

27 Feb 2019

Buy

Price
 RM5.86

Target Price
 RM7.20

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	6,799.5
52-week high/low (RM)	6.95 / 4.20
Avg daily turnover (RMm)	15.7
KLCI (pts)	1,713.5

Source: Bloomberg, KAF

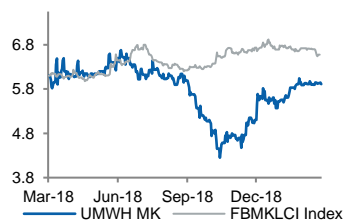
Major Shareholder (%)

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 (%)	16.6	(2.8)	(10.3)
Rel Market (%)	14.7	2.7	(2.1)



Source: Bloomberg, KAF

UMW Holdings

A good year

UMW's RM517m core earnings were within our estimate but beat consensus by 14%. This is on improved auto margins, stellar Perodua earnings, and positive contribution from the M&E division. We maintain UMW as our top pick to ride on Perodua's continued growth, while Toyota should recapture its market share from rivals with delivery of key volume models this year. We also see stronger M&E earnings. 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	53.0	61.6	63.5
EPS growth (%)	(61.4)	>100	19.8	16.1	3.2
DPS (Sen)	0.0	7.5	8.0	9.0	10.0
Core PE (x)	40.3	13.2	11.0	9.5	9.2
Div yield (%)	0.0	1.3	1.4	1.5	1.7
ROE (%)	3.7	15.4	17.0	16.7	14.7
Net Gearing (%)	52.2	45.7	15.8	12.5	8.3
PBV(x)	1.6	1.2	1.0	0.9	0.8

Source: Company, KAF

A good year. UMW reported FY18 core earnings of RM517m – a strong improvement from RM169m a year earlier. Earnings met our expectation at 97% of our full-year forecast, but exceeded consensus by 14%. Topline grew by 2% to RM11.3b.

Total DPS of 7.5 sen. UMW declared a final single-tier 2.5 sen DPS – bringing the total payout to 7.5 sen for the full year. This was below expectations as it only makes up 17% of our core EPS (and 26% of reported EPS). We had anticipated a payout on 50% of earnings.

Perodua lifts auto segment in 4Q. Auto revenue in 4Q fell 23% to RM2b on a sequential basis mainly to lower volume as a result of the run-out of the outgoing Vios model. In addition, the all-new Camry only began delivery in December, while Rush delivery will only begin in February. However, the strong Perodua performance in 4Q lifted the division on robust demand for the Myvi. Hence, the division ended the year with 22% PBT growth (on flattish revenue growth) as PBT margin strengthened by 1ppt to 6%.

M&E in the black. The M&E division ended the year in the black with PBT of RM22m (vs. losses of RM18m in FY17). This is on a 31% topline growth to RM843m. We believe this is on the back of higher fan case deliveries from its aerospace plant. We forecast M&E division to achieve PBT of RM125m this year as it delivers 120 cases (from estimated 59 in 2018) to lift PBIT margin to 6% (from 3% currently).

Targeting 75k Toyota and Lexus sales. Management is targeting 75k sales for Toyota and Lexus this year (up 13% from 66.5k last year) – close to our 74.8k forecast. We believe this is achievable as UMW begins delivery of the new Vios (2.5k deliveries per month) in addition to the Camry and Rush. The launch of Yaris in mid-year should support sales in the 2H. Meanwhile, Perodua is targeting to sell 231k (up 2% from 227k). We forecast 233k on sustained demand for Myvi and Aruz.

Maintain Buy. We maintain UMW as our top pick and SOP-based TP of RM7.20. We like UMW as a strong beneficiary to ride Perodua's market dominance, while its new Toyota models are key for it to regain market share and drive volume growth. We also expect stronger earnings coming from the M&E division with higher fan case deliveries. Our TP implies 14x PE.

Analyst

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Exhibit 1: Results summary

FYE 31 Dec	4Q17	3Q18	4Q18	yoy %	qoq%	FY17	FY18	yoy %	FY18F	FY18/F
Continued operations										
Revenue	2976	3290	2682	-10%	-18%	11067	11306	2%	11662	97%
Operating expenses	(2961)	(3102)	(2702)	-9%	-13%	(11071)	(10936)	-1%		
Other Operating income	68	24	93	36%	283%	128	153	19%		
EBITDA	83	221	72	-13%	-67%	530	726	37%	813	89%
Depreciation	(65)	(49)	(54)	-16%	11%	(406)	(203)	-50%	(224)	91%
Operating profit	18	172	18	-1%	-89%	124	523	323%	589	89%
Investment income	20	23	22	6%	-8%	80	86	7%	80	107%
Finance cost	(77)	(19)	(32)	-58%	72%	(119)	(88)	-26%	(73)	120%
Exceptional items	0	0	0							
JV & Associates	69	57	96	40%	68%	182	266	46%	223	119%
Pretax profit	30	234	104	245%	-55%	267	786	195%	819	96%
Tax	(32)	(43)	(30)	-8%	-31%	(122)	(142)	17%	(147)	97%
Profit after tax (continued ops)	(2)	190	74	-3498%	-61%	145	644	344%	671	96%
MI & perpetual sukuk holders	(38)	(35)	(59)	54%	67%	(110)	(153)	40%	(140)	109%
Net profit (continuing ops)	(40)	155	15	-138%	-90%	35	491	1289%	531	92%
Core net profit	366	166	48	-87%	-71%	169	517	207%	531	97%
Discontinued Operations										
Revenue	26	9	8	-69%	-14%	335	72	-78%		
Loss before tax from discontinued ops	(412)	(18)	2	-101%	-113%	(803)	(161)	-80%		
Loss after tax from discontinued ops	(413)	(18)	2	-100%	-111%	(805)	(162)	-80%		
MI	31	(9)	(2)	-107%	-74%	129	13	-90%		
Net loss from discontinued ops	(382)	(27)	(0)	-100%	-99%	(676)	(149)	-78%		
Consolidated										
Revenue	3002	3308	2690	-10%	-19%	11401	11379	0%		
(Loss)/profit before tax	(382)	216	106	-128%	-51%	(537)	625	-216%		
Profit after tax	(415)	172	76	-118%	-56%	(660)	482	-173%		
MI	(7)	(44)	(61)	783%	39%	20	(140)	-805%		
Net profit	(422)	128	15	-104%	-88%	(641)	342	-153%		
Continued ops										
EPS (sen)	(3.5)	13.3	1.3			3.0	42.0			
Core EPS (sen)	31.3	14.2	4.1			14.4	44.3			
Net DPS (sen)	0.0	0.0	2.5			0.0	7.5			
BV (RM)	2.61	2.81	2.85			2.64	2.64			
EBIT margin (%)	1%	5%	1%			1%	5%		5%	
PBT margin (%)	1%	7%	4%			2%	7%		7%	
PAT margin (%)	0%	6%	3%			1%	6%		6%	
Net margin (%)	-1%	5%	1%			0%	4%		5%	
Effective tax rate (%)	107%	19%	29%			46%	18%		18%	

Source: Company, KAF

Exhibit 2: Segmental breakdown

	4Q17	3Q18	4Q18	yoy %	qoq %	FY17	FY18	yoy %	FY18F
Automotive	2405	2643	2046	-15%	-23%	8972	8949	0%	9,270
Equipment	396	403	398	0%	-1%	1441	1540	7%	1,531
Manufacturing	170	254	242	43%	-4%	645	843	31%	861
Others & Eliminations	(166)	(10)	(4)	-97%	-57%	275	(26)	-109%	
Total Revenue (RM mil)	2975	3290	2682	-10%	-18%	11067	11306	2%	11,662
Automotive	154	151	126	-18%	-17%	446	545	22%	557
Equipment	31	44	26	-16%	-40%	143	152	6%	150
Manufacturing	(4)	16	9	-312%	-39%	(18)	22	-222%	32
Others	(150)	23	(57)	-62%	-345%	(305)	67	-122%	
Total PBT (RM mil)	30	234	104	245%	-55%	267	786	195%	819
Automotive PBT margin (%)	6%	6%	6%			5%	6%		6%
Equipment PBT margin (%)	8%	11%	7%			10%	10%		10%
Manufacturing PBT (%)	-3%	6%	4%			-3%	3%		4%
Total PBT margin (%)	1%	7%	4%			2%	7%		7%
USD:MYR average	4.16	4.09	4.17			4.30	4.03	-6%	

Source: Company, KAF

Exhibit 3: SOP value

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	68.0	0.06	1%	Carrying value at 1H18
Equipment division	1293	1.11	15%	10x FY19F PE
M&E division	1005	0.86	12%	10x FY19 PE
UMW Toyota	4,249.8	3.64	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
	8409		100%	
UMWH share base	1168			
Fair value	7.20			

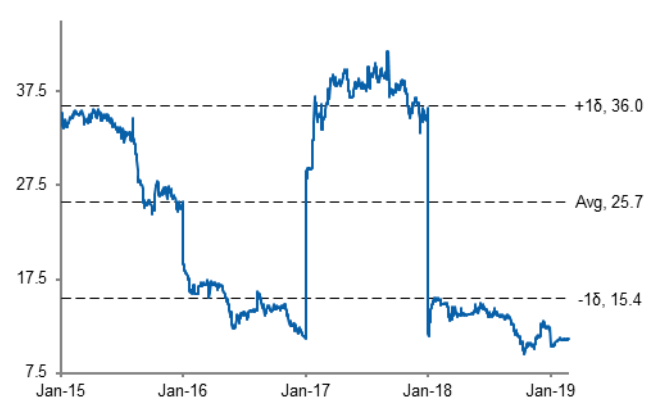
Source: Company, KAF

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)	(277.1)	(330.2)	(383.4)
Operating income (EBIT)	123.7	520.6	619.7	761.9	877.2
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	1,033.5	1,174.7	1,208.4
Taxation	(121.7)	(142.5)	(248.0)	(281.9)	(290.0)
Minorities/pref dividends	(109.6)	(153.1)	(165.9)	(173.4)	(176.0)
Net profit	144.9	490.6	619.6	719.3	742.4
Core net profit	168.6	517.0	619.6	719.3	742.4

Balance Sheet

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Fixed assets	2,658.1	3,119.0	4,318.8	5,169.4	5,966.9
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	6,705.1	7,555.7	8,353.2
Cash & equivalent	1,169.6	1,312.0	2,904.5	3,542.9	4,374.3
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	5,980.9	6,712.1	7,559.9
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	3,946.3	4,665.7	5,408.0
Minority interests	1,131.2	2,368.9	2,534.8	2,708.2	2,884.3

Cash flow Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Pretax profit	266.6	786.2	1,033.5	1,174.7	1,208.4
Depreciation/Amortisation	265.3	203.4	277.1	330.2	383.4
Net change in working capital	1,216.6	(936.9)	1,304.6	(0.3)	12.2
Others	(619.2)	(665.0)	(922.4)	(955.3)	(881.8)
Cash flow from operations	1,129.3	(612.3)	1,692.7	549.3	722.2
Capital expenditure	(869.8)	(914.7)	(1,200.0)	(1,200.0)	(1,200.0)
Net investments & sale of fixed assets	(1,500.4)	241.8	162.2	162.2	162.2
Others	519.5	364.4	515.4	586.2	548.3
Cash flow from investing	(1,850.7)	(308.5)	(522.4)	(451.6)	(489.6)
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	1,585.8	638.3	831.5
Cash b/f	1,607.3	1,187.9	1,318.7	2,904.5	3,542.9
Cash c/f	1,181.5	1,318.7	2,904.5	3,542.9	4,374.3

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	9.2	9.8	9.8
Net profit margins (%)	1.3	4.3	5.5	6.0	6.1
Interest cover (x)	3.2	nm	nm	48.6	7.8
Effective tax rate (%)	93.0	35.9	28.1	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.

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