

30 August 2018

UMW Holdings Bhd

1H18 Within Expectations

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

1H18 core PATAMI of RM186.5m (>100%) came in within expectations at 51%/50% of our/consensus full-year estimates, respectively. We expect UMW to continue registering stronger sales in 3Q18; however, we expect sales to taper off in 4Q18 with the introduction of new SST (car prices expected to increase by average of c.8%). Maintain MARKET PERFORM with unchanged TP of RM6.50.

1H18 within expectations. 1H18 core PATAMI of RM186.5m (>100%) came in within expectations at 51%/50% of our/consensus full-year estimates, respectively. We expect UMW to continue registering stronger sales in 3Q18; however, sales are expected to taper off in 4Q18 with the introduction of new SST (car prices expected to increase by an average c.8%). No dividend was declared for the quarter, as expected.

YoY, 1H18 recorded core PATAMI of RM186.5m compared to core losses of RM27.6m in 1H17 despite the lower revenue (-2%) mainly from: (i) the better performance of associate and joint-venture company (+53%) especially from 38%-owned Perodua which recorded higher unit sales at 117,098 units (+17%), (ii) improved margin from the stronger MYR against USD, and (iii) lower effective tax rate of 15.4% (1H17:31.9%). The lower revenue was due to lower contribution from Auto segment (-4%), dragged down by the lower Toyota car sales volume at 31,709 units (-6%), but offset by the Equipment segment (+7%), with the strong export sales for Komatsu equipment and industrials old fleet renewal, as well as, the M&E segment (+13%), with higher sales of auto component and improved sales from aerospace business.

QoQ. 2Q18 core PATAMI surged 74% mainly from the stronger sales (+21%) with higher contribution from Auto segment (+27%) as Toyota volume surged 50% to 19,308 units buoyed by the zero-rated tax holiday, and M&E segment (+6%) on the improved contribution from aerospace business, whereas equipment segment (-2%) recorded slower new equipment booking for the local operations due to the recent on-going review of mega infrastructure projects.

Note that, the disparity in earnings at the PBT level compared to PATAMI level was due to an undisclosed amount in reversal of provision under unlisted Oil & Gas segment (under Others) which was only recognized at PBT level.

Outlook. Based on "Guide on Proposed Sales Tax Rates" prepared by Royal Malaysian Customs Department, cars will be charged 10% sales tax effective 1st September 2018, which will be passed down to consumer by the auto players, in our view. As such, we expect car prices to increase by an average of c.8%, which may weaken the car sales volume (based on back-of-the-envelope calculation as the new SST rate is the same as the old SST rate). In 1Q18, the group has launched new models namely the all-new Toyota CH-R, all-new Toyota Harrier and Lexus models (LS, RX350L & Lexus NX300), whereas, in 2H18, the group will launch the all-new Perodua SUV D38L. On the other hand, the strategic exit from the O&G industry is expected to improve the group's profitability with a more solid balance sheet. Nonetheless, we maintain our neutral stance on UMW in view of the limited growth in car sales pending the completion of its new Bukit Raja plant (expected to be operational in early 2019), and gestation period for UMW Aerospace.

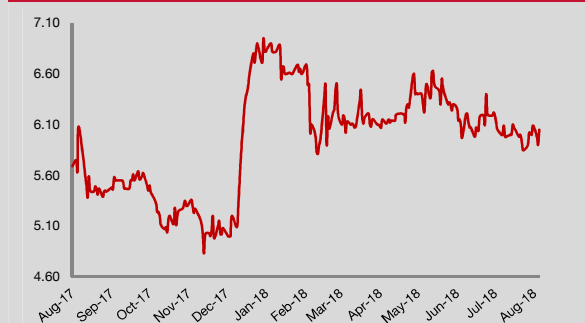
Maintain MARKET PERFORM with a TP of RM6.50 based on 20x FY19E EPS implying +1.0SD of its 5-year historical mean PER.

Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price: RM6.05
Target Price: RM6.50 ↔

Share Price Performance



KLCI	1,820.64
YTD KLCI chg	1.3%
YTD stock price chg	16.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	7,068.2
Shares Outstanding	1,168.3
52-week range (H)	6.98
52-week range (L)	4.70
3-mth avg daily vol:	674,956
Free Float	42%
Beta	0.8

Major Shareholders

Skim Amanah Saham Bumiputera	40.8%
Employees Provident Fund	10.3%
Yayasan Pelaburan Bumiputera	7.3%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	11,066.6	11,405.4	11,981.5
EBIT/ (LBIT)	123.7	431.8	448.8
PBT/ (LBT)	266.6	559.8	607.7
NP/(NL)	128.6	365.6	378.6
CNP/(CNL)	161.2	365.6	378.6
Consensus NP	-	371.9	456.7
Earnings Revision	-	-	-
Core EPS (sen)	13.8	31.3	32.4
Core EPS growth	-116.0%	126.8%	3.6%
NDPS (sen)	-	10.0	10.0
BVPS (RM)	2.61	2.82	3.05
PER (x)	43.8	19.3	18.7
PBV (x)	2.3	2.1	2.0
Net Gearing (x)	0.5	0.6	0.6
Net Div. Yield (%)	0.0%	1.7%	1.7%

30 August 2018

Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	2,919.1	2,415.3	21%	2,757.5	6%	5,334.5	5,452.7	-2%
Associates and JV	54.4	57.6	-6%	31.9	70%	112.0	73.2	53%
EBIT/LBIT	315.2	91.7	244%	62.6	403%	486.0	219.2	122%
PBT/(LBT)	301.3	147.3	105%	48.3	523%	448.6	187.2	140%
Taxation and Zakat	(39.6)	(29.6)	-34%	(35.2)	-13%	(69.2)	(59.8)	-16%
PATAMI	124.4	74.1	68%	(209.3)	(>100%)	198.5	(189.1)	(>100%)
Core PATAMI	116.9	67.2	74%	(48.0)	(>100%)	186.5	(27.6)	(>100%)
Core EPS (sen)	10.0	5.7	74%	(4.1)	(>100%)	16.0	(2.4)	(>100%)
DPS (sen)	-	5.0		-		5.0	-	
*Note that the 1H18 core PATAMI has been adjusted by excluding non-core items amounting to RM11.9m, which consists of: (i) provision for impairment losses of receivables of RM0.8m, (ii) Reversal for write down of inventories of RM2.2m, (iii) loss on disposal of quoted or unquoted investments of RM0.4m, (vi) Gain on disposal of property, plant and equipment of RM10.9m.								
EBIT/(LBIT) margin	10.8%	3.8%		2.3%		9.1%	4.0%	
PBT/(LBT) margin	10.3%	6.1%		1.8%		8.4%	3.4%	
Core NP/ (NL) margin	4.0%	2.8%		-1.7%		3.5%	-0.5%	
Effective tax rate	-13.1%	-20.1%		-72.7%		-15.4%	-31.9%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Revenue	2,919.1	2,415.3	20.9%	2,757.5	5.9%	5,334.5	5,452.7	-2.2%
Automotive	2,382.7	1,877.1	26.9%	2,260.3	5.4%	4,259.7	4,451.2	-4.3%
Equipment	365.9	373.0	-1.9%	351.4	4.2%	739.0	693.8	6.5%
M&E	178.3	168.5	5.8%	153.9	15.9%	346.8	308.3	12.5%
Others	(7.8)	(3.2)	N.M	(8.1)	3.2%	(11.0)	(0.7)	N.M
Segment PBT/(LBT)	301.3	147.3	104.6%	48.3	523.3%	448.6	187.2	139.7%
Automotive	142.4	125.9	13.1%	99.0	43.9%	268.4	186.0	44.3%
Equipment	37.8	44.9	-15.9%	32.2	17.4%	82.7	71.7	15.3%
M&E	(0.5)	(2.9)	80.8%	(9.6)	94.3%	(3.4)	(6.5)	47.7%
Others	121.6	(20.7)	N.M	(73.2)	266.1%	100.9	(64.1)	N.M
Segment PBT/(LBT) margin								
Automotive	6.0%	6.7%		4.4%		6.3%	4.2%	
Equipment	10.3%	12.0%		9.2%		11.2%	10.3%	
M&E	-0.3%	-1.7%		-6.2%		-1.0%	-2.1%	
Others	N.M	N.M		N.M		N.M	N.M	

Source: Company, Kenanga Research

30 August 2018

Peer Comparison																	
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
AUTOMOTIVE																	
BERMAZ AUTO BHD	2.14	2,486.8	Y	04/2019	0.9%	0.4%	45.4%	14.7%	17.7	12.2	10.6	4.7	3.9	34.9%	6.5%	2.50	OP
DRB-HICOM BHD	2.33	4,504.4	Y	03/2019	22.2%	10.1%	5.8%	5.2%	13.6	12.8	12.2	0.7	0.6	5.1%	2.1%	2.35	MP
MBM RESOURCES BERHAD	2.32	906.9	Y	12/2018	5.4%	1.3%	28.5%	1.3%	8.7	6.8	6.7	0.5	0.5	7.8%	2.6%	3.60	OP
SIME DARBY BERHAD	2.56	17,410.1	Y	06/2018	7.1%	2.3%	2.2%	6.4%	23.7	23.2	21.8	0.5	0.5	2.0%	2.7%	2.55	MP
TAN CHONG MOTOR HOLDINGS BHD	1.72	1,122.6	Y	12/2018	-2.7%	0.7%	145.4%	7.6%	N.A.	20.0	18.6	0.4	0.4	2.1%	2.3%	2.30	OP
UMW HOLDINGS BHD	6.05	7,068.2	Y	12/2018	3.2%	5.1%	126.8%	3.6%	43.8	19.3	18.7	1.7	1.6	8.4%	3.3%	6.50	MP
Simple Average					6.6%	3.0%	45.5%	7.0%	15.9	15.0	14.0	1.4	1.2	10.4%	3.3%		
CONSENSUS ESTIMATES																	
APM AUTOMOTIVE HOLDINGS BHD	3.75	733.3	Y	12/2018	3.4%	2.8%	27.4%	6.8%	18.8	14.7	13.8	0.6	0.6	4.0%	15.0%	3.50	NEUTRAL
PECCA GROUP BHD	0.840	153.4	Y	06/2019	11.5%	6.9%	35.4%	12.9%	15.0	11.1	9.8	0.9	0.9	8.2%	5.5%	1.12	BUY

Source: Bloomberg, Kenanga Research

This rest of the page is intentionally left blank

30 August 2018

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research