

28 February 2019

UMW Holdings Bhd

FY18 Within Our Expectation

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FY18 core PATAMI of RM379.7m (+136%) came in within our expectation at 101%, but below consensus expectation at 84%, of full-year estimate. For FY18, UMW Toyota Motor sales was at 66,561 units (-4%), which was below management's target of 72,000 units, whereas, Perodua's sales at 227,243 units (+11%), surpassed the management's target of 209,000 units. No change to our FY19E CNP and our TP of RM5.80 is based on 17x FY19E EPS. Maintain MP.

FY18 within our expectation. FY18 core PATAMI of RM379.7m (+136%) came in within our expectation at 101%, but below consensus expectation at 84%, of full-year estimate. Final DPS of 2.5 sen was declared for the quarter bringing FY18 DPS to 7.5 sen (FY17: nil), below our expectation of 10.0 sen.

YoY, 9M18 core PATAMI surged 136% buoyed by: (i) better performance of associate and joint-venture company (+49%) especially from 38%-owned Perodua, which recorded higher unit sales at 227,243 units (+11%), (i) higher Equipment revenue (+6%) with the strong export sales for Komatsu equipment and industrials old fleet renewal, (iii) higher M&E segment revenue (+31%), with higher sales of auto component and improved sales from aerospace business, and (iv) improved margin from the stronger MYR against USD. This was despite flattish revenue in Automotive segment from the weaker UMW Toyota Motor sales at 66,561 units (-4%), which was below management's target of 72,000 units.

QoQ. 4Q18 core PATAMI plunged 50% mainly from the weaker UMW Toyota Motor's 4Q18 sales of 13,482 units (-40%) as demand has been tapering off after the zero-rated tax holiday (compared to one-month historical high in June 2018 at 11.4k units sold), especially for its outgoing Toyota Vios as consumers held back purchases for the replacement all-new Toyota Vios (priced at RM77-RM87k). The negative impact was, however, cushioned by stronger 38%-owned Perodua's sales at 59,040 units (+16%), as deliveries for the all-new Perodua Myvi recovered (as at 31st Dec 2018, 82k units were delivered from 117k backlog booking). Additionally, other segment was seasonally weaker in 4Q.

Outlook. UMW Toyota is targeting a better year for 2019, with a target of 75k units (+15%) for Toyota and Lexus models. On 24th January 2019, UMW launched the all-new Toyota Vios and will be launching two new models, which we foresee is the Toyota Yaris Hatchback (production in 2H19) and one undisclosed new model, whereas, the all-new Toyota CH-R CKD will be roll out by 2H19/1H20. Elsewhere, 38%-owned, Perodua has surpassed its 2018 target and targeting a stronger year in 2019 with 231k (+1.7%), with extra push from the all-new Perodua ARUZ (current booking at 8k units, 4k delivered). For Equipment, the group will continue to leverage on its partners (KOMATSU & TICO)' strength to boost product range and market penetration while, expanding total solutions services. UMW Aerospace, under the M&E segment, is expected to trim its losses to c.RM20m level in FY18/FY19 before reaching breakeven level in FY20 considering that some front-loaded investments need to be amortised.

Maintain MARKET PERFORM with an unchanged Target Price of RM5.80 based on 17x FY19E EPS, which is the 5-year historical mean PER. Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price: RM5.82
Target Price: RM5.80 ↔

Share Price Performance



KLCI	1,713.45
YTD KLCI chg	1.4%
YTD stock price chg	6.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,799.5
Shares Outstanding	1,168.3
52-week range (H)	6.95
52-week range (L)	4.20
3-mth avg daily vol:	2,870,090
Free Float	41%
Beta	0.7

Major Shareholders

Skim Amanah Saham Bumiputera	40.8%
Employees Provident Fund	10.3%
Yayasan Pelaburan Bumiputera	7.7%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	11,306.3	11,636.0	12,347.7
EBIT/ (LBIT)	522.9	412.8	508.2
PBT/ (LBT)	786.2	611.9	736.1
NP/(NL)	341.7	398.8	473.2
CNP/(CNL)	379.7	398.8	473.2
Consensus NP	-	504.2	568.9
Earnings Revision	-	-	-
Core EPS (sen)	32.5	34.1	40.5
C.EPS growth (%)	135.5	5.0	18.7
NDPS (sen)	7.5	7.5	7.5
BVPS (RM)	2.85	3.11	3.44
Core PER (x)	17.9	17.0	14.4
PBV (x)	2.0	1.9	1.7
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	1.3	1.3	1.3

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	2,681.8	3,290.0	-18%	2,974.8	-10%	11,306.3	11,066.6	2%
Associates and JV	96.3	57.2	68%	68.6	40%	265.6	182.0	46%
EBIT/LBIT	136.0	252.2	-46%	107.2	27%	522.9	123.7	323%
PBT/(LBT)	103.9	233.6	-55%	30.2	245%	786.2	266.6	>100%
Taxation and Zakat	(29.8)	(43.5)	31%	(32.3)	8%	(142.5)	(121.7)	-17%
PATAMI	15.1	128.1	-88%	(422.1)	>100%	341.7	(640.6)	153%
Core PATAMI	69.3	137.7	-50%	(5.7)	>100%	379.7	161.2	136%
Core EPS (sen)	5.9	11.8	-50%	(0.5)	1306%	32.5	13.8	136%
DPS (sen)	2.5	-		-		7.5	-	
<i>*Note that the FY18 core PATAMI has been adjusted by excluding non-core items amounting to RM38.0m, which consists of: (i) provision for impairment losses of receivables of RM12.6m, (ii) Reversal for write down of inventories of RM44.8m, (iii) loss on sale of investment of RM5.2m, (vi) Gain on disposal of property, plant and equipment of RM25.0m.</i>								
EBIT/(LBIT) margin	5.1%	7.7%		3.6%		4.6%	1.1%	
PBT/(LBT) margin	3.9%	7.1%		1.0%		7.0%	2.4%	
Core NP/ (NL) margin	2.6%	4.2%		N.M		3.4%	1.5%	
Effective tax rate	-28.7%	-18.6%		-107.2%		-18.1%	-45.6%	

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Revenue	2,681.8	3,290.0	-18.5%	2,974.8	-9.8%	11,306.3	11,066.6	2.2%
Automotive	2,046.1	2,643.4	-22.6%	2,405.1	-14.9%	8,949.2	8,972.2	-0.3%
Equipment	397.8	403.4	-1.4%	395.8	0.5%	1,540.2	1,458.9	5.6%
M&E	242.5	253.6	-4.4%	169.5	43.0%	842.8	645.1	30.7%
Others	(4.5)	(10.4)	N.M	4.5	-199.8%	(25.9)	(24.4)	N.M
Segment PBT/(LBT)	103.9	233.6	-55.5%	30.2	244.6%	786.2	266.6	194.9%
Automotive	125.5	151.3	-17.0%	153.9	-18.5%	545.1	446.1	22.2%
Equipment	26.0	43.5	-40.2%	30.8	-15.5%	152.3	141.8	7.4%
M&E	9.5	15.5	>100%	(4.5)	311.5%	21.6	(17.7)	>100%
Others	(57.1)	23.3	N.M	(150.1)	N.M	67.1	(130.2)	N.M
Segment Margin								
Automotive	6.1%	5.7%		6.4%		6.1%	5.0%	
Equipment	6.5%	10.8%		7.8%		9.9%	9.7%	
M&E	3.9%	6.1%		-2.6%		2.6%	-2.7%	
Others	N.M	N.M		N.M		N.M	N.M	

Source: Company, Kenanga Research

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Peer Comparison																	
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
AUTOMOTIVE																	
BERMAZ AUTO BHD	2.19	2,539.6	Y	04/2019	6.9%	7.6%	45.5%	14.7%	18.2	12.5	10.9	4.8	4.0	35.0%	6.4%	2.50	OP
DRB-HICOM BHD	1.90	3,673.2	Y	03/2019	3.3%	2.1%	12.3%	5.1%	11.7	10.5	9.9	0.5	0.5	5.1%	1.6%	1.80	MP
MBM RESOURCES BERHAD	2.59	1,012.4	Y	12/2018	0.3%	1.0%	1.7%	2.1%	6.1	6.0	5.9	0.6	0.5	8.9%	2.3%	3.45	OP
SIME DARBY BERHAD	2.19	14,893.8	Y	06/2018	0.7%	2.3%	-6.9%	3.3%	17.4	18.7	18.1	0.4	0.4	2.1%	3.7%	2.35	MP
TAN CHONG MOTOR HOLDINGS BHD	1.68	1,096.5	Y	12/2018	0.3%	1.8%	0.8%	4.7%	10.9	10.8	10.3	0.4	0.4	3.6%	2.4%	2.15	OP
UMW HOLDINGS BHD	5.82	6,799.5	Y	12/2018	2.9%	6.1%	5.0%	18.7%	17.9	17.0	14.4	1.2	1.1	6.8%	1.3%	5.80	MP
Simple Average					2.3%	3.0%	10.7%	6.0%	12.9	11.7	11.0	1.3	1.2	10.9%	3.3%		
CONSENSUS ESTIMATES																	
APM AUTOMOTIVE HOLDINGS BHD	3.08	602.2	Y	12/2019	-0.8%	3.8%	0.7%	4.8%	15.7	15.6	14.8	0.5	0.5	2.9	0.1	2.83	NEUTRAL
PECCA GROUP BHD	0.92	169.0	Y	06/2019	4.7%	6.6%	25.0%	14.2%	16.5	13.2	11.6	1.0	1.0	8.1	0.1	1.06	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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