

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

28 Feb 2019

UMW Holdings (UMWH MK) : HOLD

Mkt. Cap: US\$1,670m | 3m Avg. Daily Val: US\$3.7m

Last Traded Price (27 Feb 2019): RM5.82

Price Target 12-mth: RM5.56 (4% downside) (Prev RM5.56)

Analyst

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Encouraging Perodua sales

- FY18 met expectations
- Perodua had record-breaking sales in FY18
- Expect strong Perodua momentum to continue in FY19 led by SUV model Aruz
- Maintain HOLD with SOP-based TP of RM5.56.

Forecasts and Valuation

FY Dec (RMm)	2017A	2018A	2019F	2020F
Revenue	11,067	11,306	11,361	11,615
EBITDA	389	726	1,166	1,257
Pre-tax Profit	(539)	786	796	813
Net Profit	(641)	526	491	503
Net Pft (Pre Ex.)	165	436	491	503
Net Pft Gth (Pre-ex) (%)	(16.0)	164.5	12.7	2.4
EPS (sen)	(54.8)	45.0	42.0	43.0
EPS Pre Ex. (sen)	14.1	37.3	42.0	43.0
EPS Gth Pre Ex (%)	(16)	165	13	2
Diluted EPS (sen)	14.1	37.3	42.0	43.0
Net DPS (sen)	0.0	7.50	5.59	5.72
BV Per Share (sen)	261	293	330	367
PE (X)	nm	12.9	13.8	13.5
PE Pre Ex. (X)	41.3	15.6	13.8	13.5
P/Cash Flow (X)	6.0	7.2	7.2	6.8
EV/EBITDA (X)	24.5	13.5	8.7	8.3
Net Div Yield (%)	0.0	1.3	1.0	1.0
P/Book Value (X)	2.2	2.0	1.8	1.6
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	(16.5)	16.2	13.5	12.4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

- Stripping out exceptional items, UMW Holdings (UMWH) registered core 4Q18 net profit of RM92m which brought FY18 net profit to RM436m, in line with expectations.
- 4Q18 core net profit was 44% lower q-o-q largely due to low sales in the auto segment caused by the reintroduction of the Sales and Services Tax (SST) in September.

Core business performance

- The auto segment's pre-tax profit came in at RM125.5m (-11% y-o-y; -17% q-o-q) in 4Q18. This was in line with the revenue drop to RM2.04bn (-14% y-o-y; -23% q-o-q). The fall in sales were attributed to lower sales volume for Toyota (-36.4% y-o-y; -39% q-o-q) due to the run-out of the Toyota Vios in the quarter.
- Perodua sales, on the other hand, improved to 59,040 units (10.8% y-o-y; 15.5% q-o-q). This brought its total vehicles sold in FY18 to a record-breaking 227,243 units. This was mainly due to the temporary Goods and Services Tax (GST) holiday period, as well as the well-received new Myvi model (36% of total sales).
- Revenue from the equipment segment was flattish at RM397m (+0.5% y-o-y; -1.4% q-o-q). Profit before tax, however, declined to RM26m (-15.5% y-o-y; -40% q-o-q) due to the provision for slow-moving inventory in heavy equipment operations.



Flash Note

- The manufacturing and engineering segment recorded PBT of RM9.6m (>100% y-o-y; -39% q-o-q) and revenue of RM242m (+43% y-o-y; -4% q-o-q).

Outlook

- FY19 may see a increase in depreciation and finance cost following the completion of UMW's Bukit Raja plant and issuance of RM1.1bn sukuk. However, this could be mitigated by potential upside from the auto and manufacturing segments.
- While Toyota remains a key contributor, we expect earnings growth for the auto segment to come from Perodua, following its encouraging sales performance in January. It sold 21,100 units (+9.2% m-o-m; +13.6% y-o-y), with 1,025 units from its sports utility vehicle (SUV) model Aruz. We continue to believe that SUV models will remain as an industry favourite as compared to other types of passenger car models. Given that Aruz is priced lower than its other SUV competitors, we are not surprised that it currently has 8,000 bookings.
- Assuming no hiccups in production, UMW's aerospace business contribution in FY19 might be better with more units to be delivered compared to FY18.

Valuation

We maintain our HOLD call with an unchanged SOP-based target price (TP) of RM5.56. Earnings will be supported by: 1) better margins from the new Toyota plant, 2) the new Toyota Vios supporting volume and, 3) potential upside from the ramp-up of its aerospace business. Gains from land sale will be an added positive for the group.

Quarterly Income Statement (RMm)

FY Dec	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Revenue	2,975	3,290	2,682	(9.8)	(18.5)
Other Oper. (Exp)/Inc	(2,957)	(3,118)	(2,664)	(9.9)	(14.6)
Operating Profit	18.3	172	18.2	(0.5)	(89.4)
Other Non Opg (Exp)/Inc	407	9.55	40.9	(89.9)	328.4
Associates & JV Inc	68.6	57.2	96.3	40.5	68.3
Net Interest (Exp)/Inc	(56.7)	4.74	(10.6)	81.4	nm
Exceptional Gain/(Loss)	(407)	(9.6)	(40.9)	89.9	328.4
Pre-tax Profit	30.2	234	104	244.6	(55.5)
Tax	(32.3)	(43.5)	(29.8)	(7.9)	(31.5)
Minority Interest	(38.2)	(35.1)	(23.3)	39.0	(33.5)
Net Profit	(40.4)	155	50.8	nm	(67.2)
Net profit bef Except.	620	165	91.7	(85.2)	(44.3)
EBITDA	82.9	221	72.5	(12.6)	(67.2)
Margins (%)					
Opg Profit Margins	0.6	5.2	0.7		
Net Profit Margins	(1.4)	4.7	1.9		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 18	6.50	4.49	FULLY VALUED
2:	01 Mar 18	6.02	4.49	FULLY VALUED
3:	12 Mar 18	6.35	4.82	FULLY VALUED
4:	13 Mar 18	6.49	4.82	FULLY VALUED
5:	14 Mar 18	5.90	4.82	FULLY VALUED
6:	27 Mar 18	6.19	4.82	FULLY VALUED
7:	18 May 18	6.27	4.82	FULLY VALUED
8:	23 May 18	6.40	5.29	FULLY VALUED
9:	30 Aug 18	5.94	6.19	HOLD
10:	03 Dec 18	5.40	5.56	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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