

**HLIB Research**

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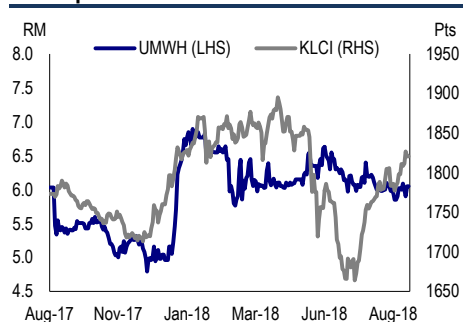
**HOLD** (Maintain)

**Target Price:** **RM6.28**
**Previously:** **RM6.30**
**Current Price:** **RM6.05**

Capital upside	3.8%
Dividend yield	0.8%
Expected total return	4.6%

**Sector coverage:** Automotive

**Company description:** UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	0.8	-2.7	-0.5
Relative	-2.0	-8.1	-3.1

**Stock information**

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	7,068
3-mth average volume ('000)	652
SC Shariah compliant	Yes

**Major shareholders**

Permodalan Nasional Berhad	57.1%
Employess Provident Fund	10.3%
Kumpulan Wang Persaraan	6.4%

**Earnings summary**

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	(99)	322	445
EPS - core (sen)	(8.5)	27.5	38.1
P/E (x)	N.M.	22.0	15.9

# UMW Holdings

## Stable QoQ

UMW reported PATMI of RM153.0m for 1HFY18, within HLIB expectation and consensus. Earnings growth YoY was due to improved sales and margin of automotive segment and lower losses from manufacturing and oil & gas segments. We adjusted forecasts marginally for FY18 (+0.3%), FY19 (-0.2%) and FY20 (+1.6%) for book keeping purpose. Maintain HOLD with slightly lower SOP-derived TP of RM6.28 (from RM6.30).

**Within expectation.** UMW reported core PATMI of RM75.6m for 2QFY18 and RM153.0m for 1HFY18, achieving 47.8% of HLIB FY18 forecast and 45.1% of consensus. We have adjusted core PATMI for RM150m reversal of provision for financial guarantee and RM100m impairments for O&G unlisted book value in 2QFY18.

**QoQ.** Core earnings was relatively flat QoQ, following the stronger earnings of automotive segment (higher sales volume) was being offset by lower earnings from equipment segment (lower sales).

**YoY & YTD.** Core earnings improved YoY and YTD due to: (i) improved margins of automotive segment (on RM appreciation and strong sales of Perodua) and equipment segment (on higher export sales); (ii) lower losses drag from manufacturing, oil & gas (unlisted) and other segments; and (iii) exiting ownership of loss-making UMWOG.

**Outlook.** UMW is expected to maintain its profit momentum in 2HFY18, with stronger automotive sales volume (boosted by GST zerorisation) in 3QFY18 offsetting weaker sales (affected by SST implementation) and depreciation of RM/USD in 4QFY18. UMW Aerospace's loss is expected to shrink gradually towards 2HFY18 as the facility gradually ramps up its production before starting to turn profitable in FY19.

**Forecast.** Adjusted our earnings marginally for FY18 (+0.3%), FY19 (-0.2%) and FY20 (+1.6%) following up-keeping of automotive segmental earning (attributed to UMW Toyota and Perodua) and unlisted O&G segment.

**Maintain HOLD, TP: RM6.28.** We adjusted lower our SOP-derived TP to RM6.28 (from RM6.30) following the adjustment in earnings. Do note that we have already assigned nil valuation for its unlisted and other segments which are loss-making. We believe the current share price has already priced in the potential earnings accretion from the acquisition of stakes in MBMR and Perodua and hence retain our HOLD rating.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Cash	2,194	1,170	1,013	930	1,172
Receivables	1,931	1,411	1,412	1,538	1,704
Inventories	868	902	903	984	1,090
PPE	7,679	2,658	3,611	3,917	4,028
Others	3,615	3,955	4,002	4,054	3,894
<b>Assets</b>	<b>16,286</b>	<b>10,096</b>	<b>10,942</b>	<b>11,423</b>	<b>11,888</b>
Payables	996	949	910	987	1,089
Debt	6,355	2,762	3,297	3,353	3,249
Others	2,071	2,206	2,206	2,206	2,206
<b>Liabilities</b>	<b>9,422</b>	<b>5,917</b>	<b>6,413</b>	<b>6,546</b>	<b>6,544</b>
Shareholder's equity	4,719	3,047	3,369	3,697	4,140
Minority interest	2,146	1,131	1,160	1,180	1,204
<b>Equity</b>	<b>6,864</b>	<b>4,178</b>	<b>4,529</b>	<b>4,877</b>	<b>5,344</b>

### Cash Flow Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	(282)	267	653	728	894
D&A	229	265	294	341	337
Working capital	(1,803)	440	(42)	(130)	(169)
Taxation	(166)	(137)	(141)	(149)	(163)
Others	2,388	381	(189)	(205)	(213)
<b>CFO</b>	<b>366</b>	<b>1,215</b>	<b>576</b>	<b>586</b>	<b>685</b>
Capex	(1,182)	(870)	(1,247)	(647)	(447)
Asset disposal	47	69	0	0	0
Acquisitions	(22)	(935)	0	0	0
Others	(250)	(201)	142	154	372
<b>CFI</b>	<b>(1,406)</b>	<b>(1,937)</b>	<b>(1,105)</b>	<b>(494)</b>	<b>(75)</b>
Changes in debt	380	195	536	56	(104)
Shares issued	0	0	0	0	0
Dividends	(117)	0	0	(117)	(129)
Others	(96)	(76)	(162)	(115)	(135)
<b>CFF</b>	<b>167</b>	<b>119</b>	<b>374</b>	<b>(176)</b>	<b>(368)</b>
<b>Net cash flow</b>	<b>(873)</b>	<b>(602)</b>	<b>(156)</b>	<b>(84)</b>	<b>243</b>
Forex	(141)	177	0	0	0
Others	332	(422)	0	0	0
Beginning cash	2,734	2,194	1,170	1,013	930
Ending cash	2,194	1,170	1,013	930	1,172

### Income Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Revenue	10,416	11,067	11,076	12,069	13,368
EBITDA	(255)	389	848	970	1,120
EBIT	(485)	124	553	629	783
Net finance cost	19	(39)	(89)	(106)	(102)
Associates & JV	184	182	189	205	213
Profit before tax	(282)	267	653	728	894
Tax	(134)	(122)	(141)	(149)	(163)
Operation net profit	(416)	145	512	580	731
Discontinued operation	(1,854)	(805)	0	0	0
Reported net profit	(2,270)	(660)	512	580	731
Minority interest	612	20	(191)	(135)	(159)
Reported PATMI	(1,658)	(641)	322	445	572
Exceptionals	1,756	542	0	0	0
<b>Core PATMI</b>	<b>98</b>	<b>(99)</b>	<b>322</b>	<b>445</b>	<b>572</b>
Consensus			339	443	518
HLIB/Consensus (%)			94.7%	100.4%	110.4%

### Valuation & Ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Reported EPS (sen)	(141.9)	(54.8)	27.5	38.1	49.0
Core EPS (sen)	8.3	(8.5)	27.5	38.1	49.0
Core P/E (x)	72.5	N.M.	22.0	15.9	12.4
DPS (sen)	0.0	5.0	5.0	10.0	12.0
Dividend yield (%)	0.0%	0.8%	0.8%	1.7%	2.0%
BVPS (RM)	4.0	2.6	2.9	3.2	3.5
P/B (x)	1.5	2.3	2.1	1.9	1.7
EBITDA margin	-2.5%	3.5%	7.7%	8.0%	8.4%
EBIT margin	-4.7%	1.1%	5.0%	5.2%	5.9%
PBT margin	-2.7%	2.4%	5.9%	6.0%	6.7%
Net margin	-15.9%	-5.8%	2.9%	3.7%	4.3%
ROE	1.7%	-2.5%	10.0%	12.6%	14.6%
ROA	0.6%	-0.8%	3.1%	4.0%	4.9%
Net gearing	-88.2%	-52.2%	-67.8%	-65.5%	-50.1%

### Assumptions

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
<b>Sales (Unit)</b>					
Toyota	63,757	69,492	65,322	71,855	78,322
Lexus	1,353	953	1,000	1,000	1,000
Perodua	207,100	204,887	220,809	235,706	242,777
<b>Average Price (RM)</b>					
UMW	129,772	127,322	131,142	128,519	129,804
Perodua	39,609	39,142	38,933	40,449	40,842

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1H17	1H18	YoY (%)
Revenue	2,754.0	2,415.3	2,919.1	20.9%	6.0%	5,447.0	5,334.5	-2.1%
EBITDA	30.9	154.9	257.0	66.0%	N.M.	146.8	411.9	180.5%
EBIT	(18.4)	104.1	207.8	99.6%	N.M.	52.7	311.9	492.2%
Net finance expense	(9.3)	(11.1)	(9.6)	-14.0%	2.9%	(25.4)	(20.7)	-18.6%
Associates	28.0	57.6	54.4	-5.6%	94.1%	68.0	112.0	64.6%
Exceptional items	(11.6)	(3.3)	48.7			12.8	45.4	
Reported PBT	(11.2)	147.3	301.3	104.6%	N.M.	108.1	448.6	315.0%
Tax	(35.2)	(29.6)	(39.6)	33.7%	12.4%	(60.2)	(69.2)	15.0%
Reported operation net profit	(46.4)	117.7	261.7	122.4%	N.M.	47.9	379.4	691.8%
Reported discontinued operation	(178.5)	(23.9)	(122.1)	411.1%	-31.6%	(283.4)	(146.0)	-48.5%
Reported net profit	(224.9)	93.8	139.6	48.8%	N.M.	(235.5)	233.4	N.M.
Reported PATMI	(209.3)	74.1	124.4	67.9%	N.M.	(189.1)	198.5	N.M.
<b>Core PATMI</b>	<b>(70.8)</b>	<b>77.4</b>	<b>75.6</b>	<b>-2.3%</b>	<b>N.M.</b>	<b>88.5</b>	<b>153.0</b>	<b>72.9%</b>
Reported EPS (Sen)	(17.9)	6.3	10.6	67.9%	N.M.	(16.2)	17.0	N.M.
Core EPS (Sen)	(6.1)	6.6	6.5	-2.3%	N.M.	(6.4)	13.1	N.M.
EBITDA margin (%)	1.1%	6.4%	8.8%	2.4%	7.7%	2.7%	7.7%	5.0%
EBIT margin (%)	-0.7%	4.3%	7.1%	2.8%	7.8%	1.0%	5.8%	4.9%
Core PATMI margin (%)	-2.6%	3.2%	2.6%	-0.6%	5.2%	1.6%	2.9%	1.2%

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**Figure #2** Quarterly results comparison by segment

FYE Dec (RM m)	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1H17	1H18	YoY (%)
<b>Reported Revenue</b>								
Automotive	2,260.3	1,877.1	2,382.7	26.9%	5.4%	4,451.2	4,259.7	-4.3%
Equipment	351.4	373.0	365.9	-1.9%	4.2%	693.8	739.0	6.5%
Manufacturing & Engineering	153.9	168.5	178.3	5.8%	15.9%	319.8	346.8	8.5%
Oil & Gas unlisted	0.0	0.0	0.0	N.M.	N.M.	0.0	0.0	N.M.
Others	18.0	15.9	17.0	6.7%	-6.1%	31.2	32.8	5.2%
Intersegment	(29.6)	(19.1)	(24.8)	29.5%	-16.4%	(48.9)	(43.9)	-10.3%
<b>Total</b>	<b>2,754.0</b>	<b>2,415.3</b>	<b>2,919.1</b>	<b>20.9%</b>	<b>6.0%</b>	<b>5,447.0</b>	<b>5,334.5</b>	<b>-2.1%</b>
<b>Reported PATMI</b>								
Automotive	57.0	81.4	86.7	6.5%	52.2%	112.9	168.1	48.8%
Equipment	24.8	36.6	29.8	-18.7%	20.1%	55.9	66.4	18.7%
Manufacturing & Engineering	(14.1)	(9.2)	(6.2)	-32.4%	-56.1%	(16.5)	(15.4)	-7.2%
UMWOG	(28.4)	0.0	0.0	N.M.	N.M.	(86.4)	0.0	N.M.
Oil & Gas unlisted (discontinued)	(52.0)	(17.1)	(4.7)	N.M.	N.M.	(62.7)	(21.7)	N.M.
Others	(196.5)	(17.7)	(31.2)	N.M.	N.M.	(65.3)	(48.9)	N.M.
<b>Total</b>	<b>(209.3)</b>	<b>74.1</b>	<b>74.4</b>	<b>N.M.</b>	<b>-135.5%</b>	<b>(62.2)</b>	<b>148.5</b>	<b>N.M.</b>
<b>Core PATMI</b>	<b>(70.8)</b>	<b>77.4</b>	<b>75.6</b>	<b>N.M.</b>	<b>N.M.</b>	<b>88.5</b>	<b>153.0</b>	<b>N.M.</b>

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**Figure #3** UMW automotive sales statistics

Unit Sales	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Toyota (51% ownership)	16,503	17,220	15,567	20,202	12,683	19,026
Lexus (51% ownership)	191	219	240	303	143	282
Perodua (38% ownership)	50,265	49,410	51,905	53,307	55,568	61,530
<b>Total</b>	<b>66,959</b>	<b>66,849</b>	<b>67,712</b>	<b>73,812</b>	<b>68,394</b>	<b>80,838</b>
<b>Growth YoY (%)</b>	<b>16.1%</b>	<b>-1.1%</b>	<b>-4.8%</b>	<b>-2.7%</b>	<b>2.1%</b>	<b>20.9%</b>
<b>Growth QoQ (%)</b>	<b>-11.7%</b>	<b>-0.2%</b>	<b>1.3%</b>	<b>9.0%</b>	<b>-7.3%</b>	<b>18.2%</b>

Company

**Figure #4**      **UMW sum-of-parts valuation**

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,330.1	2.85	FY19 PE 10x
Equipment	Various	1,193.5	1.02	FY19 PE 8x
Manufacturing & Engineering	Various	2,429.3	2.08	FY20 PE 18x
Others	Various	0.0	0.00	
50.1% MBMR & 10% Perodua	Various	1,197.0	1.02	FY19 PE 10x
Total (RM)		8,149.9	6.98	
Holding Co Discount			10.0%	
<b>Target Price (RM)</b>			<b>6.28</b>	
No of Shares		1,168.3		As at end FY2017

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## Stock rating definitions

<b>BUY</b>	Expected absolute return of +10% or more over the next 12-months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12-months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12-months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next -12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next -12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next -12 months.