margin (%)	0%	-8%	0%	-14%	4%				
Net profit margin (%)	1%	-7%	1%	-15%	3%				
Core net profit margin (%)	1%	-3%	1%	4%	3%				
Continued ops									
EBIT margin (%)	4%	-1%	0%	1%	4%			4%	
PBT margin (%)	5%	0%	1%	1%	6%			6%	
PAT margin (%)	4%	-2%	0%	-1%	5%			5%	
Net margin (%)	3%	-2%	1%	-2%	4%			3%	
Effective tax rate (%)	18%	-315%	149%	188%	20%			24%	

Source: Company, KAF

Exhibit 2: Segmental breakdown (Continuing operations)

	1Q17	2Q17	3Q17	4Q17	1Q18	yoy %	qoq %	FY18F	FY18/F
Automotive	2191	2260	2116	2387	1877	-14%	-21%	9,269	20%
Equipment	342	351	369	393	373	9%	-5%	1,531	24%
Manufacturing	166	154	156	170	168	2%	-1%	781	22%
Others & Eliminations	(4)	(12)	(8)	4	(3)	-20%	-174%		
Total Revenue (RM mil)	2695	2786	2671	2955	2415	-10%	-18%	11,581	21%
Automotive	87	99	106	142	126	45%	-11%	567	22%
Equipment	40	32	39	30	45	14%	52%	154	29%
Manufacturing	3	(10)	(7)	(3)	(3)	-192%	-6%	0	n/m
Others	9	(62)	(83)	(151)	(21)	-327%	-86%		
Total PBT (RM mil)	139	(11)	20	18	147	6%	738%	686	21%
Automotive PBT margin (%)	4%	4%	5%	6%	7%			6%	
Equipment PBT margin (%)	12%	9%	11%	8%	12%			10%	
Manufacturing PBT (%)	2%	-6%	-4%	-2%	-2%			0%	
Total PBT margin (%)	5%	0%	1%	1%	6%			6%	
USD:MYR average	4.45	4.33	4.26	4.16	3.92				

Source: Company, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	10,436.8	11,066.6	11,580.8	11,951.4	12,379.9
EBITDA	(255.3)	389.0	766.1	894.6	1,026.1
Depreciation/Amortisation	(229.3)	(265.3)	(327.4)	(375.1)	(422.7)
Operating income (EBIT)	(484.6)	123.7	438.7	519.5	603.4
Other income & associates	183.6	182.0	188.0	190.9	194.4
Net interest	18.8	(39.1)	59.1	56.3	52.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	(282.1)	266.6	685.7	766.8	850.5
Taxation	(133.5)	(121.7)	(164.6)	(184.0)	(204.1)
Minorities/pref dividends	(120.9)	(109.6)	(140.4)	(143.7)	(147.8)
Net profit	(415.6)	144.9	380.7	439.0	498.6
Core net profit	436.6	168.6	380.7	439.0	498.6

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	7,678.5	2,658.1	3,011.6	3,317.4	3,575.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	814.8	462.4	462.4	462.4	462.4
Total non-current assets	10,501.4	4,833.8	5,187.3	5,493.1	5,751.3
Cash & equivalent	1,857.4	1,169.6	2,506.0	3,960.5	4,997.5
Stock	1,931.2	1,410.7	1,568.5	1,182.8	1,198.0
Trade debtors	988.5	1,021.3	806.0	813.4	822.3
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	6,195.6	7,271.9	8,332.9
Trade creditors	1,878.6	2,795.5	3,454.6	3,817.6	3,866.3
Short-term borrowings	2,639.3	691.9	2,920.6	3,413.0	4,023.4
Other current liabilities	234.0	165.5	95.0	95.0	95.0
Total current liabilities	4,752.0	3,652.9	6,470.2	7,325.6	7,984.7
Long-term borrowings	3,715.8	2,069.7	171.7	115.7	101.7
Other long-term liabilities	954.4	194.7	41.5	41.5	69.2
Total long-term liabilities	4,670.2	2,264.4	213.2	157.2	170.9
Shareholders' funds	4,718.6	3,047.2	3,428.0	3,867.0	4,365.5
Minority interests	2,145.7	1,131.2	1,271.6	1,415.3	1,563.1

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	(282.1)	266.6	685.7	766.8	850.5
Depreciation/Amortisation	229.3	265.3	327.4	375.1	422.7
Net change in working capital	441.2	1,216.6	716.7	741.2	24.7
Others	(97.6)	(619.2)	(552.1)	(571.7)	(591.6)
Cash flow from operations	290.7	1,129.3	1,177.7	1,311.3	706.2
Capital expenditure	(1,181.6)	(869.8)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(1,844.2)	(1,500.4)	(1,569.0)	(1,569.0)	(1,569.0)
Others	2,253.3	519.5	2,153.3	2,283.4	2,369.3
Cash flow from investing	(772.5)	(1,850.7)	(115.7)	14.4	100.3
Debt raised/(repaid)	380.1	194.8	338.4	438.4	598.4
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(116.8)	0.0	0.0	(233.7)	(292.1)
Others	(654.1)	(75.9)	(75.9)	(75.9)	(75.9)
Cash flow from financing	(390.8)	118.9	262.5	128.8	230.4
Net cash flow	(872.6)	(602.4)	1,324.5	1,454.5	1,037.0
Cash b/f	2,621.1	1,607.3	1,181.5	2,506.0	3,960.5
Cash c/f	1,607.3	1,181.5	2,506.0	3,960.5	4,997.5

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	(27.7)	6.0	4.6	3.2	3.6
EBITDA growth (%)	nm	nm	96.9	16.8	14.7
Pretax margins (%)	(2.7)	2.4	5.9	6.4	6.9
Net profit margins (%)	(4.0)	1.3	3.3	3.7	4.0
Interest cover (x)	nm	3.2	nm	nm	nm
Effective tax rate (%)	0.0	69.0	29.8	0.0	0.0
Net dividend payout (%)	nm	0.0	0.0	0.0	0.0
Debtors turnover (days)	49	33	29	25	24
Stock turnover (days)	67	55	47	42	35
Creditors turnover (days)	72	77	98	111	113

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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