

Outthink. Outperform.

## Earnings miss: downgrade to HOLD

UMWH Holdings (UMWH) reported a higher 2018 core net profit of RM491m (2017: RM35m) which was ahead of market but fell short of our expectations. The earnings miss was due to a disappointing 4Q18 where revenue and profits contracted sharply, largely attributed to weak Toyota sales although partly mitigated by higher associates' contribution. We trim our 2019-20E EPS by 7-9%, lower our TP to RM5.90 and downgrade UMWH to HOLD. UMWH's share price has performed well (+28% since our last report publication); at 13x 2019E PER, valuations look fair.

### 4Q18 earnings weaker sequentially (-56% qoq)

UMWH's 4Q18 core profit shrank 90% qoq resulting in the earnings miss. While associates contribution jumped 68% qoq in tandem with better Perodua sales, EBIT margins declined a sharp 4.5ppts qoq to merely 0.7%. While there was some one-offs (mainly Impairment on PPE of RM45m and provision for impairment losses on receivables of RM13m), the adjusted EBIT of RM76m was still down 55% qoq. This was largely on the back of a sharp contraction in revenue (-18.5% qoq) in 4Q18, which was led by a decline in revenue from the automotive segment (-23% qoq). A run-down of Toyota Vios inventory, in anticipation for the upcoming 2019 Vios model was largely the culprit. Equipment revenue was rather stable qoq.

### 2018 pre-tax profit jumped by 195% yoy

UMWH's 2018 pre-tax profit jumped by 195% yoy to RM786m, driven by higher earnings growth across all segments. **Automotive grew 22% yoy to RM545m** on higher Toyota and Perodua vehicle sales (due to overwhelming response for the Myvi) and improved PBT margins (+1.1ppt to 6.1%), due to lower discounting during the tax holiday period between June to August 2018. **Equipment segment also grew (+6.5% yoy to RM152m)**, but we are lukewarm to its immediate growth prospect due to the uncertainties in Malaysia's construction sector. Elsewhere, the **M&E segment continues to show positive signs** – 2018 PBT rose to RM22m (vs 2017 LBT of RM18m) as the delivery for the aerospace unit continues to pick up. We believe the **losses from the unlisted O&G unit will continue to narrow** - 2018 LBT of RM161m (vs 2017 of RM520m) as the Group remains committed to divest the O&G business. Also, UMWH declared a 2.5 sen dividend in 4Q18 (2018: 7.5 sen).

### Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	11,066.6	11,306.3	11,847.4	12,116.7	12,380.9
EBITDA (RMm)	123.7	522.1	750.8	823.3	803.6
Pretax profit (RMm)	266.6	786.2	778.8	875.2	948.8
Net profit (RMm)	(640.6)	341.7	480.5	561.2	616.4
EPS (sen)	(54.8)	29.2	41.1	48.0	52.8
PER (x)	n.m	19.9	14.2	12.1	11.0
Core net profit (RMm)	35.3	490.6	534.2	579.1	622.4
Core EPS (sen)	3.0	42.0	45.7	49.6	53.3
Core EPS growth (%)	n.m	n.m	8.9	8.4	7.5
Core PER (x)	n.m	13.9	12.7	11.7	10.9
Net DPS (sen)	0.0	7.5	7.0	7.5	8.0
Dividend Yield (%)	n.m	1.3	1.2	1.3	1.4
EV/EBITDA (x)	67.8	16.2	10.8	9.3	8.8
Chg in Core EPS (%)			(8.7)	(6.5)	new
Affin/Consensus (x)			1.1	1.0	-

Source: Company, Affin Hwang estimates, Bloomberg

### Results Note

## UMW Holdings

UMWH MK  
Sector: Auto & Autoparts

**RM5.82 @ 27 February 2019**

### HOLD (downgrade)

Upside: 1.4%

### Price Target: RM5.90

Previous Target: RM6.45



### Price Performance

	1M	3M	12M
Absolute	-0.7%	16.6%	-10.3%
Rel to KLCI	-1.4%	14.7%	-2.1%

### Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	6799.5/1671.6
Avg daily vol - 6mth (m)	2.3
52-wk range (RM)	4.2-6.95
Est free float	32.5%
BV per share (RM)	2.81
P/BV (x)	2.07
Net cash/ (debt) (RMm)	(321.15)
Derivatives	Yes
Shariah Compliant	Yes

### Key Shareholders

ASB	40.8%
EPF	10.2%
PNB	7.7%
KWAP	6.3%

Source: Affin Hwang, Bloomberg

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**Downgrade to HOLD with lower TP of RM5.90**

We cut our 2019-20E EPS by 7-9%, incorporating: (i) lower EBITDA margins assumption of circa 6% (previous assumption was circa 8%), in view of the soft construction market condition and muted demand for Toyota vehicles; and (ii) higher contribution from Perodua. In tandem, we downgrade UMWH to HOLD (from Buy) with a lower TP of RM5.90 based on our SOTP valuation method (Fig 2). UMWH's share price has rallied by 28% since our [last published report](#) in Oct 2018. At 13x 2019E PER (close to the post O&G de-merger average PER of 14x), UMWH's valuation looks fair. Key upside risks: a strong rebound in vehicle sales, strengthening of the Ringgit. Key downside risk: intense competition and stricter of hire purchase approvals.

**Fig 1: Results comparison**

FY 31 Dec (RMm)	4Q17	3Q18	4Q18	qoq % chg	yoy % chg	2017	2018	yoy % chg	Comment
<b>Revenue</b>	2,974.8	3,290.0	2,681.8	-18.5	-9.8	11,066.6	11,306.3	2.2	2018 revenue inched up 2% yoy on higher growth from equipment (+6.9%) and M&E (+31%) segments.
Op costs	-2,956.5	-3,119.1	-2,663.6	-14.6	-9.9	-10,942.9	-10,784.1	-1.5	
<b>EBIT</b>	<b>18.3</b>	<b>170.8</b>	<b>18.2</b>	-89.4	-0.5	<b>123.7</b>	<b>522.1</b>	>100	2018 EBIT margins improved by 3.5ppt to 4.6% on (i) lower discounts during tax holiday period, (ii) reduced losses from M&E and unlisted O&G segments
<i>EBIT margin (%)</i>	0.6	5.2	0.7	-4.5ppt	0.1ppt	1.1	4.6	3.5ppt	
Int expense	-77.0	-18.6	-32.1	72.3	-58.3	-119.0	-88.1	-25.9	
Int income	20.3	24.1	21.5	-10.8	6.0	79.8	86.6	8.4	
Associates	68.6	57.2	96.3	68.3	40.5	182.0	265.6	45.9	Perodua experienced record-breaking sales of 227k units (+10.9% yoy) in 2018.
<b>Pretax from Cont. Operations</b>	<b>30.2</b>	<b>233.6</b>	<b>103.9</b>	-55.5	>100	<b>266.6</b>	<b>786.2</b>	>100	
<b>Discon-operations</b>	-413.0	-18.0	2.0	-111.0	n.m.	-805.4	-162.1	-79.9	
Tax	-32.3	-43.5	-29.8	-31.5	-7.9	-121.7	-142.5	17.1	
<i>Tax rate (%)</i>	8.4	-20.2	-28.1	-8ppt	n.m	22.6	-22.8	n.m.	
MI	-6.9	-43.9	-61.1	39.0	>100	19.9	-139.9	n.m.	
<b>Net profit</b>	<b>-422.1</b>	<b>128.1</b>	<b>15.1</b>	-88.2	n.m.	<b>-640.6</b>	<b>341.7</b>	n.m.	
<b>Con-operations</b>	-40.4	155.0	15.4	-90.1	n.m.	35.3	490.6	>100	
<b>Discon-operations</b>	-381.7	-26.9	-0.3	-98.7	<100	-675.9	-148.9	-78.0	
EPS (sen)	-36.1	11.0	1.3	-88.2	n.m.	-54.8	29.2	n.m.	
<b>Core profit</b>	<b>-40.4</b>	<b>155.0</b>	<b>15.4</b>	-90.1	n.m.	<b>35.3</b>	<b>490.6</b>	>100	Core net profit was below our expectations (83%) but ahead of consensus full year estimates (114%).

Source: Company, Affin Hwang estimates

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Fig 2: SOTP valuation TP of RM5.90 (from RM6.45)

Segmental	Equity value (RMm)	multiple	Equity value per share (RM)	Comment
<b>Automotive</b>				
- Toyota	1,857.5	PE 13.0x	1.59	Pegged to 13x forward earnings
- Perodua	2,750.3	PE 13.0x	2.35	Pegged to 13x forward earnings
<b>Equipment</b>	2,045.8	PE 15.0x	1.75	Pegged to 15x forward earnings
<b>M&amp;E</b>	366.6	PB	0.22	30% discount to BV
<b>SOP (RM)</b>			<b>5.90</b>	

Source: Affin Hwang estimates

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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