

An unsustainably strong quarter

UMW Holdings (UMWH) reported a strong set of results – 1H18 core net profit increased almost four-fold to RM320m (vs 1H17 of RM82m), driven by growth across all segments. The results were above expectations. We see higher earnings from the auto segment, driven by higher sales, better margins and favourable forex movement. Maintain HOLD with unchanged TP of RM5.90. At 18x 2019E PER, we believe that valuations is fair.

1H18 pretax profit grew 140% yoy, above expectations

UMWH's 1H18 pretax profit rose by 140% yoy to RM449m, driven by higher earnings from the automotive and equipment segments, as well as a RM100m reversal of provisions. In particular, the automotive segments delivered a stellar 44% growth in pretax profit, driven by higher sale (strong buying interest during tax holidays) and improved profit margins (lower discounts, favourable price movement). All in, 1H net profit of RM320m was above our and street's expectations – accounting for 94% and 86% of FY18 forecasts respectively. The variance against our forecast was due to higher-than-expected EBIT margins of 6% (vs. forecast of 2%) and higher-than-expected associates' contribution.

2Q18 PBT rose 105% qoq

Sequentially, UMWH's 2Q18 pretax profit came in higher at RM301m (+105% qoq) due to higher contribution from automotive segment (+13% qoq, aided by the stronger sales from zero-rated GST period), reversal of provision (RM101m) as well as lower M&E segment losses, partly offset by lower contribution from equipment segment (-15.9% qoq) and lower associate contribution (-5.6% qoq).

Maintain HOLD with unchanged TP of RM5.90

We raise our 2018E core EPS forecasts by 49% after imputing the strong 1H18 results and another strong quarter (3Q18) in anticipation of higher car sales during the tax-free period. However, we expect the stiff competition and the hike in car prices from the reintroduction of SST would adversely affect appetite on big-ticket spending (4Q18). As such, we maintain our 2019-20E EPS forecasts, HOLD rating and target price of RM5.90. At 18x 2019E PER, we believe valuations is fair. Key upside risks: a strong rebound in vehicle sales, strengthening of the Ringgit. Key downside risk: intense competition and stricter of hire purchase approvals.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue	10,436.8	11,066.6	11,225.4	11,315.4	11,615.3
EBITDA	1,633.5	895.1	766.0	617.4	796.0
Pretax profit	(282.1)	266.6	706.1	530.1	673.9
Net profit	(1,658.0)	(640.6)	503.6	418.4	511.2
EPS (sen)	(141.9)	(54.8)	43.1	35.8	43.8
PER (x)	n.m	n.m	15.3	18.4	15.1
Core net profit	(381.0)	(154.4)	503.6	418.4	511.2
Core EPS (sen)	(32.6)	(13.2)	43.1	35.8	43.8
Core EPS growth (%)	(167.1)	(59.5)	n.m	(16.9)	22.2
Core PER (x)	n.m	n.m	15.3	18.4	15.1
Net DPS (sen)	0.0	0.0	13.0	13.0	13.0
Dividend yield (%)	0.0	0.0	2.0	2.0	2.0
EV / EBITDA (x)	7.5	10.4	12.2	15.4	12.0
Chg in EPS (%)			48.5	-	-
Affin/Consensus (x)			1.2	0.9	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

UMW Holdings

UMWH MK
Sector: Auto & Autoparts

RM6.05 @ 29 August 2018

HOLD (maintain)

Downside: -2.4%

Price Target: RM5.90

Previous Target: RM5.90



Price Performance

	1M	3M	12M
Absolute	0.0%	-5.5%	7.3%
Rel to KLCI	-2.8%	-7.8%	3.8%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	7068.2/1721.1
Avg daily vol - 6mth (m)	1.3
52-wk range (RM)	4.7-6.98
Est free float	32.7%
BV per share (RM)	2.68
P/BV (x)	2.26
Net cash/(debt) (RMm)	(816.62)
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

ASB	40.8%
EPF	10.3%
PNB	7.3%
KWAP	6.4%

Source: Affin Hwang, Company, Bloomberg

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Fig 1: Results comparison

FY 31 Dec (RMm)	2Q17	1Q18	2Q18	qoq % chg	yoy % chg	1H17	1H18	yoy % chg	Comment
Revenue	2,757.5	2,415.3	2,919.1	20.9	5.9	5,452.7	5,334.5	-2.2	All segment grew yoy except for automotive segment, dipped 4% yoy
Op costs	-2,746.9	-2,323.7	-2,677.7	15.2	-2.5	-5,344.7	-5,001.4	-6.4	
EBIT	10.6	91.7	241.5	>100	>100	107.9	333.1	>100	EBIT margins improved on strengthening of the Ringgit
<i>EBITDA margin (%)</i>	0.4	3.8	8.3	4.5ppt	7.9ppt	2.0	6.2	4.3ppt	
Int expense	-14.3	-23.6	-13.8	-41.3	-3.0	-32.0	-37.4	16.8	
Int income	20.0	21.6	19.3	-10.5	-3.7	38.1	40.9	7.3	
Associates	31.9	57.6	54.4	-5.6	70.4	73.2	112.0	53.1	Perodua's 1H18 car sales rose 18% yoy to 117k units
Pretax from Cont. Operations	48.3	147.3	301.3	>100	>100	187.2	448.6	>100	
Discon-operations	-238.1	-23.9	-122.1	>100	-48.7	-362.9	-146.0	-59.8	
Tax	-35.2	-29.6	-39.6	33.7	12.6	-59.8	-69.2	15.7	
<i>Tax rate (%)</i>	18.5	-24.0	-22.1	1.9ppt	n.m.	34.0	-22.9	n.m.	
MI	15.6	-19.7	-15.2	-22.8	n.m.	46.3	-34.9	n.m.	
Net profit	-209.3	74.1	124.4	67.9	n.m.	-189.1	198.5	n.m.	
Con-operations	-11.1	91.1	229.0	>100	n.m.	81.5	320.2	>100	
Discon-operations	-198.2	-17.1	-104.7	>100	-47.2	-270.6	-121.7	-55.0	
EPS (sen)	-17.9	6.3	10.6	67.9	n.m.	-16.2	17.0	n.m.	
Core profit	-11.1	91.1	229.0	>100	n.m.	81.5	320.2	>100	1H18 were above our and street's expectations

Source: Company, Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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