

28 February 2018 | 4Q17 Result Review

UMW Holdings

Priced to perfection

- **FY17 core earnings outperformed**
- **Thesis of core earnings turnaround underpinned**
- **However, UMW is priced to perfection and strong earnings recovery already reflected in our above-consensus forecast**
- **Downgrade to HOLD from BUY at revised TP of RM6.70**

Earnings outperformed consensus. UMW reported core net profit of RM108m for its 4Q17, which brought FY17F core earnings to RM168m. This is a tad ahead of our forecast and is double that of consensus accounting for 110% and 205% of estimates respectively. Key exceptionals in 4Q17 were: (1) RM286m in impairment of non-listed O&G assets (2) RM254m provision for early settlement of a financial guarantee.

Autos benefitted from strong RM. Auto division earnings rose 38%qoq while margins expanded from 5% to 6% sequentially. The division benefitted from the strong Ringgit, strong Perodua earnings from launch of the new MyVi and partly, seasonal strength in Toyota TIV from year-end sales campaigns. Toyota TIV was up 30%qoq and 5%yoy but this strength should normalise moving into the new year. FY18F is unlikely to see any major model launches as CKD launches are likely to be delayed till FY19F when the new Bukit Raja plant commences operations. Key new launches this year are the CBU CHR and the new CBU Rush. There is a possibility of a facelift Vios while the new CKD Camry is likely to be pushed out to FY19F.

Above-consensus FY19F already reflects strong recovery. Our FY19F already factors in a 13%yoy increase in Toyota TIV to 82K units and a 62% jump in auto division earnings to RM424m vs. that achieved in FY17A. Our FY18F/FY19F assumes RM4.00:USD against the current RM3.90 levels. For FY18F specifically, we would not expect a significant increase in Toyota TIV as major CKD launches are likely to be pushed back to FY19F. While UMW used to generate core earnings of RM800m-RM1b back in FY13-14, Toyota back then was the largest non-national with annual TIV of 93K-102K while the RM stood at 3.2-3.4 against the USD. There is some way to go for UMW Toyota to regain such market share from where it stands today at ~70K (See Exhibit 3). Currently, our FY18F/19F are 20%/27% above consensus.

Priced to perfection. We raise our SOP-derived TP to RM6.70 (from RM6.00) as we rollover our valuations to FY19F, but now downgrade our contrarian BUY on UMW to a NEUTRAL. After a strong share price run-up in the past 12 months and a lack of further incremental catalyst in the near-term, share price might take a breather. We suggest investors lock in profits and switch into a fresh turnaround idea in Tan Chong Motor (BUY, TP: RM2.05).

Downgraded NEUTRAL
Revised Target Price (TP):RM6.70
(from RM6.00)

RETURN STATS	
Price (27 Feb 2018)	RM6.49
Target Price	RM6.70
Expected Share Price Return	+3.2%
Expected Dividend Yield	+3.5%
Expected Total Return	+6.7%

STOCK INFO	
KLCI	1,871.46
Bursa / Bloomberg	4588 / UMWK MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	7,582.23
Price over NA	2.46
52-wk price Range	RM4.70 – RM6.98
Beta (against KLCI)	1.31
3-mth Avg Daily Vol	1.31m
3-mth Avg Daily Value	RM8.19m
Major Shareholders (%)	
SKIM ASB	40.7%
EPF	9.1%
KWAP	8.1%

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	14,419.8	10,965.1	11,046.5	10,013.6	11,121.3
EBIT (RM'm)	134.9	(2,202.8)	120.4	650.6	936.1
Pre-tax Profit (RM'm)	265.6	(2,153.8)	252.9	659.1	1,004.1
Core net profit (RM'm)	338.0	(401.8)	163.8	370.3	529.6
FD EPS (sen)	28.9	(34.4)	14.0	31.7	45.3
EPS growth (%)	(59.6)	NA	NA	126.1	43.0
PER (x)	22.4	NA	46.3	20.5	14.3
Net Dividend (sen)	20.0	0.0	0.0	15.8	22.7
Net Dividend Yield (%)	3.1	0.0	0.0	2.4	3.5

Source: Company, MIDFR

EXHIBIT 1: UMW ACTUAL FY17 CORE NET PROFIT BY DIVISION AGAINST OUR FORECAST

Divisions	FY17F	FY17A
Automotive	256	262
Equipment	135	112
Manuf & Eng	(53)	(38)
Oil & Gas (Listed)	(85)	(86)
Oil & Gas (Unlisted)	(66)	(66)
Others	(38)	(20)
Core net profit (RMm)	149	164

Source: Company, MIDF

EXHIBIT 2: UMW NET PROFIT FORECAST BREAKDOWN (RM MIL)

	FY16	FY17	FY18F	FY19F
Automotive	301.0	261.6	359.2	423.9
Equipment	115.3	112.5	129.2	115.9
Manuf & Eng	(2.0)	(37.7)	(10.1)	19.5
Oil & Gas (Listed)	(661.0)	(86.4)		
Oil & Gas (Unlisted)	(541.3)	(66.5)	(75.6)	
Others	(902.6)	(19.7)	(32.4)	(29.7)
Net profit	(1,690.6)	163.8	370.3	529.6
Net profit ex-O&G	(488.3)	316.6	446.0	529.6

Source: Company, MIDF

EXHIBIT 3: UMW AUTOS HISTORICAL EARNINGS VS KEY VARIABLES

	FY13	FY14	FY15	FY16	FY17	FY18F	FY19F
UMW autos pretax (RMm)	1,413.5	1,472.2	860.9	493.1	433.7	652.7	820.3
Toyota TIV (units)	91,185	102,035	93,760	63,757	69,492	71,712	81,187
RM:USD	3.2	3.4	4.0	4.1	4.3	4.0	4.0

Source: Company, MIDF

EXHIBIT 4: UMW SUM-OF-PARTS VALUATION

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	424	PER	13	5,511	
Equipment	116	PER	12	1,390	Benchmark against regional equipment players
Serendah land		RNAV		586	RNAV of Serendah land (830acres@RM16psf) (net of debt)
Aerospace		DCF		189	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		Book Value		114	Based on BV of assets net of 4Q17 impairment
Total value				7,789	
No of shares (m)				1,168	
Fair value (RM)				6.70	

Source: Company, MIDF

EXHIBIT 3: UMW 4Q17 RESULTS

FYE Dec (RMm)	4Q16	3Q17	4Q17	YoY	QoQ	FY16	FY17	YTD
Revenue	2,937.9	2,671.0	2,954.7	0.6%	10.6%	10,436.8	11,046.5	5.8%
Operating Profit	(616.1)	(10.8)	16.1	-102.6%	-248.5%	(456.7)	120.4	-126.4%
Finance Cost	(15.8)	(20.3)	(77.1)	389.2%	280.0%	(32.5)	(119.0)	266.0%
Associates	71.9	29.6	58.3	-18.9%	96.6%	183.6	171.7	-6.5%
Investment Income	17.2	21.4	20.3	17.6%	-5.3%	63.1	79.8	26.5%
Pretax Profit	(542.8)	19.9	17.6	-103.2%	-11.8%	(242.5)	252.9	-204.3%
Taxation	(24.0)	(29.8)	(33.0)			(133.5)	(122.3)	
Minorities	(564.6)	19.5	4.0	NA	NA	(611.7)	(22.8)	
Loss from discontinued operations (UMWOG)	(1,531.5)	-	(413.2)			(1,893.8)	(804.5)	
Net Profit	(1,533.7)	(29.4)	(432.7)	NA	NA	(1,658.0)	(651.2)	NA
Core net profit	(250.7)	26.9	107.6	-142.9%	299.6%	(1,788.1)	163.8	NA
Core net profit (ex-O&G)	122.5	82.7	101.4	-17.2%	22.6%	414.4	336.3	-18.8%
EPS (FD, sen)	-21.5	2.3	9.2			-153.1	14.0	
DPS (sen)	0.0	0.0	0.0			0.0	0.0	
Margins (%):								
Operating	-21.0%	-0.4%	0.5%			-4.4%	1.1%	
Pretax Profit	-18.5%	0.7%	0.6%			-2.3%	2.3%	
Core Net Profit	-8.5%	1.0%	3.6%			-15.9%	-5.9%	
Tax Rate	-4.4%	149.3%	187.8%			-55.1%	48.4%	

Source: Company, MIDF

EXHIBIT 4: UMW 4Q17 SEGMENTAL BREAKDOWN

Segmental Breakdown	4Q16	3Q17	4Q17	YoY	QoQ	FY16	FY17	YTD
Automotive	2,462.3	2,115.9	2,386.7	-3.1%	12.8%	8,459	8,954	5.9%
Equipment	330.8	369.3	393.5	18.9%	6.5%	1,383	1,457	5.3%
Manuf & Eng	152.6	155.8	170.0	11.4%	9.1%	600	646	7.7%
Oil & Gas (Listed)	53.5	-	-	-100.0%	#DIV/0!	321	214	-33.2%
Oil & Gas (Unlisted)	67.0	37.5	26.2	-60.9%	-30.2%	221	120	-45.6%
Revenue	3,066.4	2,678.6	2,976.4	-2.9%	11.1%	10,983.4	11,390.6	3.7%
Automotive	143.6	106.1	141.6	-1.4%	33.5%	493	434	-12.0%
Equipment	30.6	39.3	29.6	-3.1%	-24.5%	147	141	-4.1%
Manuf & Eng	4.0	(6.7)	(3.0)	-174.9%	-55.0%	24	(16)	-167.8%
Oil & Gas (Listed)	(918.1)	-	-	-100.0%	#DIV/0!	(1,184)	(283)	-76.1%
Oil & Gas (Unlisted)	(625.6)	(35.6)	(412.3)	-34.1%	1058.5%	(743)	(520)	-30.0%
Pretax profit	(1,365.4)	103.0	(244.1)	-82.1%	-337.0%	(1,262.3)	(244.7)	-80.6%
Pretax margins								
Automotive	5.8%	5.0%	5.9%			5.8%	4.8%	
Equipment	9.2%	10.6%	7.5%			10.6%	9.7%	
Manuf & Eng	2.6%	-4.3%	-1.8%			4.0%	-2.5%	
Oil & Gas (Listed)	-1717.1%	#DIV/0!	#DIV/0!			-368.9%	-132.2%	
Oil & Gas (Unlisted)	-933.1%	-94.8%	-1574.1%			-335.6%	-431.7%	
Toyota TIV (units)	19,237	15,571	20,202	5.0%	29.7%	63,757	69,492	9.0%
Average revenue/car (RM)	128,001	135,889	118,141	-7.7%	-13.1%	132,673	128,846	-2.9%
USD:RM (Spot)	4.05	4.33	4.26	5.2%	-1.6%	4.13	4.34	5.1%
Reported net profit	(1,566.2)	(29.4)	107.6			(1,690.6)	(110.9)	-93.4%
Automotive	98.8	62.9	85.7	-13.2%	36.3%	301.0	261.6	-13.1%
Equipment	27.4	31.7	24.9	-8.9%	-21.3%	115.3	112.5	-2.5%
Manuf & Eng	(3.6)	(11.9)	(9.3)	155.5%	-22.2%	(2.0)	(37.7)	1833.4%
Oil & Gas (Listed)	(511.8)	(126.9)	0.0	-100.0%	-100.0%	(661.0)	(213.3)	-67.7%
Oil & Gas (Unlisted)	(442.1)	(28.3)	(85.0)	-80.8%	200.1%	(541.3)	(176.1)	-67.5%
Others	(734.8)	43.2	91.2	-112.4%	111.2%	(902.6)	(57.9)	-93.6%
Net profit ex-O&G	122.5	82.7	101.4	-17.2%	22.6%	414.4	336.3	-18.8%

Source: Company, MIDF

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Hafiz Hezry
hafiz.hezry@midf.com.my
03-2173 8392

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.