



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

5 Oct 2018

Modest auto prospects to drive FY19 growth

HOLD

(Maintained)

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Rationale for report: Company update

Price **RM4.69**
 Fair Value **RM5.60**
 52-week High/Low RM6.98/RM4.70

Key Changes

Fair value
 EPS

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	11,066.6	11,385.8	11,804.3	12,297.7
Core net profit (RM mil)	(79.1)	375.2	438.2	505.0
FD Core EPS (sen)	(6.8)	32.1	37.5	43.2
FD Core EPS growth (%)	(105.3)	(574.3)	16.8	15.3
Consensus Net Profit (RM mil)	-	393.2	442.1	505.1
DPS (sen)	6.5	11.2	11.3	13.0
PE (x)	nm	15.5	13.3	11.5
EV/EBITDA (x)	19.0	8.3	6.9	6.0
Div yield (%)	1.3	2.3	2.3	2.6
ROE (%)	0.9	11.8	12.7	13.4
Net Gearing (%)	52.2	34.7	30.6	22.5

Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	5,806.4
Book Value (RM/share)	2.61
P/BV (x)	1.9
ROE (%)	0.9
Net Gearing (%)	52.2

Major Shareholders	ASB (40.7%) EPF (8.8%) PNB (7.3%)
Free Float	32.6
Avg Daily Value (RMmil)	3.5

Price performance	3mth	6mth	12mth
Absolute (%)	(20.0)	(18.7)	(10.5)
Relative (%)	(25.1)	(16.2)	(12.3)



Investment Highlights

- We maintain HOLD on UMW Holdings but cut our SOP-based FV to RM5.60/share (from RM6.29/share). We trim our FY19-20 projections by 1-4% with a lower sales projection for Toyota and Perodua, and lowered our PE multiples for both units.
- The stock has tumbled dramatically by up to 21% since the end of August. We believe that this was mainly due to: (1) market expectations that it will not close the deal for the majority stake in MBM Resources successfully, by the deadline of end-October and (2) the weaker prospects for auto sales and margins from the final quarter of this year.
- The stock took a hit yesterday (down 5.6%) amid news that Perodua sales fell a multi-year low of 9.5K in Sept (down 47% MoM /34% YoY) due to a supply disruption in the Myvi that began in August. We believe this is a short-term issue as the Myvi production returns today and sales of the model should normalize from this month. Perodua is still supported by the 22K in unfulfilled orders for the Myvi as of end-Sept.
- The auto segment faces hazier days after a strong 1HFY18 that benefited from a YoY strengthening of the ringgit and support from the new Perodua model. Both Toyota and Perodua saw sales spike during the tax holiday although the latter saw a small dent in Aug due to the aforementioned supply disruption.
- We are projecting a sales growth of 2.0%/3.0% for Toyota/Perodua in FY19, down from 3.0%/4.0% before. We have also lowered their respective PEs for the SOP-based FV to 10x/11x from 11x/13x previously, in tandem with weaker sales and margins expected from the final quarter.
- Both companies will line up defences for early 2019: Toyota targets to launch a new Camry by the end of this year (the model accounts for about 6% of its TIV), and Perodua has marked its SUV for launch in February 2019.
- For FY19, we also project a modest growth in UMW's other two core segments. The equipment segment will be supported by the formation of JV with Komatsu to improve market penetration and competitiveness. The M&E segment should return to the black as the aerospace unit breaks even next year.
- As before, our SOP includes the additional 10% in Perodua that we expect UMW to acquire from PNB Equity Resource Corp (PERC) but not the 22.6% it would reap from acquiring MBM. The higher stake (of 48%) still deprives UMW from a controlling position in Perodua, which is in line with Daihatsu's main contention on the deal.
- We reiterate that should the deal fail to materialize, it would be negative for UMW as it would have missed the opportunity to take up additional shares in Perodua at a low price.

EXHIBIT 1: SUM-OF-PARTS FAIR VALUE

Pegged to FY19F						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	476.4	51%	10	2,429.6	2.00	1,217.6
Equipment	160.3	91%	12	1,750.9	1.44	
M&E	67.7		11	744.2	0.61	
					4.04	
Add: Perodua	566.2	48%	11	2,989.7	2.46	
Add: Serendah land (831 acres at RM15/psf)				543.0	0.45	
Add: Company net debt				(1,773.3)	(1.46)	
Add: Cash from sale of equipment stake	133.9			133.9	0.11	
FV:					5.60	

* On enlarged share base of RM1,218 mil following 49.3 mil new shares issued

Source: AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

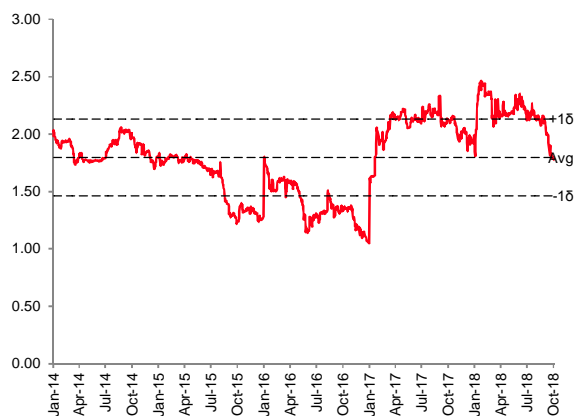


EXHIBIT 3: PE BAND CHART

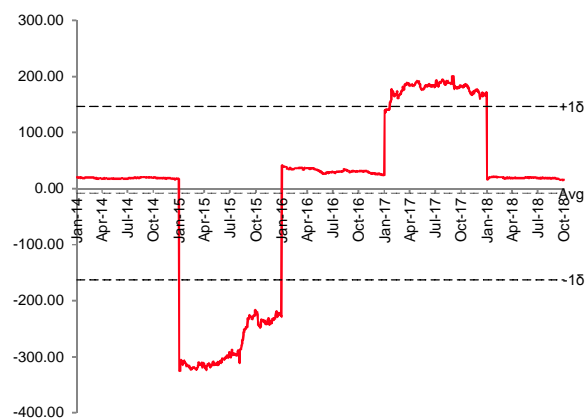


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	10,436.8	11,066.6	11,385.8	11,804.3	12,297.7
EBITDA	(255.3)	389.0	835.4	1,007.1	1,116.6
Depreciation/Amortisation	(229.3)	(265.3)	(274.9)	(310.0)	(339.8)
Operating income (EBIT)	(484.6)	123.7	560.6	697.1	776.9
Other income & associates	183.6	182.0	202.3	215.2	228.6
Net interest	18.8	(39.1)	(6.5)	14.6	15.2
Exceptional items	-	-	-	-	-
Pretax profit	(282.1)	266.6	756.4	926.8	1,020.7
Taxation	(125.0)	(121.7)	(133.0)	(170.8)	(190.1)
Minorities/pref dividends	611.7	19.8	(248.2)	(317.9)	(325.6)
Net profit	204.7	35.3	375.2	438.2	505.0
Core net profit	1,494.8	(79.1)	375.2	438.2	505.0
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	7,678.5	2,658.1	3,293.3	3,760.4	4,113.6
Intangible assets	-	-	-	-	-
Other long-term assets	2,822.9	2,520.8	2,563.6	2,611.1	2,663.0
Total non-current assets	10,501.4	5,178.9	5,856.9	6,371.5	6,776.6
Cash & equivalent	1,857.4	1,169.6	1,563.6	1,549.7	1,703.9
Stock	1,931.2	1,410.7	1,384.3	1,426.3	1,485.9
Trade debtors	988.5	1,021.3	935.8	970.2	1,010.8
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	5,198.9	5,261.4	5,515.8
Trade creditors	1,878.6	2,795.5	2,244.4	2,314.7	2,411.5
Short-term borrowings	2,639.3	691.9	1,020.9	1,277.9	1,534.9
Other current liabilities	234.0	165.5	263.8	269.4	275.9
Total current liabilities	4,752.0	3,652.9	3,529.1	3,862.1	4,224.4
Long-term borrowings	3,715.8	2,069.7	1,684.7	1,371.7	1,058.7
Other long-term liabilities	954.4	194.7	106.4	108.8	111.6
Total long-term liabilities	4,670.2	2,264.4	1,791.1	1,480.5	1,170.3
Shareholders' funds	4,718.6	3,047.2	3,291.2	3,597.9	3,951.4
Minority interests	2,145.7	1,131.2	2,444.5	2,692.5	2,948.2
BV/share (RM)	4.04	2.61	2.82	3.08	3.38
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	(282.1)	266.6	756.4	926.8	1,020.7
Depreciation/Amortisation	229.3	265.3	274.9	310.0	339.8
Net change in working capital	200.7	1,099.3	(425.8)	0.8	4.6
Others	142.8	(501.9)	(393.8)	(464.1)	(496.2)
Cash flow from operations	290.7	1,129.3	211.7	773.5	868.9
Capital expenditure	(1,181.6)	(869.8)	(853.9)	(708.3)	(614.9)
Net investments & sale of fixed assets	225.3	(234.8)	-	-	-
Others	183.7	(746.1)	158.5	178.2	177.5
Cash flow from investing	(772.5)	(1,850.7)	(695.5)	(530.1)	(437.4)
Debt raised/(repaid)	380.1	194.8	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(212.7)	(75.9)	(131.3)	(131.4)	(151.5)
Others	(558.3)	-	1,065.1	(69.9)	(69.9)
Cash flow from financing	(390.8)	118.9	877.8	(257.3)	(277.3)
Net cash flow	(872.6)	(602.4)	394.0	(13.9)	154.2
Net cash/(debt) b/f	2,621.1	1,607.3	1,169.6	1,563.6	1,549.7
Net cash/(debt) c/f	1,607.3	1,181.5	1,563.6	1,549.7	1,703.9
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(27.7)	6.0	2.9	3.7	4.2
EBITDA growth (%)	(139.5)	(252.4)	114.7	20.5	10.9
Pretax margin (%)	(2.7)	2.4	6.6	7.9	8.3
Net profit margin (%)	2.0	0.3	3.3	3.7	4.1
Interest cover (x)	nm	3.2	86.8	nm	nm
Effective tax rate (%)	44.3	45.6	17.6	18.4	18.6
Dividend payout (%)	42.8	161.3	26.3	22.5	22.5
Debtors turnover (days)	49	33	31	29	29
Stock turnover (days)	67	55	45	43	43
Creditors turnover (days)	72	77	81	70	70

Source: Company, AmInvestment Bank Bhd estimates

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