

Company Result

3 December 2018

UMW Holdings Berhad

BUY

Better year ahead

Maintained

Share Price	RM5.05
Target Price	RM6.88

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMWH MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	5899.88
52-week price Range	RM4.20-6.98
Beta (against KLCI)	0.76
3-m Average Daily Volume	1.89m
3-m Average Daily Value [^]	RM9.07

Share Performance

	1m	3m	12m
Absolute (%)	6.3	0.6	-4.2
Relative (%-pts)	8.2	-7.9	-2.0

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	40.81
EMPLOYEES PROVIDENT FUND	11.10
YAYASAN PELABURAN BUMIPUTRA	7.26
ESTIMATED FREE FLOAT	31.28

Historical Chart



Source: Bloomberg

Nursuhaiza Hashim

03-87361118, ext. 752

nursuhaiza@jfpapex.com.my

- **UMW Holdings Berhad (UMW) registered a headline net profit of RM128.1m in 3Q18.** After excluding the exceptional items such as impairment of receivables, property, plant and equipment (PPE) and in inventories, loss on sale on investment and derivatives, gain on disposal of property, plant and equipment and forex gain as well as PPE written off, the Group reported a core net profit of RM139.5m, which improved 18.1% qoq and 922% yoy. Meanwhile, revenue stood at RM3.3b, which elevated 12.7% qoq and 23.2% yoy.
- **As for 9M18, the Group recorded a core net profit of RM336.7m as compared to a core net loss of RM59.7m in 9M17** amid improved revenue of 4.4% yoy.
- **Above expectations.** The 9M18 core net profit of RM336.7m accounted for 89.6% and 93.5% of our and consensus full year net earnings forecast respectively following the robust performance in core segments coupled with lower operating cost in M&E segment.

Comment

- **Stellar Auto segment.** Auto segments' revenue soared again in this quarter, substantially rose 10.9% qoq and 24.9 yoy while PBT increased by 6.2% qoq and 42.6% yoy. Higher revenue was mainly propelled by higher car sales volume following new models launched within this year coupled with 'zero-rated GST' which took place from June'18 until Aug'18. Meanwhile, improved PBT was due to strengthening Ringgit against USD and JPY which led to rise in PBT margin by +0.7 pts yoy. Domestic Toyota sales chalked up 10.4% qoq and 34.6% in 3Q18. However, Perodua car sales plunged 16.9% qoq and 1.5% yoy mainly due to supply disruption at one of its vendors which affected production of new Myvi. Perodua maintained its leading position among the car marques, with 37% market share in 9M18. Among models that had been introduced in this year such as new Toyota Harrier, new Toyota CH-R updated Toyota Alphard and Velfire, new Toyota Rush and Perodua Alza facelift. Looking forward, the Group expects to introduce few new models such as all-new Toyota Vios, Toyota Camry, Toyota Yaris and new SUV of Perodua.
- **Equipment division at all-time high.** Equipment segment's revenue chalked up another impressive growth, +10.2% qoq and 9.2% yoy, thanks to higher export and increased demand in construction industry. Besides, segmental PBT also soared by 15.1% qoq and 10.8% yoy. The Group expects demand for heavy equipment in 2H18 to be tepid following review of mega projects domestically.

However, performance of this division will be supported by current orders secured from construction sector coupled with rental business from industrial equipment segment.

- **Turnaround in M&E division.** Manufacturing & Engineering's performance was getting better, posting a PBT of RM15.5m in 3Q18 as compared to LBT of RM5k and RM6.7m in the last quarter and a year ago respectively, amid higher revenue of 42.2% qoq and 62.7% yoy. The encouraging earnings were mainly underpinned by aerospace business, which started to generate revenue in 4Q17 as well as lower operating cost incurred to set up the fan cases. The Group expects aerospace business to increase its production within the time frame to meet the Rolls-Royce's demand. Lubricant business wise, UMW hopes for market penetration into other ASEAN countries.
- **Disposing its asset in Shah Alam.** On a separate announcement, the Group announces to dispose of its leasehold industrial land in Shah Alam for RM288m which comprises 10 lots held, in total of 38.8 acres. The land will be sold to Strategic Sonata Sdn Bhd (SSSB, a wholly-owned subsidiary of Mapletree Dextra Pte Ltd) and expected to be completed in 2Q19. This is to unlock and realise the value of its long-held assets in Shah Alam as part of the Group's broader strategic thrust of sustainable value creation for shareholders. Besides, the Group plans to move current business operations in Shah Alam to the UMW High Value Manufacturing Park in Serendah as an effort to bring a new phase of growth to the business. Also, this is to enlarge the ecosystem for high-value, innovative manufacturing to the plant.

Earnings Outlook/Revision

- **We revise upwards our core net profit forecasts for FY19F and FY20F by 17.8% and 18.5% to RM442.5m and RM503.5m respectively** to reflect higher car sales volume and better margin.
- **We expect the Group to re-focus on its three core businesses which will resume growth momentum over the medium to longer term.** We favour the stock as: 1) Auto division is expected to register robust growth following new models come in and completion of new plant in Bukit Raja in 2019 (initial 50K capacity p.a.) which will further boost its Toyota sales volume; 2) M&E division is expected to move towards into high value-added manufacturing banking on aerospace venture; 3) Joint venture with Komatsu that will bolster its existing market share; 4) Exit of unlisted O&G segment by 2018 will help to improve the Group's overall profitability.
- **Maintain BUY call on UMW with a higher target price of RM6.88 (previously RM6.72) as we roll over our valuation to FY19F.** Our fair value is based on 16x FY2019F PE which is close to its 3-year historical average PE of 17.3x.

Figure 1: Quarterly Figures

Year to 31 Dec	3Q18 (RMm)	2Q18 (RMm)	3Q17 (RMm)	QoQ % chg	YoY % chg	9M18 (RMm)	9M17 (RMm)	YoY % chg
Revenue	3,290.0	2,919.1	2,671.0	12.7%	23.2%	8,624.4	8,260.3	4.4%
Operating Profit	171.6	241.5	(10.8)	-28.9%	N/A	504.7	(26.4)	N/A
Pre-tax Profit	233.6	301.3	19.9	-22.5%	1071.82%	682.2	23.1	2850.6%
Profit After Tax	172.1	139.6	(9.8)	23.3%	N/A	429.4	(245.3)	N/A
Net Profit	128.1	124.4	(29.4)	3.0%	N/A	343.7	(218.5)	N/A
Core Profit	139.5	118.1	13.7	18.1%	922.03%	336.7	(59.7)	N/A
Operating Margin (%)	5.2%	8.3%	-0.4%	-3.1 pts	N/A	5.9%	-0.3%	N/A
PBT Margin (%)	7.1%	10.3%	0.7%	-3.2 pts	+6.4 pts	7.9%	0.3%	+7.6 pts
Net Margin (%)	5.2%	4.8%	-0.4%	+0.4 pts	N/A	5.0%	-3.0%	N/A
Core Margin (%)	4.2%	4.0%	0.5%	+0.2 pts	+3.7 pts	3.9%	-0.7%	N/A

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY18	3Q18 (RMm)	2Q18 (RMm)	3Q17 (RMm)	Q-O-Q (%)	Y-O-Y (%)	9M18 (RMm)	9M17 (RMm)	Y-O-Y (%)
Segmental Revenue								
<u>Continuing operation</u>								
Automotive	2,643.4	2,382.7	2,115.9	10.9%	24.9%	6,903.1	6,567.1	5.1%
Equipment	403.4	365.9	369.3	10.2%	9.2%	1,142.4	1,063.1	7.5%
M & E	253.6	178.3	155.8	42.2%	62.7%	600.3	475.6	26.2%
<u>Discontinued operation</u>								
Oil & Gas (Listed)	-	-	-	N/A	N/A	-	214.2	N/A
Oil & Gas (Unlisted)	9.5	31.3	37.4	-69.7%	-74.6%	64.2	105.3	-39.0%
Segmental PBT								
<u>Continuing operation</u>								
Automotive	151.2	142.4	106.1	6.2%	42.6%	419.63	292.1	43.65%
Equipment	43.5	37.8	39.3	15.1%	10.8%	126.26	111.0	13.75%
M & E	15.5	(0.5)	(6.7)	N/A	N/A	12.14	(13.2)	N/A
<u>Discontinued operation</u>								
Oil & Gas (Listed)	-	-	-	N/A	N/A	-	(156.3)	N/A
Oil & Gas (Unlisted)	(17.8)	(121.9)	(35.6)	N/A	N/A	(163.39)	(121.3)	N/A
Segmental Margin								
<u>Continuing operation</u>								
Automotive	5.7%	6.0%	5.0%	-0.3 pts	+0.7 pts	6.1%	4.4%	+1.7 pts
Equipment	10.8%	10.3%	10.6%	+0.5 pts	+0.2 pts	11.1%	10.4%	+0.7 pts
M & E	6.1%	-0.3%	-4.3%	N/A	N/A	2.02%	-2.78%	N/A
<u>Discontinued operation</u>								
Oil & Gas (Listed)	-	-	-	N/A	N/A	-	-73.0%	N/A
Oil & Gas (Unlisted)	-187.4%	-389.3%	-95.3%	N/A	N/A	-254.42%	-115.16%	N/A

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2015	2016	2017	2018F	2019F
Revenue	14,441.58	10,436.80	11,066.64	11,548.44	12,157.04
Operating profit	135.62	(484.55)	123.70	424.69	427.35
PBT	269.65	(282.10)	266.57	557.82	599.45
Net profit	(37.17)	(1,658.04)	(640.63)	442.51	503.46
Core profit	19.56	(401.80)	(85.77)	442.51	503.46
Core EPS (sen)	0.02	(0.31)	(0.07)	0.38	0.43
P/BV (x)	0.63	0.84	1.39	0.81	0.67
DPS (sen)	0.20	0.00	0.00	0.11	0.17
Dividend yield (%)	4.02%	0.00%	0.00%	2.28%	3.46%
Operating margin (%)	0.94%	-4.64%	1.12%	3.68%	3.52%
PBT margin (%)	1.87%	-2.70%	2.41%	4.83%	4.93%
Net profit margin (%)	-0.26%	-15.89%	-5.79%	3.83%	4.14%
Net Gearing Ratio(x)	0.64	0.88	0.66	0.71	0.55
ROE (%)	0.21%	-5.36%	-2.05%	6.19%	5.82%
ROA (%)	-0.21%	-10.23%	-6.44%	2.98%	3.15%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD

Head Office:
6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM

Head Office:
Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Zairul Azman (ext 746)
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM

Head Office:
Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Low Zy Jing, CFA (ext 754)
Nursuhaiza Hashim (ext 752)
Siau Li Shen (ext 753)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:

JF Apex Securities Berhad (47680-X)
(A Participating Organisation of Bursa Malaysia Securities Berhad)