



AmInvestment Bank

## Company report

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

23 May 2019

## Decent start to FY19

## HOLD

(Maintained)

## AmInvestment Bank

www.amequities.com.my

603-2036 2304

## Rationale for report: Company results

Price	RM5.45
Fair Value	RM5.88
52-week High/Low	RM6.95/RM4.20

## Key Changes

Fair value	↕
EPS	↔

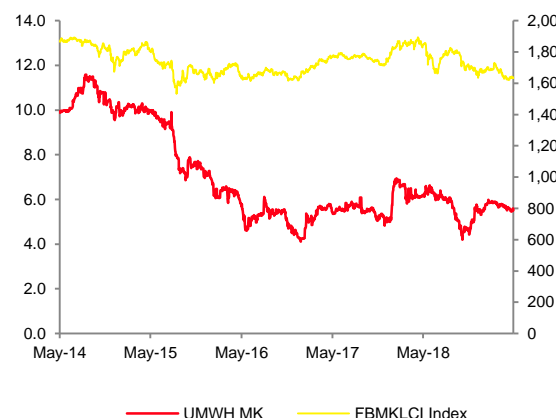
YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	11,303.6	11,367.9	11,892.3	12,541.7
Core net profit (RM mil)	440.7	492.3	524.2	601.1
FD Core EPS (sen)	37.7	42.1	44.9	51.4
FD Core EPS growth (%)	(549.5)	11.7	6.5	14.7
Consensus Net Profit (RM mil)	-	499.6	561.1	569.7
DPS (sen)	15.4	12.6	13.5	15.4
PE (x)	14.6	13.1	12.3	10.7
EV/EBITDA (x)	9.7	6.7	6.3	5.5
Div yield (%)	2.8	2.3	2.4	2.8
ROE (%)	16.1	14.0	13.5	14.1
Net Gearing (%)	45.5	33.1	23.6	14.4

## Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RM mil)	6,425.6
Book Value (RM/share)	2.86
P/BV (x)	1.9
ROE (%)	16.1
Net Gearing (%)	45.5

Major Shareholders	ASB (40.7%)
	EPF (8.8%)
	PNB (7.3%)
Free Float	32.6
Avg Daily Value (RM mil)	10.4

Price performance	3mth	6mth	12mth
Absolute (%)	(6.1)	18.3	(11.3)
Relative (%)	(2.2)	24.8	1.2



## Investment Highlights

- We maintain our HOLD call on UMW Holdings (UMWH) with a higher FV of RM5.88 (from RM5.49 previously). This is based on SOP valuation after rolling over our valuation to FY20 with a PE of 10x for its motor segment.
- UMWH's 1Q19 core net profit of RM86.7mil was broadly in line with our expectations, accounting for 18% and 17% of our and consensus forecast respectively. We expect that the group's core earnings to improve in the next few quarters underpinned by deliveries of the new Yaris which was launched in mid-April and the new 2019 Vios. Also, we anticipate the group's aerospace unit to deliver more fan cases in the subsequent quarters ahead moving towards breaking even.
- UMWH registered a revenue of RM2.77bil, which was an impressive 15% YoY increase. The improved performance was contributed by a higher number of vehicles sold by its automotive segment and the increase in fan cases delivered by the aerospace unit in the M&E segment. All three core businesses achieved higher revenue on a YoY basis.
- For the automotive segment, the group posted a higher revenue of RM2.16bil (+15% YoY) due to the overwhelming response for the new Vios. However, the PBT was marginally lower (-1% YoY) due to higher depreciation from the new Bukit Raja plant, which was partially offset by the better performance from its associate, Perodua.
- Toyota sold 13.8K units in 1Q19 (+9% YoY) vs. 12.7K units in 1Q18. Its market share in 1Q19, including the Lexus, was 9.7%. The group targets to sell 30.0K units of the new Vios and 10K units of the new Yaris in 2019.
- Meanwhile, the group's equipment segment recorded a revenue of RM382.8 mil (+3% YoY) and a PBT of RM42.2 mil (-6% YoY). The lower PBT margin was due to competitive pricing for both the heavy equipment and industrial equipment businesses.
- The M&E segment registered a higher revenue of RM237.1 mil (+41% YoY), contributed by the aerospace unit as a result of higher delivery of fan cases and stronger sales from the auto Component business. The segment swung into the black with a PBT of RM2.3mil in 1Q19, from a loss of RM2.9mil in 1Q18.
- We believe that the growth this year will rely heavily on a higher sales volume for Toyota, the continued support from Perodua's strong sales of the Myvi and the recent introduction of the Aruz. It will also depend on the continued improvement in its M&E segment as the aerospace unit gains momentum with an eye to break even in 2HFY20.

## EXHIBIT 1: EARNINGS SUMMARY

RM mil	1Q18	4Q18	1Q19	QoQ	YoY	FY17	FY18	YoY
<b>Revenue</b>	<b>2,415.3</b>	<b>2,681.8</b>	<b>2,774.8</b>	3%	15%	<b>11,066.6</b>	<b>11,306.3</b>	2%
Operating Expenses	(2,344.7)	(2,756.2)	(2,718.8)	-1%	16%	(11,071.2)	(10,938.1)	-1%
Other Operating Income	19.6	92.6	20.5	-78%	5%	128.2	153.3	20%
<b>Operating Profit</b>	<b>90.3</b>	<b>18.2</b>	<b>76.5</b>	321%	-15%	<b>123.7</b>	<b>521.5</b>	322%
Finance Costs	(13.8)	(32.1)	(19.2)	-40%	39%	(119.0)	(78.4)	-34%
Share of Profits of Associates & JV	56.3	96.3	65.6	-32%	17%	182.0	264.2	45%
Investment Income	21.6	21.5	17.7	-18%	-18%	79.8	85.8	7%
<b>Profit before tax</b>	<b>154.3</b>	<b>103.9</b>	<b>140.7</b>	35%	-9%	<b>266.6</b>	<b>793.1</b>	198%
Tax	(29.6)	(29.8)	(29.5)	-1%	-1%	(121.7)	(142.5)	17%
<b>Profit after tax</b>	<b>124.7</b>	<b>74.1</b>	<b>111.2</b>	50%	-11%	<b>144.9</b>	<b>650.7</b>	349%
Minority interest								
Continuing operations	29.7	23.3	25.5	9%	-14%	109.6	120.8	10%
Discontinued operations	(10.0)	2.3	(1.2)	-151%	-88%	(129.4)	(16.3)	-87%
<b>Total</b>	<b>19.7</b>	<b>25.7</b>	<b>24.3</b>	-5%	23%	<b>(19.9)</b>	<b>104.5</b>	-626%
<b>Net profit</b>								
<b>Continuing operations</b>	<b>95.0</b>	<b>15.4</b>	<b>85.7</b>	456%	-10%	<b>35.3</b>	<b>494.5</b>	1300%
Discontinued operations	(20.9)	(0.3)	0.8	-337%	-104%	(675.9)	(152.8)	-77%
<b>Total</b>	<b>74.1</b>	<b>15.1</b>	<b>86.5</b>	474%	17%	<b>(640.6)</b>	<b>341.7</b>	-153%
<b>Core net profit</b>	<b>83.5</b>	<b>48.2</b>	<b>86.7</b>	80%	4%	<b>(98.0)</b>	<b>419.7</b>	-528%
<u>Margins</u>								
EBIT margin	3.7%	0.7%	2.8%			1.1%	4.6%	
PBT Margin	6.4%	3.9%	5.1%			2.4%	7.0%	
Net profit margin	3.9%	0.6%	3.1%			0.3%	4.4%	
Core net profit margin	3.5%	1.8%	3.1%			-0.9%	3.7%	
Toyota								
Sales volume (units)	12,683	12,902	13,722	6%	8%	69,492	65,551	-6%
Perodua								
Sales volume (units)	55,568	59,040	60,659	3%	9%	204,887	227,243	11%

Source: AmlInvestment Bank Bhd

## EXHIBIT 2: SEGMENTAL BREAKDOWN

Segmental Breakdown	1Q18	4Q18	1Q19	QoQ	YoY
<b>Revenue</b>					
Automotive	1,877.1	2,046.1	2,162.5	6%	15%
Equipment	373.0	397.8	382.8	-4%	3%
Manufacturing & Engineering	168.5	242.5	237.1	-2%	41%
Others	(3.2)	(4.5)	(7.7)	72%	138%
<b>Total</b>	<b>2,415.3</b>	<b>2,681.8</b>	<b>2,774.8</b>	<b>3%</b>	<b>15%</b>
<b>PBT</b>					
Automotive	125.9	125.5	124.2	-1%	-1%
Equipment	44.9	26.0	42.2	62%	-6%
Manufacturing & Engineering	(2.9)	9.5	2.3	-75%	-182%
Eliminations	(13.7)	(57.1)	(28.0)	-51%	104%
<b>Total</b>	<b>154.3</b>	<b>103.9</b>	<b>140.7</b>	<b>35%</b>	<b>-9%</b>
<b>Net profit</b>					
Automotive	81.4	105.0	85.6	-19%	5%
Equipment	36.6	18.2	30.8	69%	-16%
Manufacturing & Engineering	(9.2)	3.2	(3.2)	-200%	-65%
Others	(17.7)	(75.6)	(27.5)	-64%	56%
<b>Total</b>	<b>91.1</b>	<b>50.8</b>	<b>85.7</b>	<b>69%</b>	<b>-6%</b>
<b>PBT Margin</b>					
Automotive	6.7%	6.1%	5.7%		
Equipment	12.0%	6.5%	11.0%		
Manufacturing & Engineering	-1.7%	3.9%	1.0%		
<b>Net Profit Margin</b>					
Automotive	4.3%	5.1%	4.0%		
Equipment	9.8%	4.6%	8.0%		
Manufacturing & Engineering	-5.4%	1.3%	-1.3%		

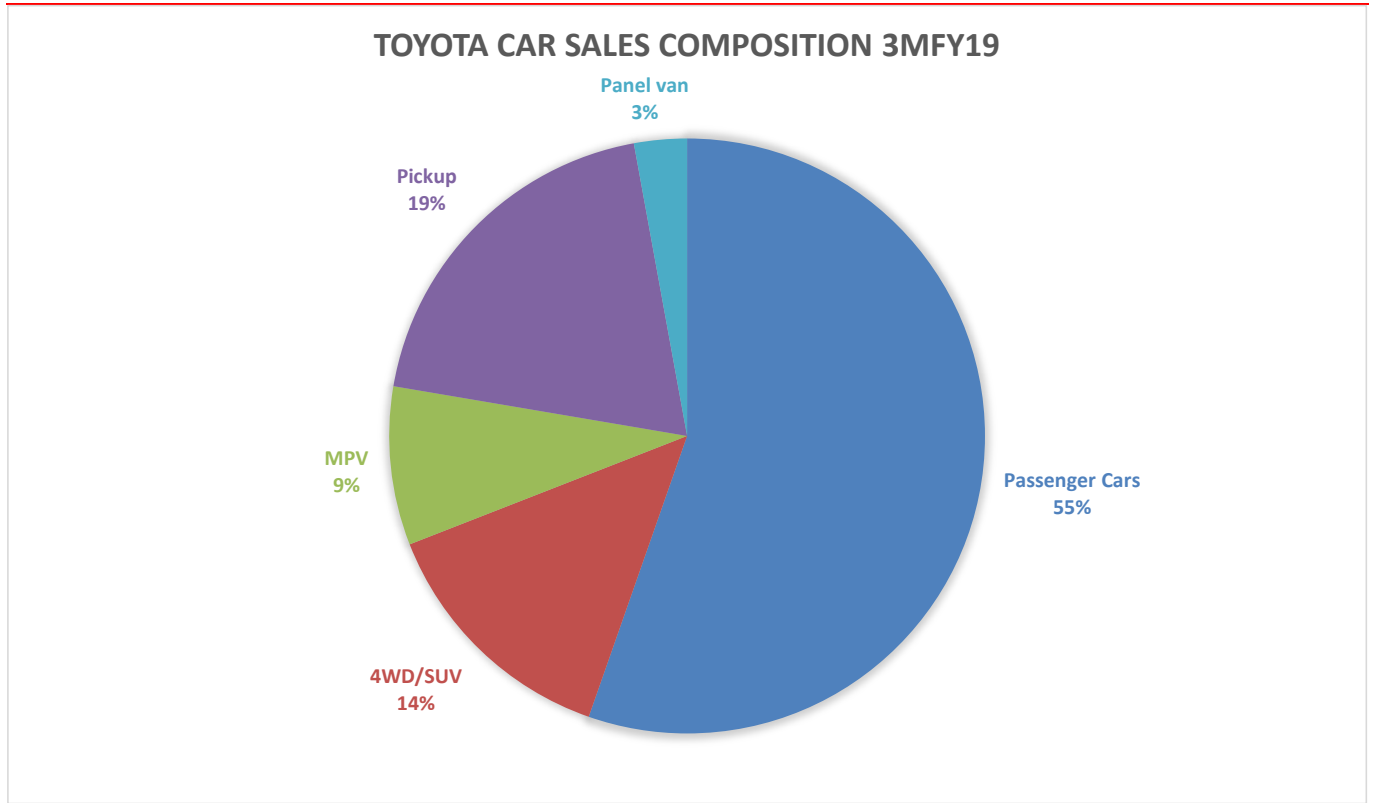
Source: AmlInvestment Bank Bhd, Company

## EXHIBIT 3: SOP VALUATION

SOP VALUATION						
Segment	PAT (RMmil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	520	51%	10.0	2,652	2.27	1,168.3
Equipment	155	91%	12.5	1,768	1.51	
M&E	74		12.0	893	0.76	
					<b>4.55</b>	
Add: Others segment				80	0.07	
Add: Perodua	574	38%	11.0	2,401	2.06	
Add: Serendah land (830 acres at RM15/psf)				542	0.46	
Add: Company net debt				(1,468)	(1.26)	
<b>Fair Value</b>					<b>5.88</b>	

Source: AmlInvestment Bank Bhd

EXHIBIT 4: TOYOTA SALES MIX 3M19



Source: AmlInvestment Bank Bhd, Company

EXHIBIT 5: PEER VALUATION MATRIX

Core Coverage	Call Recommendation	Last Price (RM)	Fair Value (RM)	Upside	EPS (sen)		Forward P/E (x)		NDPS (sen)	Dividend Yield (%)
					FY19/20	FY20/21	FY19/20	FY20/21		
APM Automotive	UNDERWEIGHT	2.95	2.30	-22%	20.9	21.4	14.1	13.8	12.5	4.2%
Bermaz Auto	BUY	2.30	3.16	37%	22.6	23.6	10.2	9.7	18.1	7.9%
DRB-Hicom	UNDERWEIGHT	2.00	1.74	-13%	2.7	2.0	74.1	100.0	0.0	0.0%
MBM Resources	BUY	2.90	3.48	20%	41.3	47.4	7.0	6.1	6.2	2.1%
Pecca Group	BUY	1.09	1.66	52%	9.8	11.1	11.1	9.8	6.6	6.1%
Sime Darby	HOLD	2.17	2.38	10%	11.0	12.2	19.7	17.8	8.0	3.7%
Tan Chong Motor	BUY	1.59	2.18	37%	15.8	18.2	10.1	8.7	5.4	3.4%
UMW Holdings	HOLD	5.45	5.88	8%	42.1	44.9	12.9	12.1	12.6	2.3%

Source: AmlInvestment Bank Bhd

EXHIBIT 6: PB BAND CHART

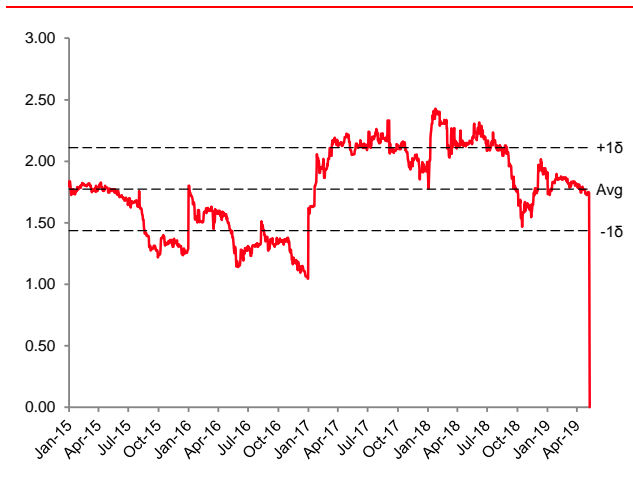
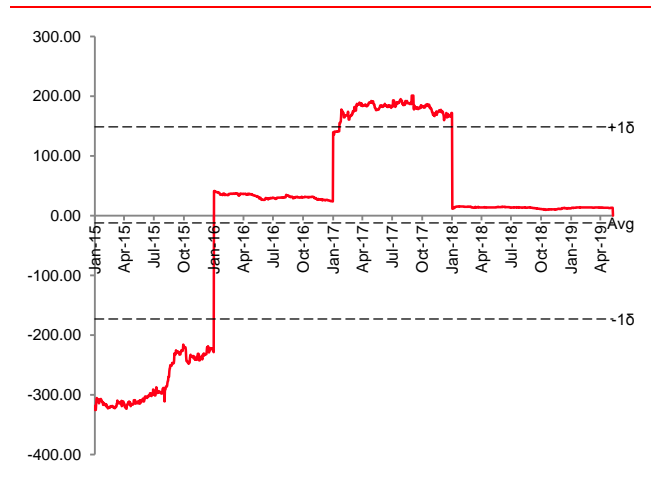


EXHIBIT 7: PE BAND CHART



## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	11,066.6	11,303.6	11,367.9	11,892.3	12,541.7
EBITDA	389.0	815.9	1,142.7	1,177.0	1,287.9
Depreciation/Amortisation	(265.3)	(273.7)	(309.1)	(337.9)	(365.3)
Operating income (EBIT)	123.7	542.2	833.5	839.2	922.6
Other income & associates	182.0	270.7	206.5	218.3	230.5
Net interest	(39.1)	(12.6)	(27.8)	9.1	20.9
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	266.6	800.3	1,012.2	1,066.6	1,174.0
Taxation	(121.7)	(124.1)	(193.4)	(203.6)	(226.4)
<b>Minorities/pref dividends</b>	<b>19.8</b>	<b>(155.4)</b>	<b>(326.5)</b>	<b>(338.8)</b>	<b>(346.5)</b>
Net profit	35.3	515.4	492.3	524.2	601.1
Core net profit	(98.0)	440.7	492.3	524.2	601.1
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	2,658.1	2,820.9	3,730.5	4,066.1	4,409.3
Intangible assets	-	-	-	-	-
<b>Other long-term assets</b>	<b>2,520.8</b>	<b>2,851.9</b>	<b>2,889.6</b>	<b>2,930.5</b>	<b>2,981.3</b>
Total non-current assets	5,178.9	5,672.9	6,620.1	6,996.6	7,390.6
Cash & equivalent	1,169.6	1,311.8	1,427.3	1,637.0	1,892.3
Stock	1,410.7	1,548.5	1,373.6	1,436.9	1,515.4
Trade debtors	1,021.3	1,076.6	934.4	977.4	1,030.8
<b>Other current assets</b>	<b>1,315.2</b>	<b>1,148.3</b>	<b>1,148.3</b>	<b>1,148.3</b>	<b>1,148.3</b>
Total current assets	4,916.8	5,085.1	4,883.5	5,199.7	5,586.8
Trade creditors	2,795.5	1,854.0	2,229.2	2,332.0	2,459.3
Short-term borrowings	691.9	535.0	1,277.9	1,534.9	1,791.9
<b>Other current liabilities</b>	<b>165.5</b>	<b>106.3</b>	<b>217.4</b>	<b>224.4</b>	<b>233.0</b>
Total current liabilities	3,652.9	2,495.3	3,724.5	4,091.3	4,484.3
Long-term borrowings	2,069.7	2,298.2	1,371.7	1,058.7	745.8
<b>Other long-term liabilities</b>	<b>194.7</b>	<b>250.0</b>	<b>91.7</b>	<b>94.6</b>	<b>98.3</b>
<b>Total long-term liabilities</b>	<b>2,264.4</b>	<b>2,548.3</b>	<b>1,463.4</b>	<b>1,153.4</b>	<b>844.1</b>
Shareholders' funds	3,047.2	3,344.6	3,689.3	4,056.2	4,477.0
Minority interests	1,131.2	2,369.8	2,626.5	2,895.4	3,172.1
BV/share (RM)	2.61	2.86	3.16	3.47	3.83
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	266.6	800.3	1,012.2	1,066.6	1,174.0
Depreciation/Amortisation	265.3	273.7	309.1	337.9	365.3
Net change in working capital	1,099.3	(1,075.1)	646.0	4.9	6.1
<b>Others</b>	<b>(478.5)</b>	<b>1.1</b>	<b>(435.6)</b>	<b>(493.3)</b>	<b>(538.8)</b>
Cash flow from operations	1,152.7	-	1,531.7	916.1	1,006.6
Capital expenditure	(869.8)	(847.8)	(682.1)	(594.6)	(627.1)
Net investments & sale of fixed assets	(234.8)	-	-	-	-
<b>Others</b>	<b>(746.1)</b>	<b>182.4</b>	<b>135.8</b>	<b>171.4</b>	<b>181.9</b>
Cash flow from investing	(1,850.7)	(665.4)	(546.3)	(423.3)	(445.2)
Debt raised/(repaid)	194.8	(56.0)	(56.0)	(56.0)	(56.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(75.9)	(180.4)	(147.7)	(157.3)	(180.3)
<b>Others</b>	<b>-</b>	<b>1,064.6</b>	<b>(69.9)</b>	<b>(69.9)</b>	<b>(69.9)</b>
<b>Cash flow from financing</b>	<b>118.9</b>	<b>828.2</b>	<b>(273.5)</b>	<b>(283.1)</b>	<b>(306.1)</b>
<b>Net cash flow</b>	<b>(579.0)</b>	<b>-</b>	<b>711.9</b>	<b>209.8</b>	<b>255.3</b>
<b>Net cash/(debt) b/f</b>	<b>1,607.3</b>	<b>1,193.4</b>	<b>715.3</b>	<b>1,427.3</b>	<b>1,637.0</b>
Net cash/(debt) c/f	1,204.9	-	1,427.3	1,637.0	1,892.3
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	6.0	2.1	0.6	4.6	5.5
EBITDA growth (%)	(252.4)	109.7	40.1	3.0	9.4
Pretax margin (%)	2.4	7.1	8.9	9.0	9.4
Net profit margin (%)	0.3	4.6	4.3	4.4	4.8
Interest cover (x)	3.2	43.1	30.0	nm	nm
Effective tax rate (%)	45.6	15.5	19.1	19.1	19.3
Dividend payout (%)	161.3	26.3	22.5	22.5	22.5
Debtors turnover (days)	33	34	32	29	29
Stock turnover (days)	55	48	47	43	43
Creditors turnover (days)	77	75	66	70	70

Source: Company, AmlInvestment Bank Bhd estimates

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