

28 Feb 2019

Buy

Price
 RM5.80

Target Price
 RM7.20

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	6,776.1
52-week high/low (RM)	6.95 / 4.20
Avg daily turnover (RMm)	16.1
KLCI (pts)	1,707.7

Source: Bloomberg, KAF

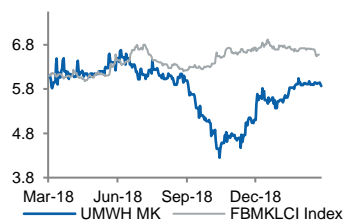
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.8%)
EPF	(10.2%)
Yayasan Perlaburan Bumiputera	(7.7%)
Free Float	32.5

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	14.9	(2.4)	(10.8)
Rel Market (%)	13.0	4.0	(3.0)



Source: Bloomberg, KAF

UMW Holdings

More upsides

We remain upbeat on UMW following an analyst briefing today. Key highlights are:- (i) New Bukit Raja plant may turn profitable this year as Vios orders currently exceed breakeven level; (ii) higher local content for new Vios at 80% (from 58% previously) may result in further auto margin expansion; (iii) aerospace division is on track with potential turnaround this year on higher deliveries of fan cases. Buy.

Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	11,067	11,306	11,221	12,005	12,270
Core net profit (RMm)	169	517	620	719	742
Core EPS (Sen)	14.4	44.3	53.1	61.5	63.5
EPS growth (%)	(61.4)	>100	20.0	15.9	3.2
DPS (Sen)	0.0	7.5	8.0	9.0	10.0
Core PE (x)	40.2	13.1	10.9	9.4	9.1
Div yield (%)	0.0	1.3	1.4	1.6	1.7
ROE (%)	3.7	15.4	17.1	16.7	14.7
Net Gearing (%)	52.2	45.7	Net Cash	Net Cash	Net Cash
PBV(x)	1.6	1.2	1.0	0.9	0.8

Source: Company, KAF

Bukit Raya plant operating above break-even. In a briefing, management highlighted that the production at the new RM1.8b Bukit Raja plant currently exceeds breakeven level on robust demand for the new Vios. Recall that the new plant commenced production of the new Vios with a monthly sales target of 2k. This implies 60% annual utilisation rate on estimated 30k annual Vios sales (annual capacity: 50k). Recall that UMW used to sell 3.5k monthly of the previous generation Vios at its height. Together with the Yaris slated for launch in mid-2019 – we see potential for the plant to breakeven or even turn profitable this year. Recall that Honda's Malacca plant had turn profitable within two of years of operations. The new Vios currently has a waiting period of 2 months – implying 6k bookings.

Room for auto margin expansion. We see potential margin expansion for the auto segment on higher localisation content for new models. According to management, the new Vios has a localisation rate of 80% (vs. 58% for the previous iteration) – which yield better margins for UMW. As it is, we forecast 7% auto PBIT margin this year (from last year's 6%) but there is upside for expansion on further EEV incentives.

Aerospace on track to the black. Management said the aerospace unit is on track to breakeven and could achieve minor profits this year on higher deliveries of fan cases. We estimate 59 deliveries last year and forecast 120 for 2019, to nudge M&E division PBT to RM125m (from 2017's RM22m) as PBIT margin expand to 6% (from 3% last year).

Perodua contributed RM248m in FY18. According to management, 38%-associate Perodua contributed RM248m to UMW last year – up 42% from RM168m in FY17. This is on 11% Perodua sales volume growth. We expect share of Perodua's profit to rise 7% this year on 3% volume growth and net margins to hold steady at 6%.

Maintain Buy. All in, we remain upbeat on UWM on three factors:- (i) as proxy to Perodua growth and market dominance driven by steady demand for Myvi and Aruz; (ii) Toyota's resurgence in the market with new CKD models rolling out of its new plan; and (iii) improving contributions from aerospace division. New potential upsides include stronger margin expansion for the auto division from higher localisation and cost optimisation moves. These factors should mitigate the lower DPS expectations moving forward (we estimate 15% of earnings payout). Key risk is a weaker MYR to dampen margins.

Analyst

Max Koh
 (603) 2171 0505
 maxkoh@kaf.com.my

Exhibit 1: SOP value

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	52.0	0.04	1%	Carrying value at end-FY18
Equipment division	1303	1.12	15%	10x FY19F PE
M&E division	1005	0.86	12%	10x FY19 PE
UMW Toyota	4,262.3	3.65	51%	14x FY19F PE
Perodua	3,056	2.62	36%	12x FY19F PE - 38% stake
Serendah land	510	0.44	6%	RNAV (732 acres at RM16psf)
Company net cash/(debt)	(1773)	-1.52	-21%	FY17A
	8415		100%	
UMWH share base	1168			
Fair value	7.20			

Source: Company, KAF

Exhibit 2: Carrying value of unlisted O&G assets



Source: Company, KAF

Exhibit 3: Details of new Bukit Raja plant



Source: Company, KAF

Exhibit 4: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 5: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Revenue	11,066.6	11,306.3	11,221.3	12,004.6	12,269.8
EBITDA	389.0	724.0	896.8	1,092.1	1,260.6
Depreciation/Amortisation	(265.3)	(203.4)	(246.6)	(281.7)	(316.9)
Operating income (EBIT)	123.7	520.6	650.2	810.4	943.7
Other income & associates	182.0	265.6	413.3	428.5	443.1
Net interest	(39.1)	0.0	0.5	(15.7)	(111.9)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	266.6	786.2	1,064.0	1,223.2	1,275.0
Taxation	(121.7)	(142.5)	(255.4)	(293.6)	(306.0)
Minorities/pref dividends	(109.6)	(153.1)	(188.3)	(210.7)	(226.9)
Net profit	144.9	490.6	620.4	719.0	742.1
Core net profit	168.6	517.0	620.4	719.0	742.1

Balance Sheet

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Fixed assets	2,658.1	3,119.0	3,674.8	4,174.0	4,638.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	462.4	490.7	490.7	490.7	490.7
Total non-current assets	4,833.8	5,505.3	6,061.1	6,560.3	7,024.3
Cash & equivalent	1,169.6	1,312.0	3,571.7	4,598.3	5,813.9
Stock	1,410.7	1,532.6	1,129.4	1,188.1	1,198.5
Trade debtors	1,021.3	1,042.3	816.6	850.7	856.7
Other current assets	1,315.2	1,130.5	1,130.5	1,130.5	1,130.5
Total current assets	4,916.8	5,017.4	6,648.1	7,767.5	8,999.5
Trade creditors	2,795.5	1,811.5	2,487.1	2,579.7	2,608.2
Short-term borrowings	691.9	534.5	571.6	674.7	878.8
Other current liabilities	165.5	162.7	154.4	154.4	154.4
Total current liabilities	3,652.9	2,508.7	3,213.2	3,408.7	3,641.4
Long-term borrowings	2,069.7	2,298.2	2,957.0	3,450.5	3,944.7
Other long-term liabilities	194.7	188.1	34.8	34.8	34.8
Total long-term liabilities	2,264.4	2,486.3	2,991.8	3,485.2	3,979.5
Shareholders' funds	3,047.2	3,326.7	3,947.1	4,666.1	5,408.2
Minority interests	1,131.2	2,368.9	2,557.2	2,767.9	2,994.8

Cash flow Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Pretax profit	266.6	786.2	1,064.0	1,223.2	1,275.0
Depreciation/Amortisation	265.3	203.4	246.6	281.7	316.9
Net change in working capital	1,216.6	(936.9)	1,304.6	(0.3)	12.2
Others	(619.2)	(665.0)	(929.7)	(967.0)	(897.8)
Cash flow from operations	1,129.3	(612.3)	1,685.4	537.7	706.2
Capital expenditure	(869.8)	(914.7)	(607.0)	(800.0)	(800.0)
Net investments & sale of fixed assets	(1,500.4)	241.8	162.2	162.2	162.2
Others	519.5	364.4	596.9	586.1	548.4
Cash flow from investing	(1,850.7)	(308.5)	152.1	(51.7)	(89.5)
Debt raised/(repaid)	194.8	222.8	438.4	598.4	701.4
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	(58.4)	(87.6)	(93.5)	(105.1)
Others	(75.9)	997.8	64.7	35.7	2.6
Cash flow from financing	118.9	1,162.2	415.5	540.6	598.8
Net cash flow	(602.4)	241.5	2,253.0	1,026.6	1,215.6
Cash b/f	1,607.3	1,187.9	1,318.7	3,571.7	4,598.3
Cash c/f	1,181.5	1,318.7	3,571.7	4,598.3	5,813.9

Key Ratios

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue growth (%)	6.0	2.2	(0.8)	7.0	2.2
EBITDA growth (%)	nm	86.1	23.9	21.8	15.4
Pretax margins (%)	2.4	7.0	9.5	10.2	10.4
Net profit margins (%)	1.3	4.3	5.5	6.0	6.0
Interest cover (x)	3.2	nm	nm	51.7	8.4
Effective tax rate (%)	95.8	37.3	28.8	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	33	33	30	25	25
Stock turnover (days)	55	48	43	35	35
Creditors turnover (days)	77	74	70	77	77

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF-Seagroatt & Campbell Securities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF-Seagroatt & Campbell Securities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF-Seagroatt & Campbell Securities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)