

Company Result

30 August 2018

UMW Holdings Berhad

HOLD

Steady margins boost earnings

Maintained

Share Price	RM6.05
Target Price	RM6.72

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	7068.18
52-week price Range	RM4.70-6.98
Beta (against KLCI)	0.84
3-m Average Daily Volume	0.67m
3-m Average Daily Value [^]	RM4.21

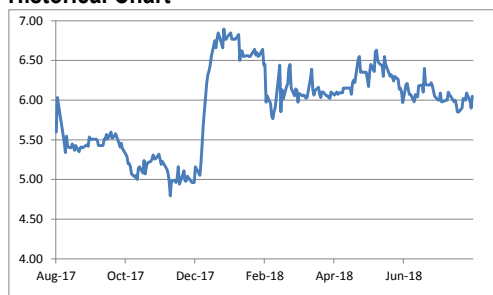
Share Performance

	1m	3m	12m
Absolute (%)	0.0	1.3	7.3
Relative (%-pts)	-2.8	-7.8	3.8

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	40.81
EMPLOYEES PROVIDENT FUND	10.30
YAYASAN PELABURAN BUMIPUTRA	7.26
ESTIMATED FREE FLOAT	32.66

Historical Chart



Source: Bloomberg

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- **UMW Holdings Berhad (UMW) posted a headline net profit of RM124.4m in 2Q18.** After excluding the exceptional items such as impairment of receivables, property, plant and equipment (PPE) and in inventories, loss on sale on investment and derivatives, gain on disposal of property, plant and equipment and forex gain as well as PPE written off, the Group reported a core net profit of RM118.1m, which improved from core profit of RM79m recorded in last quarter and core loss of RM68.9m from a year ago. Meanwhile, revenue stood at RM2.9b, which improved by 20.9% qoq and 4.8% yoy.
- **As for 1H18, the Group reported a core net profit of RM197.1m as compared to a core net loss of RM73.3m in 1H17.** Meanwhile, revenue plunged by 4.6% yoy to RM5.3b.
- **Within expectations.** The 6M18 core net profit of RM118.1m accounted for 52.5% and 53.1% of our and consensus full year net earnings forecast respectively given the better performance in core segments.

Comment

- **Tax holiday lifted Auto segment.** Auto segment revenue improved 26.9% qoq and 5.4% yoy in 2Q18. The stellar Auto's performance was supported by higher car sales in Toyota and Perodua following zero-rated Good and Services Tax (GST) which took effect on 1st June 2018. Domestic Toyota sales surged 10.8% qoq but tumbled 18.4% yoy in 2Q18. Meanwhile, Perodua car sales improved sharply by 10.4% qoq and 24.5% yoy in 2Q18. Segmental PBT increased 13.1% qoq and 43.9%, thanks to strengthening Ringgit against USD. The Group foresees to achieve sales of 209k units and 70k units for Perodua and Toyota in 2018 and plans to introduce Toyota Camry, new SUV and Alza facelift in 2H18. However, we remain cautious on the replacement of GST by sales and service tax (SST) on 1st September 2018 that could trigger a hike in car prices in the long term and hence dampening car sales.
- **Upbeat performance in Equipment division.** Equipment segment revenue improved 4.2% yoy but contracted 1.9% qoq in 2Q18. The better yoy performance was propelled by strong exports sales and demand from construction sector. Besides, segmental PBT also soared by 17.4% yoy. The Group expects demand for heavy equipment in 2H18 to be tepid amid on-going review of

mega projects domestically. However, performance of this division will be supported by current orders secured from construction sector coupled with rental business from industrial equipment segment.

- **M&E division getting better.** Manufacturing & Engineering's loss before tax narrowed to RM5k in 2Q18, compared to a loss before tax of RM2.9m in last quarter and RM9.6m a year ago while revenue increased 5.8% qoq and 15.9% yoy. The better performance was due to increase in revenue in Aerospace business coupled with better margin earned from stronger MYR. The division's performance is expected to be robust buoyed by strong demand in manufacturing of auto components and lubricant business. Besides, Aerospace business will continue producing fan cases and deliver as per contract agreement.
- **Scaling down its unlisted Oil & Gas (O&G) segment.** For discontinued operation, PBT for unlisted O&G in this quarter widened as compared to last quarter and a year ago due to write down of investments to fair value. The group's strategy of exiting its O&G business is still on track.
- **Earnings Outlook/Revision**
 - **We retain our earnings forecasts for FY19 and FY20.**
 - **We expect the Group to re-focus on three core businesses which will resume positive growth momentum over the longer term** - 1) Auto division is expected to register a robust growth with new launch and updated models; 2) M&E division is expected to move towards into high value-added manufacturing; 3) New plant in Bukit Raja (initial 50K capacity p.a.) to be fully completed and operational in 2019; and 4) Exit of O&G segment which will help to improve the Group's overall profitability.
 - **Maintain HOLD call on UMW with an unchanged target price of RM6.72.** Our valuation for UMW is pegged at PE of 21x FY2018F EPS. The target PE valuation is close to 3-years mean PE of 23x.

Figure 1: Quarterly Figures

Year to 31 Dec	2Q18 (RMm)	1Q18 (RMm)	2Q17 (RMm)	QoQ % chg	YoY % chg	6M18 (RMm)	6M17 (RMm)	YoY % chg
Revenue	2,919.1	2,415.3	2,785.7	20.9%	4.8%	5,334.5	5,589.3	-4.6%
Operating Profit	241.5	91.7	(35.3)	163.4%	N/A	333.1	(15.6)	N/A
Pre-tax Profit	301.3	147.3	(11.2)	104.6%	N/A	448.6	3.2	13968.3%
Profit After Tax	139.6	117.7	(224.9)	18.6%	N/A	257.3	(235.5)	N/A
Net Profit	124.4	91.1	(209.3)	36.5%	N/A	215.5	(189.1)	N/A
Core Profit	118.1	79.0	(68.9)	49.5%	N/A	197.1	(73.3)	N/A
Operating Margin (%)	8.3%	3.8%	-1.3%	4.5 ppts	N/A	6.2%	-0.3%	N/A
PBT Margin (%)	10.3%	6.1%	-0.4%	4.2 ppts	N/A	8.4%	0.1%	8.3 ppts
Net Margin (%)	4.8%	4.9%	-8.1%	-0.1 ppts	N/A	4.8%	-4.2%	N/A
Core Margin (%)	4.0%	3.3%	-2.5%	0.7 ppts	N/A	3.7%	-1.3%	N/A

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY18	2Q18 (RMm)	1Q18 (RMm)	2Q17 (RMm)	Q-O-Q (%)	Y-O-Y (%)	6M18 (RMm)	6M17 (RMm)	Y-O-Y (%)
Segmental Revenue								
<u>Continuing operation</u>								
Automotive	2,382.7	1,877.1	2,260.3	26.9%	5.4%	4,259.7	4,451.2	-4.3%
Equipment	365.9	373.0	351.4	-1.9%	4.2%	739.0	693.8	6.5%
M & E	178.3	168.5	153.9	5.8%	15.9%	346.8	319.8	8.5%
<u>Discontinued operation</u>								
Oil & Gas (Listed)	-	-	139.9	N/A	N/A	-	214.2	N/A
Oil & Gas (Unlisted)	31.3	23.4	31.7	33.7%	-1.2%	54.7	67.9	-19.4%
Segmental PBT								
<u>Continuing operation</u>								
Automotive	142.4	125.9	99.0	13.1%	43.9%	268.38	186.0	44.26%
Equipment	37.8	44.9	32.2	-15.9%	17.4%	82.75	71.7	15.34%
M & E	(0.5)	(2.9)	(9.6)	N/A	N/A	(3.40)	(6.5)	N/A
<u>Discontinued operation</u>								
Oil & Gas (Listed)	-	-	(51.4)	N/A	N/A	-	(156.3)	N/A
Oil & Gas (Unlisted)	(121.9)	(23.7)	(70.6)	N/A	N/A	(145.64)	(85.7)	N/A
Segmental Margin								
<u>Continuing operation</u>								
Automotive	6.0%	6.7%	4.4%	-0.7 ppts	1.6 ppts	6.3%	4.2%	2.1 ppts
Equipment	10.3%	12.0%	9.2%	-1.7 ppts	1.1 ppts	11.2%	10.3%	0.9 ppts
M & E	-0.3%	-1.7%	-6.2%	N/A	N/A	N/A	N/A	N/A
<u>Discontinued operation</u>								
Oil & Gas (Listed)	-	-	-36.7%	N/A	N/A	-	-73.0%	N/A
Oil & Gas (Unlisted)	-389.3%	-101.3%	-222.9%	N/A	N/A	-266.03%	-126.08%	N/A

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2015	2016	2017	2018F	2019F
Revenue	14,441.58	10,436.80	11,066.64	11,394.27	11,874.34
Operating profit	135.62	(484.55)	123.70	420.51	453.85
PBT	269.65	(282.10)	266.57	554.45	628.85
Net profit	(37.17)	(1,658.04)	(640.63)	375.69	424.76
Core profit	19.56	(401.80)	(85.77)	375.69	424.76
Core EPS (sen)	0.02	(0.31)	(0.07)	0.32	0.36
P/BV (x)	0.79	1.05	1.73	1.57	1.42
DPS (sen)	0.20	0.00	0.00	0.10	0.15
Dividend yield (%)	3.23%	0.00%	0.00%	1.56%	2.35%
Operating margin (%)	0.94%	-4.64%	1.12%	3.69%	3.82%
PBT margin (%)	1.87%	-2.70%	2.41%	4.87%	5.30%
Net profit margin (%)	-0.26%	-15.89%	-5.79%	3.30%	3.58%
Net Gearing Ratio(x)	1.26	1.66	2.19	2.21	2.22
ROE (%)	-0.40%	-24.00%	-15.34%	8.14%	8.33%
ROA (%)	-0.21%	-10.23%	-6.44%	3.19%	3.41%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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