

Malaysia

ADD (previously HOLD)

Consensus ratings*: Buy 11 Hold 5 Sell 1

Current price:	RM5.05
Target price:	RM6.36
Previous target:	RM6.10
Up/downside:	25.9%
CGS-CIMB / Consensus:	9.3%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,410m
	RM5,900m
Average daily turnover:	US\$2.77m
	RM11.56m
Current shares o/s:	1,168m
Free float:	37.8%

*Source: Bloomberg

Key changes in this note

- FY18F EPS increased by 20%.
- FY19-20F EPS decreased by 5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.7	-15	-4.2
Relative (%)	8.1	-7.3	-2

Major shareholders

	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)



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UMW Holdings

New models fuel earnings and our upgrade

- 9M18 core net profit beat expectations at 91%/89% of our/consensus FY18 forecasts due to stronger-than-expected automotive net profit contribution.
- Core net profit in 3Q18 surged 111% qoq, mainly driven by higher vehicle sales volume from Toyota and Lexus during the "tax holiday" period.
- Upgrade to Add in view of a pullback in share prices and stronger automotive earnings outlook, driven by new model launches and new production plant.

Stronger automotive sales drove 9M18 core net profit growth

Total new vehicle sales volume rose 10% yoy in 9M18, ahead of total industry volume growth of 7% in 9M18, due to a decline in selling prices following the zero-rating of the Goods and Services Tax (GST) in Jun-Aug and strong demand for popular models, such as the Myvi, Vios and Hilux. Following the stronger sales delivery and favourable forex movement, the automotive division posted an impressive 44% yoy pretax profit growth in 9M18. The automotive division's margin expanded from 1.6% pts during the period.

New model launches to sustain growth momentum in 2019

While we expect industry demand to normalise in 4Q18 following the introduction of the Sales and Services Tax, UMW could still enjoy robust demand following the introduction of new models, such as the Vios, Camry and Rush. The group is also planning to expand its line-up with the potential introduction of a new B-segment model to compete with Honda. Finally, the group is also on track to commence production at the newly-completed Bukit Raja plant in 2019. The new plant will help UMW to raise its operating efficiency through automation and new capacity to cater to the domestic market.

Monetising land bank assets in Shah Alam

UMW announced that it is selling 38.8 acres of industrial leasehold land in Shah Alam to a subsidiary of Mapletree Investment Pte Ltd for RM287.7m, which is about 3.2% above the average market value. The group stands to record a RM171m (RM0.14/share) gain on disposal. The exercise will help to unlock the group's assets and facilitate the planned relocation of ongoing business operations in Shah Alam to UMW High Value Manufacturing Park in Serendah within the next three years. The deal is expected to be completed in 2Q19 and the proposal is not subject to shareholder approval.

Raise FY18F EPS by 20% but cut FY19-20F EPS by 5%

We raise our FY18F EPS by 20% but cut our FY19-20F EPS by 5% as we expect narrower margins from a weakening ringgit and higher start-up costs for the new plant. We still expect UMW to record an average of 11% net profit growth p.a. in FY19-20F. We upgrade UMW to Add in view of stronger earnings prospects in the automotive division. As we roll over our valuation to end-2019, our target price rises to RM6.36, still based on 14x P/E, in line with its historical mean. Higher automotive earnings, narrowing losses in aerospace and stronger ringgit are potential upside risks while a weakening ringgit and a delay in new model launches are key downside risks to our call.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (RMm)	10,965	11,067	10,854	11,563	12,234
Operating EBITDA (RMm)	684	763	668	893	1,027
Net Profit (RMm)	89.0	125.1	419.4	471.5	515.7
Core EPS (RM)	0.08	0.35	0.36	0.40	0.44
Core EPS Growth	(76%)	356%	3%	12%	9%
FD Core P/E (x)	65.44	14.36	13.89	12.35	11.29
DPS (RM)	0.00	0.00	0.10	0.20	0.25
Dividend Yield	0.00%	0.00%	1.98%	3.96%	4.95%
EV/EBITDA (x)	18.34	11.26	12.49	9.48	8.32
P/FCFE (x)	9.70	7.27	10.78	15.42	11.42
Net Gearing	65.5%	38.3%	27.1%	24.0%	19.9%
P/BV (x)	1.25	1.91	1.74	1.63	1.53
ROE	1.6%	10.4%	13.0%	13.5%	13.8%
% Change In Core EPS Estimates			20.3%	(4.7%)	(4.7%)
CIMB/consensus EPS (x)			1.10	1.00	0.96

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

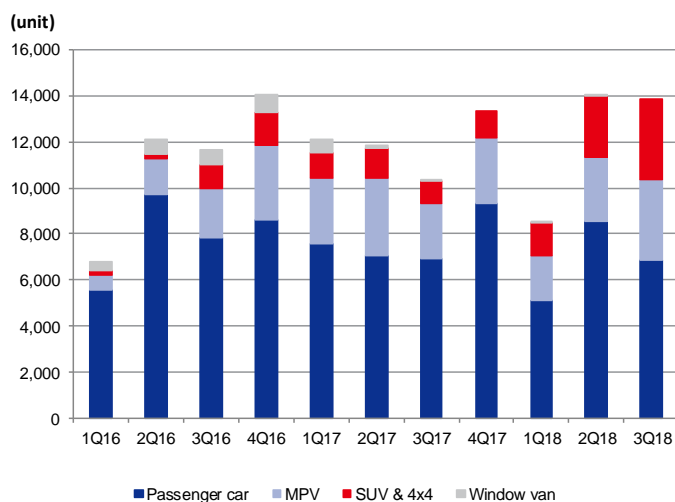
FYE Dec (RM m)	3Q18	3Q17	yoy % chg	2Q18	qoq % chg	3Q18 Cum	3Q17 Cum	yoy % chg	Prev. FY8F	Comments
Revenue	3,290	2,639	24.7	2,919	12.7	8,624	8,092	6.6	10,854	Higher due to stronger contribution from all division
Operating costs	(3,058)	(2,663)	14.8	(2,778)	10.1	(8,128)	(7,649)	6.3	(10,242)	
EBITDA	232	(24)	n.m.	141	64.5	496	443	12.0	611	Above expectation
EBITDA margin (%)	7.0	(0.9)		4.8		5.8	5.5		5.6	
Depn & amort.	(49)	(48)	1.9	(49)	(0.4)	(149)	(272)	(45.1)	(206)	In line
EBIT	183	(72)	353.5	92	99.4	347	171	102.6	406	
Interest expense	(19)	(10)	87.8	(14)	34.8	(56)	42	n.m.	(75)	Total borrowings of RM3.05bn as at end Sep 2018
Interest & invt inc	24	21	11.2	19	23.8	65	68	(4.4)	35	Total cash of RM1.1bn as at end Sep 2018
Associates' contrib	57	40	42.2	54	5.2	169	113	49.2	219	Higher contribution from Perodua
Exceptionals	(11)	70	(116.4)	150	(107.6)	156	(159)	198.5	0	
Pretax profit	234	49	374.7	301	(22.5)	682	236	188.6	585	Above expectation
Tax	(43)	(30)	47.1	(40)	9.8	(113)	(89)	26.1	(135)	Above expectation
Tax rate (%)	18.6	60.1		13.1		16.5	37.8		23.0	
Minority interests	(35)	(25)	38.2	(23)	7.3	(94)	(71)	32.2	(102)	
Net profit	155	(6)	n.m.	229	(32.3)	475	76	n.m.	349	
Core net profit	166	(75)	321.0	79	110.5	319	234	36.0	349	Above expectation
EPS (sen)	13.3	(0.5)	n.m.	19.6	(32.3)	40.7	6.5	n.m.	29.8	9M18 net profit made up 91% of CIMB
Core EPS (sen)	14.2	(6.4)	321.0	6.8	110.5	27.3	20.1	36.0	29.8	and 89% of consensus full-year forecast
DPS (sen)	-	-	n.m.	-	n.m.	5	-	n.m.	10.0	

SOURCES: CIMB RESEARCH, COMPANY REPORTS

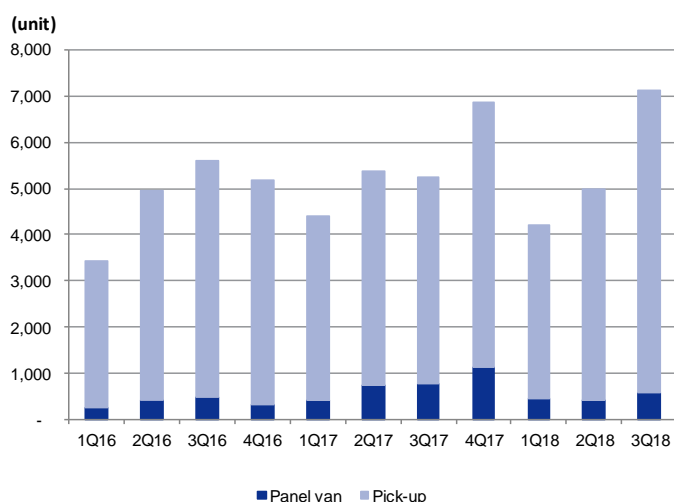
Figure 2: Revenue and pretax profit breakdown

Revenue	3Q18	3Q17	yoy % chg	qoq % chg	3Q18 Cum	3Q17 Cum	yoy % chg
Segmental - Continuing Operations							
Automotive	2,643	2,116	24.9	10.9	6,903	6,567	5.1
Equipment	403	369	9.2	10.2	1,142	1,063	7.5
Manufacturing & Engineering	254	156	62.7	42.2	600	475	26.4
Others	(10)	(2)	443.4	33.3	(21)	(14)	58.3
Total	3,290	2,639	24.7	12.7	8,624	8,092	6.6
PBT							
Automotive	151	106	42.6	6.2	420	292	43.7
Equipment	44	39	10.8	15.1	126	111	13.7
Manufacturing & Engineering	16	(7)	(330.9)	n.m.	12	(13)	(191.7)
Others	23	(89)	(126.0)	(80.9)	124	(153)	180.9
Total	234	49	374.7	(22.5)	682	236	188.6

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 3: Historical Toyota passenger vehicle sales volume


SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 4: Historical Toyota commercial vehicle sales volume


SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision

	Previous			Revised			Changes		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Revenue	10,854	11,563	12,234	10,854	11,563	12,234	0%	0%	0%
EBIT	406	689	848	469	622	746	16%	-10%	-12%
Pretax Profit	585	904	1,071	695	841	972	19%	-7%	-9%
Net Profit	349	495	541	419	471	516	20%	-5%	-5%
EPS	30	42	46	36	40	44	20%	-5%	-5%

SOURCES: CIMB, COMPANY REPORTS

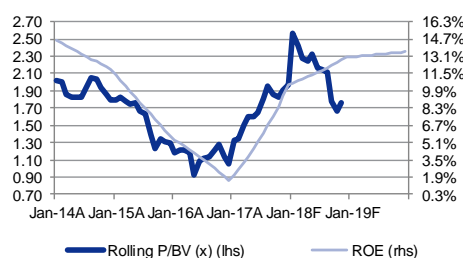
Figure 5: Sector comparison

Company	Recom.	Price	Target Price	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		(RM)	(RM)		CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Bermaz Auto Berhad	Hold	2.10	2.30	582	15.1	12.8	4.8	4.6	33.3%	37.0%	9.1	7.8	5.6%	6.4%
Tan Chong Motor Holdings	Add	1.52	1.90	237	15.3	11.8	0.3	0.3	2.3%	2.9%	9.1	9.4	1.3%	2.0%
UMW Holdings	Add	5.05	6.36	1,410	14.1	12.5	1.7	1.6	13.2%	13.5%	12.3	9.5	2.0%	4.0%
Sime Darby Bhd	Hold	2.29	2.50	3,722	17.9	16.7	1.1	1.0	4.3%	6.4%	8.8	7.9	3.6%	3.9%
Sector average					16.4	14.8	1.2	1.1	5.7%	7.8%	9.6	8.4	3.4%	4.1%

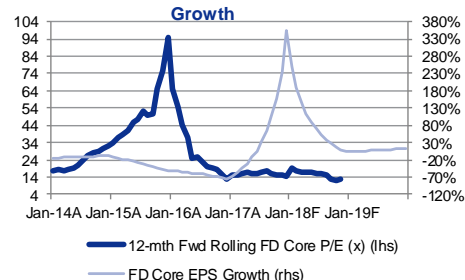
SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	10,965	11,067	10,854	11,563	12,234
Gross Profit	1,645	1,605	1,845	1,734	1,957
Operating EBITDA	684	763	668	893	1,027
Depreciation And Amortisation	(555)	(265)	(199)	(271)	(282)
Operating EBIT	129	498	469	622	746
Financial Income/(Expense)	31	(39)	7	(17)	(20)
Pretax Income/(Loss) from Assoc.	184	182	219	235	246
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	343	641	695	841	972
Exceptional Items		(374)			
Pre-tax Profit	343	267	695	841	972
Taxation	(134)	(122)	(153)	(206)	(253)
Exceptional Income - post-tax					
Profit After Tax	210	145	542	635	719
Minority Interests	(121)	(20)	(122)	(163)	(203)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	89	125	419	471	516
Recurring Net Profit	89	406	419	471	516
Fully Diluted Recurring Net Profit	89	406	419	471	516

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	684	763	668	893	1,027
Cash Flow from Inv. & Assoc.					
Change In Working Capital	686	801	487	(24)	(89)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	528	333	199	271	282
Net Interest (Paid)/Received	31	(39)	7	(17)	(20)
Tax Paid	(210)	(133)	(153)	(206)	(253)
Cashflow From Operations	1,719	1,725	1,209	917	947
Capex	(1,182)	(1,004)	(750)	(600)	(500)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments		0	0		
Other Investing Cashflow	63	80	81	61	63
Cash Flow From Investing	(1,118)	(924)	(669)	(539)	(437)
Debt Raised/(repaid)	0	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	0	(117)	(234)	(292)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	0	0	(117)	(234)	(292)
Total Cash Generated	601	801	424	144	218
Free Cashflow To Equity	601	801	540	378	510
Free Cashflow To Firm	633	920	615	455	593

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	1,857	1,163	1,519	1,566	1,686
Total Debtors	996	994	986	1,050	1,111
Inventories	1,931	1,343	1,912	2,036	2,155
Total Other Current Assets	1,000	1,622	1,622	1,622	1,622
Total Current Assets	5,785	5,122	6,038	6,275	6,574
Fixed Assets	7,679	2,661	3,211	3,541	3,759
Total Investments	2	1	1	1	1
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	2,797	2,159	2,159	2,159	2,159
Total Non-current Assets	10,478	4,820	5,371	5,700	5,919
Short-term Debt	2,639	692	692	692	692
Current Portion of Long-Term Debt					
Total Creditors	1,879	767	1,816	1,981	2,071
Other Current Liabilities	234	2,094	2,094	2,094	2,094
Total Current Liabilities	4,752	3,553	4,602	4,767	4,857
Total Long-term Debt	3,716	2,070	2,070	2,070	2,070
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	931	143	150	150	150
Total Non-current Liabilities	4,647	2,213	2,219	2,219	2,219
Total Provisions	0	0	0	0	0
Total Liabilities	9,399	5,766	6,821	6,986	7,077
Shareholders' Equity	4,719	3,082	3,385	3,623	3,846
Minority Interests	2,146	1,093	1,203	1,366	1,570
Total Equity	6,864	4,176	4,588	4,989	5,416

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	(24.1%)	0.9%	(1.9%)	6.5%	5.8%
Operating EBITDA Growth	(35.1%)	11.6%	(12.4%)	33.6%	15.1%
Operating EBITDA Margin	6.24%	6.90%	6.16%	7.72%	8.40%
Net Cash Per Share (RM)	(3.85)	(1.37)	(1.06)	(1.02)	(0.92)
BVPS (RM)	4.04	2.64	2.90	3.10	3.29
Gross Interest Cover	3.97	4.19	6.29	8.05	9.00
Effective Tax Rate	38.9%	45.6%	22.0%	24.5%	26.0%
Net Dividend Payout Ratio	NA	NA	20.4%	34.5%	38.0%
Accounts Receivables Days	47.22	32.81	33.29	32.14	32.34
Inventory Days	75.03	63.15	65.93	73.31	74.63
Accounts Payables Days	80.89	51.03	52.33	70.50	72.16
ROIC (%)	0.75%	3.04%	5.95%	7.81%	8.83%
ROCE (%)	1.3%	5.7%	7.7%	9.0%	10.2%
Return On Average Assets	1.86%	5.11%	6.46%	7.30%	8.07%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	2.0%	0.0%	1.5%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-9.1%	6.4%	0.3%	2.0%	4.9%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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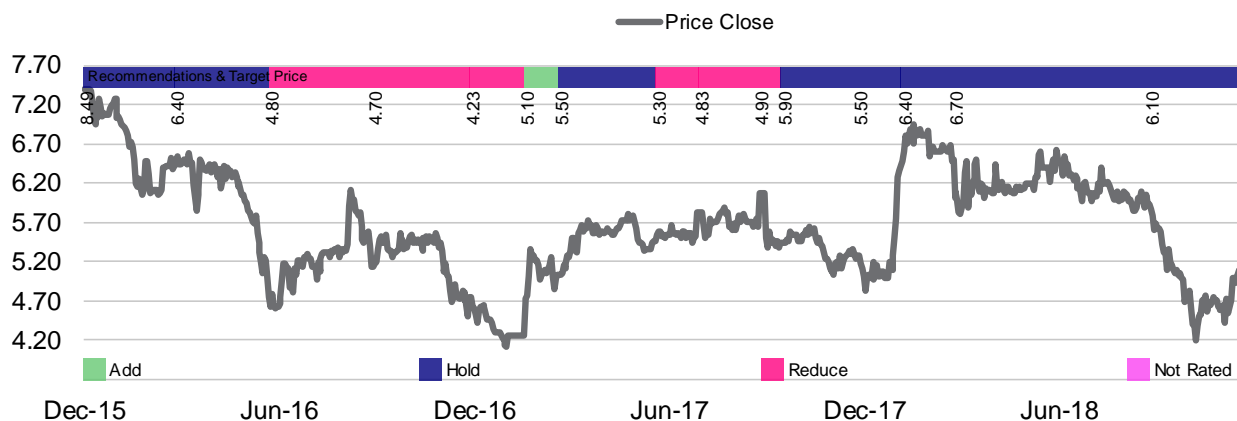
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759 companies under coverage for quarter ended on 30 September 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)

UMW Holdings (UMWH MK)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** – Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** – Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** – Excellent, Declared, **SIM** – Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Good, n/a, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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Definition:	
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:	
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:	
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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