

Malaysia

HOLD (no change)

Consensus ratings*: Buy 0 Hold 7 Sell 9

Current price:	RM6.10
Target price:	RM6.70
Previous target:	RM6.70
Up/downside:	9.8%
CGS-CIMB / Consensus:	21.7%

Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,826m
	RM7,127m
Average daily turnover:	US\$2.16m
	RM8.54m
Current shares o/s:	1,168m
Free float:	37.8%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-10.6	15.7	15.6
Relative (%)	-9.8	7.7	7.4

Major shareholders

	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)

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UMW Holdings

Shifting into higher gear

- We left UMW's 4Q17 briefing feeling confident about the group's earnings recovery, driven by higher automotive earnings and narrowing losses in unlisted O&G assets.
- New model launches from Toyota and Perodua will drive volume growth in 2018.
- We project narrowing losses from M&E, driven by higher aerospace facility utilisation.
- The group is also expected to benefit from the appreciation of ringgit vs. US\$.
- Maintain Hold with an unchanged RM6.70 TP, still based on 14x CY19F P/E.

4Q17 results briefing

We attended UMW Holdings's (UMW) 4Q17 analyst briefing together with 25 analysts and fund managers at the group's headquarters in Shah Alam last Friday. The briefing was hosted by Group Chief Operating Officer Azmin Che Yusoff. There were no surprises from the briefing as the group reiterated its strategy to grow its three core divisions – automotive, equipment and manufacturing and engineering (M&E). Overall, the group is allocating RM600m as capex in FY18F, lower compared to RM750m spent in FY17F.

New models to drive Toyota & Perodua volume growth in FY18

The group targets for higher sales volumes for Toyota and Lexus in 2018 (vs. 70,474 in 2017), driven by new model launches, such as Toyota CH-R and Toyota Harrier. These new models will allow UMW to compete in the compact and mid-sized SUV segment. The group also targets higher sales volume of 209k from Perodua in 2018 (vs. 204,887 in 2017) on the back of a new Myvi and a potentially new SUV model at end-2018.

Project narrowing losses from M&E in FY18

The M&E division slipped into pretax losses of RM16.3m in FY17 vs. RM24.6m pretax profit in FY16, mainly due to pre-operating losses from the aerospace division amounting to RM60m. Stripping out aerospace losses, M&E recorded a higher pretax profit of RM44.1m in FY17 on the back of higher demand from its lubricant and shock absorber businesses. We expect M&E to record lower losses in FY18 as we project narrowing losses from the aerospace division on the back of higher fan case shipment volumes.

Minimal drag from unlisted oil & gas assets

The group anticipates minimal impact from the remaining unlisted oil & gas (OG) assets in FY18 following major impairment exercises carried out in 2016-2017. To recap, the group incurred a RM654m write-down on investment and provisions in 2017 related to its strategic decision to exit the unlisted oil & gas segment. We estimate the combined carrying value for the nine remaining assets is about RM155m.

Beneficiary of appreciation in ringgit

We see the strengthening of the ringgit vs. US\$ as a positive for the automotive sector as it will help automakers reduce the cost of imported completely knocked-down (CKD) kits and completely built-up (CBU) units. We expect UMW to benefit from the favourable forex given that 50% of its total manufacturing costs are denominated in US\$. Moreover, management estimates that every 10 sen appreciation in ringgit against US\$ will lift UMW's pretax profit by RM20m-25m.

Maintain Hold and target price

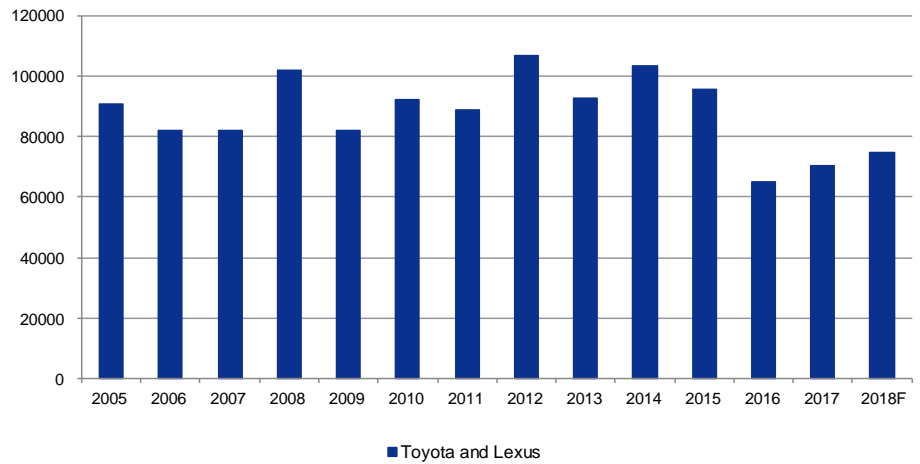
We maintain our Hold call and RM6.70 target price, still based on 14x CY19F P/E, a 10% premium over its FY09-14 historical mean of 13x. Key upside risks are accelerated disposal of unlisted O&G assets and strengthening of the ringgit vs. US\$ while key downside risks are delayed disposal of unlisted O&G assets and depreciation of the ringgit against US\$.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (RMm)	10,965	11,400	11,817	12,755	13,159
Operating EBITDA (RMm)	684	609	1,152	1,407	1,477
Net Profit (RMm)	89.0	177.3	363.9	543.3	623.8
Core EPS (RM)	0.08	0.15	0.31	0.47	0.53
Core EPS Growth	(76%)	99%	105%	49%	15%
FD Core P/E (x)	79.05	39.69	19.33	12.95	11.28
DPS (RM)	0.00	0.00	0.10	0.20	0.25
Dividend Yield	0.00%	0.00%	1.64%	3.28%	4.10%
EV/EBITDA (x)	20.14	16.11	8.37	6.82	6.47
P/FCFE (x)	11.71	10.87	8.62	8.35	8.08
Net Gearing	65.5%	38.3%	22.6%	11.7%	2.9%
P/BV (x)	1.51	2.31	2.14	1.96	1.79
ROE	1.6%	4.5%	11.4%	15.6%	16.4%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.18	1.31	1.20

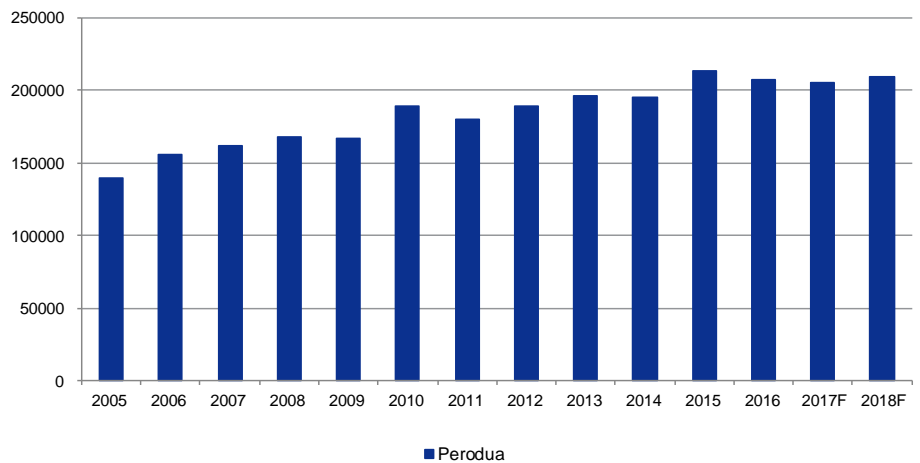
SOURCE: COMPANY DATA, -CIMB FORECASTS

Figure 1: Historical and projected 2018 Toyota & Lexus sales volume (unit)



SOURCE: CIMB, COMPANY, MAA

Figure 2: Historical and projected 2018 Perodua sales volume (unit)



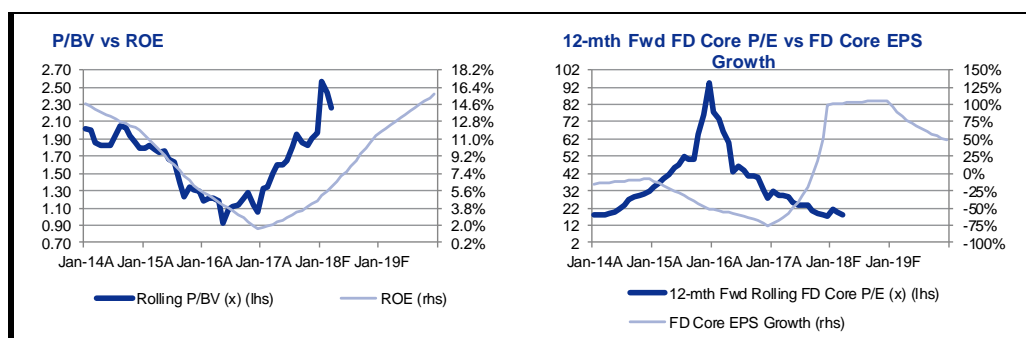
SOURCE: CIMB, COMPANY, MAA

Figure 3: Sector comparison

Company	Recom.	Price	Target Price	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		(RM)	(RM)		CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Bermaz Auto Berhad	Hold	2.07	2.06	615	15.9	13.4	5.5	5.5	34.4%	41.0%	9.9	8.6	6.4%	7.5%
Tan Chong Motor Holdings	Reduce	1.70	1.64	284	41.9	15.7	0.4	0.4	0.9%	2.5%	12.8	9.5	0.0%	0.0%
DRB-Hicom	Add	2.53	2.90	1,253	na	35.0	0.9	0.9	-1.9%	2.5%	10.1	8.0	0.0%	0.0%
UMW Holdings	Hold	6.10	6.70	1,826	19.6	13.1	2.1	2.0	11.1%	15.6%	8.5	6.8	1.6%	3.3%
Sime Darby Bhd	Reduce	2.69	2.42	4,687	21.8	21.1	1.1	1.1	5.1%	5.3%	9.5	9.1	2.9%	2.8%
Sector average					26.6	18.8	1.2	1.2	4.4%	6.2%	9.6	8.2	2.4%	2.8%

SOURCE: CIMB, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	10,965	11,400	11,817	12,755	13,159
Gross Profit	1,645	1,653	2,186	1,913	2,105
Operating EBITDA	684	609	1,152	1,407	1,477
Depreciation And Amortisation	(555)	(336)	(321)	(338)	(282)
Operating EBIT	129	273	831	1,069	1,195
Financial Income/(Expense)	31	(39)	(69)	(51)	(26)
Pretax Income/(Loss) from Assoc.	184	172	197	235	246
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	343	406	958	1,253	1,415
Exceptional Items					
Pre-tax Profit	343	406	958	1,253	1,415
Taxation	(134)	(122)	(239)	(313)	(382)
Exceptional Income - post-tax					
Profit After Tax	210	283	718	940	1,033
Minority Interests	(121)	(106)	(354)	(396)	(409)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	89	177	364	543	624
Recurring Net Profit	89	177	364	543	624
Fully Diluted Recurring Net Profit	89	177	364	543	624

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	684	609	1,152	1,407	1,477
Cash Flow from Inv. & Assoc.					
Change In Working Capital	686	801	356	(6)	(65)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	528	333	321	338	282
Net Interest (Paid)/Received	31	(39)	(69)	(51)	(26)
Tax Paid	(210)	(133)	(239)	(313)	(382)
Cashflow From Operations	1,719	1,571	1,520	1,375	1,285
Capex	(1,182)	(1,004)	(750)	(600)	(500)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	63	80	47	67	85
Cash Flow From Investing	(1,118)	(924)	(703)	(533)	(415)
Debt Raised/(repaid)	0	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	0	(117)	(234)	(292)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	0	0	(117)	(234)	(292)
Total Cash Generated	601	647	700	608	578
Free Cashflow To Equity	601	647	817	842	870
Free Cashflow To Firm	633	767	933	961	981

SOURCE: *CIMB RESEARCH, COMPANY DATA*

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	1,857	1,163	1,685	2,123	2,581
Total Debtors	996	994	1,073	1,159	1,195
Inventories	1,931	1,343	2,081	2,247	2,318
Total Other Current Assets	1,000	1,622	1,622	1,622	1,622
Total Current Assets	5,785	5,122	6,462	7,150	7,716
Fixed Assets	7,679	2,661	3,089	3,351	3,569
Total Investments	2	1	1	1	1
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	2,797	2,159	2,159	2,159	2,159
Total Non-current Assets	10,478	4,820	5,249	5,511	5,729
Short-term Debt	2,639	692	692	692	692
Current Portion of Long-Term Debt					
Total Creditors	1,879	767	1,941	2,185	2,228
Other Current Liabilities	234	2,094	2,094	2,094	2,094
Total Current Liabilities	4,752	3,553	4,727	4,971	5,014
Total Long-term Debt	3,716	2,070	2,070	2,070	2,070
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	931	143	150	150	150
Total Non-current Liabilities	4,647	2,213	2,219	2,219	2,219
Total Provisions	0	0	0	0	0
Total Liabilities	9,399	5,766	6,947	7,191	7,233
Shareholders' Equity	4,719	3,082	3,329	3,639	3,971
Minority Interests	2,146	1,093	1,435	1,831	2,241
Total Equity	6,864	4,176	4,764	5,470	6,211

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	(24.1%)	4.0%	3.7%	7.9%	3.2%
Operating EBITDA Growth	(35.1%)	(10.9%)	89.0%	22.2%	4.9%
Operating EBITDA Margin	6.2%	5.3%	9.7%	11.0%	11.2%
Net Cash Per Share (RM)	(3.85)	(1.37)	(0.92)	(0.55)	(0.15)
BVPS (RM)	4.04	2.64	2.85	3.11	3.40
Gross Interest Cover	3.97	2.29	7.16	9.00	10.82
Effective Tax Rate	38.9%	30.2%	25.0%	25.0%	27.0%
Net Dividend Payout Ratio	NA	NA	19.4%	27.3%	29.0%
Accounts Receivables Days	47.22	31.85	31.92	31.94	32.74
Inventory Days	75.03	61.30	64.88	72.85	75.56
Accounts Payables Days	80.89	49.54	51.32	69.46	73.07
ROIC (%)	0.8%	1.7%	10.5%	13.4%	14.3%
ROCE (%)	1.3%	3.5%	12.1%	14.4%	14.9%
Return On Average Assets	1.9%	3.3%	9.3%	10.6%	11.0%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	2.0%	0.0%	1.5%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-9.1%	6.4%	6.5%	4.0%	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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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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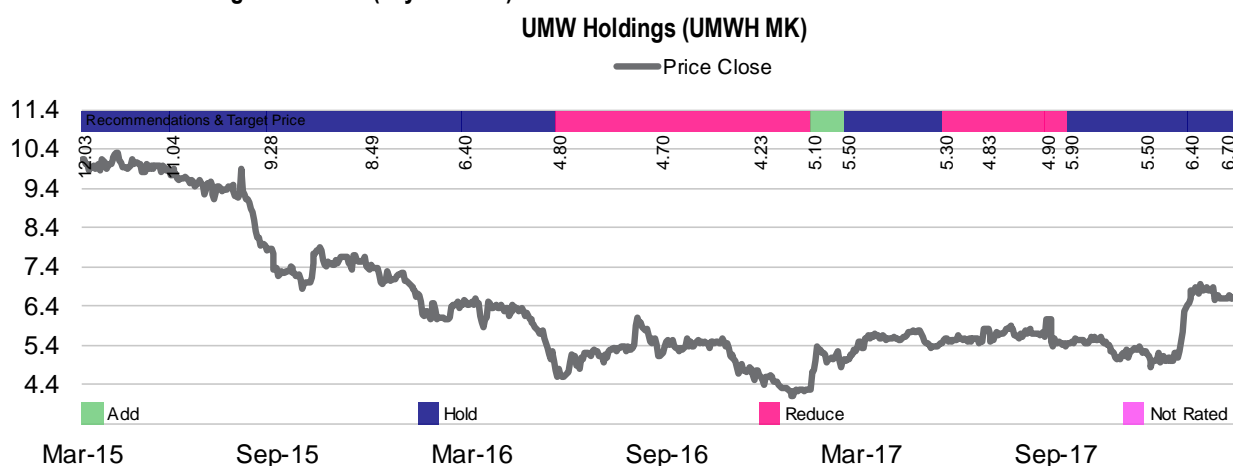
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2017		
1235 companies under coverage for quarter ended on 31 December 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	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

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- 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:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.