

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM6.05/TP: RM6.20)

2Q18: Within Expectations

2Q18 RESULTS

Year to 31 Dec	2Q18 (RMm)	qoq % chg	yoy % chg	1H18 (RMm)	yoy % chg
Revenue	2,919.1	20.9	5.9	5,334.5	(2.2)
-Auto	2,382.7	26.9	5.4	4,259.7	(4.3)
-Equipment	365.9	(1.9)	4.2	739.0	6.5
- Manufacturing & Engineering Associates	178.3	5.8	15.9	346.8	8.5
PBT	54.4	(5.6)	70.4	112.0	53.1
-Auto	301.3	104.6	523.3	448.6	139.7
-Equipment	142.4	13.1	43.9	268.4	44.3
-Manufacturing & Engineering	37.8	(15.9)	17.4	82.7	15.3
-Others	(0.5)	(80.8)	(94.3)	(3.4)	(47.7)
Net Profit	121.6	(86.1)	(266.1)	100.9	(257.5)
Core Net Profit	229.0	151.3	n.a.	320.2	293.0
Toyota units sales	110.2	1.3	77.6	219.1	50.5
Perodua unit sales	19,026	50.0	10.5	31,709	(6.0)
PBT Margins (%)	61,530	10.7	24.5	117,098	17.5
-Overall	6.1	10.3	0.0	8.4	5.0
-Auto	6.7	6.0	(0.7)	6.3	2.1
-Equipment	12.0	10.3	(1.7)	11.2	0.9
-Mfg & Eng	(1.7)	(0.3)	1.4	(1.0)	1.1

Source: UMW, UOB Kay Hian

SUMMARY EARNINGS FORECASTS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Revenue	11,067	11,410	11,646	11,898
EBITDA	1,030	1,028	1,061	1,030
EBIT	378	595	686	711
Net Profit	95	569	553	580
Core NP	349	468	553	580
PE (x)	20.2	15.1	13.3	12.7
Yield (%)	-	3.3	3.8	3.9

Forecast Revision (%)

Net Profit	-	-	-	-
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Source: UMW, UOB Kay Hian

RESULTS

- **UMW Holdings' (UMWH) 2Q18 core net profit of RM108.8m was within our expectations but above consensus**, with 1H18 core net profit of RM219.1m accounting for 47% and 59% of 2018 earnings forecasts respectively. Our 1H18 core net profit excludes a RM101.1m gains from the Others segment, where there was a reversal in provisions for the financial guarantee provided by UMW Holdings for its unlisted O&G segment (1H17: RM64m loss in Others segment). No dividend was declared.
- **Automobile: Strong performance on the back of zero-rated GST effective 1 Jun 18.** 2Q18 sales rose 5.4% yoy due to a 3-month zero-rated GST on vehicles effective 1 Jun 18, which drove demand as vehicle prices were lower by an average of 5.5% vs during the GST period. Its PBT rose by a higher quantum of 43.9% yoy due to better performance from its 38%-owned associate Perodua as well as a stronger ringgit against the US\$. However, we note that the recent weakening of the ringgit against the US\$ to currently RM4.13 from ytd low of RM3.87 in Apr 18 may affect UMW's margins in 2019. Our sensitivity analysis suggests that every 1% decrease in US\$/RM rate will increase UMW's 2018-20F earnings by 2-3%.
- **Equipment: Growth momentum continues.** 2Q18 sales grew 4.2% yoy, lifted by higher export sales and increased demand in the construction industry. Its PBT grew at a higher quantum of 17.4% yoy due to better operating leverage from higher sales and possible better margins on favourable product mix.
- **Manufacturing & Engineering: Losses continue to narrow qoq.** 2Q18 sales rose 5.8% qoq on the back of maiden sales contribution by its aerospace component manufacturing business. Given the better sales and stronger ringgit against major currencies during the quarter, loss before tax narrowed to RM547,000 (1Q18: loss before tax of RM2.9m, 2Q17: loss before tax of RM9.6m).

STOCK IMPACT

- **Vehicle prices to be 1-3% higher than during the GST period post implementation of a 10% sales and services tax (SST).** We gather that any increase in costs arising from the implementation of the SST effective 1 Sep 18 will be passed on to consumers.
- **Negotiations still ongoing for UMW's acquisition of stake in Perodua from PNB and MBMR.** To recap, UMW is eyeing an increase in its stake in Perodua via the acquisitions of a 10% stake in Perodua from PNB Equity Resources Corporation Sdn Bhd (PNB), and a 50.1% stake in MBM Resources (MBMR) from Med-Bumikar Mara Sdn Bhd (49.5%) and Central Shore Sdn Bhd (0.57%) and a mandatory takeover (MO) to follow. However, media reports indicated that the major impediment is Daihatsu's disagreement to having UMW as the controlling shareholder of Perodua. *The Edge Weekly* had reported that Daihatsu is adamant on this and even threatened to stop all technological transfer to Perodua. Daihatsu has a 20.93% stake in Perodua (a direct 20% stake and indirect stake of 0.93% via 18.5%-owned Daihatsu (Malaysia) Sdn Bhd). Both proposals have been extended for the second time until end-Oct 18, suggesting that UMW's goal is to have a controlling stake in Perodua as both proposals are not conditional upon each other.

RECOMMENDATION

- No change to our 2018-20 earnings forecasts of RM468m/RM553m/RM580m respectively.
- **Maintain HOLD and SOTP-based target price of RM6.20**, implying 13.6x 2019F PE. Our target price assumes UMW's stake in Perodua at 48% post completion of the 10% stake acquisition in Perodua from PNB (previously: 70.6%). Entry price is RM5.80.

ANALYST

Fong Kah Yan

+603 2147 1993

kahyan@uobkayhian.com

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