

Company Result

28 February 2019

# UMW Holdings Berhad

**BUY**

2019F: A better year

**Maintained**

Share Price	RM5.82
Target Price	RM7.00

## Result

### Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

### Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6799.47
52-week price Range	RM4.20-6.95
Beta (against KLCI)	0.68
3-m Average Daily Volume	2.87m
3-m Average Daily Value <sup>^</sup>	RM15.74

### Share Performance

	1m	3m	12m
Absolute (%)	-0.7	6.4	-10.3
Relative (%-pts)	-1.4	14.7	-2.1

### Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	40.81
EMPLOYEES PROVIDENT FUND	10.15
YAYASAN PELABURAN BUMIPUTRA	7.65
ESTIMATED FREE FLOAT	32.51

### Historical Chart



Source: Bloomberg

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- **UMW Holdings Berhad (UMW) posted a headline net profit of RM15.4m in 4Q18.** After stripping out the exceptional items such as impairment of receivables, property, plant and equipment (PPE) and in inventories, loss on sale on investment, gain on disposal of PPE and derivatives, forex gain as well as PPE written off, the Group registered a core net profit of RM48.2m, which tumbled 71% qoq and 86.5% yoy. Meanwhile, revenue stood at RM2.7b, which slumped 18.7% qoq and 9.2% yoy.
- **As for full year 2018, the Group's earnings returned to the black with core earnings of RM411.7m as compared to core loss of RM85.8m in prior year** with revenue improved 2.2% yoy. Better YoY performance was spurred by improved earnings in Manufacturing & Engineering (M&E) division albeit slower domestic Toyota vehicles sale.
- **Below expectations.** 12M18 core earnings of RM411.7m only accounted 93.3%/91.1% of our/consensus full year net earnings forecast.

## Comment

- **Diminishing Toyota car sales despite stellar Perodua sales.** Auto segments' revenue dropped 22.6% qoq and 14.3% yoy following lower vehicles sold. We believe lower car sales during this period due to impact from reintroduction of Sales and Services Tax (SST) which was introduced in Sep'18. Domestic Toyota cars sale tumbled 37.8% qoq and 35.4% yoy in 4Q18. As such, it led to total domestic Toyota sales dropped by 4.3% yoy for the whole year of 2018 with market share of 11% (vs 2017's market share: 11.6%). However, Perodua car sales soared 15.6% qoq and 10.7% yoy, thanks to encouraging demand for new Myvi. Perodua maintains its leading position with 38% market share in 2018. However, Auto's PBT contracted 17% qoq and 11.4% yoy as we believe it was due to margin compression following weakening Ringgit against USD and JPY. Looking forward, we expect Auto's segment will be driven by launches of new models in 2019 such Toyota Rush, Camry and Yaris coupled with Perodua Aruz. Besides, completion of new Bukit Raja plant in 2019 will ramp up the Group's production capacity.
- **Equipment division shifted focus to mining and logging industries due to pressure arising from reviewing of mega projects.** Equipment segment's revenue inched up 1.1% yoy but down 1.4% qoq while

PBT tumbled 40.1% qoq but surged 1655.8% yoy. Higher YoY performance was underpinned by strong sales in mining and lodging industries couple with provision of stock obsolescence in the heavy equipment segment. Looking forward, despite lower demand in this segment due to review of mega projects, the Group believes the heavy equipment business will be spurred by steady demand in mining and logging industries coupled with rental business from industrial equipment segment.

- **M&E division getting better.** Manufacturing & Engineering's performance was down by 39.1% qoq to RM9.5m but improved from LBT of RM3m from a year ago. Besides, this segment returned to the black with PBT of RM21.6m from LBT of RM16.3m in 2017. The stellar earnings were mainly buoyed by aerospace business, which started to generate revenue in last quarter 2017 and lower operating cost incurred to set up the fan cases and led to better margin for the segment. The Group expects aerospace business to increase its production within the time frame to meet the Rolls-Royce's demand. The Group expects UMW Aerospace to be breakeven by 2020F with 100/150 fan cases being produce in 2019F/2020F before hits capacities of 250 fan cases in 2021F.
- **Higher dividend declared.** UMW has declared an interim single tier dividend of 2.5sen per share amounting RM58.4m in 4Q18. Therefore, total dividend payout for 2018 is 7.5sen per share. The Group has not paid any dividend to its shareholders for the past two years due to losses.

### Earnings Outlook/Revision

- **We tweak up our 2019F earnings by 25.5% to RM632m to reflect higher car sales volume and better margin.** We also introduce our 2020F net earnings of RM657.2m, +4% growth yoy.
- **We expect the Group to re-focus on its three core businesses which will resume growth momentum over the medium to longer term.** We favour the stock as: 1) Auto division is expected to register robust growth following new models come in and completion of new plant in Bukit Raja in 2019 (initial 50K capacity p.a.) which will further boost its Toyota sales volume; 2) M&E division is expected to breakeven in 2020F and move towards into high value-added manufacturing banking on aerospace venture; 3) Joint venture with Komatsu that will bolster its existing market share; 4) Exit of unlisted O&G segment will help to improve the Group's overall profitability.
- **Maintain BUY call on UMW with a higher target price of RM7.00 (RM6.88 previously) following our earnings upgrade.** Our fair value is now based on 13x FY2019F PE which is below its 5-year historical average PE of 18.6x.

Figure 1: Quarterly Figures

Year to 31 Dec	4Q18 (RMm)	3Q18 (RMm)	4Q17 (RMm)	QoQ % chg	YoY % chg	12M18 (RMm)	12M17 (RMm)	YoY % chg
Revenue	2,681.8	3,299.3	2,954.7	-18.7%	-9.2%	11,315.6	11,066.6	2.2%
Operating Profit	18.2	171.6	16.1	-89.4%	12.9%	522.9	123.7	322.71%
Pre-tax Profit	103.9	233.6	17.6	-55.5%	491.14%	786.2	266.6	194.9%
Profit After Tax	74.1	190.1	(15.4)	-61.0%	N/A	521.5	(660.5)	N/A
Net Profit	15.4	155.0	(50.2)	-90.1%	N/A	385.9	(651.2)	N/A
Core Profit	48.2	166.4	356.4	-71.0%	-86.48%	411.7	(85.8)	N/A
Operating Margin (%)	0.7%	5.2%	0.5%	-4.5 ppts	+0.2 ppts	4.6%	1.1%	+5.7 ppts
PBT Margin (%)	3.9%	7.1%	0.6%	-3.2 ppts	+3.3 ppts	6.9%	2.4%	+4.6 ppts
Net Margin (%)	2.8%	5.8%	-0.5%	-2.4 ppts	N/A	4.6%	-6.0%	N/A
Core Margin (%)	1.8%	5.0%	12.1%	-2.4 ppts	-10.3 ppts	3.6%	-0.8%	N/A

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY18	4Q18 (RMm)	3Q18 (RMm)	4Q17 (RMm)	Q-O-Q (%)	Y-O-Y (%)	12M18 (RMm)	12M17 (RMm)	Y-O-Y (%)
<b>Segmental Revenue</b>								
<u>Continuing operation</u>								
Automotive	2,046.1	2,643.4	2,386.7	-22.6%	-14.3%	8,949.2	8,953.8	-0.1%
Equipment	397.8	403.4	393.5	-1.4%	1.1%	1,540.2	1,456.6	5.7%
M & E	242.5	253.6	170.0	-4.4%	42.6%	842.8	645.6	30.5%
<u>Discontinued operation</u>								
Oil & Gas (Unlisted)	8.2	9.5	26.2	-13.8%	-68.8%	72.4	131.5	-44.9%
<b>Segmental PBT</b>								
<u>Continuing operation</u>								
Automotive	125.5	151.2	141.6	-17.0%	-11.4%	545.13	433.7	25.69%
Equipment	26.0	43.5	1.5	-40.1%	1655.8%	152.29	112.5	35.40%
M & E	9.5	15.5	(3.0)	-39.1%	N/A	21.61	(16.3)	N/A
<u>Discontinued operation</u>								
Oil & Gas (Unlisted)	2.3	(17.8)	(412.3)	N/A	N/A	(161.09)	(533.6)	N/A
<b>Segmental Margin</b>								
<u>Continuing operation</u>								
Automotive	6.1%	5.7%	5.9%	+0.4 ppts	+0.2 ppts	6.1%	4.8%	+1.3 ppts
Equipment	6.5%	10.8%	0.4%	-4.3 ppts	+6.1 ppts	9.9%	7.7%	+2.2 ppts
M & E	3.9%	6.1%	-1.8%	-2.2 ppts	N/A	2.56%	-2.52%	N/A
<u>Discontinued operation</u>								
Oil & Gas (Unlisted)	28.2%	-187.4%	-1574.1%	N/A	N/A	-222.53%	-405.80%	N/A

Source: Company, JF Apex

**Figure 3: Financial Summary**

Year to 31 Dec (RMm)	2015	2016	2017	2018	2019F	2020F
Revenue	14,441.58	10,436.80	11,066.64	11,315.59	12,608.57	13,107.25
Operating profit	135.62	(484.55)	123.70	522.90	554.29	586.91
PBT	269.65	(282.10)	266.57	786.15	734.28	764.34
Net profit	(37.17)	(1,658.04)	(640.63)	385.93	631.98	657.23
Core profit	19.56	(401.80)	(85.77)	385.93	631.98	657.23
Core EPS (sen)	0.02	(0.31)	(0.07)	0.35	0.54	0.56
P/BV (x)	0.74	0.98	1.63	1.19	0.79	0.60
DPS (sen)	0.20	0.00	0.00	0.075	0.08	0.08
Dividend yield (%)	3.44%	0.00%	0.00%	1.29%	1.39%	1.45%
Operating margin (%)	0.94%	-4.64%	1.12%	4.62%	4.40%	4.48%
PBT margin (%)	1.87%	-2.70%	2.41%	6.95%	5.82%	5.83%
Net profit margin (%)	-0.26%	-15.89%	-5.79%	3.41%	5.01%	5.01%
Net Gearing Ratio(x)	0.64	0.88	0.66	0.89	0.55	0.41
ROE (%)	0.21%	-5.36%	-2.05%	7.23%	7.31%	5.83%
ROA (%)	-0.21%	-10.23%	-6.44%	3.61%	4.24%	3.70%

Source: Company, JF Apex

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### JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

#### STOCK RECOMMENDATIONS

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

#### SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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