



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

3 Dec 2018

Stronger across the board

HOLD

(Maintained)

Al Zaquan

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Rationale for report: Company results

Investment Highlights

Price RM5.05
Fair Value RM5.54
52-week High/Low RM6.98/RM4.20

Key Changes

Fair value
EPS

YE to Dec FY17 FY18F FY19F FY20F

Revenue (RM mil)	11,066.6	11,385.8	12,077.6	12,579.2
Core net profit (RM mil)	(79.1)	474.0	492.1	499.2
FD Core EPS (sen)	(6.8)	40.6	42.1	42.7
FD Core EPS growth (%)	(105.3)	(699.2)	3.8	1.4
Consensus Net Profit (RM mil)	-	362.6	469.0	536.8
DPS (sen)	6.5	14.2	12.6	12.8
PE (x)	nm	12.4	12.0	11.8
EV/EBITDA (x)	19.3	7.2	6.4	6.3
Div yield (%)	1.3	2.8	2.5	2.5
ROE (%)	0.9	14.8	13.9	12.9
Net Gearing (%)	52.2	32.1	27.2	20.7

Stock and Financial Data

Shares Outstanding (million) 1,168.3
Market Cap (RMmil) 5,899.9
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) 12.8

Price performance 3mth 6mth 12mth

Absolute (%) (15.0) (22.3) (4.2)
Relative (%) (8.2) (18.8) (2.0)



● We maintain HOLD on UMW Holdings but raise our SOP-based FV to RM5.54/share (from RM5.36) based on an unchanged FY19 PE multiple of 10x on its automotive segment. Our FV was adjusted to include the gain from the land sale in Shah Alam, and higher earnings projections (FY18/19/20 raised by 26%/11%/5%) to account for a stronger showing by its core segments and a slightly higher contribution from its “others” segment. 9MFY19 earnings were above expectations, meeting 98% of our FY projection and 101% of consensus.

● 3QFY18 saw stronger revenue (up 23% YoY) and core net profit on the back of higher Toyota sales from the tax holiday (anchored to the Vios, Hilux and C-HR, which comprised 67% of Toyota sales in 3Q), higher associate earnings that rode on the Perodua Myvi, and a small profit contribution from its M&E segment.

● The profit from M&E segment (of RM9mil) was attributed to better cost management and revenue contribution from the aerospace operation, which began generating sales from 4Q17 but is only envisioned to break even next year. We have factored in a minor profit from M&E in FY19 but expect momentum to pick up from the following year.

● YTD core net profit (up 166% YoY) benefited from stronger numbers by its automotive and equipment segments, as well as lower losses from M&E. Auto benefited from strong Toyota sales during the tax holiday, consistent contributions from Perodua in the past four quarters and a better margin from a stronger ringgit vs. the yen and USD. Recall that the tax holiday was a big boon for Toyota (which reaped 51% of its 10M TIV in June-Aug; vs. 40%/43% for Honda/Nissan).

● UMW also announced the land sale of industrial land (10 lots amounting to 38 acres in Section 15, Shah Alam) for RM288mil cash to Mapletree Investments. This amount will be utilized for its working capital. The price was 3.2% above market values ascribed by an independent valuer and this will result in a one-off gain on disposal of RM171mil based on the total book value of RM116mil as of end-June 2018.

● UMW’s existing operations in Shah Alam comprising several factories for its equipment, lubricants and auto parts manufacturing operations will be moved to Serendah within 3 years to improve activity there and attract more investors to the High-Value Manufacturing Park, which currently houses the aerospace plant.

● We project sales growth of 5%/3% in FY19/20 for Toyota, premised on momentum gradually built on the Rush (launched Oct), Camry (launched end-Nov), Vios (deliveries from Jan) and Yaris (due by end-June 2019).

● We believe UMW earnings will be bolstered by the Toyota launches that are strategically targeting pre-CNY sales, greater earnings clarity from its aerospace operation going forward and the continuing strength in Perodua. Key risks include poorer-than-expected reception to the key models launched and a weakening MYR.

EXHIBIT 1: EARNINGS SUMMARY

RM mil	3Q18	QoQ	YoY	9M17	9M18	%
Revenue	3,290.0	13%	25%	8,091.8	8,624.4	7%
Operating Expenses	(3,142.5)	17%	18%	(8,046.5)	(8,180.2)	2%
Other Operating Income	24.1	42%	18%	60.1	60.4	1%
Operating Profit	171.6	-29%	>100%	105.4	504.7	379%
Finance Costs	(18.6)	35%	88%	(41.9)	(56.0)	34%
Share of Profits of Associates & JV	57.2	5%	42%	113.4	169.3	49%
Investment Income	23.4	21%	9%	59.5	64.3	8%
Profit before tax	233.6	-22%	375%	236.4	682.2	189%
Tax	(43.5)	10%	47%	(89.3)	(112.7)	26%
Profit after tax	190.1	-27%	>100%	147.1	569.5	287%
Minority interest						
Continuing operations	35.1	7%	38%	71.3	94.3	32%
Discontinued operations	8.9	151%	>100%	(98.1)	(15.5)	-84%
Total	43.9	189%	125%	(26.8)	78.9	-395%
Net profit						
Continuing operations	155.0	-32%	>100%	75.7	475.2	527%
Discontinued operations	(26.9)	74%	>100%	(294.2)	(148.6)	-49%
Total	128.1	3%	>100%	(218.5)	326.6	-249%
Core net profit	166.4	37%	346%	162.1	367.7	127%
Margins						
EBITDA margin	7%			2%	8%	
EBIT margin	5%			1%	6%	
PBT Margin	7%			3%	8%	
Net profit margin	5%			1%	6%	
Core net profit margin	5%			2%	4%	
Toyota						
Sales volume	20,940	10%	35%	49,290	52,649	7%
Revenue per car (RM)	126,237	1%	-7%	399,925	399,467	0%
Perodua						
Sales volume	51,105	-17%	-2%	151,580	168,203	11%
Net profit per car (RM)	151	5%	42%	298	445	49%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: SEGMENTAL BREAKDOWN

<u>Segmental Breakdown</u>	3Q18	QoQ	YoY	9M17	9M18	%
Revenue						
Automotive	2,643.4	11%	25%	6,567.1	6,903.1	5%
Equipment	403.4	10%	9%	1,063.1	1,142.4	7%
Manufacturing & Engineering	253.6	42%	63%	475.6	600.3	26%
Others	(10.4)	-33%	-74%	(14.0)	(21.4)	53%
Total	3,290.0	13%	25%	8,091.8	8,624.4	7%
PBT						
Automotive	151.3	6%	43%	292.1	419.6	44%
Equipment	43.5	15%	11%	111.0	126.3	14%
Manufacturing & Engineering	15.5	>100%	331%	(13.2)	12.1	-192%
Eliminations	23.3	-81%	-143%	(153.5)	124.2	-181%
Total	233.6	-22%	375%	236.4	682.2	189%
Net profit						
Automotive	89.6	3%	42%	175.8	257.7	47%
Equipment	32.9	11%	4%	87.6	99.3	13%
Manufacturing & Engineering	8.6	239%	-173%	(28.4)	(6.7)	-76%
Others	23.8	-80%	-128%	(240.1)	124.9	-152%
Total	155.0	-32%	-628%	(5.2)	475.2	>100%
PBT Margin						
Automotive	6%			4%	6%	
Equipment	11%			10%	11%	
Manufacturing & Engineering	6%			-3%	2%	
Net Profit Margin						
Automotive	3%			3%	4%	
Equipment	8%			8%	9%	
Manufacturing & Engineering	3%			-6%	-1%	

Source: AmlInvestment Bank Bhd

EXHIBIT 3: 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	489	51%	10	2,546	2.18	1,168.3
Equipment	160	91%	12	1,751	1.50	
M&E	54		12	649	0.56	
					4.23	
Add: Others segment				80	0.07	
Add: Perodua	566	38%	11	2,367	2.03	
Add: Serendah land (831 acres at RM15/psf)				543	0.46	
Add: Cash from sale of equipment stake	134			134	0.11	
Add: Gain from sale of land in Shah Alam				171	0.15	
Add: Company net debt				(1,773)	(1.52)	
Fair Value					5.54	

Source: AmlInvestment Bank Bhd

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	12,077.6	12,579.2
EBITDA	(255.3)	389.0	965.4	1,083.6	1,070.2
Depreciation/Amortisation	(229.3)	(265.3)	(274.9)	(310.4)	(340.8)
Operating income (EBIT)	(484.6)	123.7	690.6	773.2	729.4
Other income & associates	183.6	182.0	202.3	215.2	228.6
Net interest	18.8	(39.1)	(6.5)	17.8	20.0
Exceptional items	-	-	-	-	-
Pretax profit	(282.1)	266.6	886.4	1,006.2	978.0
Taxation	(125.0)	(121.7)	(164.2)	(189.8)	(179.9)
Minorities/pref dividends	611.7	19.8	(248.2)	(324.3)	(299.0)
Net profit	204.7	35.3	474.0	492.1	499.2
Core net profit	1,494.8	(79.1)	474.0	492.1	499.2
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	7,678.5	2,658.1	3,293.3	3,775.6	4,141.4
Intangible assets	-	-	-	-	-
Other long-term assets	2,822.9	2,520.8	2,563.6	2,612.6	2,665.0
Total non-current assets	10,501.4	5,178.9	5,856.9	6,388.3	6,806.4
Cash & equivalent	1,857.4	1,169.6	1,627.8	1,644.6	1,755.1
Stock	1,931.2	1,410.7	1,384.3	1,459.3	1,519.9
Trade debtors	988.5	1,021.3	935.8	992.7	1,033.9
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	5,263.1	5,411.8	5,624.2
Trade creditors	1,878.6	2,795.5	2,244.4	2,368.3	2,466.7
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	273.0	279.7
Total current liabilities	4,752.0	3,652.9	3,529.1	3,919.3	4,281.3
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	110.3	113.2
Total long-term liabilities	4,670.2	2,264.4	1,791.1	1,482.1	1,171.9
Shareholders' funds	4,718.6	3,047.2	3,355.4	3,699.8	4,049.3
Minority interests	2,145.7	1,131.2	2,444.5	2,698.9	2,928.0
BV/share (RM)	4.04	2.61	2.87	3.17	3.47
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	(282.1)	266.6	886.4	1,006.2	978.0
Depreciation/Amortisation	229.3	265.3	274.9	310.4	340.8
Net change in working capital	200.7	1,099.3	(425.8)	3.3	4.7
Others	142.8	(501.9)	(425.0)	(486.4)	(490.7)
Cash flow from operations	290.7	1,129.3	310.5	833.5	832.8
Capital expenditure	(1,181.6)	(869.8)	(853.9)	(724.7)	(629.0)
Net investments & sale of fixed assets	225.3	(234.8)	-	-	-
Others	183.7	(746.1)	158.5	181.4	182.2
Cash flow from investing	(772.5)	(1,850.7)	(695.5)	(543.3)	(446.7)
Debt raised/(repaid)	380.1	194.8	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(212.7)	(75.9)	(165.9)	(147.6)	(149.8)
Others	(558.3)	-	1,065.1	(69.9)	(69.9)
Cash flow from financing	(390.8)	118.9	843.2	(273.4)	(275.6)
Net cash flow	(872.6)	(602.4)	458.2	16.8	110.5
Net cash/(debt) b/f	2,621.1	1,607.3	1,169.6	1,627.8	1,644.6
Net cash/(debt) c/f	1,607.3	1,181.5	1,627.8	1,644.6	1,755.1
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(27.7)	6.0	2.9	6.1	4.2
EBITDA growth (%)	(139.5)	(252.4)	148.2	12.2	(1.2)
Pretax margin (%)	(2.7)	2.4	7.8	8.3	7.8
Net profit margin (%)	2.0	0.3	4.2	4.1	4.0
Interest cover (x)	nm	3.2	107.0	nm	nm
Effective tax rate (%)	44.3	45.6	18.5	18.9	18.4
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

EXHIBIT 5: PB BAND CHART

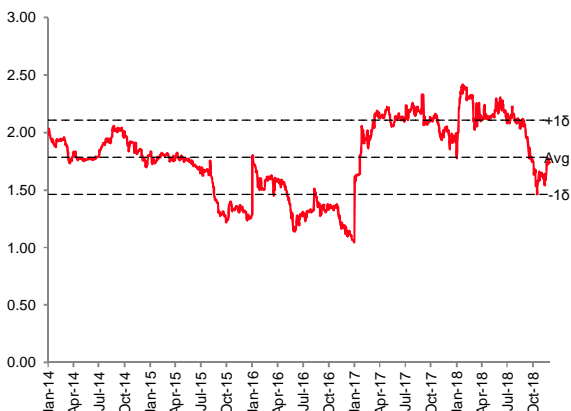
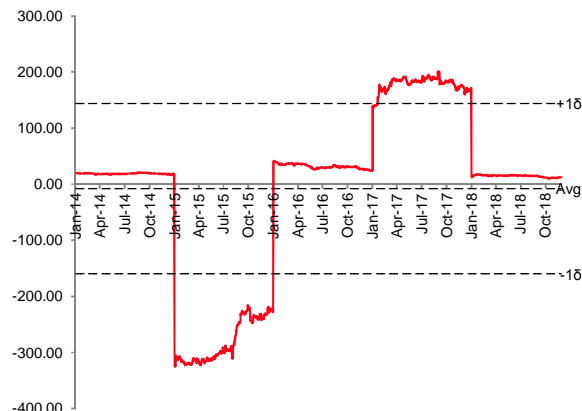


EXHIBIT 6: PE BAND CHART



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