

Malaysia

HOLD (no change)

Consensus ratings*: Buy 2 Hold 9 Sell 5

Current price:	RM6.05
Target price:	RM6.10
Previous target:	RM6.70
Up/downside:	0.8%
CGS-CIMB / Consensus:	2.9%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,722m
	RM7,068m
Average daily turnover:	US\$0.96m
	RM3.86m
Current shares o/s:	1,168m
Free float:	37.8%

*Source: Bloomberg

Key changes in this note

➤ FY18-20F EPS decreased 4-13%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	-5.5	7.3
Relative (%)	-2.9	-8	3.9

Major shareholders	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)

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UMW Holdings

Still on the recovery path

- 2Q18 results were below expectation and 1H18 core EPS made up 47% of our and 46% of Bloomberg consensus FY18 forecasts.
- Core net profit in 1H18 fell 18% yoy, excluding gains from reversal in provision amid favourable forex, stronger associates contribution and lower depreciation expense.
- We expect weaker sales following reintroduction of SST in Sep and margins to narrow from recent weakening in ringgit against US\$.
- FY18-20F EPS cut by 4-13% to reflect lower sales volume and margins.
- Maintain Hold with a lower RM6.10 target price, still based on 14x CY19F P/E.

2Q18 results below expectation

UMW Holdings (UMW) posted sequentially lower core net profit of RM79m in 2Q18 against RM91m in 1Q18, mainly due to reversal of provision amid stronger automotive earnings contribution and narrowing losses from manufacturing and engineering (M&E) division. We estimate its core net profit dropped 18% yoy in 1H18, excluding the reversal in provision. The group does not disclose the amount of the reversal in provision, but we estimate it hovered around RM150m in 1H.

Stronger automotive earnings contribution in 1H18

Total new vehicle sales volume rose 15.5% yoy in 1H18, ahead of the 2% total industry volume growth in 1H18, due to reduction in selling prices following the zero-rating of the Goods and Services Tax (GST) in Jun and strong demand for popular models such as Myvi, Vios and Hilux. Despite higher sales volume, automotive sales still fell 4.3% yoy in 1H18. Nevertheless, the auto segment delivered stronger 44% yoy pretax profit growth in 1H18, mainly due to margin expansion following the appreciation in ringgit against US\$.

Expect lower sales volume post SST implementation in Sep

The government is on track to implement the Sales and Services Tax (SST) in Sep. It has set the rate at 10% for new vehicles. Based on our channel checks, average new vehicle prices are expected to increase once SST is implemented. To recap, average vehicle prices dropped 1-4% when GST was implemented in Apr 2015. Meanwhile, we learnt that Perodua Myvi's production was temporarily halted recently due to supply disruptions at one of Perodua's vendors which caused delays in its new vehicle delivery in Aug.

Improving performance from equipment and M&E

Equipment division recorded 15% yoy pretax profit growth in 1H18 due to higher export sales of heavy equipment. The group expects stronger performance from the industrial segment, driven by healthy rental in the warehouse and logistics sectors. M&E division posted a narrower pretax loss of RM3m in 1H18 vs. RM7m in 1H17 due favourable forex, and higher contribution from its core businesses of auto components and lubricants which registered a 45.5% surge in pretax profit.

Cutting FY18-20F EPS by 4-13%

We revise down our FY18-20F EPS by 4-13% to account for lower vehicle volume growth in 2H18F following SST implementation and narrowing margin from the recent weakening in ringgit against US\$. Meanwhile, we still expect its aerospace division to remain in the red, at least until end-FY19F.

Maintain Hold with a lower RM6.10 target price

We keep our Hold call, with a lower RM6.10 target price, still based on 14x CY19F P/E, a 10% premium over its FY09-14 historical mean of 13x. We see strengthening of the ringgit vs. US\$, and acquisition of Perodua as key upside risks to our call. Delay in the disposal of unlisted oil & gas assets and depreciation of the ringgit against US\$ are downside risks to our call.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (RMm)	10,965	11,067	10,854	11,563	12,234
Operating EBITDA (RMm)	684	763	611	932	1,130
Net Profit (RMm)	89.0	125.1	348.6	494.7	541.2
Core EPS (RM)	0.08	0.35	0.30	0.42	0.46
Core EPS Growth	(76%)	356%	(14%)	42%	9%
FD Core P/E (x)	78.40	17.20	20.02	14.11	12.89
DPS (RM)	0.00	0.00	0.10	0.20	0.25
Dividend Yield	0.00%	0.00%	1.65%	3.31%	4.13%
EV/EBITDA (x)	20.05	12.79	15.66	10.40	8.64
P/FCFE (x)	11.62	8.71	16.80	18.97	12.23
Net Gearing	65.5%	38.3%	29.5%	25.5%	19.8%
P/BV (x)	1.50	2.29	2.13	1.98	1.85
ROE	1.6%	10.4%	10.9%	14.4%	14.6%
% Change In Core EPS Estimates			(4.2%)	(9.0%)	(13.2%)
CIMB/consensus EPS (x)			0.99	1.09	1.05

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	2Q18	2Q17	yoy % chg	1Q18	qoq % chg	2Q18 Cum	2Q17 Cum	yoy % chg	Prev. FY8F	Comments
Revenue	2,919	2,758	5.9	2,415	20.9	5,334	5,453	(2.2)	11,817	Weaker due to lower contribution from automotive
Operating costs	(2,763)	(2,507)	10.2	(2,264)	22.1	(5,027)	(4,991)	0.7	(10,665)	
EBITDA	156	250	(37.8)	152	2.8	307	461	(33.4)	1,152	Below expectation
EBITDA margin (%)	5.3	9.1		6.3		5.8	8.5		9.7	
Deprn & amort.	(49)	(111)	(55.7)	(51)	(2.9)	(100)	(224)	(55.2)	(321)	Lower depreciation following disposal of oil & gas assets
EBIT	106	139	(23.5)	101	5.7	207	238	(12.8)	831	
Interest expense	(14)	(14)	(3.0)	(24)	(41.3)	(37)	(32)	16.8	(116)	Total borrowings of RM2.8bn as at end June 2018
Interest & invt inc	4	18	(76.9)	12	(65.8)	17	35	(52.6)	47	Total cash of RM881m as at end June 2018
Associates' contrib	54	32	70.4	58	(5.6)	112	73	53.1	197	Higher contribution from Perodua
Exceptionals	150	(127)	218.2	-	n.m.	150	(127)	218.2	-	
Pretax profit	301	48	n.m.	147	104.6	449	187	139.7	958	In line
Tax	(40)	(35)	12.6	(30)	33.7	(69)	(60)	15.7	(239)	Below expectations
Tax rate (%)	13.1	72.7		20.1		15.4	31.9		25.0	
Minority interests	(33)	24	n.m.	(27)	23.2	(59)	(46)	28.9	(354)	
Net profit	229	(11)	n.m.	91	151.3	320	81	293.0	364	
Core net profit	79	116	(31.7)	91	(13.3)	170	208	(18.3)	364	Below expectation
EPS (sen)	19.6	(1.0)	n.m.	7.8	151.3	27.4	7.0	293.0	31.2	1H18 core net profit made up 47% of CIMB
Core EPS (sen)	6.8	9.9	(31.7)	7.8	(13.3)	14.6	17.8	(18.3)	31.2	and 46% of consensus full-year forecast
DPS (sen)	-	-	n.m.	5.0	(100.0)	5	-	n.m.	10.0	

SOURCES: CIMB RESEARCH, COMPANY REPORTS

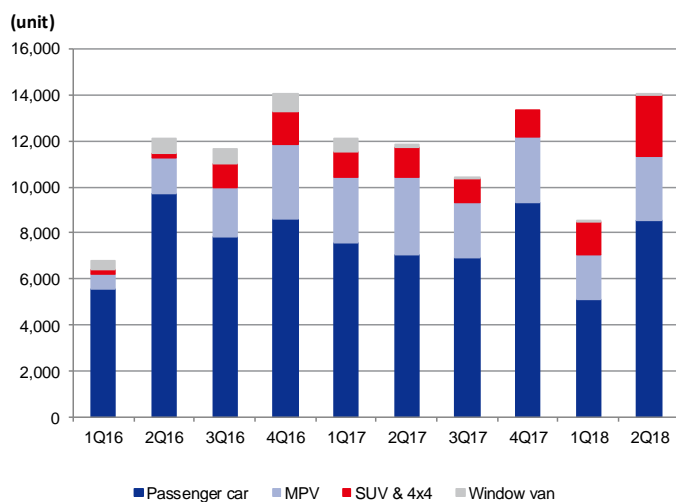
Figure 2: Revenue and pretax profit breakdown

Revenue	2Q18	2Q17	yoy % chg	1Q18	qoq % chg	2Q18 Cum	2Q17 Cum	yoy % chg	
Automotive	2,383	2,260	5.4	1,877	26.9	4,260	4,451	(4.3)	Toyota and Perodua sales volume rose 9% and 18%
Equipment	366	351	4.2	373	(1.9)	739	684	8.1	Higher export sales of heavy equipment
Manufacturing & Engineering	178	154	15.9	168	5.8	347	320	8.5	New contribution from aerospace manufacturing
Others	(8)	(8)	(3.2)	(3)	141.6	(11)	(2)	430.2	
Total	2,919	2,758	5.9	2,415	20.9	5,334	5,453	(2.2)	

PBT	2Q18	2Q17	yoy % chg	1Q18	qoq % chg	2Q18 Cum	2Q17 Cum	yoy % chg	
Automotive	142	99	43.9	126	13.1	268	186	44.3	Stronger contribution from Perodua and favourable forex movement
Equipment	38	32	17.4	45	(16.0)	83	72	15.3	
Manufacturing & Engineering	(1)	(10)	(94.3)	(3)	(80.8)	(3)	(7)	(47.7)	Impacted by start-up losses in the aerospace business
Others	122	(73)	(266.1)	(21)	685.3	101	(64)	257.5	
Total	301	48	523.3	147	104.6	449	187	139.7	

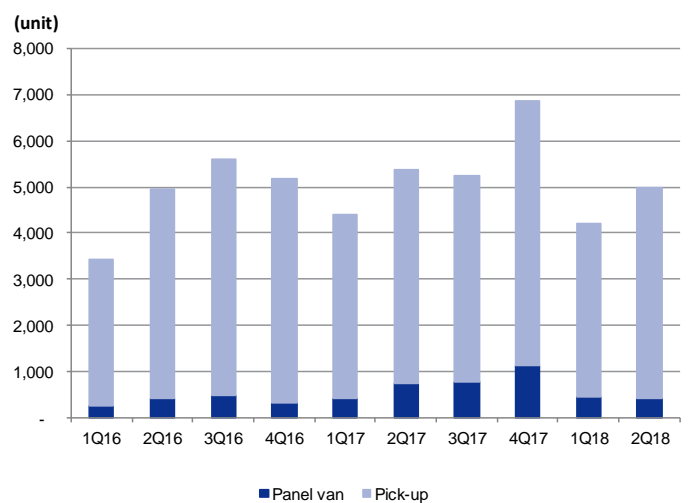
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 3: Historical Toyota passenger vehicle sales volume



SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 4: Historical Toyota commercial vehicle sales volume



SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision

	Previous			Revised			Changes		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Revenue	11,817	12,755	13,159	10,854	11,563	12,234	-8%	-9%	-7%
EBIT	831	1,069	1,195	406	689	848	-51%	-36%	-29%
Pretax Profit	958	1,253	1,415	585	904	1,071	-39%	-28%	-24%
Net Profit	364	543	624	349	495	541	-4%	-9%	-13%
EPS	31	47	53	30	42	46	-4%	-9%	-13%

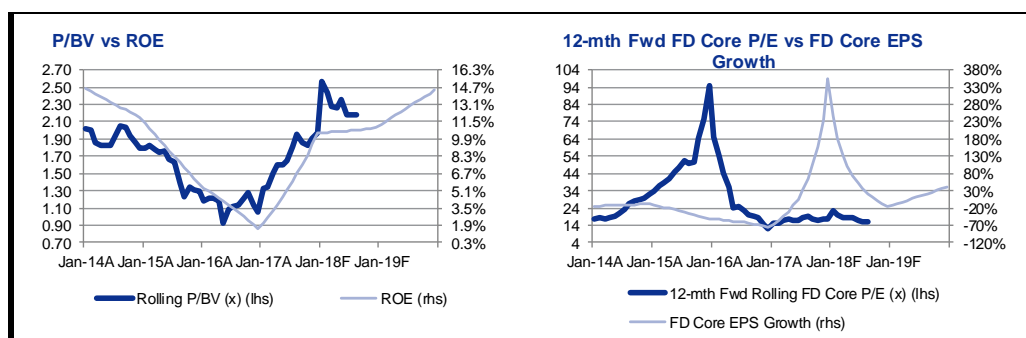
SOURCES: CIMB, COMPANY REPORTS

Figure 6: Sector comparison

Company	Recom.	Price (RM)	Target Price (RM)	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Bermaz Auto Berhad	Hold	2.14	2.30	606	15.4	13.0	4.9	4.6	32.9%	36.8%	9.4	7.8	5.5%	6.3%
Tan Chong Motor Holdings	Add	1.72	2.00	273	23.4	12.1	0.4	0.4	1.7%	3.3%	10.2	7.9	1.2%	1.7%
UMW Holdings	Hold	6.05	6.10	1,722	20.3	14.3	2.1	2.0	11.0%	14.4%	15.6	10.4	1.7%	3.3%
Sime Darby Bhd	Reduce	2.56	2.38	4,241	21.9	20.5	1.1	1.1	4.9%	5.2%	9.3	8.8	2.9%	2.9%
Sector average					20.7	17.3	1.2	1.2	5.9%	7.0%	10.6	9.1	2.8%	3.3%

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	10,965	11,067	10,854	11,563	12,234
Gross Profit	1,645	1,605	1,845	1,734	1,957
Operating EBITDA	684	763	611	932	1,130
Depreciation And Amortisation	(555)	(265)	(206)	(244)	(282)
Operating EBIT	129	498	406	689	848
Financial Income/(Expense)	31	(39)	(40)	(20)	(23)
Pretax Income/(Loss) from Assoc.	184	182	219	235	246
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	343	641	585	904	1,071
Exceptional Items		(374)			
Pre-tax Profit	343	267	585	904	1,071
Taxation	(134)	(122)	(135)	(221)	(289)
Exceptional Income - post-tax					
Profit After Tax	210	145	450	682	782
Minority Interests	(121)	(20)	(102)	(188)	(241)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	89	125	349	495	541
Recurring Net Profit	89	406	349	495	541
Fully Diluted Recurring Net Profit	89	406	349	495	541

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	684	763	611	932	1,130
Cash Flow from Inv. & Assoc.					
Change In Working Capital	686	801	487	(24)	(89)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	528	333	206	244	282
Net Interest (Paid)/Received	31	(39)	(40)	(20)	(23)
Tax Paid	(210)	(133)	(135)	(221)	(289)
Cashflow From Operations	1,719	1,725	1,130	910	1,010
Capex	(1,182)	(1,004)	(750)	(600)	(500)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments		0	0		
Other Investing Cashflow	63	80	35	57	60
Cash Flow From Investing	(1,118)	(924)	(715)	(543)	(440)
Debt Raised/(repaid)	0	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	0	(117)	(234)	(292)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	0	0	(117)	(234)	(292)
Total Cash Generated	601	801	298	134	278
Free Cashflow To Equity	601	801	415	368	570
Free Cashflow To Firm	633	920	490	445	653

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	1,857	1,163	1,433	1,502	1,685
Total Debtors	996	994	986	1,050	1,111
Inventories	1,931	1,343	1,912	2,036	2,155
Total Other Current Assets	1,000	1,622	1,622	1,622	1,622
Total Current Assets	5,785	5,122	5,953	6,210	6,572
Fixed Assets	7,679	2,661	3,205	3,561	3,780
Total Investments	2	1	1	1	1
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	2,797	2,159	2,159	2,159	2,159
Total Non-current Assets	10,478	4,820	5,365	5,721	5,939
Short-term Debt	2,639	692	692	692	692
Current Portion of Long-Term Debt					
Total Creditors	1,879	767	1,816	1,981	2,071
Other Current Liabilities	234	2,094	2,094	2,094	2,094
Total Current Liabilities	4,752	3,553	4,602	4,767	4,857
Total Long-term Debt	3,716	2,070	2,070	2,070	2,070
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	931	143	150	150	150
Total Non-current Liabilities	4,647	2,213	2,219	2,219	2,219
Total Provisions	0	0	0	0	0
Total Liabilities	9,399	5,766	6,821	6,986	7,077
Shareholders' Equity	4,719	3,082	3,314	3,575	3,824
Minority Interests	2,146	1,093	1,182	1,370	1,611
Total Equity	6,864	4,176	4,496	4,945	5,435

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	(24.1%)	0.9%	(1.9%)	6.5%	5.8%
Operating EBITDA Growth	(35.1%)	11.6%	(19.9%)	52.5%	21.2%
Operating EBITDA Margin	6.24%	6.90%	5.63%	8.06%	9.23%
Net Cash Per Share (RM)	(3.85)	(1.37)	(1.14)	(1.08)	(0.92)
BVPS (RM)	4.04	2.64	2.84	3.06	3.27
Gross Interest Cover	3.97	4.19	5.44	8.91	10.24
Effective Tax Rate	38.9%	45.6%	23.0%	24.5%	27.0%
Net Dividend Payout Ratio	NA	NA	24.2%	32.6%	35.2%
Accounts Receivables Days	47.22	32.81	33.29	32.14	32.34
Inventory Days	75.03	63.15	65.93	73.31	74.63
Accounts Payables Days	80.89	51.03	52.33	70.50	72.16
ROIC (%)	0.8%	3.0%	5.1%	8.6%	10.0%
ROCE (%)	1.3%	5.7%	6.2%	10.0%	11.4%
Return On Average Assets	1.86%	5.11%	5.78%	7.90%	8.91%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	2.0%	0.0%	1.5%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-9.1%	6.4%	0.3%	2.0%	4.9%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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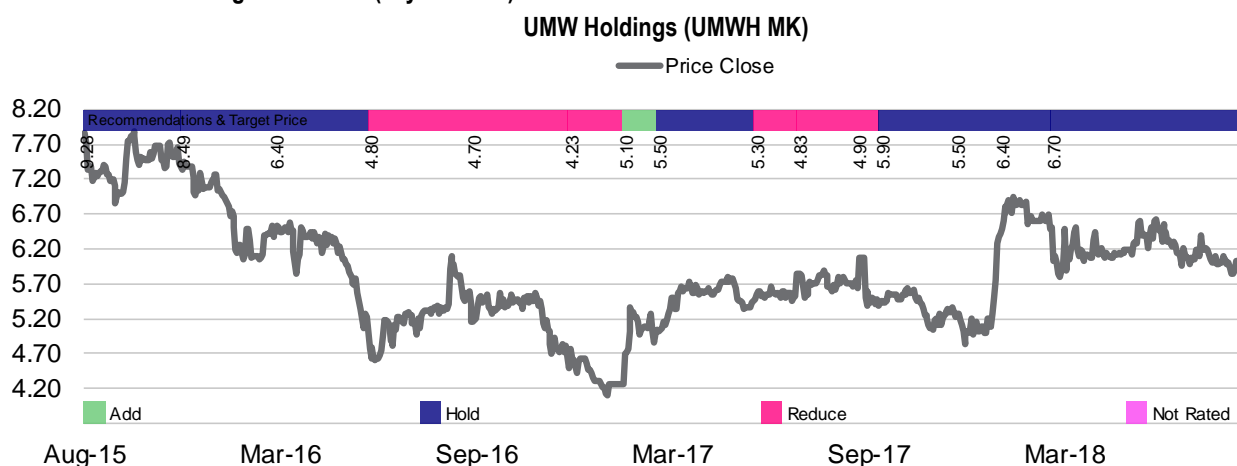
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Add	62.3%	4.5%
Hold	26.2%	2.5%
Reduce	9.3%	0.8%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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