

3 August 2018

Consumer Cyclical | Auto & Autoparts

## UMW Holdings

### Still Overvalued

**Reiterate SELL, TP of MYR5.50 reflects 8% downside. UMW's 2Q numbers will likely be driven by the automotive segment after MAA data indicated strong sales volumes for both Toyota and Perodua in June. Meanwhile, the stronger MYR could lead to some margin relief. There are unlikely to be major surprises from its equipment and manufacturing & engineering units, but oil & gas legacy issues remain unresolved. Barring unforeseen circumstances, we expect 1H revenue to be MYR5.8bn (+5% YoY) and PBT at MYR348m (+222% YoY).**

**Automotive segment to drive earnings.** This unit's earnings are likely to be stronger in 2Q, after Toyota/Lexus sales volumes rose 10.7% YoY and 50.5% QoQ to 19,308 units. The associate contribution from Perodua should also be higher, with sales rising to 61,530 units (+24.5% YoY, +10.7% QoQ). 2Q sales include one month of GST-free (June) sales. We expect GPM to widen QoQ in 2Q, from a relatively stronger MYR. The USD/MYR average decreased to 3.92 in 1Q18, compared with 4.16 in 4Q17.

We expect Toyota to introduce more CKD models next year, after the commissioning of its new Bukit Raja plant. In the pipeline are new models of Vios (known as Toyota Yaris Ativ in Thailand), Camry and another passenger car that is yet to be revealed. Meanwhile, a highly-anticipated Perodua sport utility vehicle (SUV) is likely to be introduced in October.

**Equipment unit likely flattish.** Earnings contribution from the equipment unit is likely to be flattish for 2Q. The recently-announced JV with Komatsu should only benefit it over the longer term. This segment contributed MYR45m of PBT in 1Q18, or 26% of group PBT.

**No changes in Trent 1000 orders.** Despite recent news of Rolls Royce's Trent 1000 engine failures, management has not given updates on any changes in fan casing deliveries. We maintain our view for UMW's aerospace business to break even in 2020. Recall that through its subsidiary, UMW is the sole supplier of fan cases of Trent 1000 and Trent 7000 engines for Rolls Royce.

**Oil & gas legacy issues linger.** UMW now has a remaining carrying value of MYR68m for subsidiaries, and MYR87m for investments in JV and associates.

**1H18 and beyond.** Barring unforeseen circumstances, we expect UMW's 1H revenue to be MYR5.8bn (+5% YoY), ie broadly in line. This should translate to PBT of MYR348m (+222% YoY). 3Q earnings will be driven by higher car sales volume from the two tax-free months (Jul-Aug). However, potentially sluggish car sales in 4Q could drag earnings. There is also the potential for margin compression after September, if UMW decides to offer incentives to entice buyers to mitigate the impact of higher prices following the re-imposition of SST.

**Wait-and-see mode.** Reiterate SELL, while our MYR5.50 TP reflects 14x P/E (sector average) on FY19 earnings, on an unjustifiable premium valuation. No changes to our forecasts for now. Upside risks to our call: better-than-expected pick-up in consumer sentiment and a stronger pick-up in margins.

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)	33.6	25.1	21.1	15.2	13.0
P/B (x)	1.48	2.27	2.19	2.06	1.91
P/CF (x)	24.0	15.7	na	13.8	16.0
Dividend Yield (%)	na	na	1.7	1.7	1.7
EV/EBITDA (x)	12.5	8.1	12.0	9.4	8.8
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) (%)			(8.4)	3.4	4.1

Source: Company data, RHB

### Sell (Maintained)

Target Price:	MYR5.50
Price:	MYR5.98
Market Cap:	USD1,718m
Bloomberg Ticker:	UMWH MK

#### Share Data

Avg Daily Turnover (MYR/USD)	5.63m/1.42m
52-wk Price low/high (MYR)	4.83 - 6.95
Free Float (%)	25
Shares outstanding (m)	1,168
Estimated Return	-8%

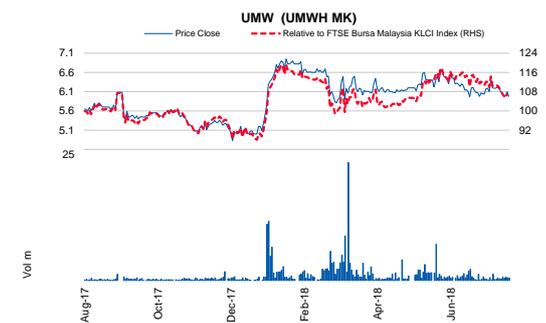
#### Shareholders (%)

PNB Funds	57.6
EPF	16.5

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	15.0	(3.6)	(2.8)	(12.3)	5.8
Relative	15.5	(9.7)	0.7	(7.9)	4.8

Source: Bloomberg



Source: Bloomberg

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## Financial Exhibits

Financial model updated on : 2018-08-02.

Asia		<b>Financial summary</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
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
<b>UMW</b>		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
<b>Sell</b>		Weighted avg adjusted shares (m)	1,168	1,168	1,168	1,168	1,168
<b>Valuation basis</b>		<b>Valuation metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
P/E		Recurring P/E (x)	33.6	25.1	21.1	15.2	13.0
<b>Key drivers</b>		P/E (x)	29.6	45.6	18.8	15.2	13.0
i. Introduction of attractive new car models;		P/B (x)	1.48	2.27	2.19	2.06	1.91
ii. Turnaround at various legacy non-core oil and gas businesses;		FCF Yield (%)	(12.1)	(7.0)	(18.0)	1.5	0.5
iii. Long-term growth potential from aerospace business.		Dividend Yield (%)	0.0	0.0	1.7	1.7	1.7
<b>Key risks</b>		EV/EBITDA (x)	12.5	8.1	12.0	9.4	8.8
i. Weaker MYR;		EV/EBIT (x)	41.3	15.4	16.2	11.6	10.4
ii. Weaker-than-expected economic growth;		<b>Income statement (MYRm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
iii. Higher start-up losses from aerospace venture.		Total turnover	10,437	11,046	11,128	12,825	13,536
<b>Company Profile</b>		Gross profit	2,870	3,038	3,060	3,527	3,722
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.		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
		<b>Cash flow (MYRm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
		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
		<b>Balance sheet (MYRm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
		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
		<b>Key metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
		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: Summary of UMW's vehicle sales

FYE Dec (units)	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)	1H17	1H18	YoY (%)
<b>Toyota/Lexus</b>	<b>17,439</b>	<b>12,826</b>	<b>19,308</b>	<b>50.5</b>	<b>10.7</b>	<b>34,133</b>	<b>32,134</b>	<b>(5.9)</b>
- Passenger	12,060	8,614	14,329	66.3	18.8	24,357	22,943	(5.8)
- Commercial	5,379	4,212	4,979	18.2	(7.4)	9,776	9,191	(6.0)
<b>Perodua</b>	<b>49,410</b>	<b>55,568</b>	<b>61,530</b>	<b>10.7</b>	<b>24.5</b>	<b>99,675</b>	<b>117,098</b>	<b>17.5</b>
- Passenger	49,410	55,568	61,530	10.7	24.5	99,675	117,098	17.5
- Commercial	0	0	0	0.0	0.0	0	0	0.0
<b>Total</b>	<b>66,849</b>	<b>68,394</b>	<b>80,838</b>	<b>18.2</b>	<b>20.9</b>	<b>133,808</b>	<b>149,232</b>	<b>11.5</b>

Source: MAA

Figure 2: 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 3: USD/MYR trend

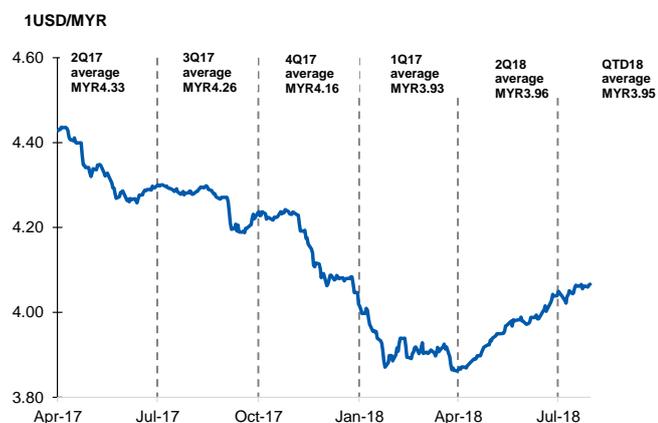
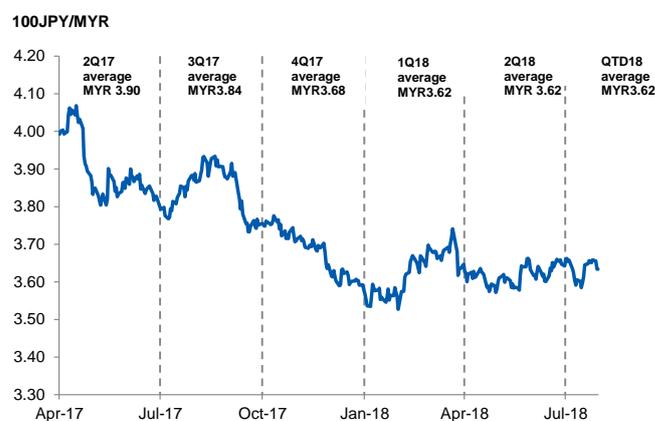
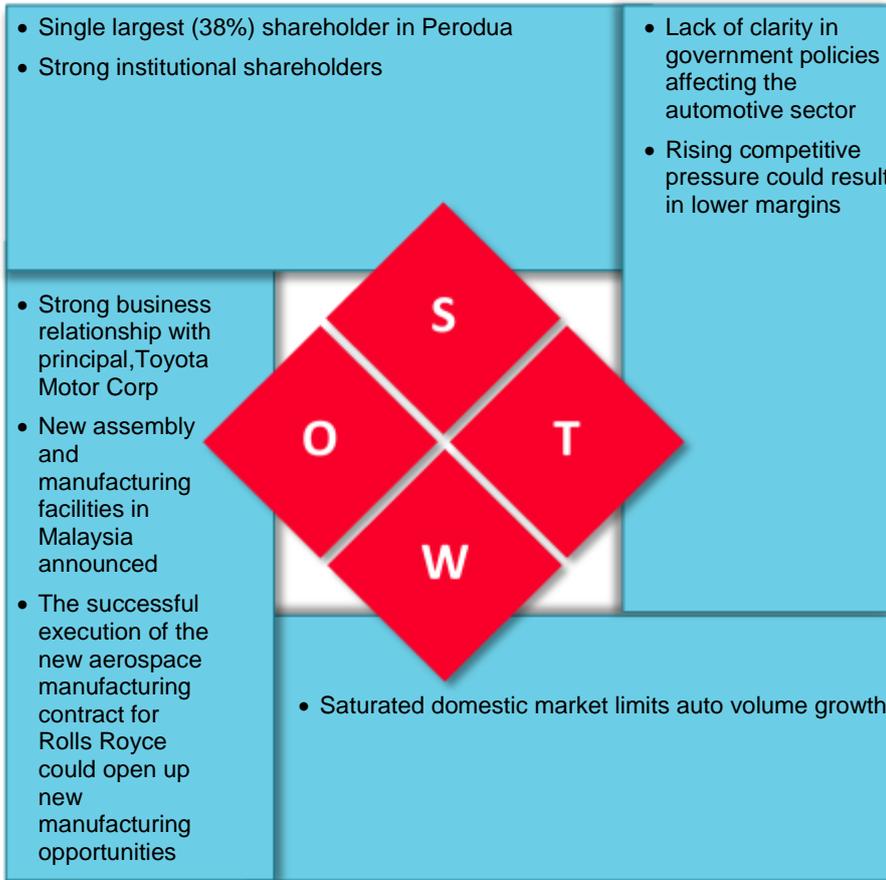


Figure 4: 100JPY/MYR trend



Source: RHB, MAA, Company data

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-23	Sell	5.5	6.4
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

Source: RHB, Bloomberg

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