

Company Note

Malaysia

HOLD (no change)

Consensus ratings*: Buy 2 Hold 6 Sell 8

Current price:	RM6.37
Target price:	RM6.40
Previous target:	RM5.50
Up/downside:	0.5%
CIMB / Consensus:	26.5%

Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,856m
	RM7,442m
Average daily turnover:	US\$0.98m
	RM3.96m
Current shares o/s:	1,168m
Free float:	37.8%

*Source: Bloomberg

Key changes in this note

- Increase FY18-19F EPS by 14-24%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	26.9	16.5	49.9
Relative (%)	20.8	12.9	40.4

Major shareholders	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)

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UMW Holdings**Flying into a new era**

- Our visit to UMW Aerospace's (UMWA) facility in Serendah revealed that the group is in the midst of ramping up production for Rolls-Royce Trent 1000 engine fan cases.
- The group is targeting to deliver 80 and 160 unit fan cases in FY18F and FY19F.
- The group expects revenue and net profit contribution from UMWA to drive earnings growth for the M&E division to over 10% of the overall UMW group by 2021.
- We raise FY18-19F EPS by 14-24% to account for strengthening in ringgit vs. US\$.
- Maintain Hold with a higher RM6.40 TP, still based on 14x CY19F P/E.

Visit to UMW Aerospace facility in Serendah

UMW Holdings (UMW) organised a site visit for 15 sell-side analysts to its subsidiary, UMW Aerospace Sdn Bhd's (UMWA) facility in Serendah, Selangor yesterday. The visit was hosted by Megat Shahrul Azmir, president of UMW's Manufacturing and Engineering (M&E) division and his team. The visit started with a presentation on UMWA's background, followed by a plant tour. We were impressed with the high level of automation across the plant, which follows industry 4.0 standards with over 70% automation in its manufacturing processes, except for welding, inspection and assembly.

Secured 25-year supply contract for Rolls-Royce engine fan cases

In Aug 2015, UMW signed a 25-year supply contract (with an option to extend another five years) to manufacture and assemble Rolls-Royce's (R-R) Trent 1000 and Trent 7000 engine fan cases. The Trent 1000 engine is used in the Boeing 787 Dreamliner, while Trent 7,000 is exclusively used in the Airbus A330neo model. We understand that the R-R Trent engine fan cases are currently produced at R-R facilities in the United Kingdom and two external suppliers – one in Italy and the other by UMWA.

Targeting to raise production volume over the next three years

After securing the contract, UMW invested RM750m to build the new 200k sqft production facility in Serendah, Selangor. Construction started in Dec 2015 and the facility was completed within a year. UMWA began shipment of its first fan case in Nov 2017 and it shipped six unit fan cases in 2017. The group is targeting to increase production volume to 80 units in 2018, 160 units in 2019 and 250 units in 2020. UMWA still has production floor area to add another 70 units by utilising its pre-production plant.

Positive earnings contribution by UMWA from FY19F onwards

The group expects UMWA to remain loss-making in FY18F, mainly due to plant start-up costs and depreciation expenses, but the group is optimistic for UMWA to start contributing to the group's earnings in FY19F, driven by higher shipment volume growth. We expect UMWA to be a key growth driver for the M&E division, which now accounts for about 5-6% of the group's total revenue and net profit. The group expects to see double-digit revenue and net profit contribution from M&E by 2021.

Raise our FY18-19F EPS to reflect strengthening in ringgit

We raise FY18-19F EPS by 14-24% as we reflect the strengthening of the ringgit with a lower average of RM4.05 for FY18-19F (vs. RM4.30 previously), in line with CIMB's forecast. The strengthening of the ringgit will help to reduce the completely knocked-down kit and completely built-up unit costs for Toyota and Lexus models.

Maintain Hold with a higher RM6.40 TP

Following our earnings revision, we maintain our Hold rating on the stock with a higher RM6.40 TP, still based on 14x CY19F P/E, a 10% premium to its FY09-14 historical mean of 13x. Key upside risks are accelerated disposal of unlisted O&G assets and strengthening of the ringgit vs. US\$, while key downside risks are delayed disposal of unlisted O&G assets and depreciation of the ringgit against US\$.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	14,442	10,965	10,366	11,129	12,007
Operating EBITDA (RMm)	1,054	(359)	512	607	861
Net Profit (RMm)	370.5	(401.8)	137.9	277.9	519.2
Core EPS (RM)	0.32	(0.34)	0.12	0.24	0.44
Core EPS Growth	(52%)	(208%)		102%	87%
FD Core P/E (x)	19.83	NA	53.28	26.44	14.15
DPS (RM)	0.20	0.00	0.10	0.20	0.20
Dividend Yield	3.14%	0.00%	1.57%	3.14%	3.14%
EV/EBITDA (x)	12.83	NA	23.49	19.94	14.43
P/FCFE (x)	7.82	NA	36.75	NA	NA
Net Gearing	35.0%	61.5%	47.9%	47.2%	48.6%
P/BV (x)	1.13	1.58	2.81	2.76	2.50
ROE	5.6%	(7.1%)	3.7%	10.4%	18.3%
% Change In Core EPS Estimates			0.0%	24.2%	13.7%
CIMB/consensus EPS (x)			2.07	0.95	1.31

SOURCE: COMPANY DATA, CIMB FORECASTS

Key takeaways from visit to UMW Aerospace in Serendah ▶

We attended a visit to UMW Aerospace's (UMWA) facility in Serendah, Selangor together with 15 sell-side analysts yesterday. The visit was hosted by president of UMW's Manufacturing and Engineering (M&E) division, Megat Shahrul Azmir, and head of the UMWA plant, Mr Trevor Peacock. The visit started with a presentation on UMWA's background and the transformation over the last 28 months, followed by a tour of the plant.

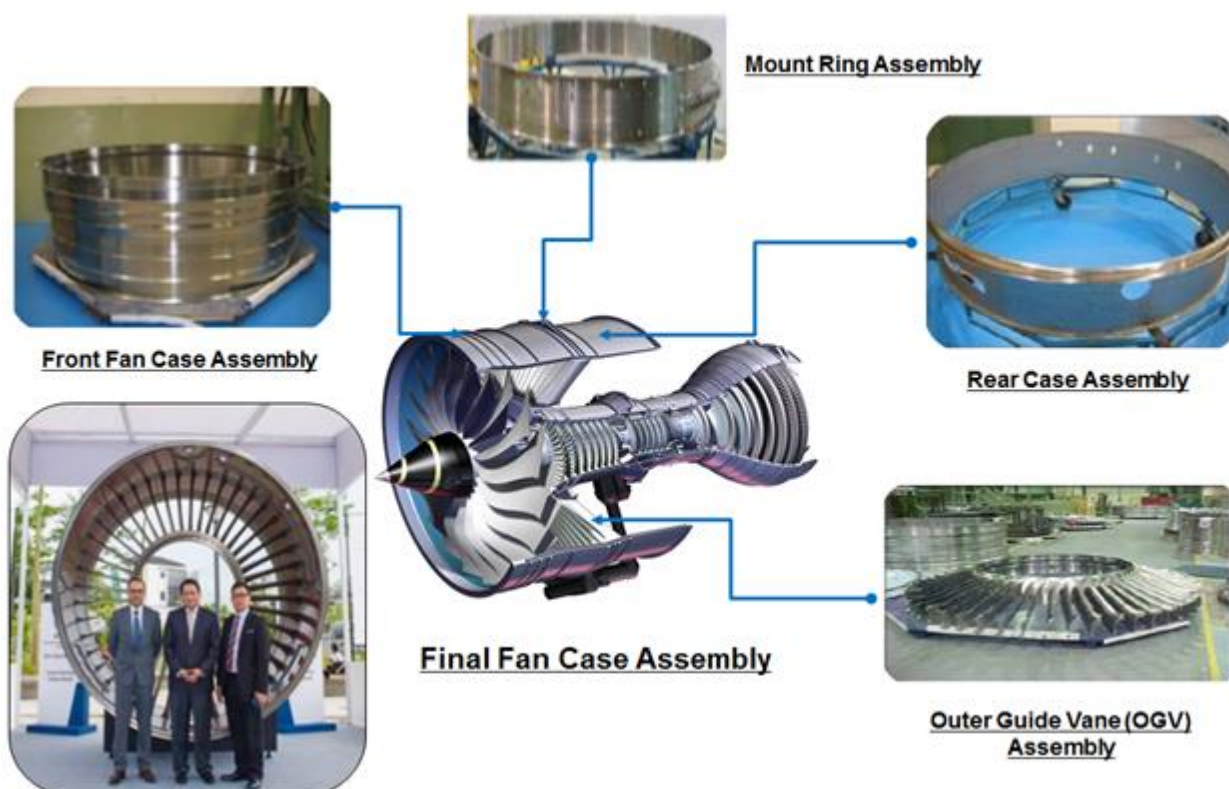
We were impressed by the high level of automation that requires minimal manpower. The Serendah plant set-up is based on industry 4.0 standards with a focus on automation. The group indicated that about 70% of the manufacturing processes are automated, except for welding, inspection and final assembly. The group practices a lean operating structure with approximately 120 staff and it only expects to add another 40-50 staff when it reaches full capacity by 2020.

To recap, UMW invested RM750m to build the new 30-acre production facility in Serendah. UMWA started shipment of its first fan case in Nov 17 and it shipped a total of six units in 2017. The group is targeting to increase the production volume to 80 units in 2018, 160 units in 2019 and 250 units in 2020.

The fan case is a module comprising approximately 4,000 components, making it one of the largest parts of the engine – which has 18,000 components in total. UMWA is responsible for assembling four main components of the titanium case – front fan case, mount ring, rear case and outer guide vane (OGV). The average production lead time for a single fan case is about a month. The group is targeting to ship three fan cases per month starting Jan 18; at full capacity the group expects to ship about five fan cases per week.

Overall, we like the group's strategy to diversify and move into the high value manufacturing (HVM) business such as aerospace. The group believes the newly-acquired capabilities in hard metal manufacturing will open doors to new business opportunities in other industries such as energy generation, advanced land transportation, advanced healthcare, etc. Apart from that, the group is also exploring opportunities to serve other players beyond Rolls-Royce in the aerospace industry.

Figure 1: Final fan case assembly

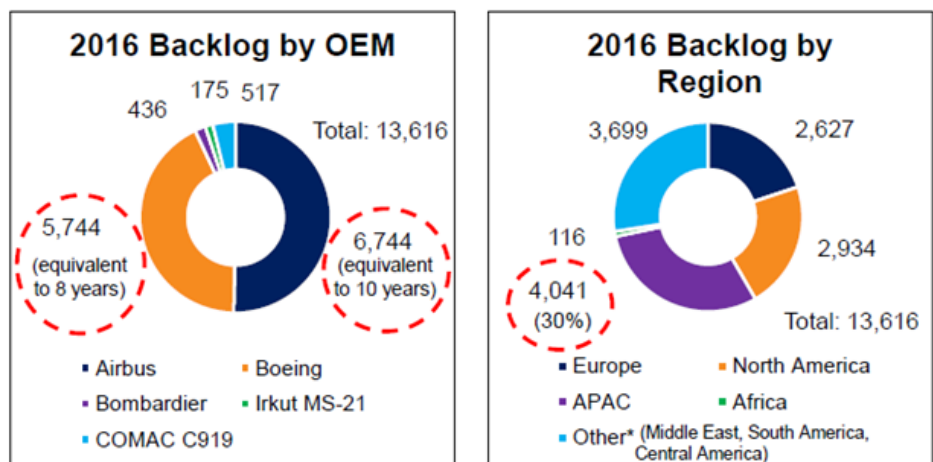


SOURCE: CIMB RESEARCH, COMPANY

Riding on strong aviation growth in Asia-Pacific >

UMWA is a potential beneficiary of R-R's strategic move to build a supply chain closer to its customers in developing regions such as Asia. Apart from that, we understand that R-R is also planning to change its production:buy ratio from 70:30 to 20:80. Moreover, Boeing projects that the total number of airplanes will continue to grow, driven by strong growth in the Asia market on the back of rising disposable income and growing popularity of low-cost carriers. Boeing expects total airplanes in Asia to increase from 6,830 units in 2016 to 17,520 in 2036.

Figure 2: Long-term order visibility driven by strong demand in Asia Pacific



SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Rolls-Royce Trent 1000 engine fan case



SOURCE: CIMB RESEARCH, COMPANY

Figure 4: Rolls-Royce Trent 1000 engine fan case



SOURCE: CIMB RESEARCH, COMPANY

Figure 5: Rolls-Royce Trent 1000 engine



SOURCE: CIMB RESEARCH, ROLLS-ROYCE

Figure 6: Rolls-Royce Trent 7000 engine



SOURCE: CIMB RESEARCH, ROLLS-ROYCE

Figure 7: Earnings revision

	Previous			Revised			Changes		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Revenue	10,366	11,129	12,007	10,366	11,129	12,007	0%	0%	0%
EBIT	179	304	583	179	375	644	0%	24%	10%
Pretax Profit	323	388	705	323	473	795	0%	22%	13%
Net Profit	138	224	456	138	278	519	0%	24%	14%
EPS	12	19	39	12	24	44	0%	24%	14%

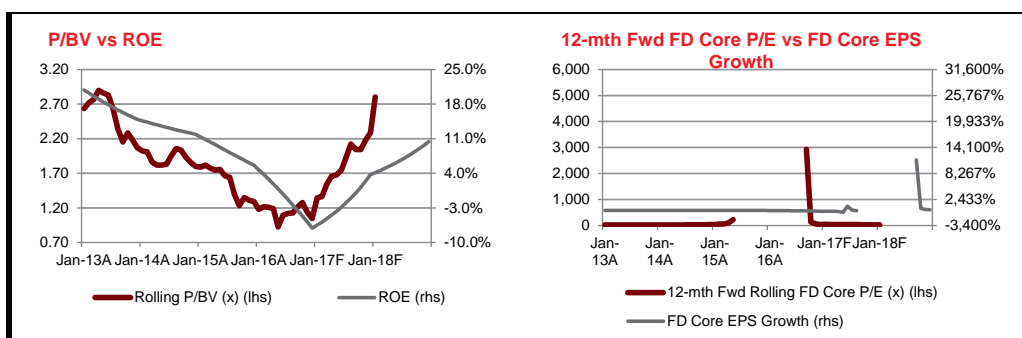
SOURCE: CIMB RESEARCH, COMPANY

Figure 8: Sector comparison

Company	Recom.	Price (RM)	Target Price (RM)	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Bermaz Auto Berhad	Hold	2.37	2.06	684	18.2	15.4	6.3	6.3	34.4%	41.0%	11.2	9.8	5.6%	6.5%
Tan Chong Motor Holdings	Reduce	1.75	1.49	286	543.8	19.7	0.4	0.4	0.1%	2.1%	14.0	9.7	0.0%	0.0%
DRB-Hicom	Add	2.53	2.35	1,223	na	32.0	0.9	0.8	-1.2%	2.6%	9.9	7.8	0.0%	0.0%
UMW Holdings	Hold	6.37	6.40	1,861	26.8	14.3	2.8	2.5	10.3%	18.3%	20.1	14.4	3.1%	3.1%
Sector average					44.3	17.8	1.4	1.4	3.1%	7.7%	13.1	10.1	2.5%	2.7%

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	14,442	10,965	10,366	11,129	12,007
Gross Profit	3,391	1,645	1,503	1,892	1,801
Operating EBITDA	1,054	(359)	512	607	861
Depreciation And Amortisation	(511)	(555)	(333)	(231)	(217)
Operating EBIT	543	(914)	179	375	644
Financial Income/(Expense)	(0)	(106)	(15)	(98)	(96)
Pretax Income/(Loss) from Assoc.	134	155	159	197	247
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	677	(865)	323	473	795
Exceptional Items					
Pre-tax Profit	677	(865)	323	473	795
Taxation	(267)	(141)	(129)	(118)	(199)
Exceptional Income - post-tax					
Profit After Tax	410	(1,006)	194	355	596
Minority Interests	(39)	604	(56)	(77)	(77)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	371	(402)	138	278	519
Recurring Net Profit	371	(402)	138	278	519
Fully Diluted Recurring Net Profit	371	(402)	138	278	519

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	1,054	(359)	512	607	861
Cash Flow from Inv. & Assoc.					
Change In Working Capital	68	775	163	(241)	(476)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	511	528	333	231	217
Net Interest (Paid)/Received	(1)	(106)	(15)	(98)	(96)
Tax Paid	(274)	(207)	(129)	(118)	(199)
Cashflow From Operations	1,358	630	863	380	307
Capex	(2,280)	(966)	(750)	(750)	(600)
Disposals Of FAs/subsidiaries	44	0	0	0	0
Acq. Of Subsidiaries/investments			0	0	
Other Investing Cashflow	126	81	87	9	14
Cash Flow From Investing	(2,111)	(886)	(663)	(741)	(586)
Debt Raised/(repaid)	1,692	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(479)	0	(117)	(234)	(234)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	1,213	0	(117)	(234)	(234)
Total Cash Generated	461	(256)	83	(594)	(513)
Free Cashflow To Equity	940	(256)	200	(361)	(280)
Free Cashflow To Firm	(626)	(69)	302	(253)	(170)

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet					
(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	2,734	2,179	221	340	409
Total Debtors	1,833	1,022	1,113	1,205	1,513
Inventories	1,890	1,922	1,397	1,644	1,974
Total Other Current Assets	1,252	1,012	962	962	962
Total Current Assets	7,710	6,136	3,692	4,151	4,858
Fixed Assets	8,103	7,639	3,920	4,144	4,527
Total Investments	3	2	0	0	0
Intangible Assets	25	0	0	0	0
Total Other Non-Current Assets	2,384	2,429	2,426	2,083	1,833
Total Non-current Assets	10,515	10,070	6,346	6,227	6,361
Short-term Debt	3,725	2,641	1,558	909	709
Current Portion of Long-Term Debt					
Total Creditors	2,241	1,781	1,509	1,607	1,770
Other Current Liabilities	372	197	192	192	192
Total Current Liabilities	6,338	4,619	3,259	2,708	2,671
Total Long-term Debt	2,290	3,789	1,005	1,787	2,303
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	889	888	888	888
Total Non-current Liabilities	2,503	4,678	1,893	2,675	3,191
Total Provisions	0	0	0	0	0
Total Liabilities	8,841	9,297	5,152	5,383	5,862
Shareholders' Equity	6,584	4,722	2,650	2,695	2,980
Minority Interests	2,797	2,187	2,236	2,300	2,377
Total Equity	9,381	6,909	4,886	4,995	5,357

Key Ratios					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(3.3%)	(24.1%)	(5.5%)	7.4%	7.9%
Operating EBITDA Growth	(46%)	(134%)	N/A	19%	42%
Operating EBITDA Margin	7.30%	(3.28%)	4.94%	5.45%	7.17%
Net Cash Per Share (RM)	(2.81)	(3.64)	(2.00)	(2.02)	(2.23)
BVPS (RM)	5.64	4.04	2.27	2.31	2.55
Gross Interest Cover	4.29	(4.91)	1.74	3.50	5.86
Effective Tax Rate	39.5%	0.0%	40.0%	25.0%	25.0%
Net Dividend Payout Ratio	36.6%	NA	43.8%	59.0%	32.5%
Accounts Receivables Days	49.44	47.66	37.59	38.00	41.31
Inventory Days	61.44	74.85	68.35	60.09	64.70
Accounts Payables Days	73.63	78.98	67.75	61.57	60.39
ROIC (%)	3.89%	(5.32%)	1.11%	3.47%	5.87%
ROCE (%)	4.62%	(5.80%)	2.56%	5.07%	8.19%
Return On Average Assets	3.90%	(4.56%)	2.55%	5.36%	8.03%

Key Drivers					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	0.0%	2.0%	0.0%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-5.7%	-9.1%	6.4%	6.2%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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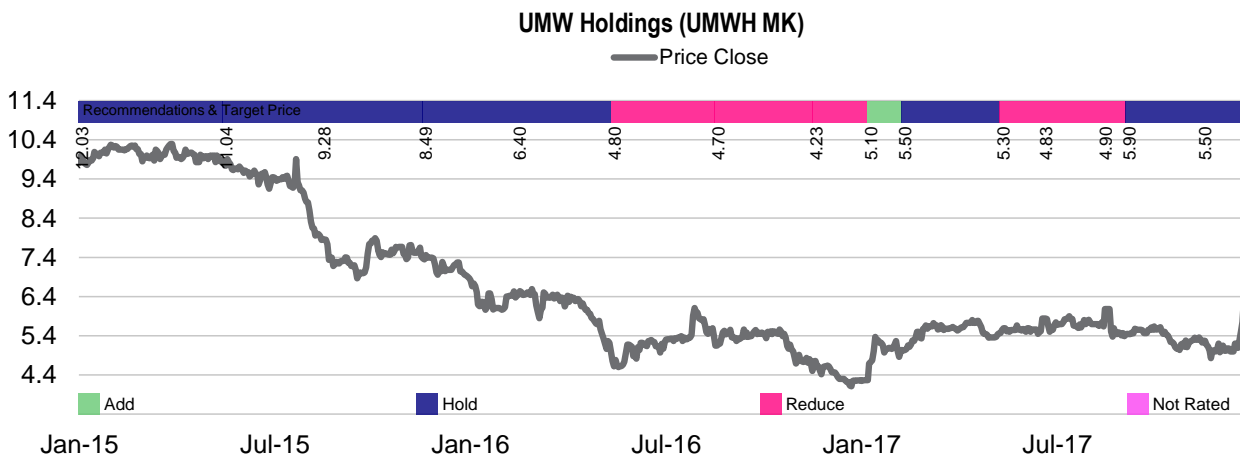
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	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	2.6%
Reduce	9.0%	0.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

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The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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