

30 Nov 2018

# Buy

**Price**  
 RM4.98

**Target Price**  
 RM7.10 (from RM6.40)

## Market Data

Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	5,818.1
52-week high/low (RM)	6.98 / 4.20
Avg daily turnover (RMm)	8.7
KLICI (pts)	1,696.3

Source: Bloomberg, KAF

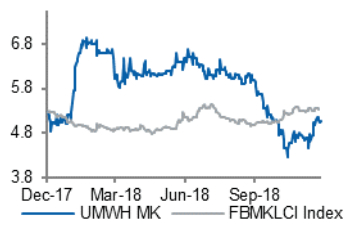
## Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.8%)
EPF	(11.4%)
Yayasan Perlaburan Bumiputera	(7.3%)
Free Float	31.6

Source: Bloomberg, KAF

## Performance

	3M	6M	12M
Absolute (%)	(17.7)	(22.2)	(4.8)
Rel Market (%)	(11.7)	(18.5)	(3.4)



Source: Bloomberg, KAF

# UMW Holdings

## 9M exceeds; unlocking land value

UMW's 9M18 earnings beat estimates mainly from better margins, lower tax rate and stronger associate contribution. M&E division also returned to the black in 3Q. UMW's plan to sell its Shah Alam land and relocate to Serendah is a positive move to unlock land value at both sites. The sale is targeted to complete in 2Q19. Maintain Buy with a higher SOP-based TP of RM7.10 (from RM6.40 previously).

## Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	10,437	11,067	11,662	11,268	12,046
Core net profit (RMm)	437	169	528	611	711
Core EPS (Sen)	37.4	14.4	45.2	52.3	60.8
EPS growth (%)	35.5	(61.4)	>100	15.8	16.3
DPS (Sen)	0.0	0.0	22.5	26.0	30.5
Core PE (x)	13.3	34.5	11.0	9.5	8.2
Div yield (%)	0.0	0.0	4.5	5.2	6.1
ROE (%)	(7.4)	3.7	15.9	15.7	15.7
Net Gearing (%)	95.3	52.2	23.4	6.2	5.2
PBV(x)	0.8	1.4	1.2	1.0	0.9

Source: Company, KAF

**A stellar 3Q.** UMW reported 3Q core earnings of RM166m (vs. RM37m a year earlier). This is on a 25% top-line growth as UMW sold more cars during the tax holiday period. However, the biggest surprise was the M&E division returning to black with PBT of RM16m on lower losses at the aerospace division.

**9M core earnings beat estimates.** Cumulatively, UMW's 9M core earnings of RM368m rose 57% to beat both our and consensus estimates. The main variances are lower operating expenses (partly due to better efficiencies at the M&E division), stronger contribution from JV and associates, and a lower effective tax rate of 17%.

**M&E division back in the black.** The M&E division reported 9M PBT of RM12m (compared to RM13m losses a year earlier) on higher delivery of fan cases and improved efficiency. Hence, the division reported 2% PBT margin. We expect another profitable quarter as we expect the division to deliver 59 fan cases this year (and 120 next year).

**No surprises for auto and equipment.** The auto and equipment divisions performed within expectations at 74% and 82% of our PBT FY19 estimates, respectively, as we had factored in the stronger growth and margins during the tax holiday period.

**Disposing Shah Alam land for RM288m.** UMW also announced that it is disposing its 39-acre Shah Alam land to Mapletree Dextra Pte Ltd's unit for RM288m. It expects to realise a gain of RM171m (15 sen/share). The proposed sale comprises 10 lots (on which factories are currently operating) valued at 3% premium to market price and 2.5x PBV. We deem the disposal to be fair. The deal is targeted for completion by 2Q19 (see Exhibit 3 & 4 for details). Proceeds are intended for working capital purposes.

**Unlocking value and relocating to Serendah.** The sale is part of the group's strategy to realise the value of its Shah Alam land and move its operations to Serendah. To this end, the group will rent the Shah Alam land for its existing operations for RM12.6m p.a. until it completes the new facilities in Serendah. The rental period will not exceed 3 years.

**Positive on the move.** We are positive on the move as the disposal does not only unlocks its Shah Alam land value, but will also lead to crystallisation of its 732-acre Serendah land. We make no changes to our valuation for Serendah (RM16psf currently) until management furnishes more details on the expected capex and plans for the new facilities.

**Maintain Buy.** We maintain our Buy recommendation and increase our SOP-based TP to RM7.10 (from RM6.40) to account for lower tax rate, lower operating costs and stronger associate contribution. We have also tweaked our valuation for M&E to 10x PE (from 1x BV previously). Further upside stems from crystallisation of its Serendah land value.

## Analyst

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**Exhibit 1: Results summary**

FYE 31 Dec	3Q17	1Q18	2Q18	3Q18	yoy %	qoq%	9M17	9M18	yoy %	FY18F	FY18/F
<b>Continued operations</b>											
Revenue	2639	2415	2919	3299	25%	13%	8092	8624	7%	11582	74%
Operating profit	(2)	92	241	172	nm	-29%	105	505	379%	463	109%
Investment income	21	22	19	23	9%	21%	60	64	8%	80	80%
Finance cost	(10)	(24)	(14)	(19)	88%	35%	(42)	(56)	34%	(59)	96%
JV & Associates	40	58	54	57	42%	5%	113	169	49%	197	86%
Pretax profit	49	147	301	234	375%	-22%	236	682	189%	681	100%
Tax	(30)	(30)	(40)	(43)	47%	10%	(89)	(113)	26%	(163)	
Profit after tax (continued ops)	20	118	262	190	867%	-27%	147	570	287%	518	110%
MI	(25)	(27)	(33)	(35)	38%	7%	(71)	(94)	32%	(140)	
Net profit (continuing ops)	(6)	91	229	155	nm	-32%	76	475	527%	377	126%
Core net profit	37	80	122	166	346%	37%	234	368	57%	377	97%
<b>Discontinued Operations</b>											
Revenue	32	23	31	9	-70%	-70%	308	64	-79%		
Loss before tax from discontinued ops	(29)	(24)	(122)	(18)	-39%	-85%	(392)	(163)	-58%		
Loss after tax from discontinued ops	(29)	(24)	(122)	(18)	-39%	-85%	(392)	(164)	-58%		
MI	6	7	17	(9)	-252%	-151%	98	15	-84%		
Net loss from discontinued ops	(24)	(17)	(105)	(27)	14%	-74%	(294)	(149)	-49%		
<b>Consolidated</b>											
Revenue	2671	2439	2950	3308	24%	12%	8400	8689	3%		
(Loss)/profit before tax	20	124	179	216	983%	20%	(155)	519	-434%		
Profit after tax	(10)	94	140	172	nm	23%	(245)	405	-265%		
MI	(20)	(20)	(15)	(44)	125%	189%	27	(79)	-395%		
Net profit	(29)	74	124	128	nm	3%	(219)	327	-249%		
<b>Consolidated</b>											
EPS (sen)	(2.5)	6.3	10.6	11.0			(18.7)	28.0			
Core EPS (sen)	(2.5)	6.3	10.6	11.0			(32.3)	28.0			
Net DPS (sen)	0.0	5.0	0.0	0.0			0.0	5.0			
BV (RM)	2.61	2.67	2.72	2.81			2.61	2.81			
PBT margin (%)	1%	5%	6%	7%			-2%	6%			
PAT margin (%)	0%	4%	5%	5%			-3%	5%			
Net profit margin (%)	-1%	3%	4%	4%			-3%	4%			
Core net profit margin (%)	-1%	3%	4%	4%			-4%	4%			
<b>Continued ops</b>											
EPS (sen)	(0.5)	7.8	19.6	13.3			6.5	40.7			
Core EPS (sen)	3.2	6.8	10.4	14.2			20.1	31.5			
Net DPS (sen)	0.0	5.0	0.0	0.0			0.0	5.0			
BV (RM)	2.61	2.67	2.72	2.81			2.61	2.81			
EBIT margin (%)	0%	4%	8%	5%			1%	6%			4%
PBT margin (%)	2%	6%	10%	7%			3%	8%			6%
PAT margin (%)	1%	5%	9%	6%			2%	7%			4%
Net margin (%)	0%	4%	8%	5%			1%	6%			3%
Effective tax rate (%)	60%	20%	13%	19%			38%	17%			24%

Source: Company, KAF

**Exhibit 2: Segmental breakdown**

	3Q17	1Q18	2Q18	3Q18	yoy %	qoq %	9M17	9M18	yoy %	FY18F	FY18/F
<b>Continued</b>											
Automotive	2116	1877	2383	2643	25%	11%	6567	6903	5%	9,270	74%
Equipment	369	373	366	403	9%	10%	1063	1142	7%	1,531	75%
Manufacturing	156	168	178	254	63%	42%	476	600	26%	781	77%
Others & Eliminations	(2)	(3)	(8)	(10)	443%	33%	(14)	(3)	nm		
<b>Total Revenue (RM mil)</b>	<b>2639</b>	<b>2415</b>	<b>2919</b>	<b>3290</b>	<b>25%</b>	<b>13%</b>	<b>8092</b>	<b>8642</b>	<b>7%</b>	<b>11,582</b>	<b>75%</b>
Automotive	106	126	142	151	43%	6%	292	420	44%	566	74%
Equipment	39	45	38	44	11%	15%	111	126	14%	154	82%
Manufacturing	(7)	(3)	(1)	16	nm	nm	(13)	12	nm	0	nm
Others	(89)	(21)	122	23	nm	nm	(153)	124	nm		
<b>Total PBT (RM mil)</b>	<b>49</b>	<b>147</b>	<b>301</b>	<b>234</b>	<b>nm</b>	<b>nm</b>	<b>236</b>	<b>682</b>	<b>nm</b>	<b>681</b>	<b>100%</b>
Automotive PBT margin (%)	5%	7%	6%	6%			4%	6%		6%	
Equipment PBT margin (%)	11%	12%	10%	11%			10%	11%		10%	
Manufacturing PBT (%)	-4%	-2%	0%	6%			-3%	2%		0%	
<b>Total PBT margin (%)</b>	<b>2%</b>	<b>6%</b>	<b>10%</b>	<b>7%</b>			<b>3%</b>	<b>8%</b>		<b>6%</b>	

Source: Company, KAF

**Exhibit 3: Key details of the proposed Shah Alam land disposal**

	RM m	Per share (RM)
Consideration price (RM m)	287.7	0.25
Expected gain (RMm)	171.4	0.15
BV (RM m)	116.3	0.10
 PBV (x)	 2.47	
Original cost of investment (RM m)	157	

Source: Company, KAF

**Exhibit 4: Key information of properties**

Lot	Land type	Existing use	Acreage (acres)	Disposal consideration (RM m)	BV (RM m)	PBV (x)	Market value (RM m)	Premium to market value (%)
2	Industrial	Industrial land with building	3.00	18.77	6.21	3.0	18.19	3%
8	Industrial	Office and factory	1.52	11.98	1.00	12.0	11.61	3%
10	Industrial	Office and warehouse	2.30	29.43	10.44	2.8	28.53	3%
51	Vacant	Vacant	6.16	33.16	26.87	1.2	32.15	3%
3	Industrial	Office, workshop, parking, canteen, auditorium	15.18	17.53	5.54	3.2	16.99	3%
3	Industrial		24.94	8.19	3.0	24.18	3%	
3	Industrial		57.79	7.47	7.7	56.02	3%	
6	Industrial	Office and factory	1.91	14.94	4.60	3.2	14.49	3%
14	Industrial	Office and factory	2.76	20.44	7.92	2.6	19.81	3%
15	Industrial	Office and factory	1.84	28.70	18.76	1.5	27.82	3%
18	Industrial	Office and warehouse	2.48	17.37	6.61	2.6	16.84	3%
12	Industrial	Office and factory	1.66	12.65	14.13	0.9	12.26	3%
<b>Total</b>			<b>38.8</b>	<b>287.70</b>	<b>117.73</b>	<b>2.4</b>	<b>278.88</b>	<b>3%</b>

Source: Company, KAF

**Exhibit 5: SOP value**

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	68.0	0.06	1%	Carrying value at 1H18
Equipment division	1577	1.35	19%	12x FY19F PE
M&E division	1018	0.87	12%	10x FY19 PE
UMW Toyota	4,375	3.74	53%	14x FY19F PE
Perodua	2,524	2.16	30%	12x FY19F PE - 38% stake
Serendah land	510	0.44	6%	RNAV (732 acres at RM16psf)
Company net cash/(debt)	(1773)	-1.52	-21%	FY17A
	<b>8298</b>		<b>100%</b>	
UMWH share base	1168			
Fair value	<b>7.10</b>			

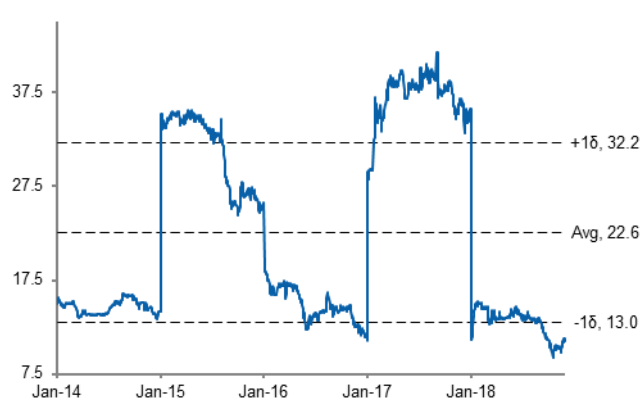
Source: Company, KAF

**Exhibit 6: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 7: PE Band chart**



Source: Company, KAF, Bloomberg

**Income Statement**

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	10,436.8	11,066.6	11,662.1	11,268.1	12,045.8
EBITDA	(255.3)	389.0	812.7	886.7	1,075.4
Depreciation/Amortisation	(229.3)	(265.3)	(224.0)	(277.1)	(330.2)
Operating income (EBIT)	(484.6)	123.7	588.7	609.6	745.1
Other income & associates	183.6	182.0	219.6	369.0	387.5
Net interest	18.8	(39.1)	6.8	(2.8)	(15.7)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>(282.1)</b>	<b>266.6</b>	<b>815.2</b>	<b>975.9</b>	<b>1,117.0</b>
Taxation	(133.5)	(121.7)	(146.7)	(234.2)	(268.1)
Minorities/pref dividends	(120.9)	(109.6)	(140.4)	(130.5)	(138.0)
<b>Net profit</b>	<b>(415.6)</b>	<b>144.9</b>	<b>528.0</b>	<b>611.2</b>	<b>710.9</b>
<b>Core net profit</b>	<b>436.6</b>	<b>168.6</b>	<b>528.0</b>	<b>611.2</b>	<b>710.9</b>

**Balance Sheet**

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	7,678.5	2,658.1	3,415.0	4,318.8	5,169.4
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
<b>Total non-current assets</b>	<b>10,501.4</b>	<b>4,833.8</b>	<b>5,590.7</b>	<b>6,494.5</b>	<b>7,345.2</b>
Cash & equivalent	1,857.4	1,169.6	2,255.1	3,267.3	3,872.6
Stock	1,931.2	1,410.7	1,571.1	1,129.4	1,188.1
Trade debtors	988.5	1,021.3	807.2	782.0	816.5
Other current assets	1,008.0	1,315.2	1,315.2	1,315.2	1,315.2
<b>Total current assets</b>	<b>5,785.1</b>	<b>4,916.8</b>	<b>5,948.6</b>	<b>6,493.9</b>	<b>7,192.4</b>
Trade creditors	1,878.6	2,795.5	3,462.4	3,733.4	3,825.2
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
<b>Total current liabilities</b>	<b>4,752.0</b>	<b>3,652.9</b>	<b>4,136.2</b>	<b>4,400.0</b>	<b>4,594.8</b>
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
<b>Total long-term liabilities</b>	<b>4,670.2</b>	<b>2,264.4</b>	<b>2,556.2</b>	<b>2,999.8</b>	<b>3,505.4</b>
<b>Shareholders' funds</b>	<b>4,718.6</b>	<b>3,047.2</b>	<b>3,575.3</b>	<b>4,186.5</b>	<b>4,897.3</b>
Minority interests	2,145.7	1,131.2	1,271.6	1,402.1	1,540.1

**Cash flow Statement**

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	(282.1)	266.6	815.2	975.9	1,117.0
Depreciation/Amortisation	229.3	265.3	224.0	277.1	330.2
Net change in working capital	441.2	1,216.6	720.6	737.8	(1.4)
Others	(97.6)	(619.2)	(513.6)	(741.0)	(780.4)
<b>Cash flow from operations</b>	<b>290.7</b>	<b>1,129.3</b>	<b>1,246.1</b>	<b>1,249.8</b>	<b>665.5</b>
Capital expenditure	(1,181.6)	(869.8)	(1,000.0)	(1,200.0)	(1,200.0)
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	2,170.7	2,302.2	2,388.4
<b>Cash flow from investing</b>	<b>(772.5)</b>	<b>(1,850.7)</b>	<b>(398.3)</b>	<b>(466.8)</b>	<b>(380.6)</b>
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	(262.9)	(303.8)
Others	(654.1)	(75.9)	(112.6)	53.6	25.8
<b>Cash flow from financing</b>	<b>(390.8)</b>	<b>118.9</b>	<b>225.8</b>	<b>229.1</b>	<b>320.5</b>
<b>Net cash flow</b>	<b>(872.6)</b>	<b>(602.4)</b>	<b>1,073.6</b>	<b>1,012.2</b>	<b>605.4</b>
<b>Cash b/f</b>	<b>2,621.1</b>	<b>1,607.3</b>	<b>1,181.5</b>	<b>2,255.1</b>	<b>3,267.3</b>
<b>Cash c/f</b>	<b>1,607.3</b>	<b>1,181.5</b>	<b>2,255.1</b>	<b>3,267.3</b>	<b>3,872.6</b>

**Key Ratios**

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	(27.7)	6.0	5.4	(3.4)	6.9
EBITDA growth (%)	nm	nm	>100	9.1	21.3
Pretax margins (%)	(2.7)	2.4	7.0	8.7	9.3
Net profit margins (%)	(4.0)	1.3	4.5	5.4	5.9
Interest cover (x)	nm	3.2	nm	220.7	47.5
Effective tax rate (%)	0.0	87.9	32.9	0.0	0.0
Net dividend payout (%)	nm	0.0	0.0	0.0	0.0
Debtors turnover (days)	49	33	29	26	24
Stock turnover (days)	67	55	47	44	35
Creditors turnover (days)	72	77	98	117	115

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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