

03 December 2018 | 3Q18 Result Review

## UMW Holdings

### *Shifting into fifth gear*

- **9M18 earnings beat our expectations**
- **Core earnings more than quadrupled year-on-year**
- **FY18F/19F earnings raised 9%/4%**
- **Re-affirm BUY at higher TP of RM6.80 (from RM6.50)**

**3Q18 beat our expectations.** UMW registered net profit of RM128m for its 3Q18, which brought 9M18 core earnings to RM278m. This is ahead of our expectation but within consensus accounting for 82% and 77% of FY18F earnings respectively. Core earnings more than quadrupled year-on-year driven by improvements across the board, particularly autos and M&E divisions.

**Auto division.** Auto division earnings grew 43%yoy driven by a comparatively stronger RM and a 35%yoy increase in Toyota TIV given strong demand during the tax holiday period. We expect this to normalise as we move into 4Q18 though. Associate earnings were surprisingly resilient despite a temporary slowdown in Perodua TIV from the MyVi production disruption (which was only rectified in October).

**New Vios opened for bookings.** The new Vios has been opened for bookings and deliveries are expected from January 2019. The number of Vios variant has been reduced to 3 vs. 5 for the outgoing generation – the top end TRD variant and lowest end Vios-J manual has been taken out given minimal volumes generated previously. Pricing is more or less maintained but the new Vios comes with more advanced safety features such as front collision warning. We estimate FY19F Vios volume of 30K-35K accounting for 37%-43% of our FY19F Toyota TIV.

**New Camry launched.** The new Camry was launched during KLIMS-2018 two weeks ago. Only one variant is on offer i.e. the highest spec 2.5-litre variant, brought in as CBU given low volumes - demand in D-segment sedan is currently shifting towards SUVs. The new 2.5 litre Camry is priced higher (RM190K) by an estimated 3.8% against the outgoing 2.5 litre variant. We estimate around 5000 unit sales for the new Camry in FY19F.

**Bukit Raja unlocks UMW's potential.** UMW intends to plug the gaps in its model mix once the new Bukit Raja plant comes on stream early January 2019. The first model to be produced will be the new Vios followed by another B-segment model (Yaris) and a potential 3<sup>rd</sup> model. At 70% automation rate and 50K capacity on single shift, UMW aims for Bukit Raja to hit at least 80%-90% utilisation (on single shift) within its 1<sup>st</sup> year of operations, sufficient for Bukit Raja manufacturing operations to be profitable.

**Turned to the black.** The M&E division turned to the black in 3Q18. This was driven by higher revenue from the aerospace segment and better margins from a comprehensive efficiency improvement and cost optimisation initiatives. Volumes for the Rolls Royce (RR) fan case assembly contract could be temporarily disrupted in the short-term given technical issues with the Trent 1000 engine but a turnaround target by FY20F remains intact. RR is in the midst of rectifying the issue.

**Maintained BUY**

**Revised Target Price (TP): RM6.80**  
**(from RM6.50)**

#### RETURN STATS

Price (30 Nov 2018)	RM4.98
Target Price	RM6.80
Expected Share Price Return	+36.5%
Expected Dividend Yield	+4.2%
<b>Expected Total Return</b>	<b>+40.7%</b>

#### STOCK INFO

KLCI	1820.64
Bursa / Bloomberg	4588 / UMWK MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	7068.18
1.65	2.46
52-wk price Range	RM4.70 – RM6.98
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	0.65m
3-mth Avg Daily Value	RM4.1m
Major Shareholders (%)	
SKIM ASB	40.8%
EPF	10.3%
YPB	7.3%

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**INVESTMENT STATISTICS**

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	14,419.8	10,965.1	11,046.5	10,013.6	11,121.3
EBIT (RM'm)	134.9	(2,202.8)	120.4	614.2	888.5
Pre-tax Profit (RM'm)	265.6	(2,153.8)	252.9	652.9	910.6
Core net profit (RM'm)	338.0	(401.8)	163.8	370.7	483.8
FD EPS (sen)	28.9	(34.4)	14.0	31.7	39.7
EPS growth (%)	(59.6)	NA	NA	126.4	30.5
PER (x)	17.2	NA	35.5	15.7	12.5
Net Dividend (sen)	20.0	0.0	0.0	15.9	20.7
Net Dividend Yield (%)	4.0	0.0	0.0	3.2	4.2

Source: Company, MIDFR

**Equipment.** Earnings improved 4%yoy given improved sales in smaller infra projects and higher exports to Papua New Guinea (PNG) – driven by higher parts and service sales. The JV with Komatsu for heavy equipments will enable UMW to offer a better range of products better suited to penetrate the local construction industry where UMW is estimated to have only a 10% market share. Heavy equipments currently account for ~40% of overall equipment division's earnings.

**O&G losses narrowed.** Unlisted O&G pretax losses narrowed to RM18m (from RM36m in 3Q17) as operations have been gradually scaled down. Carrying value has been reduced to RM68m following impairments in past quarters. There are still around 9 assets to be disposed, one of them a listed entity where UMW has a minority stake.

**Unlocks value of Shah Alam land.** UMW is disposing of its Shah Alam land (leasehold industrial located in Section 15) measuring 38.8 acres for RM287.7m to Singapore's Mapletree Dextra. The consideration is estimated at 3% above market value and accounts for 15% of group net debt at end-3Q18. UMW will book in a gain of RM171.4m from the disposal and proceeds will be used for working capital. UMW will relocate its Shah Alam manufacturing operations to its Serendah manufacturing park. In the interim, UMW will lease the Shah Alam land from Mapletree for 3 years at annual rental rate of RM12.6m. We expect additional cost from relocation of operations to Serendah, pending further clarification from management. We estimate net gearing to reduce to 68% (FY19F) from 74%, from the exercise.

**Earnings adjustments.** We raise our FY18F/19F earnings by 9%/4%. This is in line with our recent upgrade of MBM earnings (post-3Q18 results) after having raised our FY18F/19F Perodua TIV forecasts (MBM has a 22.5% stake in Perodua). We have also factored in incremental cost from the Shah Alam land lease from Mapletree.

**Recommendation.** Re-affirm BUY on UMW at a higher TP of RM6.80/share (from RM6.50/share) following the upward earnings adjustments. Key catalysts: **(1) A deleveraged balance sheet post** UMWOG demerger allows room for acquisitive growth and resumption of dividend payout **(2) Reversal of prior years' market share loss,** structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy **(3) Redevelopment of UMW's 830 acres Serendah land** which will unlock value of the asset – easily worth 40sen/share on our estimates **(4) A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production.

**EXHIBIT 1: UMW SUM-OF-PARTS VALUATION**

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive - UMW	228	PER	12	2,738	
Automotive - P2	207	PER	15	3,112	
Equipment	115	PER	12	1,377	
Serendah land		RNAV		586	RNAV of Serendah land (830acres@RM16psf) (net of debt)
Aerospace		DCF		81	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		Book Value		34	50% discount to BV
<b>Total value</b>				<b>7,928</b>	
No of shares (m)				1,168	
<b>Fair value (RM)</b>				<b>6.80</b>	

Source: Company, MIDF

**EXHIBIT 2: UMW 3Q18 RESULTS**

FYE Dec (RMm)	3Q17	2Q18	3Q18	YoY	QoQ	9M17	9M18	YTD
<b>Revenue</b>	<b>2,671.0</b>	<b>2,919.1</b>	<b>3,290.0</b>	<b>23.2%</b>	<b>12.7%</b>	<b>8,186.0</b>	<b>8,624.4</b>	<b>5.4%</b>
<b>Operating Profit</b>	<b>(10.8)</b>	<b>241.5</b>	<b>171.6</b>	<b>NA</b>	<b>-28.9%</b>	<b>43.9</b>	<b>504.7</b>	<b>1050.5%</b>
Finance Cost	(20.3)	(13.8)	(18.6)	-8.2%	34.8%	(73.1)	(56.0)	-23.4%
Associates	29.6	54.4	57.2	93.0%	5.2%	97.7	169.3	73.2%
Investment Income	21.4	19.3	23.4	9.1%	21.0%	59.6	64.3	7.8%
<b>Pretax Profit</b>	<b>19.9</b>	<b>301.3</b>	<b>233.6</b>	<b>NA</b>	<b>-22.5%</b>	<b>128.0</b>	<b>682.2</b>	<b>432.9%</b>
Taxation	(29.8)	(39.6)	(43.5)			(89.9)	(112.7)	
Minorities	19.5	15.2	43.9	NA	NA	(26.8)	78.9	
Loss from discontinued operations (UMWOG)	0.0	(122.1)	(18.0)			(283.4)	(164.1)	
<b>Net Profit</b>	<b>(29.4)</b>	<b>124.4</b>	<b>128.1</b>	<b>-536.3%</b>	<b>3.0%</b>	<b>(218.5)</b>	<b>326.6</b>	<b>NA</b>
Core net profit incl. discontinued operations	<b>26.9</b>	<b>75.5</b>	<b>128.1</b>	<b>376%</b>	<b>69.8%</b>	<b>78.7</b>	<b>277.7</b>	<b>253%</b>
Core net profit from continuing operations	<b>82.7</b>	<b>110.3</b>	<b>131.2</b>	<b>58.7%</b>	<b>19.0%</b>	<b>234.9</b>	<b>350.3</b>	<b>49.1%</b>
EPS (FD, sen)	2.3	6.5	11.0			6.7	23.8	
DPS (sen)	0.0	0.0	0.0			0.0	5.0	
<b>Margins (%):</b>								
Operating	-0.4%	8.3%	5.2%			0.5%	5.9%	
Pretax Profit	0.7%	10.3%	7.1%			1.6%	7.9%	
Core Net Profit	1.0%	2.6%	3.9%			-2.7%	3.8%	
Tax Rate	149.3%	13.1%	18.6%			70.2%	16.5%	

Source: Company, MIDF

**EXHIBIT 3: UMW 3Q18 SEGMENTAL BREAKDOWN**

Segmental Breakdown	3Q17	2Q18	3Q18	YoY	QoQ	9M17	9M18	YTD
Automotive	2,115.9	2,382.7	2,643.4	24.9%	10.9%	6,567.1	6,903.1	5.1%
Equipment	369.3	365.9	403.4	9.2%	10.2%	1,063.1	1,142.4	7.5%
Manuf & Eng	155.8	178.3	253.6	62.7%	42.2%	475.6	600.3	26.2%
Oil & Gas (Listed)	0.0	0.0	0.0	#DIV/0!	#DIV/0!	214.2	0.0	-100.0%
Oil & Gas (Unlisted)	37.5	31.3	9.5	-74.8%	-69.7%	105.5	64.2	-39.1%
<b>Revenue</b>	<b>2,678.6</b>	<b>2,958.3</b>	<b>3,309.9</b>	<b>23.6%</b>	<b>11.9%</b>	<b>8,425.5</b>	<b>8,710.1</b>	<b>3.4%</b>
Automotive	106.1	142.4	151.3	42.6%	6.2%	292.1	419.6	43.7%
Equipment	39.3	37.8	43.5	10.8%	15.1%	111.0	126.3	13.7%
Manuf & Eng	(6.7)	(0.5)	15.5	NA	-2940.8%	(13.2)	12.1	-191.7%
Oil & Gas (Listed)	0.0	0.0	0.0	NA	NA	(283.2)	0.0	-100.0%
Oil & Gas (Unlisted) *	(35.6)	(121.9)	(17.8)	-50.1%	-85.4%	(121.3)	(163.4)	34.8%
<b>Pretax profit</b>	<b>103.0</b>	<b>57.8</b>	<b>192.6</b>	<b>86.9%</b>	<b>233.1%</b>	<b>(14.6)</b>	<b>394.6</b>	NA
<b>Pretax margins</b>								
Automotive	0.1	6.0%	5.7%			4.4%	6.1%	
Equipment	0.1	10.3%	10.8%			10.4%	11.1%	
Manuf & Eng	(0.0)	-0.3%	6.1%			-2.8%	2.0%	
Oil & Gas (Listed)	NA	NA	NA			-132.2%	NA	
Oil & Gas (Unlisted)	(0.9)	-389.3%	-187.4%			-115.0%	-254.4%	
Toyota TIV (units)	15,571	19,026	20,940	34.5%	10.1%	49,291	52,649	6.8%
Average revenue/car (RM)	135,889	125,232	126,237	-7.1%	0.8%	133,232	131,116	-1.6%
USD:RM (Spot, delayed by 3-month)	4.33	3.92	3.95	-8.8%	0.8%	4.36	4.01	
<b>Net profit</b>	<b>(29.4)</b>	<b>124.4</b>	<b>128.1</b>			<b>(218.5)</b>	<b>326.6</b>	
Automotive	62.9	86.7	89.6	42.5%	3.4%	175.8	257.7	46.6%
Equipment	31.7	29.8	32.9	3.9%	10.6%	87.6	99.3	13.4%
Manuf & Eng	(11.9)	(6.2)	8.6	-172.5%	-239.4%	(28.4)	(6.7)	-76.4%
Oil & Gas (Listed)	(126.9)	0.0	0.0	-100.0%	#DIV/0!	(213.3)	0.0	-100.0%
Oil & Gas (Unlisted)	(28.3)	(104.7)	(26.9)	-5.1%	-74.3%	(91.1)	(148.6)	63.2%
Others	43.2	118.8	23.8	-44.8%	-79.9%	(149.1)	124.9	-183.8%
<b>Core net profit from continuing operations</b>	<b>82.7</b>	<b>110.3</b>	<b>131.2</b>	<b>58.7%</b>	<b>19.0%</b>	<b>234.9</b>	<b>350.3</b>	<b>49.1%</b>

\* 2Q18 losses inflated by write-off of assets

Source: Company, MIDF

<b>Income Statement (RMm)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Revenue</b>	<b>14,419.8</b>	<b>10,965.1</b>	<b>11,046.5</b>	<b>10,013.6</b>	<b>11,121.3</b>
Operating expenses	(14,157.6)	(13,167.9)	(10,926.1)	(9,399.4)	(10,232.8)
<b>EBIT</b>	<b>262.1</b>	<b>(2,202.8)</b>	<b>120.4</b>	<b>614.2</b>	<b>888.5</b>
Net interest expense	(126.6)	(105.7)	(39.2)	(93.1)	(118.3)
Associates	130.1	154.8	171.7	131.8	140.4
<b>PBT</b>	<b>265.6</b>	<b>(2,153.8)</b>	<b>252.9</b>	<b>652.9</b>	<b>910.6</b>
Taxation	(259.9)	(140.7)	(122.3)	(104.2)	(192.6)
Minority Interest	44.6	(603.9)	(22.8)	(178.0)	(234.2)
Net profit	(38.9)	(1,690.6)	(651.2)	370.7	483.8
<b>Core net profit</b>	<b>338.0</b>	<b>(401.8)</b>	<b>163.8</b>	<b>370.7</b>	<b>483.8</b>
Core net profit (ex-O&G)	NA	414.4	336.3	523.7	480.4
<i>Consensus net profit</i>	<i>338.0</i>	<i>103.9</i>	<i>80.0</i>	<i>360.0</i>	<i>468.3</i>
<i>MIDF vs. consensus</i>				3%	3%
<b>Balance Sheet (RMm)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Non-current assets</b>	<b>10,511.7</b>	<b>10,070.2</b>	<b>4,820.3</b>	<b>6,355.9</b>	<b>7,089.5</b>
PPE	8,132.7	7,639.0	2,749.1	3,686.1	4,279.3
Investments in associate	1,894.5	1,996.7	2,053.5	2,185.2	2,325.6
Others	484.6	434.4	17.7	484.6	484.6
<b>Current assets</b>	<b>7,568.9</b>	<b>6,136.0</b>	<b>5,121.7</b>	<b>5,593.1</b>	<b>6,484.0</b>
Inventories	1,891.6	1,517.9	1,650.3	1,502.0	1,668.2
Receivables	1,273.3	1,416.7	1,650.3	1,502.0	1,668.2
Others	1,675.7	274.4	657.6	1,210.1	1,210.1
Cash & equivalent	2,728.3	2,927.0	1,163.4	1,378.9	1,937.5
<b>TOTAL ASSETS</b>	<b>18,080.6</b>	<b>16,206.1</b>	<b>9,942.0</b>	<b>11,949.0</b>	<b>13,573.5</b>
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,827.1	3,082.3	1,093.4	1,550.1	1,784.3
Reserves	5,812.7	5,905.5	2,498.2	3,603.2	3,845.1
<b>TOTAL EQUITY</b>	<b>9,223.9</b>	<b>9,572.0</b>	<b>4,175.8</b>	<b>5,737.4</b>	<b>6,213.6</b>
<b>Non-current liabilities</b>	<b>3,165.1</b>	<b>4,678.1</b>	<b>2,213.0</b>	<b>3,515.1</b>	<b>4,465.1</b>
Long-term borrowings	2,782.5	3,732.5	2,069.7	3,132.5	4,082.5
Deferred tax liabilities	34.1	34.1	34.0	34.1	34.1
Others	348.5	911.5	109.2	348.5	348.5
<b>Current liabilities</b>	<b>5,691.6</b>	<b>4,619.2</b>	<b>3,553.2</b>	<b>2,696.5</b>	<b>2,894.9</b>
Short-term borrowings	3,159.1	2,859.1	685.3	859.1	859.1
Payables	2,230.3	1,623.5	1,765.2	1,606.6	1,784.3
Others	302.2	136.6	1,102.7	230.8	251.5
<b>TOTAL LIABILITIES</b>	<b>8,856.7</b>	<b>9,297.3</b>	<b>5,766.1</b>	<b>6,211.6</b>	<b>7,359.9</b>

<b>Cash Flow Statement (RMm)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Operating activities</b>					
PBT	265.6	347.3	109.5	652.9	910.6
Depreciation & Amortization	765.5	488.0	105.1	164.9	221.2
Chgs in working capital	(134.2)	72.8	(243.5)	181.4	(134.0)
Interest expense	(120.8)	(155.8)	(175.9)	(93.1)	(118.3)
Tax paid	(275.5)	0.0	(12.9)	(104.2)	(192.6)
Others	(125.3)	(903.2)	663.2	(38.7)	(22.1)
<b>CF from Operations</b>	<b>375.3</b>	<b>(150.9)</b>	<b>445.6</b>	<b>763.3</b>	<b>664.9</b>
<b>Investing activities</b>					
Capex	(2,168.8)	(966.3)	(1,003.8)	(1,250.0)	(1,250.0)
Others	264.6	370.7	(976.7)	148.0	435.7
<b>CF from Investments</b>	<b>(1,904.2)</b>	<b>(595.6)</b>	<b>(1,980.5)</b>	<b>(1,102.0)</b>	<b>(814.3)</b>
<b>Financing activities</b>					
Dividends paid	(806.1)	0.0	0.0	(185.4)	(241.9)
Net proceeds in borrowings	1,692.3	650.0	176.0	950.0	950.0
Others	0.0	(429.2)	(75.9)	0.0	0.0
<b>CF from Financing</b>	<b>886.3</b>	<b>220.8</b>	<b>100.1</b>	<b>764.6</b>	<b>708.1</b>
<b>Net changes in cash</b>	<b>(642.6)</b>	<b>(525.7)</b>	<b>(1,434.8)</b>	<b>425.9</b>	<b>558.6</b>
Beginning cash	3,276.6	2,649.5	2,927.0	952.9	1,378.9
Overdrafts & Deposits	15.6	31.2	(1,800.0)	0.0	0.0
<b>Ending cash</b>	<b>2,649.5</b>	<b>2,154.9</b>	<b>952.9</b>	<b>1,378.9</b>	<b>1,937.5</b>
<b>Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue growth	-3.4%	-29.8%	8.7%	-9.0%	11.1%
EBIT growth	-90.6%	>100%	-6.0%	101.4%	44.7%
Core net profit growth	-59.6%	-218.9%	-140.8%	126.4%	30.5%
PBT margin	1.8%	3.4%	1.0%	6.5%	8.2%
Core net profit margin	2.3%	-3.7%	1.5%	3.7%	4.4%
ROE	-0.6%	1.4%	2.0%	9.1%	11.2%
ROA	0.8%	1.8%	2.1%	5.4%	7.0%
Net gearing (%)	50.2%	56.5%	51.6%	62.4%	67.8%
Book value/share (RM)	5.48	5.55	3.43	3.58	3.79
PBV (x)	0.91	0.90	1.45	1.39	1.31
EV/EBITDA (x)	10.0	11.7	19.3	10.8	8.0

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.