

UMW Holdings Bhd

9M18 Above Expectations

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9M18 core PATAMI of RM324.2m (>100%) came in above both our/consensus expectations at 90% each of full-year estimates due to higher-than-expected sales. Correspondingly, we upgrade our FY18E/FY19E CNP by 3%/5%. As such, we increased our TP to RM5.80 (from RM5.50). Reiterate OP. On another note, UMW will be selling 2 parcels of industrial land in Shah Alam for RM287.7m cash, with estimated net gains of RM171.4m (RM0.15/share), expected to be completed by 2Q19.

9M18 above expectations. 9M18 core PATAMI of RM324.2m (>100%) came in above both our/consensus expectations at 90% each of full-year estimates due to higher-than-expected sales. No dividend was declared for the quarter, as expected.

YoY, 9M18 recorded core PATAMI of RM324.2m compared to core losses of RM218.9m in 9M17 buoyed by: (i) higher revenue across the board with Auto segment (+5%) as UMW Toyota Motor unit sales hit 53,079 units (+11% YoY), while supported by the Equipment segment (+8%), with the strong export sales for Komatsu equipment and industrials old fleet renewal, as well as, the M&E segment (+26%), with higher sales of auto component and improved sales from aerospace business, (ii) the better performance of associate and joint-venture company (+49%) especially from 38%-owned Perodua, which recorded higher unit sales at 168,203 units (+11% YoY), and (iii) improved margin from the stronger MYR against USD

QoQ. 3Q18 core PATAMI surged 18%, mainly from the stronger sales (+13%) across the board with Auto segment (+11%) as Toyota volume rose to 21,370 units (+12%) buoyed by the zero-rated tax holiday, Equipment segment (+10%) with the komatsu fleet renewal and M&E segment (+42%) on the improved contribution from aerospace business. On the other hand, the performance of associate and joint-venture company (+5%), was slower than usual, especially from 38%-owned Perodua, which recorded lower unit sales at 51,105 units (-17% QoQ) due to supply disruption in August and September 2018 for its all-new Perodua MyVi, which has been rectified in October 2018.

Outlook. UMW recently launched the all-new Toyota Rush CKD, and all-new Toyota Camry. UMW will be launching the replacement model for all-new Toyota Vios and one new model, which is not under its fleet now at their new plant (to start production in 1H19), which we foresee is the emergence of 2019 Toyota Yaris Hatchback. On the other hand, Perodua's entry level segment (2018 sales target at 209k) continued to gain traction supported by the all-new Perodua MyVi (120k booking, 75k delivered) and it is expected to launch the all-new Perodua SUV D38L in 1Q19. UMW Aerospace, under the M&E segment, is expected to trim its losses to c.RM20m level in FY18/FY19 before reaching breakeven level in FY20 considering that some front-loaded investments need to be amortised.

Upgrade FY18E/FY19E CNP by 3%/5% to reflect the higher-than-expected sales.

Reiterate OUTPERFORM with a higher TP of RM5.80 (from RM5.50) based on unchanged 17x FY19E EPS, which is the 5-year historical mean PER.

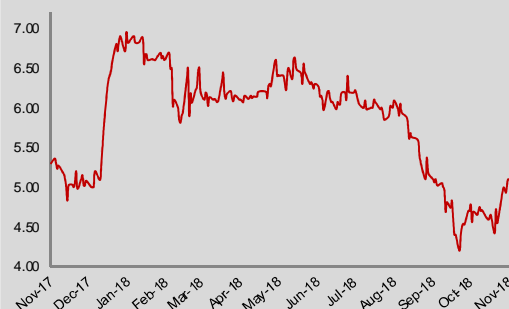
We like UMW for: (i) expected strong sales growth from capacity expansion up to 125k units (+150%) with improved cost-efficient automation, (ii) strong Perodua associates' earnings supported by back-logged booking of the all-new Perodua Myvi, and (iii) turnaround in earnings for its M&E segments.

Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

OUTPERFORM ↔

Price: RM5.05
Target Price: RM5.80 ↑

Share Price Performance



KLCI	1,679.86
YTD KLCI chg	-6.5%
YTD stock price chg	-2.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	5,899.9
Shares Outstanding	1,168.3
52-week range (H)	6.98
52-week range (L)	4.20
3-mth avg daily vol:	1,886,125
Free Float	41%
Beta	0.8

Major Shareholders

Skim Amanah Saham Bumiputera	40.8%
Employees Provident Fund	11.1%
Yayasan Pelaburan Bumiputera	7.3%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	11,066.6	11,769.0	12,552.4
EBIT/ (LBIT)	123.7	448.7	480.4
PBT/ (LBT)	266.6	576.8	639.3
NP/(NL)	128.6	376.5	398.8
CNP/(CNL)	161.2	376.5	398.8
Consensus NP	-	360.0	468.3
Earnings Revision	-	+3.0%	+5.3%
Core EPS (sen)	13.8	32.2	34.1
Core EPS growth	-116.0%	133.6%	5.9%
NDPS (sen)	-	10.0	10.0
BVPS (RM)	2.61	2.83	3.07
PER (x)	36.6	15.7	14.8
PBV (x)	1.9	1.8	1.6
Net Gearing (x)	0.5	0.6	0.6
Net Div. Yield (%)	-	2.0	2.0

03 December 2018

Proposed disposal of industrial leasehold land

On 30th November 2018, the group entered into 6 sale and purchase agreements with Strategic Sonata Sdn Bhd (SSSB), a wholly-owned subsidiary of Mapletree Dextra PLC, for the proposed disposal of 2 parcels of leasehold industrial land comprising 10 lots held under separate title measuring 38.8 acres to SSSB, for RM287.7m cash, with estimated net gain of RM171.4m (RM0.15/share), and expected to be completed by 2Q19. The proposed disposal will enable UMW to fully unlock and realise the value of its long-held assets in Shah Alam and facilitate the planned relocation of on-going business operations in Shah Alam to the proposed UMW High Value Manufacturing Park in Serendah, Selangor.

Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	3,290.0	2,919.1	13%	2,639.2	25%	8,624.4	8,091.8	7%
Associates and JV	57.2	54.4	5%	40.2	42%	169.3	113.4	49%
EBIT/LBIT	252.2	315.2	-20%	59.1	327%	738.2	278.3	165%
PBT/(LBT)	233.6	301.3	-22%	49.2	375%	682.2	236.4	189%
Taxation and Zakat	(43.5)	(39.6)	-10%	(29.6)	-47%	(112.7)	(89.3)	-26%
PATAMI	128.1	124.4	3%	(29.4)	>100%	326.6	(218.5)	>100%
Core PATAMI	137.7	116.9	18%	(29.8)	>100%	324.2	(218.9)	>100%
Core EPS (sen)	11.8	10.0	18%	(2.5)	563%	27.7	(18.7)	248%
DPS (sen)	-	-	-	-	-	5.0	-	-

**Note that the 9M18 core PATAMI has been adjusted by excluding non-core items amounting to RM2.4m, which consists of: (i) provision for impairment losses of receivables of RM0.4m, (ii) Reversal for write down of inventories of Rm0.5m, (iii) loss on disposal of quoted or unquoted investments of RM15.8m, (vi) Gain on disposal of property, plant and equipment of RM18.1m.*

EBIT/(LBIT) margin	7.7%	10.8%		2.2%		8.6%	3.4%	
PBT/(LBT) margin	7.1%	10.3%		1.9%		7.9%	2.9%	
Core NP/ (NL) margin	4.2%	4.0%		N.M		3.8%	N.M	
Effective tax rate	-18.6%	-13.1%		-60.1%		-16.5%	-37.8%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Revenue	3,290.0	2,919.1	12.7%	2,639.2	24.7%	8,624.4	8,091.8	6.6%
Automotive	2,643.4	2,382.7	10.9%	2,115.9	24.9%	6,903.1	6,567.1	5.1%
Equipment	403.4	365.9	10.2%	369.3	9.2%	1,142.4	1,063.1	7.5%
M&E	253.6	178.3	42.2%	167.2	51.6%	600.3	475.6	26.2%
Others	(10.4)	(7.8)	N.M	(13.3)	21.9%	(21.4)	(14.0)	N.M
Segment PBT/(LBT)	233.6	301.3	-22.5%	49.2	374.7%	682.2	236.4	188.6%
Automotive	151.3	142.4	6.2%	106.1	42.6%	419.6	292.1	43.7%
Equipment	43.5	37.8	15.1%	39.3	10.8%	126.3	111.0	13.7%
M&E	15.5	(0.5)	>100%	(6.7)	330.9%	12.1	(13.2)	>100%
Others	23.3	121.6	N.M	(89.4)	N.M	124.2	(153.5)	N.M
Segment PBT/(LBT) margin								
Automotive	5.7%	6.0%		5.0%		6.1%	4.4%	
Equipment	10.8%	10.3%		10.6%		11.1%	10.4%	
M&E	6.1%	-0.3%		-4.0%		2.0%	-2.8%	
Others	N.M	N.M		N.M		N.M	N.M	

Source: Company, Kenanga Research

Peer Comparison																	
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
AUTOMOTIVE																	
BERMAZ AUTO BHD	2.10	2,434.9	Y	04/2019	0.9%	0.4%	45.4%	14.7%	17.4	12.0	10.4	4.6	3.8	34.9%	6.7%	2.50	OP
DRB-HICOM BHD	1.85	3,576.5	Y	03/2019	3.3%	2.1%	12.3%	5.1%	11.4	10.2	9.7	0.5	0.5	5.1%	1.6%	2.00	MP
MBM RESOURCES BERHAD	1.89	738.8	Y	12/2018	5.4%	1.3%	28.5%	1.3%	7.1	5.5	5.5	0.4	0.4	7.8%	3.2%	3.60	OP
SIME DARBY BERHAD	2.29	15,573.9	Y	06/2018	0.7%	2.3%	-6.9%	3.3%	18.2	19.5	18.9	0.4	0.4	2.1%	3.5%	2.55	MP
TAN CHONG MOTOR HOLDINGS BHD	1.52	992.0	Y	12/2018	8.0%	1.9%	96.2%	2.3%	N.A.	11.7	11.4	0.4	0.4	3.1%	2.6%	2.30	OP
UMW HOLDINGS BHD	5.05	5,899.9	Y	12/2018	6.3%	6.7%	133.6%	5.9%	36.6	15.7	14.8	1.4	1.3	8.6%	2.0%	5.80	OP
Simple Average					3.6%	1.6%	35.1%	5.3%	13.5	11.8	11.2	1.3	1.1	10.6%	3.5%		
CONSENSUS ESTIMATES																	
APM AUTOMOTIVE HOLDINGS BHD	3.13	612.0	Y	12/2018	4.3%	2.7%	-20.3%	17.0%	15.7	19.6	16.8	0.5	0.5	2.6	0.1	2.82	NEUTRAL
PECCA GROUP BHD	0.780	143.3	Y	06/2019	4.7%	6.6%	25.1%	14.9%	14.0	11.2	9.8	0.9	0.9	7.9	0.1	1.080	SELL

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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