



UMW Holdings (UMWH MK) : HOLD

Mkt. Cap: US\$1,521m | 3m Avg. Daily Val: US\$2.1m

Last Traded Price (21 May 2019): RM5.45

Price Target 12-mth: RM5.10 (6% downside) (Prev RM5.56)

Analyst

Abdul Azim Muhthar +60 32604 3967; azimm@alliancedbs.com

Mixed performance

- 1QFY19 results missed expectations, dragged by higher depreciation cost
- Strong deliveries expected in coming quarters as plant ramps up production; supported by strong demand for Vios and Yaris
- High depreciation cost and sukuk coupon payment to weigh on earnings growth; cut earnings by 5-9% for FY19-21F
- Maintain HOLD with lower SOP-based TP of RM5.10

Forecasts and Valuation

| FY Dec (RMm) | 2018A | 2019F | 2020F | 2021F |
|--------------------------|--------|--------|--------|--------|
| Revenue | 11,306 | 12,691 | 13,247 | 13,780 |
| EBITDA | 726 | 809 | 867 | 906 |
| Pre-tax Profit | 786 | 780 | 820 | 844 |
| Net Profit | 491 | 445 | 472 | 488 |
| Net Pft (Pre Ex.) | 400 | 445 | 472 | 488 |
| Net Pft Gth (Pre-ex) (%) | 143.0 | 11.1 | 6.2 | 3.4 |
| EPS (sen) | 42.0 | 38.1 | 40.4 | 41.8 |
| EPS Pre Ex. (sen) | 34.3 | 38.1 | 40.4 | 41.8 |
| EPS Gth Pre Ex (%) | 143 | 11 | 6 | 3 |
| Diluted EPS (sen) | 34.3 | 38.1 | 40.4 | 41.8 |
| Net DPS (sen) | 5.00 | 9.52 | 10.1 | 10.5 |
| BV Per Share (sen) | 285 | 313 | 344 | 375 |
| PE (X) | 13.0 | 14.3 | 13.5 | 13.0 |
| PE Pre Ex. (X) | 15.9 | 14.3 | 13.5 | 13.0 |
| P/Cash Flow (X) | nm | 9.5 | 9.1 | 8.7 |
| EV/EBITDA (X) | 14.1 | 12.8 | 12.1 | 11.7 |
| Net Div Yield (%) | 0.9 | 1.7 | 1.9 | 1.9 |
| P/Book Value (X) | 1.9 | 1.7 | 1.6 | 1.5 |
| Net Debt/Equity (X) | 0.3 | 0.2 | 0.2 | 0.2 |
| ROAE (%) | 15.4 | 12.7 | 12.3 | 11.6 |

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Stripping off various non-core adjustments, UMWH recorded core net profit of RM77.8m in 1QFY19 (-2% y-o-y; -15% q-o-q). The result is below our and consensus expectations. This was mainly due to lower than expected performance of the auto and equipment segment.

Mixed performance

- Auto segment revenue came in strongly at RM2,162m (15.2% y-o-y; 5.7% q-o-q). This is in line with higher sales volume for Toyota of 13,722 units (8.2% y-o-y; 6.4% q-o-q), boosted by the Vios and Rush. Recall, both models faced delivery issues in 4QFY18. However, profit before tax (PBT) fell marginally to RM124m. Earnings was dragged by depreciation of its new Bukit Raja plant.
- Perodua also registered better sales volume of 55,568 units (9.2% y-o-y; 2.7% q-o-q) backed by strong demand for the Myvi and supported by its newly introduced SUV model – Perodua Aroz. Launched in early January, nearly 20,000 bookings have been recorded. As at 2 May 2019, over 9,800 Aroz had been delivered.
- The equipment segment recorded revenue of RM382.8m (2.6% y-o-y; -3.8% q-o-q) due to higher revenue from the Heavy Equipment business. PBT however dropped to RM42.2m (-6.2 y-o-y; +61.9% q-o-q) due to lower profit margin resulting from competitive pricing for both Heavy Equipment and Industrial Equipment businesses.
- Manufacturing and engineering segment improved, recording PBT of RM2.3m in 1QFY19 from a loss of RM2.8m in 1QFY18, in tandem with higher revenue of RM237m. This was contributed by the Aerospace business as a result of higher delivery of fan cases and increase in sales from the Auto Component business.



Outlook

Expect stronger auto earnings

- Following 1QFY19's strong sales momentum, we are optimistic that Toyota sales will improve this year from a decline of 5.5% in FY18. We project Toyota sales volume growth of 10% for FY19. This will be supported by strong demand for Vios and the newly launched Toyota Yaris. Both are Completely Knocked Down (CKD) models, manufactured at its new Bukit Raja plant.
- We expect better margins for CKD models because of their higher localisation rate. For example, Vios has more than 80% local content (previously 58%). We think Yaris might also have the same localisation rate. With the better margins, higher CKD sales volumes will provide an added boost to profits.
- We expect strong deliveries in the coming quarters as Toyota's new Bukit Raja plant is ramping up production. This plant was commissioned in January while February was a short month.
- Manufacturing and engineering segment should improve on the back of improving aerospace business with Rolls-Royce. We expect the aerospace business to further narrow its losses this year as we assume higher delivery of fan cases.
- Equipment segment should benefit from the revival of several mega infrastructure projects. The equipment demand from these projects would support earnings growth although it could be partially offset by competitive pricing environment.
- While Perodua continues to be a significant contributor to UMWH's earnings, we expect volume growth to normalise going forward, from the 10.9% registered in FY18 which was boosted during tax holiday period.

Cut earnings by 5-9% for FY19-21F to account for sukuk payment and higher depreciation costs: We reduce our earnings forecasts by 9%/6%/5% for FY19F/20F/21F, mainly to account for: 1) higher than expected depreciation cost as well as 2) sukuk coupon payments.

Valuation & Recommendation

Maintain HOLD with lower TP of RM5.10. Following our earnings adjustments, our SOP-based TP is reduced to RM5.10. We maintain our HOLD call as we believe the stock offers limited upside at this juncture. The stock is currently trading at 15x FY19F PE, close to industry peers. We expect the auto segment to remain a major contributor while progressive contribution from the aerospace business should lift earnings. Any gain from land sales may not translate into special dividend as it might be used for paring down debt (net gearing including sukuk is c.50%).

Flash Note

Quarterly Income Statement (RMm)

| FY Dec | 1Q2018 | 4Q2018 | 1Q2019 | % chg yoy | % chg qoq |
|-------------------------|-------------|-------------|-------------|---------------|--------------|
| Revenue | 2,415 | 2,682 | 2,775 | 14.9 | 3.5 |
| Other Oper. (Exp)/Inc | (2,324) | (2,664) | (2,698) | 16.1 | 1.3 |
| Operating Profit | 91.7 | 18.2 | 76.5 | (16.5) | 320.7 |
| Other Non Opg (Exp)/Inc | (11.6) | 40.9 | (7.9) | 31.9 | (119.2) |
| Associates & JV Inc | 57.6 | 96.3 | 65.7 | 13.9 | (31.8) |
| Net Interest (Exp)/Inc | (2.0) | (10.6) | (1.5) | 25.4 | 86.0 |
| Exceptional Gain/(Loss) | 11.6 | (40.9) | 7.87 | (31.9) | (119.2) |
| Pre-tax Profit | 147 | 104 | 141 | (4.5) | 35.3 |
| Tax | (29.6) | (29.8) | (29.5) | (0.5) | (1.2) |
| Minority Interest | (26.6) | (23.3) | (25.5) | 3.9 | 9.3 |
| Net Profit | 91.2 | 50.8 | 85.7 | (6.0) | 68.7 |
| Net profit bef Except. | 79.6 | 91.7 | 77.8 | (2.2) | (15.1) |
| EBITDA | 142 | 72.5 | 163 | 14.4 | 124.9 |
| Margins (%) | | | | | |
| Opg Profit Margins | 3.8 | 0.7 | 2.8 | | |
| Net Profit Margins | 3.8 | 1.9 | 3.1 | | |

Source of all data: Company, AllianceDBS

Target Price & Ratings History



| S.No. | Date of Report | Closing Price | 12-mth Target Price | Rating |
|-------|----------------|---------------|---------------------|--------------|
| 1: | 23 May 18 | 6.40 | 5.29 | FULLY VALUED |
| 2: | 30 Aug 18 | 5.94 | 6.19 | HOLD |
| 3: | 03 Dec 18 | 5.40 | 5.56 | HOLD |
| 4: | 28 Feb 19 | 5.80 | 5.56 | HOLD |
| 5: | 12 Mar 19 | 5.70 | 5.56 | HOLD |

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

DISCLOSURE

Stock rating definitions

| | | |
|--------------|---|--|
| STRONG BUY | - | > 20% total return over the next 3 months, with identifiable share price catalysts within this time frame |
| BUY | - | > 15% total return over the next 12 months for small caps, >10% for large caps |
| HOLD | - | -10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps |
| FULLY VALUED | - | negative total return > -10% over the next 12 months |
| SELL | - | negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame |

Commonly used abbreviations

| | | |
|--|---------------------------|---|
| Adex = advertising expenditure | EPS = earnings per share | PBT = profit before tax |
| bn = billion | EV = enterprise value | P/B = price / book ratio |
| BV = book value | FCF = free cash flow | P/E = price / earnings ratio |
| CF = cash flow | FV = fair value | PEG = P/E ratio to growth ratio |
| CAGR = compounded annual growth rate | FY = financial year | q-o-q = quarter-on-quarter |
| Capex = capital expenditure | m = million | RM = Ringgit |
| CY = calendar year | M-o-m = month-on-month | ROA = return on assets |
| Div yld = dividend yield | NAV = net assets value | ROE = return on equity |
| DCF = discounted cash flow | NM = not meaningful | TP = target price |
| DDM = dividend discount model | NTA = net tangible assets | trn = trillion |
| DPS = dividend per share | NR = not rated | WACC = weighted average cost of capital |
| EBIT = earnings before interest & tax | p.a. = per annum | y-o-y = year-on-year |
| EBITDA = EBIT before depreciation and amortisation | PAT = profit after tax | YTD = year-to-date |

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by
AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com