

HLIB Research

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SELL

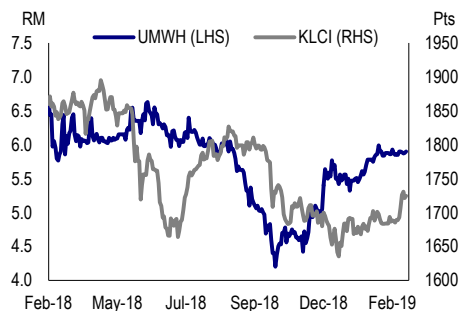
 (Maintain)

Target Price: **RM4.80**
Previously: **RM4.75**
Current Price: **RM5.82**

Capital upside	-17.5%
Dividend yield	1.5%
Expected total return	16.0%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


Historical return (%)	1M	3M	12M
Absolute	-0.3	15.2	-10.5
Relative	-2.1	13.0	-3.0

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	6,799
3-mth average volume ('000)	2,924
SC Shariah compliant	Yes

Major shareholders

Permodalan Nasional Berhad	58.2%
Employess Provident Fund	10.1%
Kumpulan Wang Persaraan	6.2%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	310	383	494
EPS - core (sen)	26.6	32.8	42.3
P/E (x)	21.9	17.8	13.8

UMW Holdings

Recognising perps distribution

UMW reported PATMI of RM310.4m for FY18, slightly below HLIB expectation at 94.3%, but only achieved 68.7% of consensus. Earnings growth YoY was mainly due to the group's exit strategy from Oil & Gas segment. We note that UMW has provided RM35.4m in 4Q18 for the distribution of RM1.1bn Perpetual Sukuk that was issued back in April 2018. We adjusted forecasts marginally for FY19 (+1.4%) and FY20 (+7.0%) for book keeping purpose. Maintain SELL but with higher TP: RM4.80 (from RM4.75) based on 10% discount to SOP: RM5.35.

Slight miss. UMW reported core PATMI of RM47.8m for 4QFY18 and RM310.4m for FY18, achieving 94.3% of HLIB's FY18 forecast, but below consensus at only 68.7%. We note that UMW has provided RM35.4m for the profit distribution for 10-years Perpetual Sukuk of RM1.1bn that was issued in April 2018.

Dividend. Declared a final single-tier dividend of 2.5 sen/share, bringing full year dividend payout of 7.5 sen/share (1.3% dividend yield), lower than our expectation of 10 sen/share.

QoQ. Core earnings dropped by 56.3% to RM47.8m, mainly dragged by holding co's operation as well as maiden RM35.4m profit distribution for Perpetual Sukuk during the quarter.

YoY. Turned to profit from core loss of RM22.7m in 4Q17, post turnaround of Manufacturing & Engineering segment and discontinued unlisted Oil & Gas operation during quarter.

YTD. Similarly, the turnaround was due to UMW's group restructuring exercise in exiting Oil & Gas segment since 2016-2017.

Outlook. While UMW will leverage on new model launches for Toyota (Vios, Camry and Yaris) and Perodua (Aruz), we are cautious on the negative impact from the depreciating RM/USD, cautious consumer sentiment and heightened competitive market in 2019. UMW Aerospace will gradually to ramp up its production before turning profitable in FY19. The recent conclusion of UMW-Komatsu JV (Sep 2018) was aimed to improve the product offerings of Komatsu in the region and enhance earnings of the Equipment segment.

Forecast. Adjusted our earnings marginally for FY19 (+1.4%) and FY20 (+7.0%) following up-keeping of earnings for Automotive segment (attributed to UMW Toyota and Perodua) and Manufacturing segment.

Maintain SELL, TP: RM4.80. Maintain SELL recommendation on UMW with higher TP: RM4.80 (from RM4.75) based on 10% discount to SOP of RM5.35 following our earnings adjustment. We believe UMW's valuation is relatively expensive as compare to the automotive peers with unattractive dividend yield.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY16	FY17	FY18	FY19f	FY20f
Revenue	10,416	11,067	11,401	12,064	12,570
EBITDA	(255)	389	775	1,051	1,170
EBIT	(485)	124	571	687	814
PBT	(282)	267	786	773	932
Operation PAT	(416)	145	644	611	738
Discontinued operation	(1,854)	(805)	(163)	0	0
PATMI – Reported	(1,658)	(641)	377	453	564
PATMI – Core	98	(99)	310	383	494
% change YoY – Core PATMI		-201.5%	-413.6%	23.3%	29.0%
HLIB/ Consensus (%) – Core PATMI			72.7%	75.9%	86.8%
Core EPS (sen)	8.3	(8.5)	26.6	32.8	42.3
P/E (x)	69.7	N.M.	21.9	17.8	13.8
DPS (sen)	0.0	5.0	7.5	10.0	12.0
Yield (%)	0.0%	0.9%	1.3%	1.7%	2.1%
BVPS (RM/share)	4.0	2.6	2.8	3.1	3.4
P/B (x)	1.4	2.2	2.0	1.9	1.7
ROE (%)	1.7%	-2.5%	9.7%	11.1%	13.1%
Net Gearing (%)	-88.2%	-52.2%	-45.7%	-78.7%	-61.2%

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	2,966.0	3,290.0	2,681.8	-18.5%	-9.6%	11,066.6	11,400.8	3.0%
EBITDA	145.8	214.7	117.0	-45.5%	-19.8%	389.0	774.9	99.2%
EBIT	81.2	165.6	62.8	-62.1%	-22.7%	123.7	571.5	362.0%
Net finance expense	(68.6)	(7.9)	(22.3)	184.4%	-67.4%	(39.1)	(50.9)	30.0%
Associates	58.3	57.2	96.3	68.3%	65.2%	182.0	265.6	45.9%
Exceptional items	(53.3)	18.6	(32.8)			0.0	0.0	
Reported PBT	17.6	233.6	103.9	-55.5%	491.1%	266.6	786.2	194.9%
Tax	(29.8)	(43.5)	(29.8)	-31.5%	0.1%	(121.7)	(142.5)	17.1%
Reported operation net profit	(12.2)	190.1	74.1	-61.0%	N.M.	144.9	643.7	344.2%
Reported discontinued operation	(413.2)	(18.9)	2.0	-110.5%	N.M.	(805.4)	(163.0)	N.M.
Reported net profit	(425.4)	171.2	76.1	-55.5%	N.M.	(660.5)	480.7	N.M.
Reported PATMI	(429.2)	128.1	50.5	-60.6%	N.M.	(640.6)	377.1	N.M.
Core PATMI	(22.7)	109.5	47.8	-56.3%	N.M.	(99.0)	310.4	N.M.
Reported EPS (Sen)	(36.7)	11.0	4.3	-60.6%	N.M.	(54.8)	32.3	N.M.
Core EPS (Sen)	(1.9)	9.4	4.1	-56.3%	N.M.	(8.5)	26.6	N.M.
EBITDA margin (%)	4.9%	6.5%	4.4%	-2.2%	-0.6%	3.5%	6.8%	3.3%
EBIT margin (%)	2.7%	5.0%	2.3%	-2.7%	-0.4%	1.1%	5.0%	3.9%
Core PATMI margin (%)	-0.8%	3.3%	1.8%	-1.5%	2.5%	-0.9%	2.7%	3.6%

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Figure #3 Quarterly results comparison by segment

FYE Dec (RM m)	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Reported Revenue								
Automotive	2,386.7	2,643.4	2,046.1	-22.6%	-14.3%	8,969.2	8,949.2	-0.2%
Equipment	393.5	403.4	397.8	-1.4%	1.1%	1,442.9	1,540.2	6.7%
Manufacturing & Engineering	170.0	253.6	242.5	-4.4%	42.6%	618.2	842.8	36.3%
Oil & Gas unlisted	0.0	0.0	0.0	N.M.	N.M.	0.0	0.0	N.M.
Others	38.3	21.1	14.7	-30.2%	-61.6%	36.3	68.6	88.8%
Intersegment	(22.5)	(31.5)	(19.2)	-39.1%	-14.9%	0.0	0.0	N.M.
Total	2,966.0	3,290.0	2,681.8	-18.5%	-9.6%	11,066.6	11,400.8	3.0%
Reported PATMI								
Automotive	85.7	89.6	105.0	17.1%	22.5%	106.4	362.7	241.0%
Equipment	24.9	32.9	18.2	-44.7%	-27.0%	112.5	117.5	4.4%
Manufacturing & Engineering	(9.3)	8.6	3.2	-63.1%	-134.4%	(37.7)	(3.5)	-90.6%
UMWOG	0.0	0.0	0.0	N.M.	N.M.	(216.3)	0.0	N.M.
Oil & Gas unlisted (discontinued)	(371.3)	(26.9)	(0.3)	N.M.	N.M.	(462.6)	(48.9)	N.M.
Others	(289.7)	23.8	(75.6)	N.M.	N.M.	(310.1)	(100.6)	N.M.
Total	(559.6)	128.1	50.5	-60.6%	N.M.	(807.8)	327.1	N.M.
Core PATMI	(22.7)	109.5	47.8	-56.3%	N.M.	(99.0)	310.4	-413.6%

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Figure #4 UMW automotive sales statistics

Unit Sales	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Toyota (51% ownership)	16,503	17,220	15,567	20,202	12,683	19,026	20,940	12,902
Lexus (51% ownership)	191	219	240	303	143	282	439	156
Perodua (38% ownership)	50,265	49,410	51,905	53,307	55,568	61,530	51,105	59,040
Total	66,959	66,849	67,712	73,812	68,394	80,838	72,484	72,098
Growth YoY (%)	16.1%	-1.1%	-4.8%	-2.7%	2.1%	20.9%	7.0%	-2.3%
Growth QoQ (%)	-11.7%	-0.2%	1.3%	9.0%	-7.3%	18.2%	-10.3%	-0.5%

Company

Figure #5 UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,168.3	3.57	FY19 PE 10x
Equipment	Various	1,109.6	0.95	FY19 PE 8x
Manufacturing & Engineering	Various	2,126.3	1.82	FY20 PE 18x
Others (including O&G unlisted)	Various	155.0	0.13	Book value
Land Valuation	0.90	488.0	0.42	700 Acres of land in Serendah
Holding Co Net Debt		(1,800.0)	(1.54)	Based on 2017 Annual Report
Subtotal		6,247.3	5.35	
Holding Co Discount			10.0%	
Target Price (RM)			4.80	
* No of Shares		1,168.3		

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HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
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