Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Lacklustre start

UMW Holdings (UMWH)'s 1Q19 core net profit declined by 10% yoy to RM85.7m, below market and our expectations (17% and 16% of the respective full-year forecasts). The earnings disappointment was mainly due to weaker-than-expected margins from the automotive and equipment segments. We cut our 2019-21 core EPS forecasts by 18-19% and reiterate our HOLD rating on UMWH with a lower target price of RM5.70.

1Q19 earnings declined by 10% yoy

Despite the 15% yoy increase in revenue, 1Q19 core net profit fell by 10% yoy, mainly dragged down by the 9% yoy decline in PBT. Higher depreciation from the new Bukit Raja plant and lower-than-expected contribution from 38%-associate, Perodua (due to the investment cost for the Aruz platform) resulted in the automotive segment's 1Q19 PBT margin dipping by 1ppt yoy to 5.8%. Also, the stiff pricing competition among equipment players squeezed the equipment segment's 1Q19 PBT margin by 1ppt yoy to 11%. Overall, the results were below market and our expectations – UMWH's 1Q19 core net profit accounted for 17% of the street's and 16% of our full-year earnings forecasts. No dividend was declared for 1Q19 (vs 1Q18 DPS of 5 sen).

Sequentially, core profit was higher on low base effect

Sequentially, UMWH's 1Q19 core net profit increased by almost six-fold due to the low base effect in 4Q18. UMWH's 4Q18 PBT margin declined to a mere 3.9%, mainly due to a run-down of Toyota Vios inventory as well as numerous one-offs. Elsewhere, in spite of the higher 1Q19 Perodua sales (+9% qoq to 60.7k units), associate contribution declined by 32% qoq due to the investment cost for Perodua Aruz' platform mentioned above.

Reaffirm HOLD call with a lower TP of RM5.70

We cut our 2019-21 core EPS by 18-19%, incorporating lower automotive margins, a higher depreciation rate for the automotive segment (6.5% cost of asset; previously at 4.5%) as well as a revision in our RM/US$ assumption. We maintain our HOLD call with a lower SOTP-based TP of RM5.70 (from RM5.90) after rolling forward our valuation to 2020E. At a 15x 2019E PER (close to the post O&G demerger average of 14x), its valuation looks fair. Key upside risks: a strong rebound in vehicle sales, a pick-up in construction and mining activities that spurs equipment sales and strengthening of the RM. Key downside risks: intense competition in the automotive and equipment segments and higher-than-expected losses of O&G assets.

Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	11,066.6	11,303.6	11,158.0	11,418.3	11,673.7
EBITDA (RMm)	389.0	815.9	699.1	799.7	870.0
Pretax profit (RMm)	266.6	800.3	655.8	771.3	846.6
Net profit (RMm)	(640.6)	344.5	426.4	472.8	508.6
EPS (sen)	(54.8)	29.5	36.5	40.5	43.5
PER (x)	n.m	18.5	14.9	13.5	12.5
Core net profit (RMm)	164.7	520.8	432.4	477.8	509.6
Core EPS (sen)	14.1	44.6	37.0	40.9	43.6
Core EPS growth (%)	(16.0)	216.2	(17.0)	10.5	6.7
Core PER (x)	n.m	12.2	14.7	13.3	12.5
Net DPS (sen)	0.0	7.5	7.0	7.5	8.0
Dividend Yield (%)	0.0	1.4	1.3	1.4	1.5
EV/EBITDA (x)	20.5	9.7	10.8	9.0	7.8
Chg in EPS (%)			(19.0)	(17.5)	(18.1)
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang estimates

Results Note

UMW Holdings

UMWH MK
Sector: Auto & Autoparts

RM5.45 @ 21 May 2019

HOLD (maintain)
Upside: 4.6%

Price Target: RM5.70
Previous Target: RM5.90

Price Performance

	1M	3M	12M
Absolute	-2.5%	-7.2%	-17.0%
Rel to KLCI	-1.5%	-0.2%	-4.2%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	6367.2/1521.5
Avg daily vol - 6mth (m)	2.3
52-wk range (RM)	4.2-6.95
Est free float	30.5%
BV per share (RM)	2.86
P/BV (x)	1.90
Net cash/ (debt) (RMm) (1Q19)	(387.59)
ROE (2019E)	19.9%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

ASB	40.8%
EPF	10.8%
PNB	7.8%
KWAP	6.5%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	1Q18	4Q18	1Q19	QoQ % chg	YoY % chg	Comment
Revenue	2,415.3	2,681.8	2,774.8	3.5	14.9	Higher 1Q19 sales on the back of better performance of UMWH's three core segments.
Op costs	-2,325.1	-2,663.6	-2,698.3	1.3	16.1	
EBIT	**90.3**	**18.2**	**76.5**	>100	-15.2	
EBIT margin (%)	3.7	0.7	2.8	*2.1ppt*	*-1ppt*	EBIT margin dipped by 1ppt to 2.8% due to lower margins from automotive and equipment segments.
Int expense	-13.8	-32.1	-19.2	-40.1	38.9	
Int income	21.6	21.5	17.7	-17.6	-17.8	
Associates	56.3	96.3	65.6	-31.8	16.7	**yoy:** associates contribution grew by 17% yoy, driven by higher Perodua sales (1Q19 sales +9% yoy to 60.7k units). **qoq:** 32% decline in associates contribution due to investment cost for Perodua Aruz platform.
Pretax from Cont. Operations	**154.3**	**103.9**	**140.7**	35.3	-8.8	
Discon- operations	-30.9	2.0	-0.4	n.m.	-98.8	
Tax	-29.6	-29.8	-29.5	-1.2	-0.5	
Tax rate (%)	-24.0	-28.1	-21.0	*7.1ppt*	*3ppt*	
MI	-19.7	-61.1	-24.3	-60.1	23.5	
Net profit	**74.1**	**15.1**	**86.5**	>100	16.8	
Con. operations	95.0	15.4	85.7	>100	-9.8	
Discon- operations	-20.9	-0.3	0.8	n.m.	n.m.	
EPS (sen)	6.3	1.3	7.4	>100	16.8	
Core profit	**95.0**	**15.4**	**85.7**	>100	-9.8	Core net profit was below street's and our expectations, accounting for 16-17% of full-year forecasts.

Source: Company, Affin Hwang estimates

Fig 2: Revised SOTP of RM5.70 (from RM5.90)

Segmental	Equity value (RMm)	multiple	Share base	Equity value per share (RM)	Comment
Automotive					
- Toyota	1,536.2	**PE 13.0x**	1,168.3	1.31	Pegged to 13x forward earnings
- Perodua	2,867.4	**PE 13.0x**	1,168.3	2.45	Pegged to 13x forward earnings
Equipment	2,007.5	**PE 15.0x**	1,168.3	1.72	Pegged to 15x forward earnings
M&E	370.2	**PB**	1,168.3	0.22	30% discount to BV
SOP (RM)				**5.70**	

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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