

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM5.05 /Target: RM5.10)

3Q18: Improving Sales Finally Hits Scale As UMWH Turns More Profitable

3Q18 RESULTS

Year to 31 Dec	3Q18 (RMm)	qoq % chg	yoy % chg	9M18 (RMm)	yoy % chg
Revenue	3,290.0	12.7	23.2	8,624.4	6.6
-Auto	2,643.4	10.9	24.9	6,903.1	5.1
-Equipment	403.4	10.2	9.2	1,142.4	7.5
-Mfg & Eng	253.6	42.2	62.7	600.3	26.2
Associates	57.2	5.2	93.0	169.3	49.2
PBT	233.6	(22.5)	374.7	682.2	188.6
-Auto	151.3	6.2	42.6	419.6	77.5
-Equipment	43.5	15.1	10.8	126.3	(56.8)
-Mfg & Eng	15.5	(2,940.8)	(330.9)	12.1	(89.1)
Net Profit	128.1	(44.1)	(536.3)	448.3	(305.2)
Core Net Profit	145.8	16.2	375.8	347.2	91.2
Toyota unit sales	20,940	10.1	34.5	52,649	6.8
Perodua unit sales	56,034	(8.9)	8.0	168,132	10.9
PBT margins (%)					
Overall	7.1	(0.0)	0.1	7.9	6.5
-Auto	5.7	(0.3)	0.7	6.1	1.6
-Equipment	10.8	0.5	0.2	11.1	0.6
-Mfg & Eng	6.1	6.4	10.4	2.0	4.8

Source: UMWH, UOB Kay Hian

RESULTS

- **UMW Holdings' (UMWH) 3Q18 core net profit of RM145.8m within our expectations but above consensus**, with 9M18 core net profit of RM347.2m accounting for 76% and 96% of our and consensus 2018 earnings forecasts respectively. The 1H18 core net profit excludes a RM101.1m gain from the others segment, where there was a reversal in provisions for the financial guarantee provided by UMW Holdings for its unlisted O&G segment. The losses were attributable from operating expenditure incurred during the winding down of operations, which is in line with the divestment strategy of the O&G segment. No dividend was declared.
- **Automobile: Expectedly, performance was strong, owing to the three-month tax holiday** period between June and August. 3Q18 sales rose 24.9% yoy, which drove demand as vehicle prices were lower by an average of 5.5% vs that during the GST period. It sold 20,940 Toyota units, higher yoy by 34.5%. Cumulatively, UMWH achieved sales of 52,649 units. Combined with that of its 38%-owned associate, Perodua, UMWH maintains its milestone sales target of 270,000 units by the year-end while maintaining its overall market share of 48% for 2018 (2017: 48%). Meanwhile, UMWH's PBT growth outgrew sales at 42.6% yoy, due to a better performance arising from its associate Perodua and widening margins thanks to the stronger ringgit against the US\$. However, we note that the recent weakening of the ringgit against the US\$ to currently RM4.18, may affect UMWH's margins in 2019. Our sensitivity analysis suggests that every 1% increase in US\$/RM rate will lower UMWH's 2018-20 earnings by 2-3%.
- **Equipment: Growth outlook rosy as 3Q18 sees sustained performance.** 3Q18 sales grew 9.2% yoy, lifted by higher export sales and increased demand in the construction industry. PBT growth of 10.8% yoy pretty much tracked top-line growth. Going forward, the equipment segment is expected to see sustained growth on the back of the rental business which operates in the warehouse and logistics sectors. Furthermore, other infrastructure developments for coastal and rural roads should further supplement growth.
- **Manufacturing and engineering: Finally turns profitable for the year.** 2Q18 sales rose 62.7% yoy amid the aerospace component manufacturing business growing from a low base, with it only recently being launched in 4Q17. Production has been steadily increasing in tandem with higher demand orders by Rolls-Royce. Apart from the aerospace business, UMWH has a lubricants business and aims to broaden its presence into other ASEAN countries. However, for now, revenue base is sufficiently scalable, having surpassed its operating costs to register PBT earnings growth.

RECOMMENDATION

- No change to our 2018-20 earnings forecasts of RM459m/RM470m/RM487m respectively.
- **Maintain HOLD and target price of RM5.10**, which is derived from 12x PE pegged to UMWH's automobile arm. Our target price represents 12.7x 2019F PE. Entry price of RM4.60.

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