

23 May 2018

Consumer Cyclical | Auto & Autoparts

UMW Holdings

Powered By Perodua
Sell (Maintained)

Target Price:	MYR5.50
Price:	MYR6.60
Market Cap:	USD1,943m
Bloomberg Ticker:	UMWH MK

Maintain SELL, with a new TP of MYR5.50 from MYR5.26 offering 17% downside. UMW's 1Q results are broadly in line. Recurring earnings dipped 1.6% to MYR91.1m, dragged by weak Toyota sales but offset by a stronger associate contribution from Perodua. An interim DPS of MYR0.05 was declared. We adjust FY18-20 earnings after updating our forecasts, including reversing our assumption on the acquisition of an additional 10% stake in Perodua from PNB. This overvalued stock is trading at rich valuations vs its historical and sector average.

UMW's 1Q18 results are broadly in line with our previous forecast and consensus expectations, with core earnings of MYR91.1m (-1.6% YoY). The higher associate contribution by Perodua was dragged down by poor Toyota sales. Earnings were also hit by unexpected residual losses from its discontinued operations (non-core legacy oil & gas business). An interim DPS of MYR0.05 was declared.

Revenue from automotive sales dropped 14.3% YoY after weak Toyota sales were affected by the lack of new convincing CKD models. Its recently-launched Toyota C-HR sales volume is not meaningful due to prohibitive pricing. However, we expect this to improve in the upcoming quarters (1Q is seasonally weaker), as consumer sentiment picks up post the 14th General Election (GE14).

Auto sales will likely surge during the tax-free window. Commissioning of its new assembly facility in Bukit Raja in early 2019 will be a positive medium-term driver, enabling Toyota to offer more CKD product variants.

Meanwhile, the associate contribution from Perodua was higher than expected, driven by new *Myvi* sales. Perodua's new vehicle registrations jumped 10.6% YoY. We expect Perodua sales to continue growing, with its SUV due in 1Q19.

UMW's equipment segment booked higher earnings due to an increase in export sales of Komatsu equipment. However, the manufacturing & engineering (M&E) unit stayed in the red, due to gestational losses from its aerospace business (breakeven by 2H19).

We adjust our FY18F-20F earnings by -1.5%, 3.6% and 5.3% respectively after dialling back our previous assumptions on the acquisition of a 10% Perodua stake from Permodalan Nasional (PNB). The deal – including the proposed takeover of MBM Resources – is now pending Daihatsu Motor's consent.

We also trim our 2018F Toyota sales and impute the new Perodua SUV into our volume forecasts for 2019 onwards. Risks to our call include weaker-than-expected USD/MYR and stronger consumer sentiment.

Maintain SELL, as we see few fundamental reasons to support its valuation premium. Our new MYR5.50 TP from MYR5.26, 17% downside, is derived from ascribing an unchanged 14x P/E sector average on 2019 earnings.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (MYRm)	10,437	11,046	11,128	12,825	13,536
Reported net profit (MYRm)	236	153	372	459	538
Recurring net profit (MYRm)	208	278	332	459	538
Recurring net profit growth (%)	38.5	33.8	19.1	38.4	17.2
Recurring EPS (MYR)	0.18	0.24	0.28	0.39	0.46
DPS (MYR)	na	na	0.10	0.10	0.10
Recurring P/E (x)	37.1	27.7	23.3	16.8	14.3
P/B (x)	1.63	2.50	2.42	2.28	2.11
P/CF (x)	26.5	17.3	na	15.2	17.7
Dividend Yield (%)	na	na	1.5	1.5	1.5
EV/EBITDA (x)	13.0	8.6	12.5	9.7	9.0
Return on average equity (%)	4.2	3.9	11.8	13.9	15.3
Net debt to equity (%)	60.3	38.1	76.5	73.6	71.6
Our vs consensus EPS (adjusted) (%)			(1.5)	3.6	5.3

Source: Company data, RHB

Share Data

Avg Daily Turnover (MYR/USD)	11.9m/3.04m
52-wk Price low/high (MYR)	4.83 - 6.95
Free Float (%)	25
Shares outstanding (m)	1,168
Estimated Return	-17%

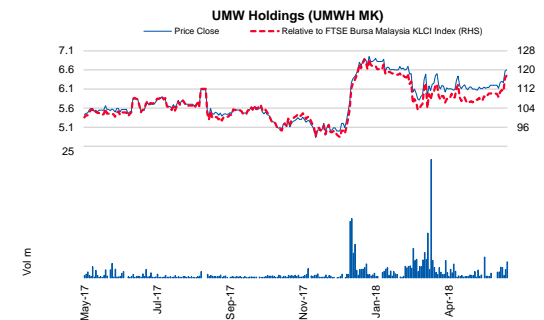
Shareholders (%)

Permodalan Nasional	57.6
Employees Provident Fund	16.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	26.9	7.3	0.0	23.4	21.5
Relative	24.2	9.6	0.6	16.4	17.6

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on: 2018-05-22.

Asia		Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Malaysia		Recurring EPS (MYR)	0.18	0.24	0.28	0.39	0.46
Consumer Cyclical		EPS (MYR)	0.20	0.13	0.32	0.39	0.46
UMW		DPS (MYR)	0.00	0.00	0.10	0.10	0.10
Bloomberg	UMWH MK	BVPS (MYR)	4.04	2.64	2.73	2.90	3.13
Sell		Weighted avg adjusted shares (m)	1,168	1,168	1,168	1,168	1,168
Valuation basis		Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
P/E.		Recurring P/E (x)	37.1	27.7	23.3	16.8	14.3
		P/E (x)	32.7	50.3	20.7	16.8	14.3
		P/B (x)	1.63	2.50	2.42	2.28	2.11
		FCF Yield (%)	(10.9)	(6.4)	(16.3)	1.4	0.5
		Dividend Yield (%)	0.0	0.0	1.5	1.5	1.5
		EV/EBITDA (x)	13.0	8.6	12.5	9.7	9.0
		EV/EBIT (x)	43.0	16.2	16.9	12.0	10.8
Key drivers							
i. Introduction of attractive new car models;							
ii. Turnaround at various legacy non-core oil and gas businesses;							
iii. Long-term growth potential from aerospace business.							
Key risks							
i. Weaker MYR;							
ii. Weaker-than-expected economic growth;							
iii. Higher start-up losses from aerospace venture.							
Company Profile							
UMW is the largest company in the automotive sector. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia.							
		Income statement (MYRm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
		Total turnover	10,437	11,046	11,128	12,825	13,536
		Gross profit	2,870	3,038	3,060	3,527	3,722
		EBITDA	818	711	604	771	844
		Depreciation and amortisation	(570)	(336)	(157)	(148)	(137)
		Operating profit	248	374	447	624	707
		Net interest	31	(39)	(66)	(100)	(107)
		Income from associates & JVs	184	172	230	247	279
		Exceptional income - net	(705)	(254)	0	0	0
		Pre-tax profit	(242)	253	611	771	879
		Taxation	(134)	(122)	(140)	(177)	(202)
		Minority interests	612	23	(99)	(134)	(139)
		Recurring net profit	208	278	332	459	538
		Cash flow (MYRm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
		Change in working capital	201	529	(905)	52	(66)
		Cash flow from operations	291	446	(556)	508	437
		Capex	(1,134)	(935)	(700)	(400)	(400)
		Cash flow from investing activities	(767)	(1,980)	(669)	(261)	(269)
		Dividends paid	(234)	0	0	(117)	(117)
		Cash flow from financing activities	(66)	100	1,207	(378)	(383)
		Cash at beginning of period	2,728	2,194	1,163	830	715
		Net change in cash	(542)	(1,435)	(18)	(132)	(216)
		Ending balance cash	2,194	1,163	830	715	517
		Balance sheet (MYRm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
		Total cash and equivalents	2,194	1,163	830	715	517
		Tangible fixed assets	7,679	2,661	3,496	3,749	4,012
		Total investments	2,033	1,724	1,954	2,201	2,480
		Total other assets	430	436	436	436	436
		Total assets	16,263	9,942	10,686	11,287	11,811
		Short-term debt	2,617	685	685	685	685
		Total long-term debt	3,716	2,070	3,500	3,500	3,500
		Other liabilities	804	6	6	6	6
		Total liabilities	9,399	5,766	6,303	6,572	6,685
		Shareholders' equity	4,719	3,082	3,191	3,389	3,660
		Minority interests	2,146	1,093	1,192	1,327	1,466
		Total equity	6,864	4,176	4,383	4,715	5,125
		Net debt	4,139	1,592	3,355	3,470	3,669
		Total liabilities & equity	16,263	9,942	10,686	11,287	11,811
		Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
		Revenue growth (%)	(27.7)	5.8	0.7	15.3	5.5
		Recurrent EPS growth (%)	38.5	33.8	19.1	38.4	17.2
		Gross margin (%)	27.5	27.5	27.5	27.5	27.5
		Operating EBITDA margin (%)	7.8	6.4	5.4	6.0	6.2
		Net profit margin (%)	2.3	1.4	3.3	3.6	4.0
		Dividend payout ratio (%)	0.0	0.0	31.4	25.5	21.7
		Capex/sales (%)	10.9	8.5	6.3	3.1	3.0
		Interest cover (x)	7.63	3.15	3.90	4.51	5.11

Source: Company data, RHB

Figure 1: Results review

FYE Dec (MYRm)	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)	Comments
Revenue	2,695.2	2,954.7	2,415.3	(18.3)	(10.4)	Decline in Toyota sales volume.
EBIT	97.3	16.1	91.7	(469.3)	(5.8)	
<i>EBIT margin (%)</i>	3.6	0.5	3.8			
Finance costs	(17.8)	(77.1)	(23.6)	(69.4)	32.7	
Associates	41.3	58.3	57.6	(1.2)	39.6	Higher Perodua sales.
Investment income	18.1	20.3	21.6	6.4	19.4	
Pretax profit	138.9	17.6	147.3	(737.7)	6.1	
<i>Pretax margin (%)</i>	5.2	0.6	6.1			Improved margins lifted by a stronger MYR.
Tax	(24.6)	(33.0)	(29.6)	(10.4)	20.2	Effective tax rate is in line with our estimate.
<i>Effective tax rate (%)</i>	(17.7)	(187.8)	(20.1)			
Discontinued operations	(124.8)	(413.2)	(23.9)	(94.2)	(80.8)	
MI	30.7	(4.0)	(19.7)	393.1	(164.1)	
Net profit	20.2	(432.7)	74.1	117.1	267.4	
<i>Net margin (%)</i>	0.7	(14.6)	3.1			

Source: Company data, RHB

Figure 2: Breakdown of results by segment

FYE Dec (MYRm)	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)	Comments
Automotive	2,190.9	2,386.7	1,877.1	(21.4)	(14.3)	Decline in Toyota sales volume
Oil & gas	0.0	0.0	0.0	na	na	
Equipment	342.4	393.5	373.0	(5.2)	8.9	Higher export sales of Komatsu equipment
M&E	165.9	170.0	168.5	(0.9)	1.6	Higher sales in auto component business and revenue generated by aerospace business
Others – oil & gas	0.0	0.0	0.0	na	na	
Others	(6.1)	15.8	(3.2)	(120.5)	(47.3)	
Revenue	2,693.1	2,966.0	2,415.3	(18.6)	(10.3)	
Automotive	87.1	141.6	125.9	(11.1)	44.6	
Oil & gas	0.0	0.0	0.0	na	na	
Equipment	39.5	29.6	44.9	51.6	13.6	
M&E	3.1	(3.0)	(2.9)	(5.7)	(192.2)	Aerospace unit still incurring an operating loss due to high opex
Others – oil & gas	0.0	0.0	0.0	na	na	
Others	4.6	(164.6)	(20.7)	87.4	549.5	QoQ decrease after some operations ceased or scaled down
PBT	134.3	3.6	147.3	3,978.1	9.7	
PBT Margins						
Automotive	4.0	5.9	6.7			
Oil & gas	na	na	na			
Equipment	11.5	7.5	12.0			
M&E	1.9	(1.8)	(1.7)			
Others – oil & gas	na	na	na			
Others	(75.3)	(1,043.7)	641.9			
	5.0	0.1	6.1			

Source: Company data

Figure 3: UMW's vehicle sales summary

FYE Dec (units)	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Toyota	16,694	20,505	12,826	(37.4)	(23.2)
- Passenger	12,297	13,647	8,614	(36.9)	(30.0)
- Commercial	4,397	6,858	4,212	(38.6)	(4.2)
Perodua	50,265	48,673	55,568	4.2	10.6
- Passenger	50,265	53,307	55,568	4.2	10.6
- Commercial	0	0	0	0.0	0.0
Total	66,959	73,812	68,394	(7.3)	2.1

Source: Malaysian Automotive Association (MAA)

Figure 4: Forecast assumptions

FYE Dec	2016	2017	2018F	2019F	2020F
Toyota / Lexus (units)	65,110	70,474	68,000	78,000	80,000
Perodua (units)	207,110	204,887	210,000	220,000	222,000
Forex (JPY/MYR)*	3.82	3.85	3.70	3.70	3.70
Forex (USD/MYR)*	4.14	4.30	4.00	4.00	4.00

*Average rate

Source: RHB

Figure 5: USD/MYR trend



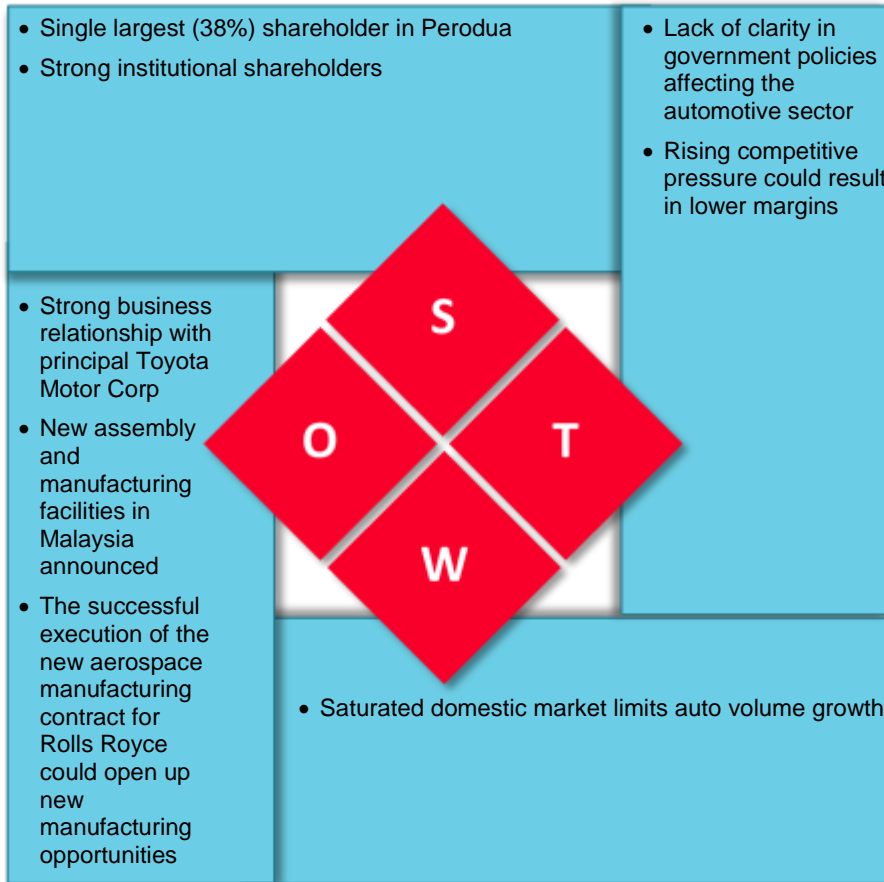
Source: Bloomberg, RHB

Figure 6: 100 JPY/MYR trend



Source: Bloomberg, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-03-27	Sell	5.3	6.2
2018-03-12	Buy	6.9	6.4
2018-02-28	Sell	5.4	6.5
2018-01-11	Sell	5.4	6.5
2017-11-28	Sell	4.6	5.3
2017-08-29	Sell	4.9	5.6
2017-07-04	Sell	5.1	5.8
2017-05-24	Neutral	5.6	5.5
2017-02-28	Neutral	5.5	5.1
2017-02-16	Neutral	5.4	5.0

Source: RHB, Bloomberg

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