

High five for 9M18 results!

UMW Holdings (UMWH) reported a good set of results, exceeding expectations. 9M18 core net profit expanded by more than five-fold to RM475m (vs. 9M17 of RM76m), attributed to the higher contribution from its three core segments and associates. Given the strong showing in 9M18, we raise our FY19-21E earnings by 8-21% and 12-month TP to RM6.45. Maintain BUY.

9M18 pre-tax profit expanded by 189% yoy

UMWH's 9M18 pretax profit rose by 189% yoy to RM682m, driven by (i) better performance from the three core segments, (ii) higher associate contribution (+49% yoy, 9M18 Perodua car sales +11% yoy) and (iii) lower losses from the unlisted oil & gas (O&G) operations. The automotive segment grew 44% yoy on higher Toyota sales (+7% yoy) and improved EBIT margins (+1.6 pts to 6.1%) thanks to the tax holiday boost. Toyota's 10M18 sales of 58k units is on track to hit the 2018 sales target of 70k units; Perodua is likely to exceed the 2018 sales target of 209k units, in our view. Elsewhere, the equipment segment grew 14% yoy on better performance from the industrial equipment. While we note that no O&G assets were disposed this quarter, we believe the losses will likely lessen further as the Group remains committed to exit the O&G industry moving forward. All in, 9M18 results was ahead of both consensus and our expectations, achieving 132% and 94% of our respective forecasts.

Weaker sequentially, but only due to one-off boost in 2Q18

Operationally, UMWH 3Q18 performance was commendable on similar positives mentioned above. However, 3Q18 pretax was lower by 23% qoq due to a reversal of provisions of RM100m in 2Q18, likely from the unlisted O&G segment, we believe.

Disposes Shah Alam land; relocates operations to Serendah

Per Bursa announcement, UMWH will be disposing the industrial land in Shah Alam for a cash consideration of RM287.7m. The Group will relocate the ongoing business operations (ie. mainly equipment and M&E operations) in Shah Alam to the proposed UMW High Value Manufacturing Park in Serendah. The proposed disposal is expected to be completed by 2Q 2019, which may see an expected one-off gain of RM171.4m in 3Q 2019.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue	10,436.8	11,066.6	11,332.1	11,847.4	12,116.7
EBITDA	(255.3)	389.0	896.8	888.5	949.3
Pretax profit	(282.1)	266.6	935.8	908.6	988.4
Net profit	(1,658.0)	(640.6)	374.2	474.7	564.4
EPS (sen)	(141.9)	(54.8)	32.0	40.6	48.3
PER (x)	n.m	n.m	15.8	12.4	10.5
Core net profit	196.1	164.7	594.2	584.7	619.4
Core EPS (sen)	16.8	14.1	50.9	50.1	53.0
Core EPS growth (%)	(65.5)	(16.0)	n.m	(1.6)	5.9
Core PER (x)	n.m	n.m	9.9	10.1	9.5
Net DPS (sen)	0.0	0.0	11.0	11.5	12.5
Dividend yield (%)	0.0	0.0	2.2	2.3	2.5
EV / EBITDA (x)	(40.7)	19.3	8.4	8.1	7.1
Chg in EPS (%)			18.0	8.3	7.7
Affin/Consensus (x)			1.7	1.2	1.2

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

UMW Holdings

UMWH MK
Sector: Auto & Autoparts

RM5.05 @ 30 November 2018

BUY (maintain)

Upside: 27.7%

Price Target: RM6.45

Previous Target: RM6.30



Price Performance

	1M	3M	12M
Absolute	6.3%	-15.0%	-4.2%
Rel to KLCI	8.2%	-7.9%	-2.0%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	5899.9/1410
Avg daily vol - 6mth (m)	1.3
52-wk range (RM)	4.2-6.98
Est free float	31.3%
BV per share (RM)	2.72
P/BV (x)	1.86
Net cash/(debt) (RMm)	(774.67)
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

ASB	40.8%
EPF	11.1%
PNB	7.3%
KWAP	6.9%

Source: Affin Hwang, Company, Bloomberg

Brian Yeoh
(603) 2146 7658
brian.yeoh@affinhwang.com

Maintain BUY with higher TP of RM6.45

We raise our 2018-20E core EPS forecasts by 8%-18% to factor in the (i) higher-than-expected 9M18 results, (ii) lower effective tax rate of 21% (previous forecast at 25%), (iii) higher contribution from associates, and (iv) higher investment income. In tandem with our earnings upgrade, we raise our SOTP to RM6.45 (from RM6.30). At 10x 2019E PER, we believe valuations is attractive, in view of the (i) new volume-generative Toyota model line-ups, (ii) decent growth from UMW's two core segments, (iii) lower losses from the unlisted O&G operations and (iv) higher Perodua association contribution. Downside risks include higher-than-expected losses of O&G assets and weaker-than-expected vehicle sales.

Fig 1: Results comparison

FY 31 Dec (RMm)	3Q17	2Q18	3Q18	qoq % chg	yoy % chg	9M17	9M18	yoy % chg	Comment
Revenue	2,639.2	2,919.1	3,290.0	12.7	24.7	8,091.8	8,624.4	6.6	9M18 revenue grew 7%, thanks to better performance of UMW's three core segments
Op costs	-2,641.7	-2,677.7	-3,119.1	16.5	18.1	-7,986.4	-8,120.5	1.7	
EBIT	-2.5	241.5	170.8	-29.2	n.m.	105.4	503.9	>100	
<i>EBIT margin (%)</i>	-0.1	8.3	5.2	-3.1ppt	n.m.	1.3	5.8	4.5ppt	EBIT margins improved 4.5 ppts to 5.8% due to lower discounts offered during tax holiday season
Int expense	-9.9	-13.8	-18.6	34.8	87.8	-41.9	-56.0	33.6	
Int income	21.4	19.3	24.1	25.0	12.8	59.5	65.0	9.3	
Associates	40.2	54.4	57.2	5.2	42.2	113.4	169.3	49.2	Perodua's 9M18 car sales rose 11% yoy
Pretax from Cont. Operations	49.2	301.3	233.6	-22.5	>100	236.4	682.2	>100	
Discon-operations	-29.5	-122.1	-18.0	-85.2	-38.9	-392.4	-164.1	-58.2	
Tax	-29.6	-39.6	-43.5	9.8	47.1	-89.3	-112.7	26.1	
<i>Tax rate (%)</i>	-149.8	-22.1	-20.2	1.9ppt	n.m.	57.3	-21.7	n.a.	Effective tax rate was lower due to (i) overseas subsidiaries were having lower tax rate and (ii) nontaxable income recorded by local subsidiaries.
MI	-19.5	-15.2	-43.9	>100	>100	26.8	-78.9	n.m.	
Net profit	-29.4	124.4	128.1	3.0	n.m.	-218.5	326.6	n.m.	
Con-operations	-5.7	229.0	155.0	-32.3	n.m.	75.7	475.2	>100	
Discon-operations	-23.6	-104.7	-26.9	-74.3	13.7	-294.2	-148.6	-49.5	
EPS (sen)	-2.5	10.6	11.0	3.0	n.m.	-18.7	28.0	n.m.	
Core profit	-5.7	229.0	155.0	-32.3	n.m.	75.7	475.2	>100	Exceeded expectations

Source: Company, Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com