

10 January 2018

UMW Holdings Bhd

UMW Aerospace's Breakeven Point in 2019

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We came back from UMW's Aerospace Rolls-Royce fan case manufacturing plant visit with our cautious view unchanged due to the group's mixed prospects. Maintain MARKET PERFORM with a higher TP of RM6.25 based on revised 20x FY18E EPS (from RM5.30, based on 17x FY18E EPS) premised on potential growth in the next two years.

The 25+5 years agreement with Rolls-Royce PLC. UMW Aerospace Sdn Bhd has signed a 25+5 years agreement with Rolls-Royce PLC in 12th August 2015 (we have factored in RM750m CAPEX allocated for the first 2.5 years) to manufacture and assemble fan cases for Trent 1000 and Trent 7000 aero engines. The manufacturing plant is located in Serendah, Selangor and tailor-made to support the Rolls-Royce engine assembly plant in Seletar, Singapore, which is in line with Rolls-Royce's strategic intent to build a supply chain in the Asia Pacific region. With this agreement, UMW Aerospace became the first Malaysian company to be a Tier-1 aerospace engine component manufacturer.

Expected breakeven point in 2019. UMW Aerospace has delivered 6 fan cases for 4Q17 and additionally, expects to ramp up its production to 80 fan cases for 2018 and 160 fan cases by 2019 before hitting full capacity of 250 fan cases by 2020. UMW Aerospace is expected to be profitable at 160 fan cases level in 2019 considering that some front-loaded investments need to be amortised. The full production capacity is in line with the full production capacity of Seletar Rolls-Royce engine assembly plant.

Double-digit revenue growth for UMW Aerospace envisaged over the next 5 years. UMW Aerospace expects to post double-digit revenue growth over the next 5 years. However, due to the stringent contract condition with Rolls-Royce PLC, the company is unable to disclose the information regarding the average selling price or the costs breakdown for the fan cases. Based on 9M17 results, the M&E segment posted pre-tax losses of RM13.2m and we estimated that UMW Aerospace has incurred start-up losses of c.RM47.1m (given that other business in M&E segment remained at the same level as of FY16). We have factored in the start-up losses in FY17E reported NP while maintaining FY17E CNP numbers.

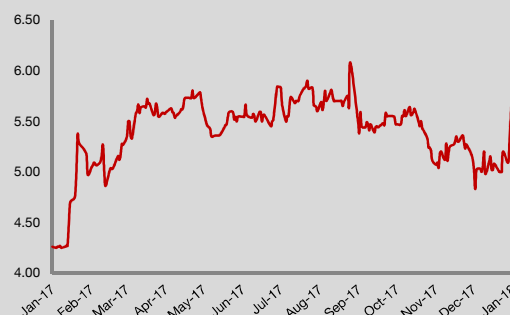
Outlook. We maintain our neutral stance on UMW in view of the single-digit growth in its automotive segment sales volume pending the completion of its new Bukit Raja Plant (expected to be operational in early 2019, an additional 50k capacity (one-shift) to the current 75k) and the gestation period for its Rolls-Royce plant (expected to break even in FY19). Moving forward, the group's strategic exit from the O&G industry is expected to improve the group's profitability. Furthermore, the automotive segment is expected to be driven by the new models namely 2018 Toyota C-HR CBU, 2019 Toyota C-HR CKD, 2018 Toyota Harrier, all-new Perodua MyVi and face-lifted variants of existing models.

Maintain MARKET PERFORM with a higher TP of RM6.25 based on the revised 20x FY18E EPS implying +1.0 SD of its 5-year mean historical PER (previously from TP of RM5.30 based on 17x FY18E EPS implying 5-year mean PER). We believe our valuation level is fair considering the higher net profit growth over the next two years (>100%) partly from the elimination of losses from its Oil & Gas division (c.RM213m), as well as expected higher car sales volume and improvement in margin from the stronger MYR against USD. Additionally, UMW envisaged double-digit revenue growth for UMW Aerospace in the next 5 years. Risks to our call include: (i) changes in car sales volume, and (ii) changes in forex.

MARKET PERFORM ↔

Price: **RM6.37**
Target Price: **RM6.25** ↑

Share Price Performance



KLCI	1,826.95
YTD KLCI change	1.7%
YTD stock price change	22.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	7,442.0
Issued shares	1,168.3
52-week range (H)	6.44
52-week range (L)	4.23
3-mth avg daily vol:	666,424
Free Float	39%
Beta	1.4

Major Shareholders

Skim Amanah Saham	40.7%
Employees Provident Fund	11.6%
Kumpulan Wang Persaraan	8.2%

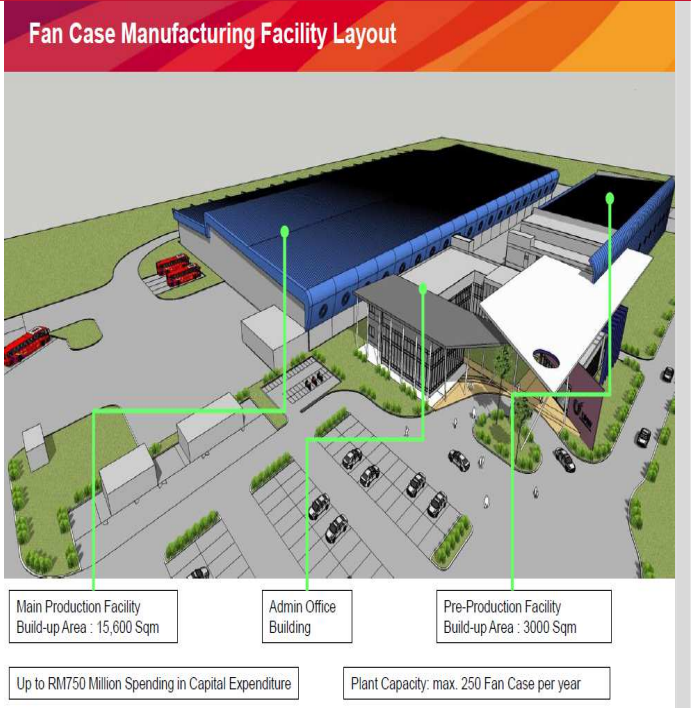
Summary Earnings Table

FY Dec (RM'm)	2016A	2017E	2018E
Turnover	10,981.3	10,222.9	10,369.6
EBIT/ (LBIT)	(2,202.8)	7.7	291.3
PBT/ (LBT)	(2,153.8)	126.9	438.5
NP/(NL)	(1,690.6)	73.8	365.7
CNP/(CNL)	(362.2)	114.8	365.7
Consensus NP	-	58.2	291.5
Earnings Revision	-	-	-
Core EPS (sen)	-31.0	9.8	31.3
Core EPS growth	-251.1%	-131.7%	218.7%
NDPS (sen)	-	-	-
BVPS (RM)	4.04	3.19	3.85
PER (x)	N.M	64.8	20.3
PBV (x)	1.6	2.0	1.7
Net Gearing (x)	0.9	0.4	0.2
Net Div. Yield (%)	-	-	-

UMW Aerospace Sdn Bhd

MONETIZING LONG HELD LAND ASSETS

- o Serendah Land – 861 acres
- o Opportunity exist for unlocking of value.
- o Part of the land currently housed the Rolls-Royce fan casing project which acts as a catalyst for further development of Serendah.



Source: Company, Kenanga Research

Rolls-Royce Fan Case

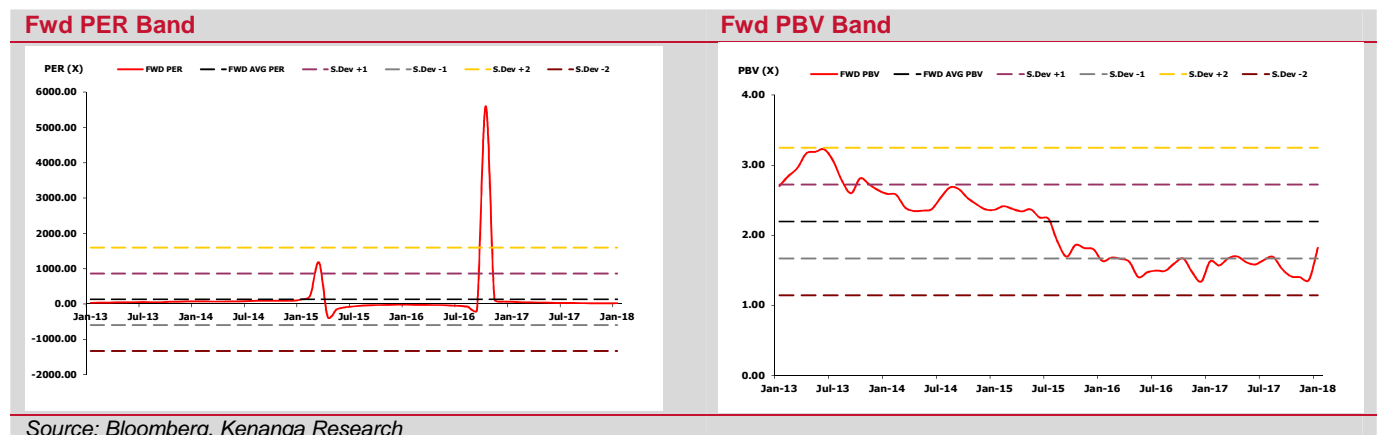


Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	14,932	14,442	10,981	10,223	10,370	Growth (%)					
EBITDA	1,433	136	(2,203)	8	291	Turnover	7.0	-3.3	-24.0	-6.9	1.4
Depreciation	(379)	(511)	(555)	(243)	(243)	EBITDA	7.0	-3.3	-24.0	-6.9	1.4
Interest Inc/(Exp)	(85)	(127)	(186)	(107)	(107)	Operating Profit	10.5	-90.5	-1724.3	-100.4	3671.8
Associate	140	134	155	140	162	PBT	12.9	-83.4	-898.7	-106.1	245.6
PBT	1,621	270	(2,154)	127	438	CNP	-7.8	-69.5	-251.1	-107.2	218.7
Taxation	(394)	(262)	(141)	(65)	(86)	Profitability (%)					
Minority Interest	(561)	(39)	604	12	13	Operating Margin	9.6	0.9	-20.1	0.1	2.8
NP	652	(37)	(1,691)	74	366	PBT Margin	10.9	1.9	-19.6	1.2	4.2
CNP	786	240	(362)	115	366	CNP Margin	5.3	1.7	-3.3	1.1	3.5
						ROA	4.2	-0.3	-12.8	1.2	3.6
						ROE	10.1	-0.8	-34.9	3.2	9.0
Balance Sheet											
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	DuPont Analysis					
F. Assets	5,670	8,103	7,639	2,860	3,146	Net Margin (%)	5.3	1.7	-3.3	1.1	3.5
Int. Assets	26	25	6	6	6	Assets Turnover(x)	0.9	0.8	0.7	1.0	1.0
Other F.Assets	2,353	2,430	2,425	2,083	2,083	Leverage Factor(x)	2.5	2.8	3.4	2.7	2.3
Inventories	1,830	1,890	1,922	1,578	1,604	ROE (%)	10.1	-0.8	-7.5	3.2	9.0
Receivables	2,079	1,833	754	489	502	Leverage					
Other C. Assets	1,191	1,210	1,280	1,388	1,388	Debt/Asset (x)	0.3	0.3	0.4	0.3	0.3
Cash	3,371	2,734	2,179	1,463	1,609	Debt/Equity (x)	0.6	0.9	1.4	0.8	0.6
Total Assets	16,520	18,225	16,206	9,868	10,339	Net (Cash)/Debt	819	3,281	4,226	1,412	979
						Net Debt/Equity (x)	0.1	0.5	0.9	0.4	0.2
Payables	2,217	2,241	898	937	953	Valuations					
ST Borrowings	2,387	3,725	2,617	1,229	1,106	Core EPS (sen)	67.3	20.5	(31.0)	9.8	31.3
Other ST Liability	466	372	1,104	272	372	NDPS (sen)	41.0	20.0	-	-	-
LT Borrowings	1,803	2,290	3,789	1,647	1,482	BV/sh (RM)	5.6	5.6	4.0	3.2	3.8
Other LT Liability	214	214	889	580	580	PER (x)	9.5	31.1	(20.5)	64.8	20.3
Net Assets	9,433	9,384	6,909	5,203	5,846	Div. Yield (%)	6.4	3.1	-	-	-
						PBV (x)	1.1	1.1	1.6	2.0	1.7
S.holders' Equity	6,580	6,584	4,722	3,682	4,459	EV/EBITDA (x)	3.2	3.9	(1.8)	22.2	11.2
Minority Interests	2,853	2,799	2,187	1,521	1,387						
Total Equity	9,433	9,384	6,909	5,203	5,846						
Cashflow Statement											
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E						
Operating CF	1,378	949	-151	429	503						
Investing CF	-328	-1,740	-596	-616	-367						
Financing CF	204	517	221	-107	-107						
Change In Cash	1,254	-274	-526	-294	30						
FCF	-808	-1,331	-1,117	-327	-26						

Source: Kenanga Research



10 January 2018

Malaysian Automotive Peers Comparison

NAME	Price @ 09/01/18	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)		(RM m)	Actual	1 YrFwd			2 YrFwd	(%)	(%)				
BERMAZ AUTO BHD	2.37	2,735.7	23.3	17.5	13.4	4.7%	43.5%	117.6	156.0	203.7	32.6%	30.5%	2.30	OP
DRB-HICOM BHD	2.53	4,891.0	N.M.	14.6	13.9	0.8%	6.3%	-732.0	334.3	351.7	N.M.	N.M.	1.80	MP
MBM RESOURCES BERHAD	2.41	942.1	12.7	12.1	11.1	1.9%	5.0%	74.0	78.1	85.2	5.5%	9.1%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.75	1,142.2	N.M.	N.M.	N.M.	1.1%	2.0%	-46.1	-83.4	-84.4	N.M.	N.M.	1.40	MP
UMW HOLDINGS BHD	6.37	7,442.1	N.M.	64.8	20.3	-	4.0%	-362.2	114.8	365.7	N.M.	218.7%	6.25	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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