

3 Dec 2018

Consumer Cyclical | Auto & Autoparts

UMW

Buy (Maintained)

Better Performance All Around; Maintain BUY

Maintain BUY, new TP of MYR5.70 from MYR5.59 offers 13% upside plus 2% FY19F yield. UMW's 9M18 earnings are above expectations, with core net profit of MYR325.2m at 91% and 90% of our/Street FY18F. The positive surprise was mainly attributed to better-than-expected numbers from its auto earnings, despite disrupted production at Perodua during the quarter. The group also announced the disposal of its Shah Alam industrial leasehold land for MYR287.7m cash. New model launches will be the key revenue driver in 2019, helped by impending commissioning of its new Toyota assembly plant. The expected strengthening of the MYR should also help to bolster margins.

A solid 3Q18. UMW's 3Q18 earnings are above our/Street expectations, with core net profit of MYR155m (3Q17: core net loss of MYR5.7m, +96.1% QoQ). This took 9M18 earnings to MYR325.2m (+329% YoY), accounting for 91% and 90% of our and Street full-year forecasts. The positive surprise was mainly attributed to stronger auto segment earnings. Robust Toyota/Lexus 3Q18 sales volume (+35.2% YoY, +10.7% QoQ) helped to lift earnings, despite lower Perodua sales (-1.5% YoY, -16.9% QoQ). Its two other core segments also recorded better earnings. Meanwhile, the heavy equipment division was less affected by the review of major projects, while the leasing arm of its industrial equipment unit continues to do well. Manufacturing & engineering (M&E) returned to profitability after a ramp-up in production at its aerospace business. We expect to see the normalisation of auto sales in 4Q18.

Robust product pipeline in 2019. UMW will commission its new assembly facility in early 2019, with the production of the all-new Toyota *Vios*. This should be followed by the Toyota *Yaris* hatchback. The new plant should break even quickly as production of the new models are ramped up. Meanwhile, higher levels of automation should enable the facility to achieve efficiencies, even with smaller run rates – enabling UMW-Toyota SB to offer more locally-assembled model variants. UMW launched the all-new Toyota *Camry* earlier this month, which is likely to remain an imported model.

Disposal of industrial land in Shah Alam. UMW entered into sales and purchase agreements with Sonata SB (SSSB) to hive off its 38.8 acres of leasehold industrial land in Shah Alam for a total cash consideration of MYR287.7m. The transaction is scheduled to be completed by 2Q19. UMW will relocate its business to UMW High Value Manufacturing Park in Serendah. The expected gain from disposal is MYR171.4m.

Key risks and forecasts. We lift FY18F earnings by 14% to reflect the better-than-expected performance of its auto division during the tax holiday, which is a one-off event. We also nudge up our FY19-20F net profit by 2% and 3.7% after updating our forex assumption for the MYR/USD to strengthen. Key risks include unfavourable forex trends and weaker-than-expected consumer sentiment.

Maintain BUY. The stock continues to trade below the sector average P/E (13-14x) and 5-year historical median P/E of 19.9x. A strong product pipeline in 2019 should lift its auto segment's earnings. We raise our TP to MYR5.70 from MYR5.59, ascribing an unchanged 14x (sector average) target P/E on our revised FY19F net profit.

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Total turnover (MYRm)	10,437	11,046	11,268	13,023	13,739
Reported net profit (MYRm)	(497)	24	404	476	562
Recurring net profit (MYRm)	208	278	404	476	562
Recurring net profit growth (%)	38.46	33.80	45.13	17.71	18.15
Recurring EPS (MYR)	0.18	0.24	0.35	0.41	0.48
DPS (MYR)	0.00	0.00	0.10	0.10	0.10
Recurring P/E (x)	28.3	21.2	14.6	12.4	10.5
P/B (x)	1.25	1.91	1.82	1.71	1.57
P/CF (x)	20.3	13.2	na	11.5	13.4
Dividend Yield (%)	na	na	2.0	2.0	2.0
EV/EBITDA (x)	12.4	10.6	13.0	11.4	10.6
Return on average equity (%)	4.5	6.4	8.9	9.8	10.7
Net debt to equity (%)	93.4	36.5	67.9	59.2	57.5
Our vs consensus EPS (adjusted) (%)			12.26	1.59	4.70

Source: Company data, RHB

Target Price:	MYR5.70
Price:	MYR5.05
Market Cap:	USD1,412m
Bloomberg Ticker:	UMWH MK

Share Data

Avg Daily Turnover (MYR/USD)	12.78m/3.06m
52-wk Price low/high (MYR)	4.2 - 6.98
Free Float (%)	31
Shares outstanding (m)	1168
Estimated Return	13%

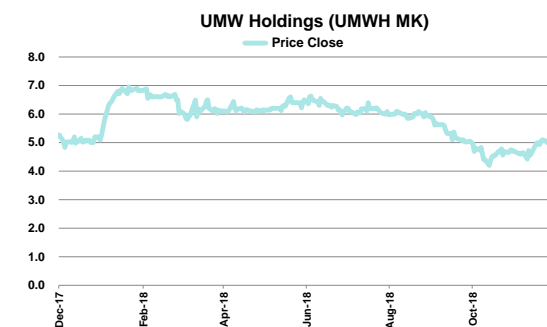
Shareholders (%)

Permodalan Nasional	40.81
Employees Provident Fund	11.10

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.88)	7.45	(14.98)	(22.31)	(4.17)
Relative	3.62	9.43	(7.61)	(17.95)	(1.96)

Source: Bloomberg



Source: Bloomberg

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Better Performance All Around

Figure 1: Results review

FYE Dec (MYRm)	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9M17	9M18	YoY (%)	Comments
Revenue	2,639.2	2,919.1	3,290.0	12.7	24.7	8,091.8	8,624.4	6.6	Higher revenue from all three core segments
EBIT	-2.5	241.5	171.6	(28.9)	na	105.4	504.7	378.8	
<i>EBIT margin (%)</i>	<i>(0.1)</i>	<i>8.3</i>	<i>5.2</i>			<i>1.3</i>	<i>5.9</i>		
Finance costs	(9.9)	(13.8)	(18.6)	34.8	87.8	(41.9)	(56.0)	33.6	
Associates	40.2	54.4	57.2	5.2	42.2	113.4	169.3	49.2	Perodua contribution less affected by Myvi production issue
Investmt income	21.4	19.3	23.4	21.0	9.2	59.5	64.3	8.0	
Pretax Profit	49.2	301.3	233.6	(22.5)	374.7	236.4	682.2	188.6	
<i>Pretax margin (%)</i>	<i>1.9</i>	<i>10.3</i>	<i>7.1</i>			<i>2.9</i>	<i>7.9</i>		
Tax	(29.6)	(39.6)	(43.5)	9.8	47.1	(89.3)	(112.7)	26.1	
<i>Eff tax rate (%)</i>	<i>(60.1)</i>	<i>(13.1)</i>	<i>(18.6)</i>			<i>(37.8)</i>	<i>(16.5)</i>		
Discontinued Op	(29.5)	(122.1)	(26.9)	(78.0)	(8.8)	(392.4)	(172.9)	na	
MI	(19.5)	(15.2)	(43.9)	188.7	124.9	26.8	(78.9)	na	
Net Profit	(29.4)	124.4	128.1	3.0	na	(218.5)	326.6	na	
Core Net Profit	(5.7)	79.0	155.0	96.1	na	75.7	325.2	na	Above our and consensus expectations
<i>Net Margin (%)</i>	<i>(1.1)</i>	<i>4.3</i>	<i>3.9</i>			<i>(2.7)</i>	<i>3.8</i>		

Source: Company data

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9M17	9M18	YoY (%)	Comments
Automotive	2,115.9	2,382.7	2,643.4	10.9	24.9	6,567.1	6,903.1	5.1	Sales increased during the tax-free window
Equipment	369.3	365.9	403.4	10.2	9.2	1,063.1	1,142.4	7.5	Leasing of industrial equipment continues to do well
Mfg & Eng	155.8	178.3	253.6	42.2	62.7	475.6	600.3	26.2	Ramp-up in production at its aerospace business
Others	(7.6)	(7.8)	(10.4)	33.3	36.8	(25.3)	(21.4)	(15.3)	
Revenue	2,633.5	2,919.1	3,290.0	12.7	24.9	8,080.5	8,624.4	6.7	
Automotive	106.1	142.4	151.3	6.2	42.6	292.1	419.6	43.7	
Equipment	39.3	37.8	43.5	15.1	10.8	111.0	126.3	13.7	Less affected by the review of mega projects
Mfg & Eng	(6.7)	(0.5)	15.5	(2,940.6)	(330.9)	(13.2)	12.1	(191.7)	
Others	(83.1)	121.6	23.3	80.9	128.0	(140.6)	124.2	(188.3)	
PBT	55.5	301.3	233.6	(22.5)	320.7	249.3	682.2	173.7	
PBT Margins									
Automotive	5.0	6.0	5.7			4.4	6.1		
Equipment	10.6	10.3	10.8			10.4	11.1		
Mfg & Eng	(4.3)	(0.3)	6.1			(2.8)	2.0		
Others	1,092.7	(1,559.4)	(223.7)			555.9	(579.5)		
	2.1	10.3	7.1			3.1	7.9		
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	
Mfg & Eng	(11.9)	(6.2)	8.6	(239.4)	(172.5)	(28.4)	(6.7)	(76.4)	
Others	(83.7)	118.8	23.8	(79.9)	(128.5)	(149.1)	124.9	(183.8)	
NP	(1.0)	229.0	155.0	32.3	(15,062.1)	85.9	475.2	453.2	
NP Margins									
Automotive	3.0	3.6	3.4			2.7	3.7		
Equipment	8.6	8.1	8.2			8.2	8.7		
Mfg & Eng	(7.6)	(3.5)	3.4			(6.0)	(1.1)		
Others	1,101.3	(1,523.0)	(229.1)			589.4	(583.1)		
	(0.0)	7.8	4.7			1.1	5.5		

Source: Company data

Figure 3: UMW – summary of vehicle sales

FYE Dec (units)	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9M17	9M18	YoY (%)
Toyota/Lexus	15,807	19,308	21,370	10.7	35.2	49,940	53,504	7.1
- Passenger	10,564	14,329	14,263	(0.5)	35.0	34,921	37,206	6.5
- Commercial	5,243	4,979	7,107	42.7	35.6	15,019	16,298	8.5
Perodua	51,905	61,530	51,105	(16.9)	(1.5)	151,580	168,203	11.0
- Passenger	51,905	61,530	51,105	(16.9)	(1.5)	151,580	168,203	11.0
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	67,712	80,838	72,475	(10.3)	7.0	201,520	221,707	10.0

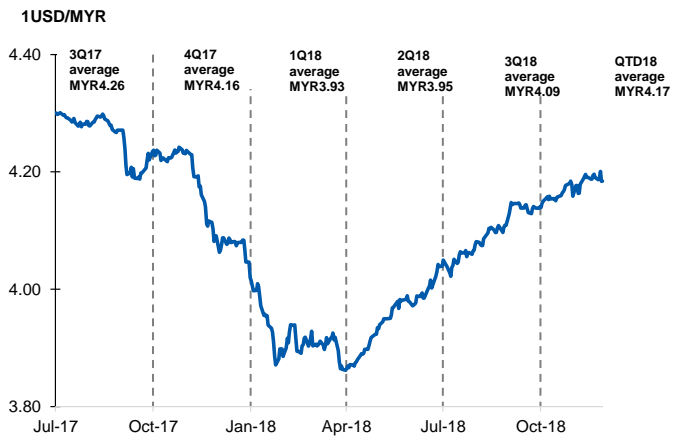
Source: MAA

Figure 4: The all-new Toyota Vios



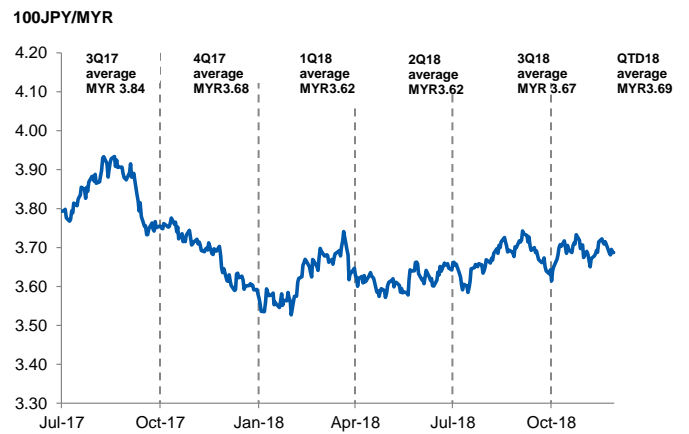
Source: RHB

Figure 5: USD/MYR trend



Source: Bloomberg, RHB

Figure 6: 100 JPY/MYR trend



Source: Bloomberg, RHB

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