

23 May 2018

UMW Holdings Bhd

1Q18 Within Expectations

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1Q18 core PATAMI of RM84.2m (-9% YoY) came in within expectations at 23%/25% of our/consensus full-year estimates, respectively. An interim DPS of 5.0 sen was declared, above expectations (vs. no dividend, previously). Maintain MARKET PERFORM with a higher TP of RM6.50 as we roll over our valuation year to FY19E EPS (from TP of RM6.25 based on FY18E EPS).

1Q18 within expectations. 1Q18 core PATAMI of RM84.2m (-9% YoY) came in within expectations at 23%/25% of our/consensus full-year estimates, respectively. An interim DPS of 5.0 sen was declared, above expectations (vs. no dividend, previously). We upgrade our FY18E and FY19E DPS forecasts to 20.0 sen each, implying dividend yield of 3%.

YoY, 1Q18 revenue fell by 10% due to lower contribution from Auto segment (-14%), dragged down by the lower Toyota car sales volume at 12,683 units (-23%), but softened by the volume sales of Perodua variants at 55,568 units (+11%) as per MAA statistics. The negative revenue growth was mitigated by the Equipment segment (+9%), with the strong export sales for Komatsu equipment and industrials old fleet renewal, as well as, the M&E segment (+9%), with higher sales of auto component and improved sales from aerospace business. Despite the lower revenue contribution, PBT increased to RM147.3m (+6%) in 1Q18 mainly contributed by the better performance of associate company at RM57.6m (+40%) and improved profit margin from the stronger MYR against USD. Nonetheless, core PATAMI declined by 9% due to a higher effective tax rate of 20% (1Q17:18%).

QoQ. 1Q18 revenue plunged 18% attributed to weaker contribution across the board namely Auto segment (-21%), Equipment (-5%) and M&E (-1%) due to seasonally stronger 4Q17 from the year-end promotional campaign. Nevertheless, PBT was higher at RM147.3m compared to PBT of RM17.6m in 4Q17 as 4Q17 was still hampered by losses in the unlisted O&G segment. Correspondingly, the group registered core PATAMI of RM84.2m from core losses of RM67.1m in 4Q17 due to the full impairments of unlisted O&G segments in 4Q17, while in 1Q18, the unlisted O&G segment has been considered discontinued operation.

Outlook. With the zero-rated GST starting 1st June 2018 (at average c.6% of price reduction), we expect a boost in car sales during this tax holiday transition period, while the expected introduction of the SST may increase car prices depending on the new mechanism. In 1Q18, the group has launched two new models namely the all-new Toyota CH-R, and all-new Toyota Harrier, whereas, in 2H18, the group will launch Lexus models (LS, RX350L & Lexus NX300) and all-new Perodua SUV D38L. On the other hand, the strategic exit from the O&G industry is expected to improve the group's profitability with a more solid balance sheet. Nonetheless, we maintain our neutral stance on UMW in view of the limited growth in car sales pending the completion of its new Bukit Raja plant (expected to be operational in early 2019), and gestation period for UMW Aerospace.

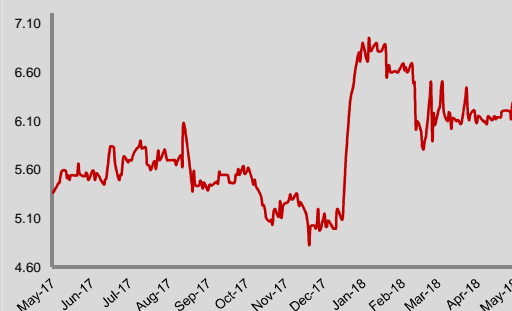
Maintain MARKET PERFORM with a higher TP of RM6.50 as we roll over our valuation year from FY18E to FY19E. Our current valuation is based on 20x FY19E EPS implying +1.0SD of its 5-year historical mean PER (vs. RM6.25 previously that was based on 20x FY18 EPS).

Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price: RM6.60
Target Price: RM6.50 ↑

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,845.03 |
| YTD KLCI chg | 2.7% |
| YTD stock price chg | 26.9% |

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | UMWH MK Equity |
| Market Cap (RM m) | 7,710.7 |
| Outstanding shares | 1,168.3 |
| 52-week range (H) | 6.98 |
| 52-week range (L) | 4.70 |
| 3-mth avg daily vol: | 2,010,105 |
| Free Float | 43% |
| Beta | 1.4 |

Major Shareholders

| | |
|------------------------------|-------|
| Skim Amanah Saham Bumiputera | 40.7% |
| Employees Provident Fund | 9.5% |
| Yayasan Pelaburan Bumiputera | 7.3% |

Summary Earnings Table

| FY Dec (RM m) | 2017A | 2018E | 2019E |
|--------------------|--------------|--------------|--------------|
| Turnover | 11,066.6 | 11,405.4 | 11,981.5 |
| EBIT/ (LBIT) | 123.7 | 431.8 | 448.8 |
| PBT/ (LBT) | 266.6 | 559.8 | 607.7 |
| NP/(NL) | 128.6 | 365.6 | 378.6 |
| CNP/(CNL) | 161.2 | 365.6 | 378.6 |
| Consensus NP | - | 339.4 | 442.9 |
| Earnings Revision | - | - | - |
| Core EPS (sen) | 13.8 | 31.3 | 32.4 |
| Core EPS growth | -116.0% | 126.8% | 3.6% |
| NDPS (sen) | - | 20.0 | 20.0 |
| BVPS (RM) | 2.61 | 2.72 | 2.85 |
| PER (x) | 47.8 | 21.1 | 20.4 |
| PBV (x) | 2.5 | 2.4 | 2.3 |
| Net Gearing (x) | 0.5 | 0.6 | 0.7 |
| Net Div. Yield (%) | - | 3.0% | 3.0% |

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| Result Highlight | | | | | |
|--|----------------|----------------|-----------------|----------------|-------------|
| (Continued Operation) | 1Q | 4Q | QoQ | 1Q | YoY |
| FYE Dec (RM'm) | FY18 | FY17 | Chg | FY17 | Chg |
| Turnover | 2,415.3 | 2,954.7 | -18% | 2,695.2 | -10% |
| EBIT/LBIT | 91.7 | 16.1 | >100% | 97.3 | -6% |
| PBT/(LBT) | 147.3 | 17.6 | >100% | 138.9 | 6% |
| Taxation and Zakat | (29.6) | (33.0) | 10% | (24.6) | -20% |
| PATAMI | 91.1 | (50.2) | >100% | 92.6 | -2% |
| Core PATAMI | 84.2 | (67.1) | >100% | 92.9 | -9% |
| Core EPS (sen) | 7.2 | (5.7) | >100% | 7.9 | -9% |
| DPS (sen) | 5.0 | - | | - | |
| * Note that the 1Q18 core PATAMI has been adjusted by excluding non-core items, which consists of: (i) provision for impairment losses of receivables of RM1.4m, (ii) provision for write-down of inventories of RM0.6m, (iii) loss on sales of investment RM0.7m, (vi) gain on disposal of property, plant and equipment of RM7.1m. | | | | | |
| EBIT/(LBIT) margin | 3.8% | 0.5% | | 3.6% | |
| PBT/(LBT) margin | 6.1% | 0.6% | | 5.2% | |
| Core NP/ (NL) margin | 3.5% | n.m | | 3.4% | |
| Effective tax rate | -20.1% | n.m | | -17.7% | |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | |
|---------------------------------|----------------|----------------|---------------|----------------|---------------|
| | 1Q | 4Q | QoQ | 1Q | YoY |
| FYE Dec (RM'm) | FY18 | FY17 | Chg | FY17 | Chg |
| Revenue | 2,415.3 | 2,928.5 | -17.5% | 2,695.2 | -10.4% |
| Automotive | 1,877.1 | 2,386.7 | -21.4% | 2,190.9 | -14.3% |
| Equipment | 373.0 | 393.5 | -5.2% | 342.4 | 8.9% |
| M&E | 168.5 | 170.0 | -0.9% | 154.5 | 9.1% |
| Others | (3.2) | (21.7) | 85.1% | 7.4 | <100% |
| Segment PBT/(LBT) | 147.3 | 168.2 | -12.4% | 138.9 | 6.1% |
| Automotive | 125.9 | 141.6 | -11.1% | 87.1 | 44.6% |
| Equipment | 44.9 | 29.6 | 51.6% | 39.5 | 13.6% |
| M&E | (2.9) | (3.0) | 5.8% | 3.1 | <100% |
| Others | (20.7) | - | <100% | 9.1 | <100% |
| Segment PBT/(LBT) margin | | | | | |
| Automotive | 6.7% | 5.9% | | 4.0% | |
| Equipment | 12.0% | 7.5% | | 11.5% | |
| M&E | -1.7% | -1.8% | | 2.0% | |
| Others | n.m | n.m | | n.m | |

Source: Company, Kenanga Research

Malaysian Automotive Peers Comparison

| NAME | Price @ 22/05/18 | Mkt Cap | PER (x) | | | Est. Div. Yld. | Hist. ROE | Net Profit (RMm) | | | 1 Yr Fwd NP Growth | 2 Yr Fwd NP Growth | Target Price | Rating |
|------------------------------|---------------------|---------|---------|-------------|-------------|----------------------|--------------|------------------|-------------|-------------|--------------------------|--------------------------|-----------------|--------|
| | (RM) | (RM m) | Actual | 1 Yr Fwd | 2 Yr Fwd | (%) | (%) | Actual | 1 Yr Fwd | 2 Yr Fwd | (%) | (%) | (RM) | |
| BERMAZ AUTO BHD | 2.29 | 2,643.3 | 22.6 | 20.7 | 13.0 | 4.3% | 28.5% | 117.6 | 128.0 | 203.7 | 8.8% | 59.1% | 2.30 | OP |
| DRB-HICOM BHD | 1.75 | 3,383.1 | N.M. | 10.1 | 9.6 | 1.1% | -3.1% | -732.0 | 334.3 | 351.7 | N.M. | 5.2% | 2.50 | MP |
| MBM RESOURCES BHD | 2.36 | 922.5 | 9.8 | 9.1 | 8.2 | 2.5% | 6.9% | 93.7 | 101.4 | 113.1 | 8.2% | 11.6% | 2.85 | OP |
| SIME DARBY BHD | 2.85 | 1,116.9 | 26.4 | 25.8 | 23.6 | 2.5% | 2.0% | 734.0 | 750.0 | 822.6 | 2.2% | 9.7% | 2.70 | MP |
| TAN CHONG MOTOR HOLDINGS BHD | 1.88 | 1,227.1 | N.M. | 25.9 | 23.2 | 1.1% | -1.0% | -83.9 | 46.9 | 52.4 | N.M. | 11.8% | 2.30 | OP |
| UMW HOLDINGS BHD | 6.60 | 7,710.8 | N.M. | 21.1 | 20.4 | 0.0% | 11.2% | 161.2 | 365.6 | 378.6 | 126.8% | 3.6% | 6.50 | MP |

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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