

Malaysia

HOLD (no change)

Consensus ratings*: Buy 8 Hold 7 Sell 2

Current price:	RM5.82
Target price:	RM6.36
Previous target:	RM6.10
Up/downside:	9.3%
CGS-CIMB / Consensus:	4.3%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,673m
	RM6,799m
Average daily turnover:	US\$3.54m
	RM14.65m
Current shares o/s:	1,168m
Free float:	37.8%

*Source: Bloomberg

Key changes in this note

- Raise FY19F EPS by 5%.
- Raise FY20F EPS by 4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.7	16.6	-10.3
Relative (%)	-1.4	14.9	-1.8

Major shareholders

	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)

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UMW Holdings

Hold your horse(power)

- FY18 core net profit beat our and Bloomberg consensus forecast by 23% and 17%, respectively, due to higher-than-expected margin in automotive division.
- The group expects stronger sales volume growth from Toyota and Perodua in 2019F, driven by new model launches and capacity expansion at Bukit Raja.
- Raise our FY19-20F EPS by 4-5%. Maintain Hold with a higher RM6.36 TP.

Sequentially lower earnings delivery in 4Q18

4Q18 core net profit fell by 76% qoq to RM40m due to lower sales volume following the implementation of the Sales and Service Tax in Sep 18 and run out of the Vios model ahead of new launches. Toyota sales volume in 4Q18 slid 38% qoq. In addition, UMW also stop production of passenger cars at its Shah Alam plant in Nov-Dec as the group was in the midst of transferring operations to the new plant in Bukit Raja. The group also declared 2.5 sen final DPS in 4Q18, below our expectation of 10 sen.

Favourable forex and tax holiday driving FY18 core net profit

Revenue in FY18 grew by 2.2% yoy, driven by higher sales from equipment (+6.9%) and manufacturing & equipment (+30.7%). Automotive revenue fell by 0.3% yoy, partly due to lower sales volume from Toyota (-5.5%). However, UMW benefited from a favourable forex movement and stronger demand following the "tax holiday" period in Jun-Aug. Overall, UMW's core net profit surged from RM316m in FY17 to RM510m in FY18.

New capacity and model launches to drive growth

UMW expects to deliver sales volume of 75k units in 2019F (+12.7% yoy), driven by the launch of new models, such as the new Vios, Hilux, C-HR and Rush, and the introduction of a new B-segment model, Yaris. Meanwhile, we expect another strong year for Perodua in 2019F, driven by the new Aruz SUV and Myvi. Aruz received 5.7k bookings in the first three weeks of 2019. Overall, Perodua targets sales of 231k units in 2019F (+2% yoy).

Expect higher depreciation and bond coupon payment in FY19F

In spite of the attractive growth prospects, UMW will be impacted by depreciation expense from its Bukit Raja plant and higher coupon payment related to its RM1.1bn perpetual sukuk issued in Apr 2018. The group recognised RM35.4m coupon payment in 4Q18. UMW will incur RM70m annual coupon payment for the sukuk in FY19F.

Raise FY19-20F EPS by 4-5%; Maintain Hold

We raise our FY19-20F EPS by 4-5%. We maintain our Hold rating with a higher RM6.36 TP, still based on 14x CY20F P/E, in line with its historical mean. Higher automotive earnings, narrowing losses in aerospace and stronger ringgit are potential upside risks, while weakening ringgit and delay in new model launches are key downside risks to our call. We prefer Bermaz for exposure to the Malaysian auto sector.

Financial Summary

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (RMm)	11,067	11,401	11,895	12,601	12,696
Operating EBITDA (RMm)	763	753	987	1,086	1,103
Net Profit (RMm)	35.3	490.6	468.8	516.1	521.9
Core EPS (RM)	0.27	0.44	0.40	0.44	0.45
Core EPS Growth	255%	61%	(8%)	10%	1%
FD Core P/E (x)	21.25	13.16	14.32	13.01	12.86
DPS (RM)	0.00	0.03	0.05	0.10	0.15
Dividend Yield	0.00%	0.43%	0.86%	1.72%	2.58%
EV/EBITDA (x)	12.48	14.20	9.90	8.98	8.80
P/FCFE (x)	6.10	NA	4.99	10.91	9.04
Net Gearing	38.1%	26.7%	5.3%	0.4%	(4.2%)
P/BV (x)	2.23	2.04	1.85	1.70	1.59
ROE	8.1%	16.0%	13.4%	13.5%	12.6%
% Change In Core EPS Estimates			4.73%	4.36%	
CIMB/consensus EPS (x)			0.94	0.91	0.95

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (RM m)	4Q18	4Q17	yoy % chg	3Q18	qoq % chg	4Q18 Cum	4Q17 Cum	yoy % chg	Prev. FY8F	Comments
Revenue	2,682	2,955	(9.2)	3,290	(18.5)	11,306	11,067	2.2	10,881	Higher contribution from Equipment & M&E
Operating costs	(2,577)	(2,762)	(6.7)	(3,058)	(15.7)	(10,554)	(10,303)	2.4	(10,208)	
EBITDA	105	193	(45.6)	232	(54.7)	753	763	(1.4)	673	Above expectation
EBITDA margin (%)	3.9	6.5		7.0		6.7	6.9		6.2	
Depn & amort.	(54)	(65)	(16.0)	(49)	10.6	(203)	(265)	(23.3)	(199)	In line
EBIT	51	129	(60.5)	183	(72.2)	549	498	10.3	474	
Interest expense	(32)	(77)	(58.3)	(19)	72.3	(88)	(119)	(25.9)	(75)	Total borrowings of RM2.8bn as at end Dec 2018
Interest & invt inc	22	20	6.0	24	(9.3)	86	80	7.5	81	Total cash of RM1.3bn as at end Dec 2018
Associates' contrib	96	69	40.5	57	68.3	266	182	45.9	219	Higher contribution from Perodua
Exceptionals	(33)	(123)	(73.5)	(11)	185.3	(26)	(374)	(93.0)	0	
Pretax profit	104	18	n.m.	234	(55.5)	786	267	194.9	700	Above expectation
Tax	(30)	(33)	(9.8)	(43)	(31.5)	(142)	(122)	17.1	(154)	Below expectation
Tax rate (%)	28.7	187.8		18.6		18.1	45.6		22.0	
Minority interests	(59)	(35)	69.1	(35)	67.4	(153)	(110)	39.7	(127)	Above expectation
Net profit	15	(50)	130.7	155	(90.1)	491	35	n.m.	419	
Core net profit	40	42	(5.0)	164	(75.6)	510	316	61.5	419	Above expectation
EPS (sen)	1.3	(4.3)	130.7	13.3	(90.1)	42.0	3.0	n.m.	35.9	FY18 core net profit exceeded our and Bloomberg consensus
Core EPS (sen)	3.4	3.6	(5.0)	14.0	(75.6)	43.7	27.0	61.5	35.9	full-year forecast by 22% and 15%
DPS (sen)	2.5	-	n.m.	-	n.m.	2.5	-	n.m.	10.0	Below expectation

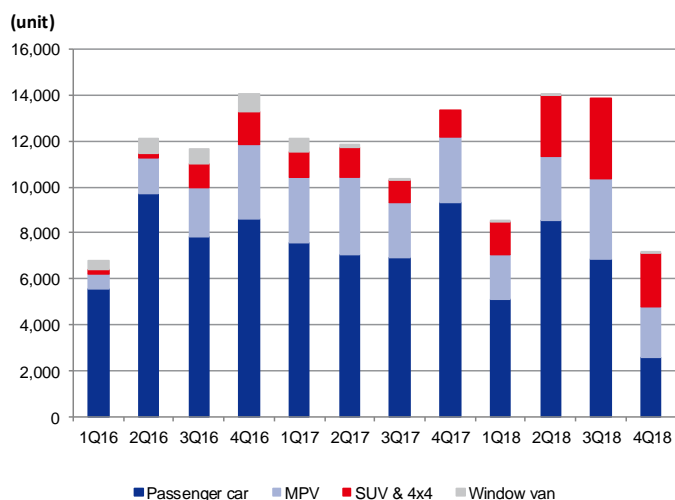
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 2: Revenue and pretax profit breakdown

Revenue	4Q18	4Q17	yoy % chg	qoq % chg	4Q18 Cum	4Q17 Cum	yoy % chg	Comments
Automotive	2,046	2,405	(14.9)	(22.6)	8,949	8,972	(0.3)	Toyota sales volume grew 35% yoy, while Perodua sales volume fell by 1.5%
Equipment	398	396	0.5	(1.4)	1,540	1,441	6.9	Stronger sales from mining and logging industries
Manufacturing & Engineering	242	170	43.0	(4.4)	843	645	30.7	Higher contribution from Aerospace
Others	(4)	(16)	(71.6)	(57.1)	(26)	8	(422.2)	
Total	2,682	2,955	(9.2)	(18.5)	11,306	11,067	2.2	
PBT	4Q18	4Q17	yoy % chg	qoq % chg	4Q18 Cum	4Q17 Cum	yoy % chg	Comments
Automotive	126	154	(18.5)	(17.0)	545	446	22.2	Driven by Perodua and better sales mix
Equipment	26	31	(15.5)	(40.1)	152	143	6.5	
Manufacturing & Engineering	9	4	111.5	(39.1)	22	(18)	(222.0)	Higher Aerospace utilization and improving operating efficiency
Others	(57)	(172)	(66.8)	n.m.	67	(305)	122.0	
Total	104	18	491.1	(55.6)	786	267	194.9	

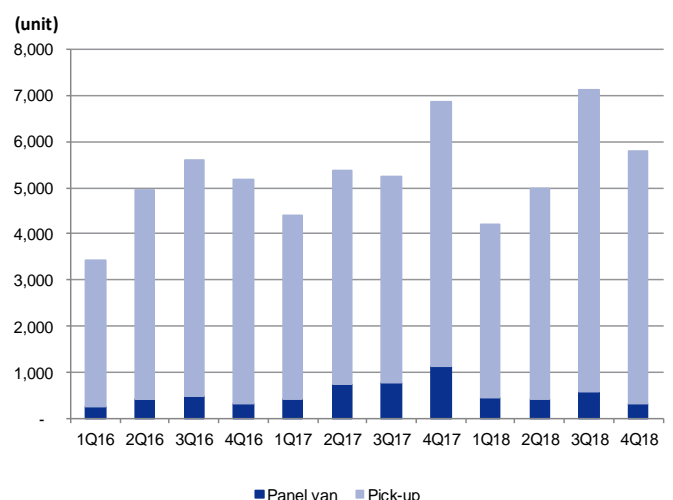
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 3: Historical Toyota passenger vehicle sales volume



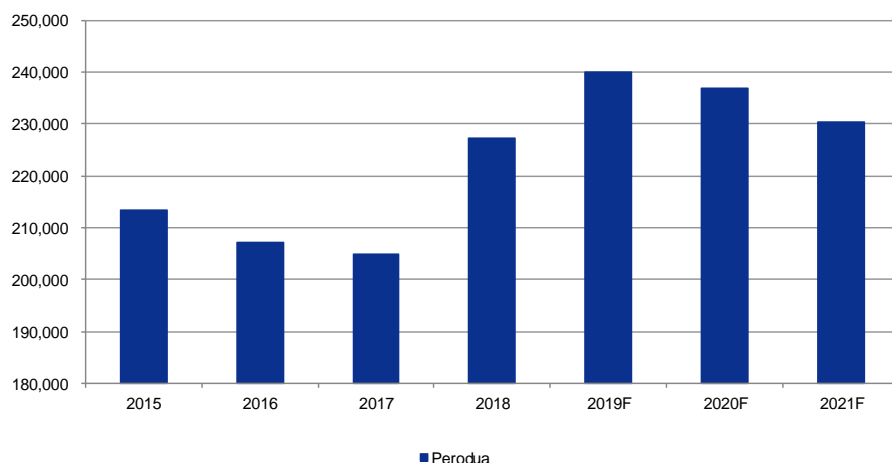
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 4: Historical Toyota commercial vehicle sales volume



SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 5: Historical and projected Perodua sales volume for 2019-2021F



SOURCES: CIMB, MAA

Figure 6: Earnings revision

	Previous			Revised			Changes		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	11,838	12,545	na	11,895	12,601	12,696	0%	0%	na
EBITDA	1,014	1,174	na	987	1,086	1,103	-3%	-7%	na
EBIT	737	892	na	709	805	819	-4%	-10%	na
Pretax Profit	961	1,093	na	969	1,078	1,082	1%	-1%	na
Net Profit	448	495	na	469	516	522	5%	4%	na
EPS	38	42	na	40	44	45	5%	4%	na

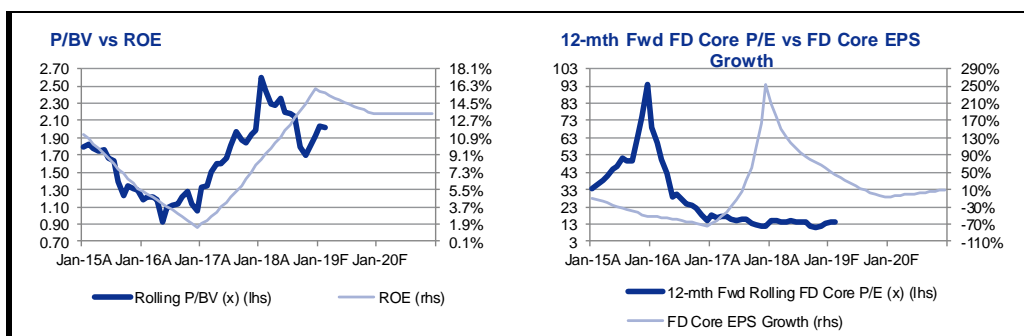
SOURCES: CIMB, COMPANY REPORTS

Figure 7: Sector comparison

Company	Recom.	Price (RM)	Target Price (RM)	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Bermaz Auto Berhad	Add	2.19	2.65	625	14.0	11.9	4.8	4.4	36.9%	39.0%	9.7	8.6	5.4%	6.2%
Tan Chong Motor Holdings	Hold	1.68	1.52	270	8.5	10.3	0.4	0.4	4.7%	3.6%	5.8	6.8	1.2%	1.8%
UMW Holdings	Hold	5.82	6.36	1,673	13.2	14.5	2.0	1.9	16.6%	13.6%	14.0	10.2	1.7%	3.4%
Sime Darby Bhd	Hold	2.19	2.50	3,664	17.1	15.9	1.0	1.0	4.3%	6.4%	8.6	7.6	3.8%	4.1%
Sector average					14.9	14.7	1.2	1.2	6.4%	8.0%	9.7	8.3	3.3%	4.0%

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	11,067	11,401	11,895	12,601	12,696
Gross Profit	1,605	1,938	1,784	2,016	2,031
Operating EBITDA	763	753	987	1,086	1,103
Depreciation And Amortisation	(265)	(203)	(277)	(282)	(284)
Operating EBIT	498	549	709	805	819
Financial Income/(Expense)	(39)	(2)	(31)	10	23
Pretax Income/(Loss) from Assoc.	182	266	291	264	241
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	641	813	969	1,078	1,082
Exceptional Items	(374)	(26)			
Pre-tax Profit	267	786	969	1,078	1,082
Taxation	(122)	(142)	(233)	(270)	(271)
Exceptional Income - post-tax					
Profit After Tax	145	644	736	809	812
Minority Interests	(110)	(153)	(268)	(293)	(290)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	35	491	469	516	522
Recurring Net Profit	316	510	469	516	522
Fully Diluted Recurring Net Profit	316	510	469	516	522

Cash Flow

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	763	753	987	1,086	1,103
Cash Flow from Inv. & Assoc.					
Change In Working Capital	1,099	(937)	892	(93)	(9)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	333	199	277	282	284
Net Interest (Paid)/Received	(39)	(2)	(31)	10	23
Tax Paid	(132)	(139)	(233)	(270)	(271)
Cashflow From Operations	2,024	(126)	1,892	1,016	1,130
Capex	(1,004)	(915)	(600)	(500)	(500)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments	0	0			
Other Investing Cashflow	80	86	52	100	112
Cash Flow From Investing	(924)	(829)	(548)	(400)	(388)
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	(29)	(58)	(117)	(175)
Preferred Dividends					
Other Financing Cashflow		(35)	(70)	(70)	(70)
Cash Flow From Financing	0	(64)	(128)	(187)	(245)
Total Cash Generated	1,100	(1,019)	1,216	429	497
Free Cashflow To Equity	1,100	(955)	1,345	615	742
Free Cashflow To Firm	1,219	(867)	1,429	705	832

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	1,170	1,312	2,496	2,807	3,148
Total Debtors	1,029	1,032	1,081	1,145	1,153
Inventories	1,411	1,532	2,095	2,219	2,236
Total Other Current Assets	1,652	1,309	1,309	1,309	1,309
Total Current Assets	5,262	5,185	6,981	7,480	7,847
Fixed Assets	2,658	3,119	3,442	3,660	3,876
Total Investments	1	2	2	2	2
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	2,174	2,385	2,385	2,385	2,385
Total Non-current Assets	4,834	5,505	5,828	6,046	6,262
Short-term Debt	692	535	535	535	535
Current Portion of Long-Term Debt					
Total Creditors	685	534	2,038	2,134	2,150
Other Current Liabilities	2,276	1,439	1,439	1,439	1,439
Total Current Liabilities	3,653	2,509	4,012	4,108	4,124
Total Long-term Debt	2,070	2,298	2,298	2,298	2,298
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	195	188	195	195	195
Total Non-current Liabilities	2,264	2,486	2,493	2,493	2,493
Total Provisions	0	0	0	0	0
Total Liabilities	5,917	4,995	6,505	6,601	6,617
Shareholders' Equity	3,047	3,327	3,667	3,996	4,273
Minority Interests	1,131	2,369	2,636	2,929	3,219
Total Equity	4,178	5,696	6,304	6,926	7,492

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	0.93%	3.02%	4.33%	5.94%	0.75%
Operating EBITDA Growth	11.6%	(1.4%)	31.1%	10.1%	1.5%
Operating EBITDA Margin	6.90%	6.60%	8.30%	8.62%	8.69%
Net Cash Per Share (RM)	(1.36)	(1.30)	(0.29)	(0.02)	0.27
BVPS (RM)	2.61	2.85	3.14	3.42	3.66
Gross Interest Cover	4.19	6.23	8.47	8.97	9.13
Effective Tax Rate	45.6%	18.1%	24.0%	25.0%	25.0%
Net Dividend Payout Ratio	NA	4.4%	8.3%	14.9%	22.1%
Accounts Receivables Days	33.40	33.00	32.42	32.32	33.03
Inventory Days	64.46	56.75	65.46	74.59	76.24
Accounts Payables Days	49.45	23.53	46.43	72.12	73.30
ROIC (%)	3.04%	6.91%	7.19%	8.83%	8.59%
ROCE (%)	5.73%	8.21%	8.63%	9.57%	9.27%
Return On Average Assets	5.08%	7.83%	8.45%	8.13%	7.71%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP (% chg, main prod./serv.)	0.0%	1.5%	1.5%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	6.4%	-5.5%	16.8%	7.3%	2.1%
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

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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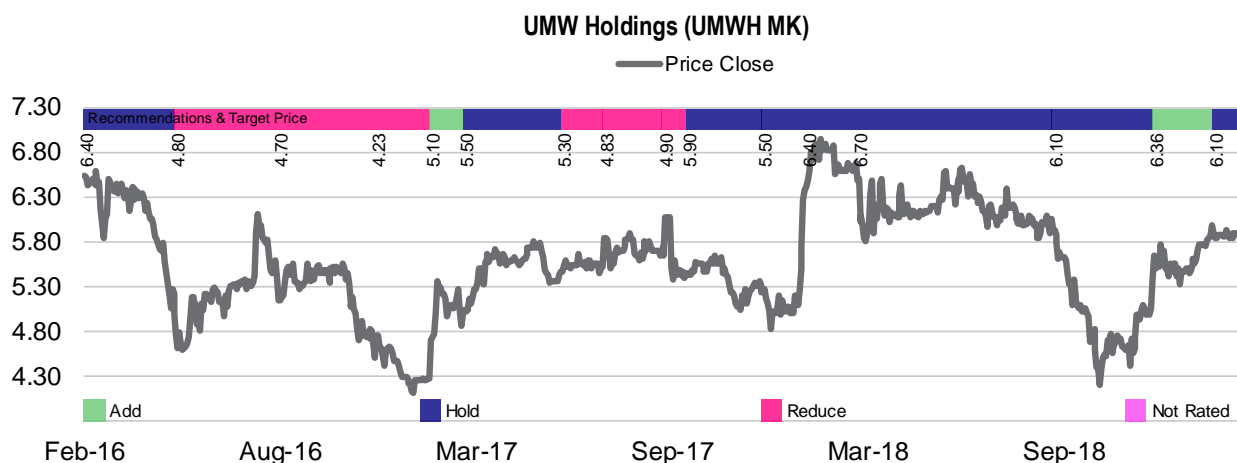
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758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

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 2018, Anti-Corruption 2018

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Definition:

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- 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.

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Definition:

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- 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.

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