

29 Aug 2018

Hold

Price
 RM6.05

Target Price
 RM6.40

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	7,068.2
52-week high/low (RM)	6.98 / 4.70
Avg daily turnover (RMm)	4.2
KLCI (pts)	1,820.6

Source: Bloomberg, KAF

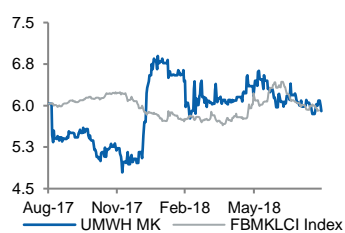
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.8%)
EPF	(10.2%)
Yayasan Perlaburan Bumiputera	(7.3%)
Free Float	22.3

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(5.5)	(6.9)	7.3
Rel Market (%)	(7.8)	(5.1)	3.8



Source: Bloomberg, KAF

Analyst

Max Koh
 (603) 2171 0505
 maxkoh@kaf.com.my

UMW Holdings

1H in line

Stronger Perodua contribution and a firmer MYR lifted UMW earnings for the 1H period – but this also includes a reversal of provisions. Hence, we deem 1H to be in line with our estimates after stripping off the one-off item. While UMW will continue to ride on Perodua's performance, Toyota sales could see a drastic slow down when the SST kicks in next month. We maintain our Hold recommendation.

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	10,437	11,067	11,581	11,951	12,380
Core net profit (RMm)	437	169	377	438	498
Core EPS (Sen)	37.4	14.4	32.2	37.5	42.6
EPS growth (%)	35.5	(61.4)	>100	16.2	13.7
DPS (Sen)	0.0	0.0	20.0	25.0	25.0
Core PE (x)	16.2	41.9	18.8	16.1	14.2
Div yield (%)	0.0	0.0	3.3	4.1	4.1
ROE (%)	(7.4)	3.7	11.6	12.0	12.1
Net Gearing (%)	95.3	52.2	17.3	Net Cash	Net Cash
PBV(x)	1.0	1.7	1.5	1.3	1.2

Source: Company, KAF

A good 2Q. UMW reported 2Q18 consolidated earnings of RM124m – vs. losses of RM82m a year earlier. This is on the back of a flattish 1% topline growth. On a sequential basis, earnings rose 68% to RM124m on 21% topline growth, mainly on improved Perodua contribution and a firmer MYR.

1H meets expectations. For the 1H period, UMW reported RM198m consolidated earnings (vs. RM62m losses last year). UMW reported an impressive 1H continued earnings of RM320m – but this included a substantial reversal of provisions. Stripping off an estimated RM101m one-off reversal – the continued core earnings of RM219m is in line at 58% of our and consensus full-year estimates.

Auto margins improved. Contributing to 60% of group PBT, the auto division saw margins improving by 2ppts to 6% for the 1H period. Hence, the PBT grew 44% to RM268m on a 4% topline decline. The stronger PBT can be attributed to higher Perodua contribution and a firmer MYR to improve margins.

Auto sales boost from tax holiday. Toyota and Lexus unit sales rose 11% to 19k in 2Q, mainly due to the tax holiday period. Nevertheless, 1H sales were still 6% lower at 32k. Perodua remains the top performer with unit sales growing 18% to 117k.

Narrowing M&E losses. Positively, losses at the manufacturing and engineering (M&E) division had narrowed to RM3.4m (from RM6.5m a year earlier) on 8% topline growth. We believe this is attributed to narrowing losses at its aerospace unit on ramped-up delivery to Rolls-Royce. Recall that aerospace losses are targeted to narrow to RM20m this year (vs. RM60m last year) on expected delivery of 80 fan cases. It is expected to return to the black next year on 160 deliveries.

Challenges ahead. While the strong Perodua performance remains a bright spark, we see challenges ahead in the form of weaker MYR, while car sales could drastically slow down when the SST kicks in next month. Note that Toyota sales in July fell 21% on a monthly basis despite the tax holiday – implying a possible supply constraint to meet demand. Toyota sales rose 4% for the 7M period.

Maintain Hold. We maintain our Hold recommendation and SOP-based TP of RM6.40. Our SOP had factored in a stronger Perodua performance (unit sales growth of 5%) and USD:MYR rate of 4.00. We forecast Perodua to contribute RM183m this year. We deem UMW to be fairly valued at this juncture to reflect flattish Toyota sales and stronger Perodua performance. Our TP implies FYT18 target PE of 19x.

Exhibit 1: Results summary

FYE 31 Dec	2Q17	1Q18	2Q18	yoy %	qoq%	1HFY17	1HFY18	yoy %
Continued operations								
Revenue	2758	2415	2919	6%	21%	5453	5334	-2%
Operating profit	11	92	241	2171%	163%	108	333	209%
Investment income	20	22	19	-4%	-11%	38	41	7%
Finance cost	(14)	(24)	(14)	-3%	-41%	(32)	(37)	17%
JV & Associates	32	58	54	70%	-6%	73	112	53%
Pretax profit	48	147	301	523%	105%	187	449	140%
Tax	(35)	(30)	(40)	13%	34%	(60)	(69)	16%
Profit after tax (continued ops)	13	118	262	1885%	122%	127	379	198%
MI	(24)	(27)	(33)	34%	23%	(46)	(59)	29%
Net profit (continuing ops)	(11)	91	229	-2156%	151%	81	320	293%
Discontinued Operations								
Revenue	168	23	31		34%	277	55	-80%
Loss before tax from discontinued ops	(238)	(24)	(122)	-49%	414%	(362)	(146)	-60%
Loss after tax from discontinued ops	(238)	(24)	(122)	-49%	411%	(363)	(146)	-60%
MI	40	7	17	-56%	156%	92	24	-74%
Net loss from discontinued ops	(198)	(17)	(105)	-47%	513%	(271)	(122)	-55%
Consolidated								
Revenue	2926	2439	2950	1%	21%	5729	5389	-6%
(Loss)/profit before tax	(189)	124	179	-195%	45%	(175)	303	-273%
Profit after tax	(225)	94	140	-162%	49%	(235)	233	-199%
MI	16	(20)	(15)	-198%	-23%	46	(35)	-175%
Net profit	(209)	74	124	-159%	68%	(189)	198	-205%
Core net profit	(82)	74	124	-251%	68%	(62)	198	-419%
Consolidated								
EPS (sen)	(17.9)	6.3	10.6			(16.2)	17.0	
Core EPS (sen)	(7.1)	6.3	10.6			(5.3)	17.0	
Net DPS (sen)	0.0	5.0	0.0			0	5.0	
BV (RM)	3.02	2.67	2.72			3.02	2.72	
PBT margin (%)	-6%	5%	6%			-3%	6%	
PAT margin (%)	-8%	4%	5%			-4%	4%	
Net profit margin (%)	-7%	3%	4%			-3%	4%	
Core net profit margin (%)	-3%	3%	4%			-1%	4%	
Continued ops								
EBIT margin (%)	0%	4%	8%			2%	6%	
PBT margin (%)	2%	6%	10%			3%	8%	
PAT margin (%)	0%	5%	9%			2%	7%	
Net margin (%)	0%	4%	8%			1%	6%	
Effective tax rate (%)	73%	20%	13%			32%	15%	

Source: Company, KAF

Exhibit 2: Segmental breakdown – continued operations

	2Q17	1Q18	2Q18	yoy %	qoq %	1HFY17	1HFY18	yoy %
Continued								
Automotive	2260	1877	2383	5%	27%	4451	4260	-4%
Equipment	351	373	366	4%	-2%	694	739	7%
Manufacturing	154	168	178	16%	6%	320	347	8%
Others & Eliminations	(8)	(3)	(8)	-3%	142%	(12)	(11)	-9%
Total Revenue (RM mil)	2758	2415	2919	6%	21%	5453	5334	-2%
Automotive	99	126	142	44%	13%	186	268	44%
Equipment	32	45	38	17%	-16%	72	83	15%
Manufacturing	(10)	(3)	(1)	-94%	-81%	(7)	(3)	-48%
Others	(73)	(21)	122	-266%	-687%	(64)	101	-257%
Total PBT (RM mil)	48	147	301	523%	105%	187	449	140%
Automotive PBT margin (%)	4%	7%	6%			4%	6%	
Equipment PBT margin (%)	9%	12%	10%			10%	11%	
Manufacturing PBT (%)	-6%	-2%	0%			-2%	-1%	
Total PBT margin (%)	2%	6%	10%			3%	8%	
USD:MYR average	4.33	3.92	3.95			4.39	3.94	

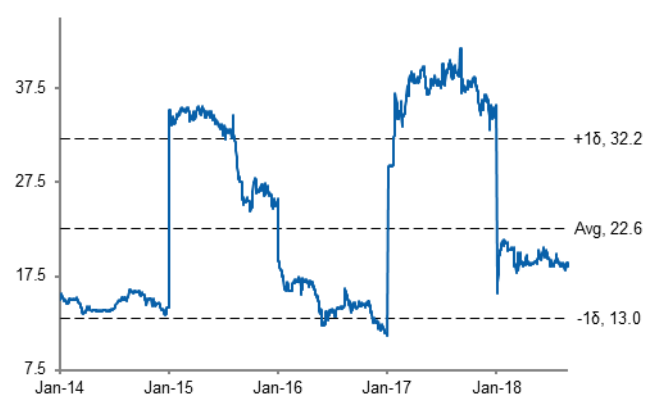
Source: Company, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	10,436.8	11,066.6	11,580.8	11,951.4	12,379.9
EBITDA	(255.3)	389.0	751.5	881.7	1,013.8
Depreciation/Amortisation	(229.3)	(265.3)	(327.4)	(375.1)	(422.7)
Operating income (EBIT)	(484.6)	123.7	424.1	506.7	591.1
Other income & associates	183.6	182.0	197.3	202.1	205.8
Net interest	18.8	(39.1)	59.1	56.3	52.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	(282.1)	266.6	680.4	765.1	849.4
Taxation	(133.5)	(121.7)	(163.3)	(183.6)	(203.9)
Minorities/pref dividends	(120.9)	(109.6)	(140.4)	(143.7)	(147.8)
Net profit	(415.6)	144.9	376.7	437.7	497.8
Core net profit	436.6	168.6	376.7	437.7	497.8

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	7,678.5	2,658.1	3,011.6	3,317.4	3,575.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	814.8	462.4	462.4	462.4	462.4
Total non-current assets	10,501.4	4,833.8	5,187.3	5,493.1	5,751.3
Cash & equivalent	1,857.4	1,169.6	2,499.4	3,953.7	4,974.4
Stock	1,931.2	1,410.7	1,571.1	1,184.6	1,199.6
Trade debtors	988.5	1,021.3	807.2	814.4	823.3
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	6,192.9	7,267.9	8,312.5
Trade creditors	1,878.6	2,795.5	3,454.6	3,817.6	3,866.3
Short-term borrowings	2,639.3	691.9	578.8	571.6	674.7
Other current liabilities	234.0	165.5	95.0	95.0	95.0
Total current liabilities	4,752.0	3,652.9	4,128.5	4,484.2	4,635.9
Long-term borrowings	3,715.8	2,069.7	2,513.4	2,957.0	3,450.5
Other long-term liabilities	954.4	194.7	42.8	42.8	54.9
Total long-term liabilities	4,670.2	2,264.4	2,556.2	2,999.8	3,505.4
Shareholders' funds	4,718.6	3,047.2	3,423.9	3,861.7	4,359.5
Minority interests	2,145.7	1,131.2	1,271.6	1,415.3	1,563.1

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	(282.1)	266.6	680.4	765.1	849.4
Depreciation/Amortisation	229.3	265.3	327.4	375.1	422.7
Net change in working capital	441.2	1,216.6	712.8	742.2	24.8
Others	(97.6)	(619.2)	(560.1)	(582.5)	(602.7)
Cash flow from operations	290.7	1,129.3	1,160.5	1,299.9	694.2
Capital expenditure	(1,181.6)	(869.8)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(1,844.2)	(1,500.4)	(1,569.0)	(1,569.0)	(1,569.0)
Others	2,253.3	519.5	2,158.4	2,289.6	2,375.5
Cash flow from investing	(772.5)	(1,850.7)	(110.6)	20.6	106.6
Debt raised/(repaid)	380.1	194.8	338.4	438.4	598.4
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(116.8)	0.0	0.0	(233.7)	(292.1)
Others	(654.1)	(75.9)	(70.4)	(70.9)	(86.4)
Cash flow from financing	(390.8)	118.9	268.0	133.8	219.9
Net cash flow	(872.6)	(602.4)	1,317.9	1,454.3	1,020.7
Cash b/f	2,621.1	1,607.3	1,181.5	2,499.4	3,953.7
Cash c/f	1,607.3	1,181.5	2,499.4	3,953.7	4,974.4

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	(27.7)	6.0	4.6	3.2	3.6
EBITDA growth (%)	nm	nm	93.2	17.3	15.0
Pretax margins (%)	(2.7)	2.4	5.9	6.4	6.9
Net profit margins (%)	(4.0)	1.3	3.3	3.7	4.0
Interest cover (x)	nm	3.2	nm	nm	nm
Effective tax rate (%)	0.0	68.9	30.0	0.0	0.0
Net dividend payout (%)	nm	0.0	0.0	0.0	0.0
Debtors turnover (days)	49	33	29	25	24
Stock turnover (days)	67	55	47	42	35
Creditors turnover (days)	72	77	98	111	113

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)