



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

30 Aug 2018

Auto segment buoyed by Myvi and stronger margins

HOLD

(Maintained)

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Rationale for report: Company results

Price	RM6.05
Fair Value	RM6.29
52-week High/Low	RM6.98/RM4.70

Key Changes

Fair value	↑
EPS	↑

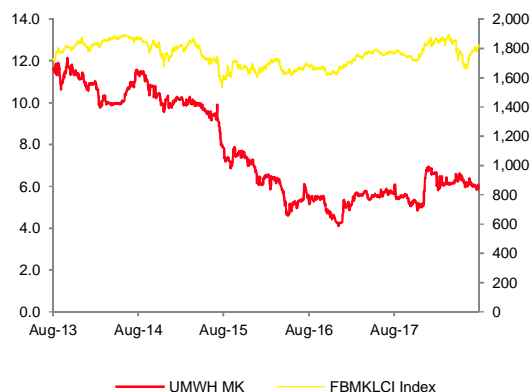
YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	11,066.6	11,385.8	12,077.6	12,770.5
Core net profit (RM mil)	(79.1)	375.2	441.5	527.2
FD Core EPS (sen)	(6.8)	32.1	37.8	45.1
FD Core EPS growth (%)	(105.3)	(574.3)	17.7	19.4
Consensus Net Profit (RM mil)	-	371.0	456.6	516.4s
DPS (sen)	6.5	11.2	11.3	13.5
PE (x)	nm	18.8	16.0	13.4
EV/EBITDA (x)	22.3	9.8	8.0	6.8
Div yield (%)	1.1	1.9	1.9	2.2
ROE (%)	0.9	11.8	12.8	13.9
Net Gearing (%)	52.2	34.7	30.8	22.2

Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	7,068.2
Book Value (RM/share)	2.61
P/BV (x)	2.3
ROE (%)	0.9
Net Gearing (%)	52.2

Major Shareholders	ASB (40.7%)
	EPF (8.8%)
	PNB (7.3%)
Free Float	32.6
Avg Daily Value (RMmil)	4.2

Price performance	3mth	6mth	12mth
Absolute (%)	(5.5)	(6.9)	7.3
Relative (%)	(7.8)	(5.1)	3.8



Investment Highlights

- We maintain HOLD on UMW Holdings but raise our SOP-based FV to RM6.29/share (from RM5.85/share) with an unchanged PE of 11x for the automotive segment.
- UMW's 1HFY18 core net profit of RM201mil — which excludes RM101mil that comprises a reversal on provision — met 64% of our FY projection and 54% of consensus. We raised our FY18-20 projections by 18-21% to factor in stronger automotive earnings, a higher M&E contribution and better efficiency.
- 1HFY18 revenue fell 2% YoY but core net profit rose 61% YoY. We outline the key reasons for the strong performance to be:

- 1) **The impact of a stronger ringgit against the USD.** The group's operating margin more than tripled to 6.2% in 1HFY18 from 2.0% in the previous period. Notably the margins for its auto and equipment segments improved. A 1.4ppt increase in the net profit margin for auto to 3.9%, held by the stronger ringgit and launch of a new Perodua model, led to the segment's net profit rising 49% despite a 4% drop in revenue.

Auto segment revenue fell on weaker Toyota sales in the 1QFY18 when buyers held back from purchasing ahead of the election. Toyota volume rebounded on a sequential basis in 2Q, with revenue improving 27% QoQ and net profit up 7% QoQ.

- 2) **Higher associate earnings anchored to the Perodua Myvi.** JV and associate earnings rose 53% YoY as Perodua sales were higher 17% YoY.
- 3) **Strong performance of its equipment segment.** Revenue rose 7% YoY and net profit rose 19% YoY. Topline was supported by higher export sales and stronger demand from the construction sector. However, UMW noted that job wins could be muted in the 2H given the cancellation of several major infrastructure projects. The segment is the second-most important, contributing about 13% of group revenue.

- Apart from this, we note that while the manufacturing & equipment segment is still making losses, its net loss shrunk 7% YoY. This was attributable to a revenue growth from the gradual ramp-up in deliveries by its aerospace unit, and a 45% improvement in the profit of the segment's core operations of auto components and lubricants.
- We are assured of the earnings clarity and the group's holistic growth plans. The auto segment will see a second Toyota plant come onboard next year, M&E playing a bigger role as aerospace earnings kick in and equipment starting to benefit from the restructuring of its Komatsu distribution.

EXHIBIT 1: EARNINGS SUMMARY

RM mil	2Q18	QoQ	YoY	1H17	1H18	%
Revenue	2,919.1	21%	6%	5,452.7	5,334.5	-2%
Operating Expenses	(2,694.7)	15%	-3%	(5,384.4)	(5,037.7)	-6%
Other Operating Income	17.0	-12%	-6%	39.7	36.3	-9%
Operating Profit	241.5	>100%	>100%	107.9	333.1	209%
Finance Costs	(13.8)	-41%	-3%	(32.0)	(37.4)	17%
Share of Profits of Associates & JV	54.4	-6%	70%	73.2	112.0	53%
Investment Income	19.3	-11%	-4%	38.1	40.9	7%
Profit before tax	301.3	>100%	>100%	187.2	448.6	140%
Tax	(39.6)	34%	13%	(59.8)	(69.2)	16%
Profit after tax	261.7	>100%	>100%	127.4	379.4	198%
Minority interest						
Continuing operations	32.7	23%	34%	46.0	59.2	29%
Discontinued operations	(17.5)	156%	-56%	(92.3)	(24.3)	74%
Total	15.2	>100%	>100%	(46.3)	34.9	-45%
Net profit						
Continuing operations	229.0	>100%	>100%	81.5	320.2	293%
Discontinued operations	(104.7)	513%	47%	(270.6)	(121.7)	55%
Total	124.4	>100%	>100%	(189.1)	198.5	205%
Core net profit	121.7	53%	-6%	124.8	201.3	61%
Margins						
EBITDA margin	10%			2%	8%	
EBIT margin	8%			2%	6%	
PBT Margin	10%			3%	8%	
Net profit margin	8%			1%	6%	
Core net profit margin	4%			2%	4%	
Toyota						
Sales volume	19,026	50%	10%	33,723	31,709	-6%
Revenue per car (RM)	125,232	-15%	-5%	264,001	273,230	3%
Perodua						
Sales volume	61,530	11%	25%	99,675	117,098	17%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: SEGMENTAL BREAKDOWN

Segmental Breakdown	2Q18	QoQ	YoY	1H17	1H18	%
Revenue						
Automotive	2,382.7	27%	5%	4,451.2	4,259.7	-4%
Equipment	365.9	-2%	4%	693.8	739.0	7%
Manufacturing & Engineering	178.3	6%	16%	319.8	346.8	8%
Others	(7.8)	>100%	-3%	31.2	32.8	5%
Total	2,919.1	21%	6%	5,495.9	5,378.3	-3%
PBT						
Automotive	142.4	13%	44%	186.0	268.4	44%
Equipment	37.8	-16%	17%	71.7	82.7	15%
Manufacturing & Engineering	(0.5)	-81%	>100%	(6.5)	(3.4)	-48%
Eliminations	121.6	>100%	>100%	(143.2)	100.9	>100%
Total	301.3	>100%	>100%	108.1	448.6	>100%
Net profit						
Automotive	86.7	7%		112.9	168.1	49%
Equipment	29.8	-19%		55.9	66.4	19%
Manufacturing & Engineering	(6.2)	-32%		(16.5)	(15.4)	-7%
Others	118.8	>100%		(70.8)	101.1	>100%
Total	229.0	>100%		81.5	320.2	>100%
PBT Margin						
Automotive	6%			4%	6%	
Equipment	10%			10%	11%	
Manufacturing & Engineering	0%			-2%	-1%	
Net Profit Margin						
Automotive	4%			3%	4%	
Equipment	8%			8%	9%	
Manufacturing & Engineering	-3%			-5%	-4%	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: SUM-OF-PARTS FAIR VALUE

Pegged to FY19F						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	483.0	51%	11	2,709.4	2.23	1,217.6
Equipment	160.3	91%	12	1,750.9	1.44	
M&E	67.7		11	764.5	0.63	
					4.29	
Add: Perodua	566.2	48%	13	3,533.3	2.90	
Add: Serendah land (831 acres at RM15/psf)				543.0	0.45	
Add: Company net debt				(1,773.3)	(1.46)	
Add: Cash from sale of equipment stake	133.9			133.9	0.11	
FV:					6.29	
* On enlarged share base of RM1,218 mil following 49.3 mil new shares issued						

Source: AmlInvestment Bank Bhd

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	10,436.8	11,066.6	11,385.8	12,077.6	12,770.5
EBITDA	(255.3)	389.0	835.4	1,016.1	1,175.6
Depreciation/Amortisation	(229.3)	(265.3)	(274.9)	(310.4)	(341.0)
Operating income (EBIT)	(484.6)	123.7	560.6	705.7	834.6
Other income & associates	183.6	182.0	202.3	215.2	228.6
Net interest	18.8	(39.1)	(6.5)	14.6	14.8
Exceptional items	-	-	-	-	-
Pretax profit	(282.1)	266.6	756.4	935.5	1,078.1
Taxation	(125.0)	(121.7)	(133.0)	(172.9)	(203.9)
Minorities/pref dividends	611.7	19.8	(248.2)	(321.1)	(347.0)
Net profit	204.7	35.3	375.2	441.5	527.2
Core net profit	1,494.8	(79.1)	375.2	441.5	527.2
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	7,678.5	2,658.1	3,293.3	3,775.6	4,150.3
Intangible assets	-	-	-	-	-
Other long-term assets	2,822.9	2,520.8	2,563.6	2,612.6	2,666.0
Total non-current assets	10,501.4	5,178.9	5,856.9	6,388.3	6,816.3
Cash & equivalent	1,857.4	1,169.6	1,563.6	1,541.8	1,712.4
Stock	1,931.2	1,410.7	1,384.3	1,459.3	1,543.0
Trade debtors	988.5	1,021.3	935.8	992.7	1,049.6
Other current assets	1,008.0	1,315.2	1,315.2	1,315.2	1,315.2
Total current assets	5,785.1	4,916.8	5,198.9	5,309.0	5,620.2
Trade creditors	1,878.6	2,795.5	2,244.4	2,368.3	2,504.2
Short-term borrowings	2,639.3	691.9	1,020.9	1,277.9	1,534.9
Other current liabilities	234.0	165.5	263.8	273.0	282.2
Total current liabilities	4,752.0	3,652.9	3,529.1	3,919.3	4,321.4
Long-term borrowings	3,715.8	2,069.7	1,684.7	1,371.7	1,058.7
Other long-term liabilities	954.4	194.7	106.4	110.3	114.3
Total long-term liabilities	4,670.2	2,264.4	1,791.1	1,482.1	1,173.0
Shareholders' funds	4,718.6	3,047.2	3,291.2	3,600.2	3,969.3
Minority interests	2,145.7	1,131.2	2,444.5	2,695.7	2,972.8
BV/share (RM)	4.04	2.61	2.82	3.08	3.40
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	(282.1)	266.6	756.4	935.5	1,078.1
Depreciation/Amortisation	229.3	265.3	274.9	310.4	341.0
Net change in working capital	200.7	1,099.3	(425.8)	3.3	6.5
Others	142.8	(501.9)	(393.8)	(466.2)	(509.6)
Cash flow from operations	290.7	1,129.3	211.7	783.0	916.0
Capital expenditure	(1,181.6)	(869.8)	(853.9)	(724.7)	(638.5)
Net investments & sale of fixed assets	225.3	(234.8)	-	-	-
Others	183.7	(746.1)	158.5	178.2	177.1
Cash flow from investing	(772.5)	(1,850.7)	(695.5)	(546.5)	(461.4)
Debt raised/(repaid)	380.1	194.8	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(212.7)	(75.9)	(131.3)	(132.5)	(158.2)
Others	(558.3)	-	1,065.1	(69.9)	(69.9)
Cash flow from financing	(390.8)	118.9	877.8	(258.3)	(284.0)
Net cash flow	(872.6)	(602.4)	394.0	(21.8)	170.6
Net cash/(debt) b/f	2,621.1	1,607.3	1,169.6	1,563.6	1,541.8
Net cash/(debt) c/f	1,607.3	1,181.5	1,563.6	1,541.8	1,712.4
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(27.7)	6.0	2.9	6.1	5.7
EBITDA growth (%)	(139.5)	(252.4)	114.7	21.6	15.7
Pretax margin (%)	(2.7)	2.4	6.6	7.7	8.4
Net profit margin (%)	2.0	0.3	3.3	3.7	4.1
Interest cover (x)	nm	3.2	86.8	nm	nm
Effective tax rate (%)	44.3	45.6	17.6	18.5	18.9
Dividend payout (%)	42.8	161.3	26.3	22.5	22.5
Debtors turnover (days)	49	33	31	29	29
Stock turnover (days)	67	55	45	43	43
Creditors turnover (days)	72	77	81	70	70

Source: Company, AmInvestment Bank Bhd estimates

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EXHIBIT 5: PB BAND CHART

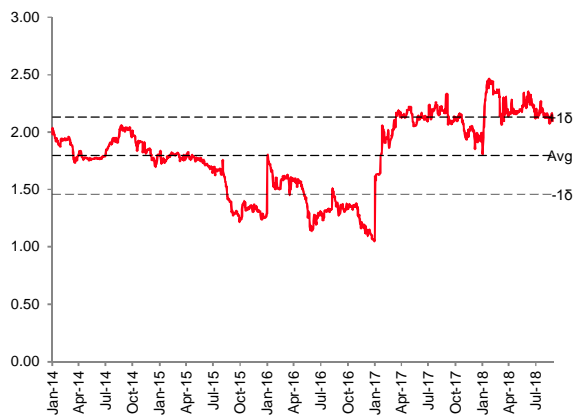


EXHIBIT 6: PE BAND CHART

