

COMPANY RESULTS

UMW Holdings (UMWH MK)

1Q18: Strong Performance At Automobile Segment

UMW's 1Q18 core net profit of RM108.8m (+17.5% yoy) was above expectations, underpinned by strong performances at its automobile (PBT up 44.6% yoy) and equipment segments (PBT up 13.6% yoy). UMW's plan to increase its stake in Perodua hit a bump recently on objection from Daihatsu. Maintain HOLD with a lower target price of RM6.20, implying 13.6x 2019F PE, as we now assume UMW's stake in Perodua at 48% (previously 70.6%). Entry price: RM5.80.

1Q18 RESULTS

Year to 31 Dec (RMm)	1Q18	qoq % chg	yoy % chg
Revenue	2,415.3	(18.8)	(10.4)
-Auto	1,877.1	(22.0)	(14.3)
-Equipment	373.0	(5.7)	8.9
-Mfg & Eng	168.5	(0.6)	1.6
Associates	57.6	(1.2)	39.6
PBT	147.3	380.1	6.1
-Auto	125.9	(18.2)	44.6
-Equipment	44.9	45.8	13.6
-Manufacturing & Engineering	(2.9)	(36.2)	(192.2)
-Others	(20.7)	(86.1)	(326.7)
Net profit	91.1	(281.6)	(1.6)
Core Net profit	108.8	9.4	17.5
Toyota units sales	12,683	(37.2)	(23.1)
Perodua unit sales	50,568	(5.1)	0.6
PBT margins (%)			
-Overall	6.1	0.1	0.0
-Auto	6.7	0.3	2.7
-Equipment	12.0	4.3	0.5
-Mfg & Eng	(1.7)	0.9	(3.6)

Source: UMW, UOB Kay Hian

RESULTS

• **Core net profit above expectations.** UMW Holdings' (UMW) 1Q18 core net profit of RM108.8m accounted for 29% and 32% of our and consensus 2018 forecasts respectively. Core net profit excludes RM17.7m net loss from its non-core segment, which we deem one-off. The better-than-expected results stemmed from a strong recovery at its automobile and equipment segments. An interim DPS of 5 sen was declared, representing a 54% payout of core net profit and 64% of headline net profit. We note its last dividend payout was announced in 4Q15.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	10,965	11,046	11,410	11,646	11,898
EBITDA	(1,633)	457	931	1,028	1,061
Operating profit	(2,203)	120	597	686	711
Net profit (rep./act.)	(1,691)	24	450	553	580
Net profit (adj.)	208	330	468	553	580
EPS (sen)	17.8	28.2	38.4	45.4	47.6
PE (x)	37.1	23.4	17.2	14.5	13.9
P/B (x)	1.6	2.5	2.4	1.6	1.5
EV/EBITDA (x)	n.m.	23.4	11.5	10.4	10.1
Dividend yield (%)	0.0	0.0	2.9	3.4	3.6
Net margin (%)	(15.4)	0.2	3.9	4.8	4.9
Net debt/(cash) to equity (%)	100.6	51.6	52.5	34.4	32.6
Interest cover (x)	(15.4)	11.6	35.0	29.7	27.0
ROE (%)	n.a.	0.6	14.1	13.3	11.2
Consensus net profit	-	-	339	443	518
UOBKH/Consensus (x)	-	-	1.38	1.25	1.12

Source: UMW, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM6.60
Target Price	RM6.20
Upside	-6.1%
(Previous TP	RM6.50)

COMPANY DESCRIPTION

Auto assembler, with operations in equipment, manufacturing, and engineering.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	7,710.7
Market cap (US\$m):	1,943.5
3-mth avg daily t'over (US\$m):	3.1

Price Performance (%)

52-week high/low RM6.95/RM4.83

1mth	3mth	6mth	1yr	YTD
7.3	0.0	23.4	21.5	26.9

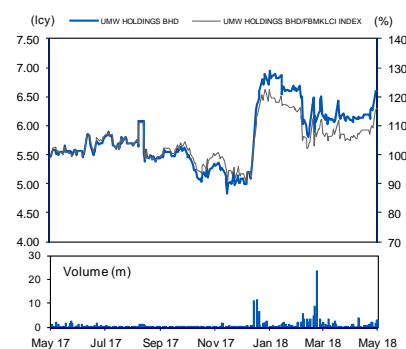
Major Shareholders

Shareholder	%
PNB	48.0
KWAP	6.3
EPF	9.4

FY18 NAV/Share (RM) 2.71

FY18 Net Debt/Share (RM) 1.42

PRICE CHART



Source: Bloomberg

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- Automobile: Strong performance due to ringgit strengthening against US\$.** Automobile sales declined 14.3% yoy with 12,683 cars sold in 1Q18 (1Q17: 16,503 cars), down 23.1% yoy. However, PBT rose 44.6% yoy as PBT margin improved to 6.7% (1Q17: 4%, 4Q17: 6.4%) on a stronger ringgit during the quarter at RM3.92/US\$ (1Q17: RM4.44). Associate contribution, mainly from 38%-owned Perodua, rose 39.6% yoy to RM57.6m. Stripping associate contribution, UMW Toyota's PBT almost doubled to RM89.7m (1Q17: RM45.8m).
- UMW targets to sell more than 279,000 units in 2018** (2017: 275,332). In view of the implementation of 0% GST effective 1 Jun 18, UMW Toyota has released the pricing for all Toyota models which will be priced about 5.5% lower than the previous on-the-road pricing (without insurance). Although the SST will be reintroduced later (no details on quantum and implementation timeline yet), we believe the 0% GST will drive vehicle sales in 2H18.
- Equipment: Making a comeback.** 1Q18 equipment sales rose 8.9% yoy, driven by higher export sales of Komatsu equipment. The industrial equipment business was bolstered by a major order via renewal of the entire fleet of old equipment. Its PBT rose by a higher 13.6% on improved margins, possibly from a favourable sales mix.
- Manufacturing and engineering: Narrower qoq losses.** Its manufacturing and engineering segment narrowed pre-tax loss to RM3m (4Q17: pre-tax loss of RM4.5m) mainly due to start-up operating expenses by its aerospace manufacturing business. We note that its automobile components and lubricant businesses were profitable. Losses from aerospace manufacturing should persist until 2019 when the group ramps up its production to reach breakeven levels. However, UMW expects the overall segment to improve in the subsequent quarters.

STOCK IMPACT

- Negotiations still ongoing for UMW's acquisition of stake in Perodua from PNB and MBMR.** To recap, UMW is eyeing to increase its stake in Perodua via the acquisitions of a 10% stake in Perodua from PNB Equity Resources Corporation Sdn Bhd (PNB), and a 50.1% stake in MBM Resources (MBMR) from Med-Bumikar Mara Sdn Bhd (49.5%) and Central Shore Sdn Bhd (0.57%) and a mandatory takeover (MO) to follow. However, media reports indicated that the major impediment is Daihatsu's disagreement to having UMW as the single largest shareholder of Perodua. *The Edge Weekly* had reported that Daihatsu is adamant on this and even threatened to stop all technological transfer to Perodua. Daihatsu has a 20.93% stake in Perodua (a direct 20% stake and indirect stake of 0.93% via 18.5%-owned Daihatsu (Malaysia) Sdn Bhd). Both proposals are extended for the second time until end-Oct 18, suggesting that UMW's goal is to have a controlling stake in Perodua as both proposals are not conditional upon each other.

EARNINGS REVISION/RISK

- In view of the better-than-expected performance in 1Q18 as well as recent development in the acquisition of stake in Perodua, we raise our 2018 net profit forecasts to RM468m from RM374m. However, we trim our 2019-20 net profit forecasts to RM553m and RM580m respectively (from RM556m and RM590m) as we now assume UMW's stake in Perodua at 48% for 2019-20 (70.6% previously). See RHS chart for key assumptions.

VALUATION/RECOMMENDATION

- Maintain HOLD with a lower SOTP-based target price of RM6.20** (from RM6.50), implying 13.6x 2019F PE. Our target price now assumes UMW's stake in Perodua at 48% post-completion of the 10% stake acquisition in Perodua from PNB (previously 70.6%). Entry price is RM5.80.

SOTP FAIR VALUE OF RM6.20/SHARE

Segment	Stake (%)	Equity value (RMm)	Remarks
Toyota	51	2,378	13x 2019 PE
Equipment	100	1,857	12x 2019 PE
Manufacturing	100	91	12x 2019 PE
Perodua	48	3,159	13x 2019 PE
Total		7,485	
Sharebase (m)		1,218	
Target price (RM)		6.20	

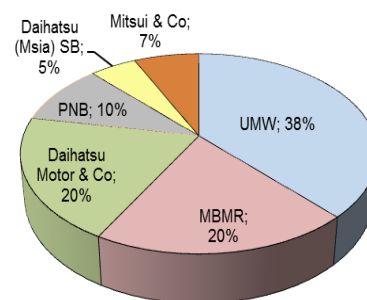
Source: UOB Kay Hian

SEGMENTAL SALES AND EBIT FORECASTS

FY Dec (RMm)	2018F	2019F	2020F
<u>Previous assumptions</u>			
Group sales	10,539	10,609	10,844
Auto	8,436	8,400	8,525
Equipment	1,492	1,567	1,645
Manufacturing	611	641	673
EBIT	520	579	626
Auto	366	413	444
Equipment	149	157	164
Manufacturing	5	10	18
Associate	179	345	359
<u>Current assumptions</u>			
Group sales	11,410	11,646	11,898
Auto	9,307	9,438	9,580
Equipment	1,492	1,567	1,645
Manufacturing	611	641	673
EBIT	597	686	711
Auto	423	472	479
Equipment	187	204	214
Manufacturing	5	10	18
Others	(18)	-	-
Associate	185	243	257

Source: UOB Kay Hian

PERODUA'S OWNERSHIP



Source: Various companies

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	11,046	11,410	11,646	11,898
EBITDA	457	931	1,028	1,061
Deprec. & amort.	336	334	342	350
EBIT	120	597	686	711
Associate contributions	172	185	243	257
Net interest income/(expense)	(39)	(27)	(35)	(39)
Pre-tax profit	253	755	893	929
Tax	(122)	(148)	(165)	(171)
Minorities	(106)	(158)	(176)	(178)
Net profit	24	450	553	580
Net profit (adj.)	330	468	553	580

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	446	427	621	639
Pre-tax profit	253	755	893	929
Tax	(133)	(148)	(165)	(171)
Deprec. & amort.	336	334	342	350
Associates	(172)	(185)	(243)	(257)
Working capital changes	529	331	19	(113)
Other operating cashflows	(368)	(660)	(227)	(99)
Investing	(1,980)	(332)	(340)	(351)
Capex (growth)	(1,004)	(500)	(500)	(500)
Investments	(930)	0	0	0
Others	(47)	168	160	149
Financing	671	(219)	(477)	(390)
Dividend payments	(76)	(234)	(277)	(290)
Proceeds from borrowings	176	15	(200)	(100)
Others/interest paid	570	0	0	0
Net cash inflow (outflow)	(864)	(124)	(195)	(102)
Beginning cash & cash equivalent	1,607	1,163	1,039	844
Changes due to forex impact	421	0	0	0
Ending cash & cash equivalent	1,163	1,039	844	742

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	2,661	2,856	2,933	2,934
Other LT assets	2,159	2,343	4,026	4,283
Cash/ST investment	1,163	1,039	844	742
Other current assets	3,958	3,760	3,894	4,007
Total assets	9,942	9,999	11,697	11,966
ST debt	685	600	500	500
Other current liabilities	2,868	2,527	2,533	2,434
LT debt	2,070	2,170	2,070	1,970
Other LT liabilities	143	153	153	153
Shareholders' equity	3,082	3,299	5,015	5,305
Minority interest	1,093	1,251	1,427	1,605
Total liabilities & equity	9,942	9,999	11,697	11,966

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	4.1	8.2	8.8	8.9
Pre-tax margin	2.3	6.6	7.7	7.8
Net margin	0.2	3.9	4.8	4.9
ROA	0.2	4.5	5.1	4.9
ROE	0.6	14.1	13.3	11.2
Growth				
Turnover	0.7	3.3	2.1	2.2
EBITDA	n.a.	103.9	10.4	3.2
Pre-tax profit	n.a.	198.7	18.3	3.9
Net profit	n.a.	1,737.6	22.9	4.8
Net profit (adj.)	58.4	41.9	18.3	4.8
EPS	58.4	36.1	18.3	4.8
Leverage				
Debt to total capital	39.8	37.8	28.5	26.3
Debt to equity	89.4	84.0	51.2	46.6
Net debt/(cash) to equity	51.6	52.5	34.4	32.6
Interest cover (x)	11.6	35.0	29.7	27.0

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