

Company Update

11 January 2018

UMW Holdings Berhad

Exhilarating Aerospace Business

HOLD

Maintained

Share Price	RM6.42
Target Price	RM6.00

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMWH MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	7535.5
52-week price Range	RM4.24– 6.45
Beta (against KLCI)	1.38
3-m Average Daily Volume	0.84m
3-m Average Daily Value [^]	RM4.83m

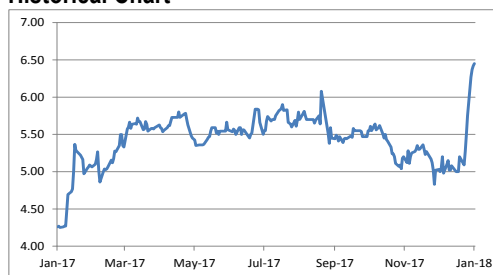
Share Performance

	1m	3m	12m
Absolute (%)	28.2	24.0	51.4
Relative (%-pts)	21.0	12.0	39.2

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	40.71
EMPLOYEES PROVIDENT FUND	10.73
KUMPULAN WANG PERSARAAN	8.23
ESTIMATED FREE FLOAT	23.43

Historical Chart



Source: Bloomberg

Team Coverage

03-87361118, ext. 752

nursuhaiza@jfpex.com.my

What's new

- **We met UMW Aerospace Sdn Bhd's team and visited its new manufacturing plant for Rolls Royce fan case in Serendah recently.** We came back feeling reassured about the Group's rationalization plans as well as its aerospace business.

Comment

- **Rolls-Royce recognizes UMW Aerospace as its Tier 1 supplier for fan cases.** In Aug 2015, UMW signed a 25+5 year contract with Rolls Royce to manufacture fan cases for Trent 1000 & 7000 engines, which used in Boeing 787 Dreamliner and Airbus A330neo. Since then, the Group has invested RM750m to build the manufacturing plant with c.30% cost to manufacture the fan cases. The land in which UMW Aerospace occupies currently is rented from UMW Corporation. The fan cases produced in UMW's Serendah facility will be handed over by truck to Rolls Royce's engine assembly and test facility in Seletar Aerospace Park, Singapore. Rolls-Royce recognizes UMW Aerospace as its Tier 1 supplier for fan case since the Group is the only external supplier to supply fan case to Rolls-Royce.
- **Break-even expected in FY19.** UMW Aerospace has delivered its first unit of fan case in Nov'17 and has completed 6 units of fan case in 2017. The Group expected to ramp up another 80 units and 160 units of fan cases in FY18 and FY19 respectively with full capacity of 250 units fan cases in 2020. Break-even will likely in FY19 onwards as the Group's aerospace business will remain losses, bearing high operating cost to build up the plant and high depreciation charges. Thereafter, the Group expects to see a double-digit revenue and net profit growth from the Manufacturing and Engineering (M&E) segment by 2021. Thus, we would see the M&E segment's contribution to the Group level to increase to 10% from current contribution of around 5%.

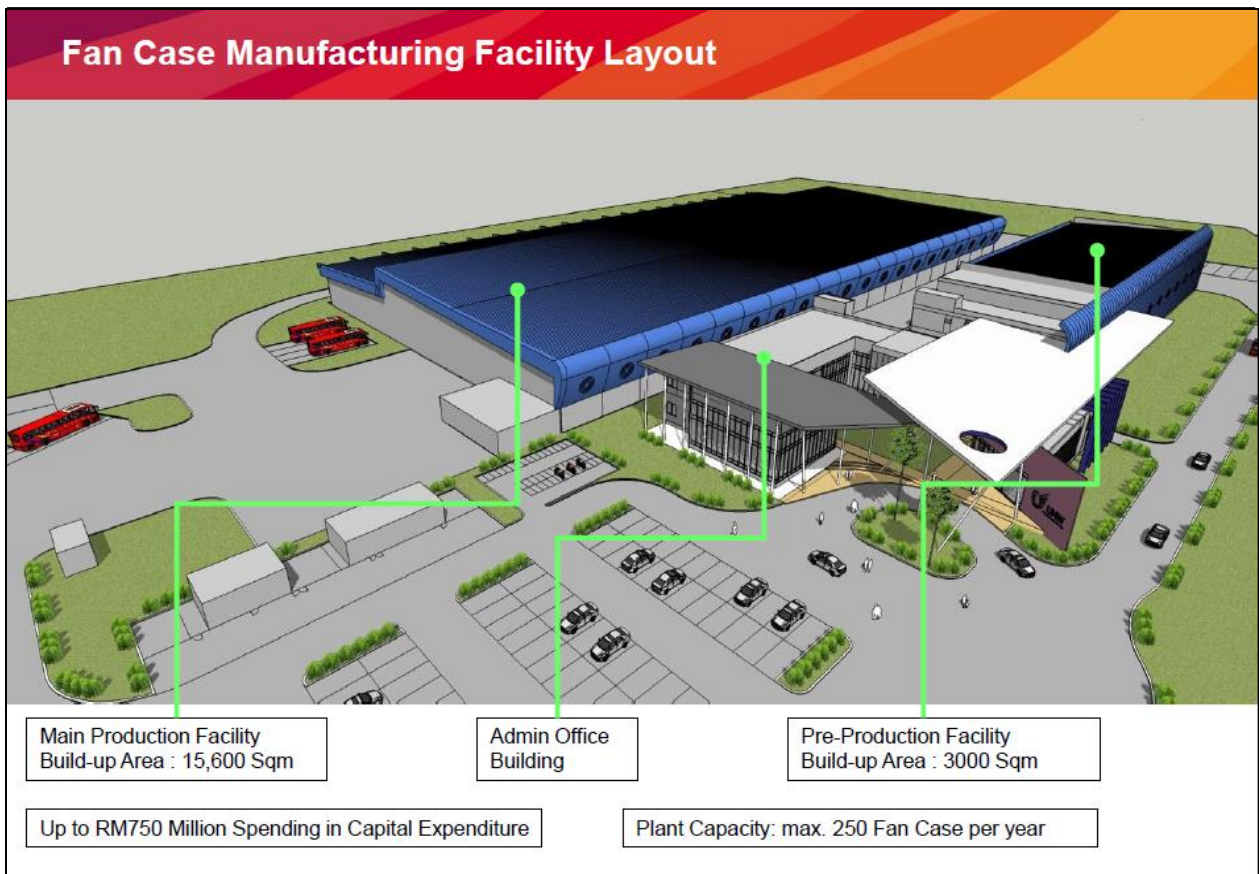
Earnings Outlook/Revision

- **We maintain our earnings forecasts for FY17F while revise upwards our earnings forecasts for FY18F by 24.3%** in view of better car sales performance, diminishing losses from its non-listed oil and gas segment following its disposal of assets and recovery in crude oil prices, and narrowing losses from M&E segments.

Valuation & Recommendation

- Maintain HOLD call on UMW with a higher target price of RM6.00 (previously RM5.20) following our earnings upgrade.** Our valuation for UMW is currently revised to 23.1x FY2018F PE based on EPS of 26 sen. The target PE valuation is close to its mean PE of 22x. While we reckon that the worst is over for the Group, we have yet to see any catalyst to drive the share price. We are still cautious on its outlook, as affected by some downside risks such as tepid consumer sentiment and fluctuation in foreign exchange.

Figure 1: UMW Aerospace manufacturing plant



Source: Company, JF Apex

Figure 2: Rolls-Royce fan case

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017F	2018F
Revenue	13,951.46	14,958.91	14,419.75	10,965.07	9,109.47	9257.41
Operating profit	1,296.46	1,426.78	166.64	-2,202.81	307.90	383.26
PBT	1,435.67	1,620.83	265.36	-2,153.78	431.58	704.41
Net profit	679.61	650.70	-38.93	-1,690.58	181.26	306.42
Core profit	960.40	836.80	338.00	-401.80	181.26	306.42
EPS (sen)	0.58	0.56	-0.03	-1.45	0.16	0.26
P/BV (x)	0.83	0.79	0.81	1.08	0.97	0.88
DPS (sen)	0.44	0.41	0.20	0.00	0.06	0.10
Dividend yield (%)	6.91%	6.44%	3.14%	0.00%	0.97%	1.65%
Operating margin (%)	9.29%	9.54%	1.16%	-20.09%	3.38%	4.14%
PBT margin (%)	10.29%	10.84%	1.84%	-19.64%	4.74%	7.61%
Net profit margin (%)	4.87%	4.35%	-0.27%	-15.42%	1.99%	3.31%
Net Gearing Ratio(x)	0.37	0.38	0.66	1.03	1.04	1.10
ROE (%)	7.57%	6.89%	-0.42%	-24.47%	2.37%	3.62%
ROA (%)	4.59%	3.96%	-0.22%	-10.43%	1.06%	1.69%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST

JF APEX SECURITIES BHD

Head Office:
6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM

Head Office:
Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM

Head Office:
Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Low Zy Jing (ext 754)
Nursuhaiza Hashim (ext 752)
Siau Li Shen (ext 753)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:
JF Apex Securities Berhad (47680-X)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)