

**HLIB Research**

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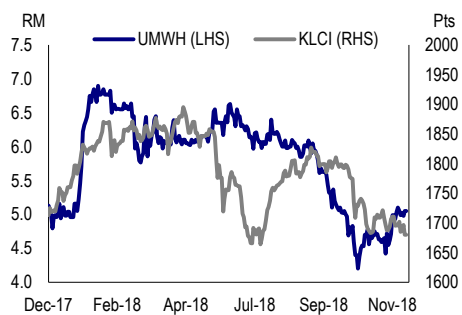
**BUY** (Maintain)

**Target Price: RM5.60**
**Previously: RM5.35**
**Current Price: RM5.05**

Capital upside	10.9%
Dividend yield	2.0%
Expected total return	12.9%

**Sector coverage:** Automotive

**Company description:** UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

**Share price**


	1M	3M	12M
Absolute	7.2	-14.1	-4.2
Relative	9.4	-7.3	-2.0

**Stock information**

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	5,900
3-mth average volume ('000)	2,626
SC Shariah compliant	Yes

**Major shareholders**

Permodalan Nasional Berhad	56.8%
Employsess Provident Fund	11.1%
Kumpulan Wang Persaraan	6.9%

**Earnings summary**

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	(99)	374	463
EPS - core (sen)	(8.5)	32.0	39.6
P/E (x)	N.M.	15.8	12.8

# UMW Holdings

## To leverage on Automotive new launches

UMW reported PATMI of RM292.6m for 9MFY18, within HLIB expectation and consensus. Earnings growth YoY was due to improved sales and margin of Automotive and Equipment segments and lower losses from Manufacturing and O&G segments. We note that UMW has not provided c. RM34.9m for the distribution of RM1.1bn Perpetual Sukuk that was issued back in Mac 2018. We adjusted forecasts marginally for FY18 (+2.5%), FY19 (+2.4%) and FY20 (+0.5%) for book keeping purpose. Maintain BUY with higher TP: RM5.60 (from RM5.35) based on 10% discount to SOP: RM6.25.

**Within expectation.** UMW reported core PATMI of RM139.5m for 3QFY18 and RM292.6m for 9MFY18, achieved 80.1% of HLIB FY18 forecast and 80.3% of consensus. We note that UMW has not provided for the distribution for 10-years Perpetual Sukuk of RM1.1bn that was issued at end Mar 2018. Based on 6.35% periodic distribution rate, UMW would have to provide for RM17.5m for 3QFY18 and RM34.9m for 9MFY18 i.e. core PATMI for 3QFY18 and 9MFY18 would have been lowered to RM122.0m and RM257.7m respectively.

**QoQ.** Core earnings increased by 84.5% to RM139.5m, following the turnaround of Manufacturing segment (on improved production efficiency) and Other segment. Despite the stronger automotive revenue, the automotive segmental PATMI was relatively flat, mainly due to stronger Toyota/Lexus earnings contribution, partially offset by weaker associate Perodua contribution.

**YoY.** Similarly, significant earnings improvement from core LATMI of RM8.4m, mainly due to stronger Automotive segment (on higher group sales volume), turnaround of Manufacturing segment and Other segment.

**YTD.** Core earnings improved by 230% to RM292.6m due to: (i) improved margins of Automotive segment (on stronger RM/USD and higher sales volume) and Equipment segment (on higher export sales); (ii) lower losses drag from Manufacturing, Oil & Gas (unlisted) and Other segments; and (iii) exiting ownership of loss-making UMWOG.

**Outlook.** UMW is expected to maintain its profit momentum into FY19, with stronger automotive sales volume on new launches of Toyota (Vios, Camry and Yaris) and Perodua (SUV), partially offset by the negative impact from the depreciating RM/USD. UMW Aerospace will gradually to ramp up its production before turning profitable in FY19. The recent conclusion of UMW-Komatsu JV (Sep 2018) was aimed to improve the product offerings of Komatsu in the region and enhance earnings of Equipment segment. UMW's continued effort to exit O&G unlisted segment by early 2019 will remove the drag of this segment to the group.

**Land sales.** UMW has announced the disposal of its Shah Alam land (38.8 acres) for RM287.7m. UMW will also enter into a tenancy agreement for part of the land for 3 years with yearly rental of RM12.6m, in order to facilitate the movement of operations into UMW High Value Manufacturing Park in Serendah. Post the completion of the exercise in 2QFY19, UMW is expected to recognise a gain of RM171.4m.

**Forecast.** Adjusted our earnings marginally for FY18 (+2.5%), FY19 (+2.4%) and FY20 (+0.5%) following up-keeping of earnings for Automotive segment (attributed to UMW Toyota and Perodua) and Manufacturing segment.

**Maintain BUY, TP: RM5.60.** Maintain BUY recommendation on UMW with higher TP: RM5.60 (from RM5.35) based on 10% discount to SOP: RM6.25 as UMW leverages on the attractive line up of new Toyota and Perodua launches, while Aerospace Manufacturing continues to ramp up production and return to profits in FY19.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Cash	2,194	1,170	917	800	1,133
Receivables	1,931	1,411	1,498	1,683	1,746
Inventories	868	902	958	1,076	1,117
PPE	7,679	2,658	3,611	3,917	4,028
Others	3,615	3,955	4,008	4,059	3,908
<b>Assets</b>	<b>16,286</b>	<b>10,096</b>	<b>10,992</b>	<b>11,535</b>	<b>11,932</b>
Payables	996	949	965	1,085	1,118
Debt	6,355	2,762	3,297	3,353	3,249
Others	2,071	2,206	2,206	2,206	2,206
<b>Liabilities</b>	<b>9,422</b>	<b>5,917</b>	<b>6,468</b>	<b>6,644</b>	<b>6,572</b>
Shareholder's equity	4,719	3,047	3,363	3,709	4,154
Minority interest	2,146	1,131	1,161	1,182	1,205
<b>Equity</b>	<b>6,864</b>	<b>4,178</b>	<b>4,524</b>	<b>4,891</b>	<b>5,359</b>

### Cash Flow Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	(282)	267	730	753	891
D&A	229	265	294	341	337
Working capital	(1,803)	440	(128)	(182)	(72)
Taxation	(166)	(137)	(156)	(150)	(161)
Others	2,388	381	(211)	(205)	(201)
<b>CFO</b>	<b>366</b>	<b>1,215</b>	<b>529</b>	<b>556</b>	<b>793</b>
Capex	(1,182)	(870)	(1,247)	(647)	(447)
Asset disposal	47	69	0	0	0
Acquisitions	(22)	(935)	0	0	0
Others	(250)	(201)	158	154	353
<b>CFI</b>	<b>(1,406)</b>	<b>(1,937)</b>	<b>(1,089)</b>	<b>(493)</b>	<b>(95)</b>
Changes in debt	380	195	536	56	(104)
Shares issued	0	0	0	0	0
Dividends	(117)	0	(58)	(117)	(129)
Others	(96)	(76)	(170)	(119)	(133)
<b>CCF</b>	<b>167</b>	<b>119</b>	<b>308</b>	<b>(180)</b>	<b>(365)</b>
<b>Net cash flow</b>	<b>(873)</b>	<b>(602)</b>	<b>(252)</b>	<b>(117)</b>	<b>333</b>
Forex	(141)	177	0	0	0
Others	332	(422)	0	0	(0)
Beginning cash	2,734	2,194	1,170	917	800
Ending cash	2,194	1,170	917	800	1,133

### Income Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Revenue	10,416	11,067	11,752	13,199	13,699
EBITDA	(255)	389	904	998	1,131
EBIT	(485)	124	610	657	794
Net finance cost	19	(39)	(91)	(110)	(105)
Associates & JV	184	182	211	205	201
Profit before tax	(282)	267	730	753	891
Tax	(134)	(122)	(156)	(150)	(161)
Operation net profit	(416)	145	574	603	730
Discontinued operation	(1,854)	(805)	0	0	0
Reported net profit	(2,270)	(660)	574	603	730
Minority interest	612	20	(199)	(140)	(156)
Reported PATMI	(1,658)	(641)	374	463	574
Exceptionals	1,756	542	0	0	0
<b>Core PATMI</b>	<b>98</b>	<b>(99)</b>	<b>374</b>	<b>463</b>	<b>574</b>
Concensus			364	476	535
HLIB/Concensus (%)			102.7%	97.2%	107.1%

### Valuation & Ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Reported EPS (sen)	(141.9)	(54.8)	32.0	39.6	49.1
Core EPS (sen)	8.3	(8.5)	32.0	39.6	49.1
Core P/E (x)	60.5	N.M.	15.8	12.8	10.3
DPS (sen)	0.0	5.0	10.0	10.0	12.0
Dividend yield (%)	0.0%	1.0%	2.0%	2.0%	2.4%
BVPS (RM)	4.0	2.6	2.9	3.2	3.6
P/B (x)	1.3	1.9	1.8	1.6	1.4
EBITDA margin	-2.5%	3.5%	7.7%	7.6%	8.3%
EBIT margin	-4.7%	1.1%	5.2%	5.0%	5.8%
PBT margin	-2.7%	2.4%	6.2%	5.7%	6.5%
Net margin	-15.9%	-5.8%	3.2%	3.5%	4.2%
ROE	1.7%	-2.5%	11.7%	13.1%	14.6%
ROA	0.6%	-0.8%	3.5%	4.1%	4.9%
Net gearing	-88.2%	-52.2%	-70.8%	-68.8%	-50.9%

### Assumptions

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
<b>Sales (Unit)</b>					
Toyota	63,757	69,492	70,000	80,000	80,000
Lexus	1,353	953	1,000	1,000	1,000
Perodua	207,100	204,887	236,919	238,064	245,205
<b>Average Price (RM)</b>					
UMW	129,772	127,322	131,142	128,519	129,804
Perodua	40,507	41,070	40,732	40,779	40,779

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9M17	9M18	YoY (%)
Revenue	2,633.5	2,919.1	3,290.0	12.7%	24.9%	8,080.5	8,624.4	6.7%
EBITDA	90.3	257.0	251.4	-2.2%	178.5%	237.1	663.3	179.8%
EBIT	42.1	207.8	202.1	-2.7%	379.9%	94.8	514.0	442.3%
Net finance expense	(8.8)	(9.6)	(14.4)	50.3%	62.7%	(34.2)	(35.0)	2.4%
Associates	29.6	54.4	57.2	5.2%	93.0%	97.7	169.3	73.2%
Exceptional items	(43.0)	48.7	(11.4)			(30.2)	34.0	
Reported PBT	19.9	301.3	233.6	-22.5%	1071.8%	128.0	682.2	432.9%
Tax	(29.8)	(39.6)	(43.5)	9.8%	46.1%	(89.9)	(112.7)	25.3%
Reported operation net profit	(9.8)	261.7	190.1	-27.4%	N.M.	38.1	569.5	1395.0%
Reported discontinued operation	0.0	(122.1)	(18.9)	-84.5%	N.M.	(283.4)	(165.0)	-41.8%
Reported net profit	(9.8)	139.6	171.2	22.6%	N.M.	(245.3)	404.6	N.M.
Reported PATMI	(29.4)	124.4	128.1	3.0%	N.M.	(218.5)	326.6	N.M.
<b>Core PATMI</b>	<b>(8.4)</b>	<b>75.6</b>	<b>139.5</b>	<b>84.5%</b>	<b>N.M.</b>	<b>88.5</b>	<b>292.6</b>	<b>230.5%</b>
Reported EPS (Sen)	(2.5)	10.6	11.0	3.0%	N.M.	(18.7)	28.0	N.M.
Core EPS (Sen)	(0.7)	6.5	11.9	84.5%	N.M.	(7.1)	25.0	N.M.
EBITDA margin (%)	3.4%	8.8%	7.6%	-1.2%	4.2%	2.9%	7.7%	4.8%
EBIT margin (%)	1.6%	7.1%	6.1%	-1.0%	4.5%	1.2%	6.0%	4.8%
Core PATMI margin (%)	-0.3%	2.6%	4.2%	1.7%	4.6%	1.1%	3.4%	2.3%

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**Figure #2** Quarterly results comparison by segment

FYE Dec (RM m)	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9M17	9M18	YoY (%)
<b>Reported Revenue</b>								
Automotive	2,115.9	2,382.7	2,643.4	10.9%	24.9%	6,567.1	6,903.1	5.1%
Equipment	369.3	365.9	403.4	10.2%	9.2%	1,063.1	1,142.4	7.5%
Manufacturing & Engineering	155.8	178.3	253.6	42.2%	62.7%	475.6	600.3	26.2%
Oil & Gas unlisted	0.0	0.0	0.0	N.M.	N.M.	0.0	0.0	N.M.
Others	20.5	17.0	21.1	24.3%	2.8%	51.7	53.9	4.3%
Intersegment	(28.1)	(24.8)	(31.5)	27.1%	12.0%	(77.0)	(75.3)	-2.2%
<b>Total</b>	<b>2,633.5</b>	<b>2,919.1</b>	<b>3,290.0</b>	<b>12.7%</b>	<b>24.9%</b>	<b>8,080.5</b>	<b>8,624.4</b>	<b>6.7%</b>
<b>Reported PATMI</b>								
Automotive	62.9	86.7	89.6	3.4%	42.5%	175.8	257.7	46.6%
Equipment	31.7	29.8	32.9	10.6%	3.9%	87.6	99.3	13.4%
Manufacturing & Engineering	(11.9)	(6.2)	8.6	N.M.	N.M.	(28.4)	(6.7)	-76.4%
UMWOG	0.0	0.0	0.0	N.M.	N.M.	(86.4)	0.0	N.M.
Oil & Gas unlisted (discontinued)	(28.3)	(4.7)	(26.9)	N.M.	N.M.	(91.1)	(48.6)	N.M.
Others	(210.6)	(31.2)	23.8	N.M.	N.M.	(149.1)	(25.1)	N.M.
<b>Total</b>	<b>(156.3)</b>	<b>74.4</b>	<b>128.1</b>	<b>72.3%</b>	<b>N.M.</b>	<b>(91.6)</b>	<b>276.6</b>	<b>N.M.</b>
<b>Core PATMI</b>	<b>(8.4)</b>	<b>75.6</b>	<b>139.5</b>	<b>84.5%</b>	<b>N.M.</b>	<b>88.5</b>	<b>292.6</b>	<b>230.5%</b>

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**Figure #3** UMW automotive sales statistics

Unit Sales	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Toyota (51% ownership)	16,503	17,220	15,567	20,202	12,683	19,026	20,940
Lexus (51% ownership)	191	219	240	303	143	282	439
Perodua (38% ownership)	50,265	49,410	51,905	53,307	55,568	61,530	51,105
<b>Total</b>	<b>66,959</b>	<b>66,849</b>	<b>67,712</b>	<b>73,812</b>	<b>68,394</b>	<b>80,838</b>	<b>72,484</b>
<b>Growth YoY (%)</b>	<b>16.1%</b>	<b>-1.1%</b>	<b>-4.8%</b>	<b>-2.7%</b>	<b>2.1%</b>	<b>20.9%</b>	<b>7.0%</b>
<b>Growth QoQ (%)</b>	<b>-11.7%</b>	<b>-0.2%</b>	<b>1.3%</b>	<b>9.0%</b>	<b>-7.3%</b>	<b>18.2%</b>	<b>-10.3%</b>

Company

**Figure #4**      **UMW sum-of-parts valuation**

<b>Division</b>	<b>Stakes (%)</b>	<b>Value (RMm)</b>	<b>RM/Share</b>	<b>Basis</b>
Automotive	Various	3,380.6	2.89	FY19 PE 10x
Equipment	Various	1,193.5	1.02	FY19 PE 8x
Manufacturing & Engineering	Various	2,727.2	2.33	FY20 PE 18x
Others	Various	0.0	0.00	
50.1% MBMR & 10% Perodua				
<b>Total (RM)</b>		<b>7,301.3</b>	<b>6.25</b>	
Holding Co Discount			10.0%	
<b>Target Price (RM)</b>			<b>5.60</b>	
No of Shares		1,168.3		As at end FY2017

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12-months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12-months.
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