

UMW (SELL ↔, EPS ↓)

INDUSTRY: NEUTRAL

COMPANY INSIGHT

10 January 2018

Price Target: RM5.20 (↑)

Share Price: RM6.37

Visit to UMW Aerospace

 Highlights/
Comments

- We attended a small group meeting with UMW Aerospace's management yesterday to visit its new manufacturing facility for Rolls Royce fan case in Serendah.
- UMW has made its first step into high value manufacturing by entering into contract with Rolls Royce to manufacture fan case for Trent 1000 (Boeing 787) and Trent 7000 (Airbus A330) in Aug 2015 for a 25+5 years term.
- Under the contract, UMW Aerospace is able to pass-through the fluctuation of input costs (components and materials) and forex US\$/RM exposure back to Rolls Royce (albeit lag of 6 mths period).
- The capex for the new manufacturing facility is RM750m, with 30% - 40% of the cost is for the equipment to manufacture the fan case. The land which currently UMW Aerospace occupies is rented from UMW Corporation.
- It has delivered its first fan case to Rolls Royce on 29 November 2017 and has completed 6 fan cases in 2017 and management expected to gradually ramp up production to 80 units in 2018, 160 units in 2019 and full capacity 250 units in 2020.
- The value and margins for the contract was not disclosed. However, management guided its earnings to only breakeven in 2019, indicating potential loss in 2018 (likely drag from high depreciation charges and interest expenses).
- Furthermore, management expects UMW M&E segment (including Aerospace) to contribute circa 10-15% of UMW Group revenue in 2022. Currently, the group revenue is within RM12-13bn per annum.
- We estimated the full ramp up revenue for the new facility to be circa RM1.0-1.2bn per annum based on full ramp up capacity, while the net margin to be circa 8-10%.

Risks

- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting car sales.
- Global automotive supply chain disruption.
- Depreciation of RM.
- Drag from unlisted O&G and other segments.

Forecasts

- We have cut earnings for FY18-19 by 9% and 14.5% respectively after accounting lower than expected ramp up production for UMW Aerospace.

Rating

SELL (↔)

- Despite benefiting from stronger RM (auto segment), we are concern on the rise of material costs (steel and aluminium) to the sector, as well as the continued drag from losses in unlisted O&G and other segments, while UMW Aerospace is not expected to contribute materially in FY18-19.

Valuation

- We have rolled forward our valuation into FY19-20 and increased our TP to RM5.20 (from RM4.63) based on SoP. However, we maintain SELL recommendation as we believe UMW's share price has run ahead of its fundamental valuation, with unattractive dividend yield.

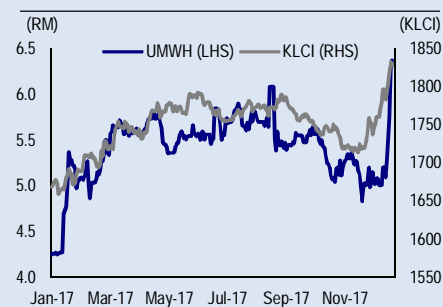
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KLCI	1827
Expected share price return	-18.4%
Expected dividend return	0.8%
Expected total return	-17.6%

Share Price



Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	7,442
3-mth avg. volume ('000)	666
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	26.9	16.5	49.9
Relative	19.6	12.4	36.8

Major Shareholders

PNB	57.6%
EPF	11.6%
KWAP	8.2%

Summary Earnings Table

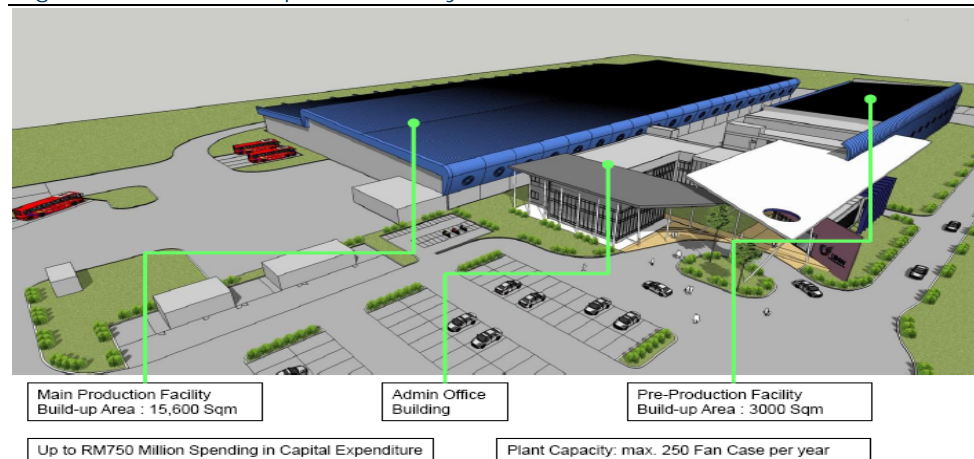
FYE Mar (RM m)	FY16A	FY17E	FY18F	FY19F
Turnover	10,882	11,307	12,069	13,076
EBITDA	564	385	766	973
Pre-tax Profit	-2,130	76	508	708
Rpt. net profit	-1,667	27	269	410
Norm. net profit	-46	27	269	410
Norm. EPS (sen)	-3.9	2.4	23.1	35.1
P/E (x)	N.M.	270.7	27.6	18.1
Book Value (RM)	4.0	3.5	3.6	3.9
P/B (x)	1.6	1.8	1.7	1.6
Net Dvd Yield (%)	11.3	0.8	0.8	1.6
Net Gearing (%)	89.5	48.4	66.4	62.2
ROE (%)	N.M.	0.6	6.5	9.3
ROA (%)	N.M.	0.2	2.2	3.2

Consensus:

EPS (sen)	5.7	25.0	33.8
Diff (%)	-58.7	-7.8	3.9

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Figure #1: UMW Aerospace Plant layout



RM750m has been spent for UMW Aerospace manufacturing facility in Serendah to cater for Rolls Royce fan case. The plant has capacity to produce up to 250 units of fan cases per annum. UMW is currently ranked as Tier 1 supplier to Rolls Royce in South East Asia.

UMWH

Figure #2: Fan case model



Each fan case weighs 1,000 kg and is mainly made from titanium. It comprises of 4 main components which are front fan case, mount ring, rear case, outer guide vane. Management mentioned that a fan case will have life of minimum 30 years.

UMWH

Figure #3: UMW SoP

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,427.5	2.93	FY19 PE 10x
Equipment	Various	1,382.7	1.18	FY19 PE 8x
Manufacturing & Engineering	Various	1,921.5	1.64	FY20 PE 18x
Others (including O&G unlisted)	Various	0.0	0.00	
Subtotal		6,731.7	5.76	
Holding Co Discount			10.0%	
Subtotal		8,653.1	5.20	
* No of Shares		1,168.3		As at end FY2016

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Financial Projections - UMWH (SELL; TP: RM5.20)

Income Statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Revenue	14,442	10,882	11,307	12,069	13,076
Operating cost	-12,872	-10,317	-10,921	-11,304	-12,102
EBITDA	1,569	564	385	766	973
Depreciation	-765	-555	-413	-335	-338
EBIT	804	9	-28	431	635
Interest income	126	81	69	54	45
Interest expense	-127	-186	-111	-118	-123
Associates	134	155	147	141	152
Exceptionals	-668	-2,189	0	0	0
Pretax profit	270	-2,130	76	508	708
Taxation	-267	-141	-96	-140	-166
Minorities	-39	604	47	-99	-132
Net profit	-37	-1,667	27	269	410
Core PATAMI	256	-46	27	269	410
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	2.4	23.1	35.1
Core EPS (sen)	21.9	-3.9	2.4	23.1	35.1

Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Fixed assets	8,106	7,642	3,419	4,324	4,426
Other assets	4,038	3,709	4,046	4,081	4,119
Working capital	1,968	1,778	1,842	1,996	2,175
Receivables	1,458	754	791	845	915
Payables	-1,380	-898	-928	-961	-1,029
Inventory	1,890	1,922	1,979	2,112	2,288
Net cash	-3,281	-4,226	-1,958	-2,827	-2,832
Cash	2,734	2,179	1,740	1,363	1,210
ST debt	-3,725	-2,617	-1,117	-1,117	-1,117
LT debt	-2,290	-3,789	-2,581	-3,073	-2,925
Equity	6,584	4,722	4,049	4,260	4,554
Share capital	584	584	584	584	584
Reserves	6,000	4,138	3,465	3,676	3,969
Minorities	2,799	2,187	1,306	1,320	1,340
Other liabilities	1,447	1,994	1,994	1,994	1,994

Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
GDP Growth (%)	6.0%	4.2%	5.8%	5.3%	5.0%
TIV ('000)	666.5	580.1	588.8	600.6	612.6
Growth (%)	1.6%	-13.0%	1.5%	2.0%	2.0%
Unit Sale (Unit)	309.2	272.2	276.0	292.4	303.6
Toyota ('000)	93.8	63.8	68.7	75.0	78.0
Lexus ('000)	2.1	1.4	1.3	1.4	1.4
Perodua ('000)	213.3	207.1	206.0	216.0	224.2
Average Price					
UMW (RM '000)	107.9	123.1	116.9	114.6	115.8
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
EBITDA	1,569	564	385	766	973
Net interest	-1	-106	-42	-64	-78
WCap changes	69	190	-63	-154	-179
Taxation	-283	-136	-96	-140	-166
Others	-279	-583	0	0	0
Opex cashflow	1,075	-70	183	408	550
Capex & acq.	-2,388	-925	-1,991	-1,240	-440
Free cashflow	-1,313	-995	-1,808	-832	110
Other inv cashflow	502	248	110	106	114
Net borrowings	1,323	433	1,093	492	-148
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	166	-84	-112
Net cashflow	-274	-526	-439	-377	-153
Forex translation	65	25	0	0	0
Beginning cash	3,277	2,655	2,155	1,716	1,339
Ending cash	3,067	2,155	1,716	1,339	1,186

Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Rep. EPS (sen)	-3.2	-142.7	2.4	23.1	35.1
Core EPS (sen)	21.9	-3.9	2.4	23.1	35.1
PER (x)	-200.2	-4.5	270.7	27.6	18.1
Core PER (x)	29.1	-161.4	270.7	27.6	18.1
Net DPS (sen)	20.0	72.0	5.0	5.0	10.0
Net DY (%)	3.1	11.3	0.8	0.8	1.6
BV/ share (RM)	5.6	4.0	3.5	3.6	3.9
P/BV (x)	1.1	1.6	1.8	1.7	1.6
FCF/share (sen)	-112.4	-85.2	-154.7	-71.3	9.5
Market Cap	7,442	7,442	7,442	7,442	7,442
Net cash	-3,281	-4,226	-1,958	-2,827	-2,832
Enterprise value	10,723	11,668	9,400	10,269	10,274
EV/EBITDA (x)	6.8	20.7	24.4	13.4	10.6
ROE (%)	3.9	-0.8	0.6	6.5	9.3
ROA (%)	1.5	-0.3	0.2	2.2	3.2

Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Growth (%)					
Sales	-3.3	-24.7	3.9	6.7	8.3
EBITDA	-19.5	-64.0	-31.7	98.8	27.1
EBIT	-48.8	-98.8	N.M.	-1628.4	47.6
PBT	-83.4	-890.0	-103.6	566.4	39.6
Core PATAMI	-67.4	-118.0	-159.6	879.6	52.3
Margins (%)					
EBITDA	10.9	5.2	3.4	6.3	7.4
EBIT	5.6	0.1	-0.2	3.6	4.9
PBT	1.9	-19.6	0.7	4.2	5.4
Core PATAMI	1.8	-0.4	0.2	2.2	3.1
Net Gearing (%)	49.8	89.5	48.4	66.4	62.2

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