

HLIB Research

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SELL

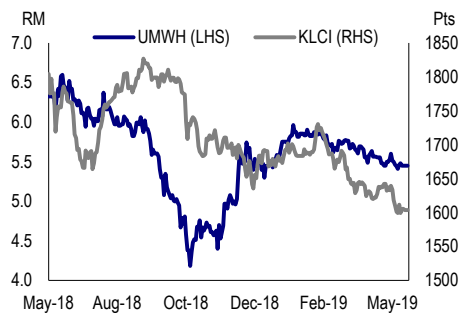
 (Maintain)

Target Price: **RM4.75**
Previously: **RM4.80**
Current Price: **RM5.45**

Capital upside	-12.8%
Dividend yield	1.8%
Expected total return	-11.0%

Sector coverage: Automotive

Company description: UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

Share price


Historical return (%)	1M	3M	12M
Absolute	-2.3	-7.3	-14.8
Relative	-1.2	-0.5	-2.0

Stock information

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	6,367
3-mth average volume ('000)	1,596
SC Shariah compliant	Yes

Major shareholders

Skim Amanah Saham Bumiputera	40.8%
Employess Provident Fund	10.8%
Permodalan Nasional Berhad	7.8%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	290	363	462
EPS - core (sen)	24.8	31.0	39.5
P/E (x)	22.0	17.6	13.8

UMW Holdings

Disappointing start of FY19

UMW reported a disappointing 1QFY19 core PATMI of RM69.8m (adjusted for additional RM17.7m distribution for Perpetual Sukuk for the quarter), achieved only 18.2% of HLIB's FY19 expectation and 14.0% of consensus, due to lower than expected sales volume and margins across all segments. We cut FY19-20 earnings by 5.3% and 6.5% respectively and introduce FY21 earnings at RM520.8m. Maintain SELL with lower SOP-derived TP of RM4.75 (from RM4.80) based on 10% discount to SOP of RM5.29.

Below expectation. UMW reported core PATMI for 1QFY19 at RM69.8m (adjusted for the provision of RM17.7m distribution for Perpetual Sukuk for the quarter), which was below HLIB's FY19 expectation (18.2%) and consensus (14.0%), due to lower than expected contribution across all segments on lower sales volume and overall margins.

Dividend. None.

QoQ. Core earnings improved by 45.8%, mainly due to lower losses in relation to the operations of holding co and intersegment, as well as higher net contribution from Equipment segment.

YoY. Core earnings improved by 11.6%, on improved contribution from Automotive segment (on higher car sales volume and improved RM/USD, which was partially offset by higher start-up cost in relation to the new Bukit Raja assembly plant) and lower losses from both M&E segment (ramping up production of Rolls Royce fan cases) and O&G unlisted segment (divestment exercise since 2018).

Outlook. UMW is expected to continue leverage on its range of recent new launch car models i.e. Toyota Vios, Toyota Yaris and Perodua Aruz while ramping up production of Rolls Royce fan cases in FY19. However, the automotive segment will be affected by the recent depreciation of RM/USD while the high start-up cost of Bukit Raja plant may drag its earnings for the year. Management has also cautioned on the increasing competitive automotive market and heavy equipment market.

Forecast. Cut earnings for FY19 by 5.3% and FY20 by 6.5% respectively, after lowering our assumptions on automotive sales volume and automotive margins. We introduce FY21 earnings at RM520.8m.

Maintain SELL, TP: RM4.75. Maintain SELL recommendation on UMW with lower TP: RM4.75 (from RM4.80) based on 10% discount to SOP of RM5.29. We opine that UMW's valuation is relatively expensive as compared to its automotive peers with unattractive dividend yield. Furthermore, we are concerned on the impact of RM depreciation and cautious consumer sentiment on automotive market.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Cash	1,170	1,312	1,242	1,777	1,227
Receivables	1,411	1,549	1,612	1,687	1,733
Inventories	902	960	1,014	1,062	1,091
PPE	2,658	2,821	3,053	3,129	3,202
Others	3,955	4,116	4,248	4,385	4,535
Assets	10,096	10,758	11,170	12,040	11,788
Payables	949	708	772	800	819
Debt	2,755	3,931	3,793	4,035	3,096
Others	2,213	405	405	405	405
Liabilities	5,917	5,044	4,970	5,240	4,321
Shareholder's equity	3,047	3,345	3,620	3,953	4,333
Perpetual sukuk	0	1,098	1,098	1,098	1,098
Minority interest	1,131	1,272	1,482	1,750	2,036
Equity	4,178	5,714	6,200	6,800	7,467

Cash Flow Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Profit before taxation	267	800	704	872	957
D&A	265	274	348	354	357
Working capital	440	(438)	(53)	(95)	(56)
Taxation	(137)	(163)	(154)	(192)	(207)
Others	365	(206)	(263)	(273)	(300)
CFO	1,199	268	581	666	751
Capex	(870)	(915)	(580)	(430)	(430)
Asset disposal	69	62	0	0	0
Acquisitions	(935)	132	0	0	0
Others	(201)	309	132	137	150
CFI	(1,937)	(412)	(448)	(293)	(280)
Changes in debt	211	78	(138)	242	(939)
Shares issued	0	0	0	0	0
Dividends	0	(58)	(88)	(129)	(140)
Distribution to Perps	0	(35)	(70)	(70)	(70)
Others	(76)	1,035	93	119	127
CFF	135	1,019	(202)	163	(1,021)
Net cash flow	(602)	875	(69)	535	(550)
Forex	(3)	1	0	0	0
Others	(419)	(734)	(0)	(0)	(0)
Beginning cash	2,194	1,170	1,312	1,242	1,777
Ending cash	1,170	1,312	1,242	1,777	1,227

Income Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Revenue	11,067	11,304	11,937	12,494	12,837
EBITDA	389	816	905	1,070	1,130
EBIT	124	542	558	716	773
Net finance cost	(39)	(13)	(118)	(118)	(117)
Associates & JV	182	271	263	273	300
Profit before tax	267	800	704	872	957
Tax	(122)	(124)	(154)	(192)	(207)
Operation net profit	145	676	549	680	750
Discontinued operation	(805)	(177)	0	0	0
Reported net profit	(660)	499	549	680	750
Minority interest	20	(120)	(117)	(149)	(159)
Perpetual sukuk	0	(35)	(70)	(70)	(70)
Reported PATMI	(641)	344	363	462	521
Exceptionals	542	(54)	0	0	0
Core PATMI	(99)	290	363	462	521
Concensus			500	561	570
HLIB/Concensus (%)			72.6%	82.3%	91.4%

Valuation & Ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Reported EPS (sen)	(54.8)	29.4	31.0	39.5	44.6
Core EPS (sen)	(8.5)	24.8	31.0	39.5	44.6
Core P/E (x)	N.M.	22.0	17.6	13.8	12.2
DPS (sen)	0.0	7.5	10.0	12.0	14.0
Dividend yield (%)	0.0%	1.4%	1.8%	2.2%	2.6%
BVPS (RM)	2.61	2.86	3.10	3.38	3.71
P/B (x)	2.1	1.9	1.8	1.6	1.5
EBITDA margin	3.5%	7.2%	7.6%	8.6%	8.8%
EBIT margin	1.1%	4.8%	4.7%	5.7%	6.0%
PBT margin	2.4%	7.1%	5.9%	7.0%	7.5%
Net margin	0.0%	-0.3%	-0.6%	-0.6%	-0.5%
ROE	-2.5%	9.1%	10.4%	12.2%	12.6%
ROA	-0.8%	2.8%	3.3%	4.0%	4.4%
Net gearing*	-52.0%	-78.3%	-70.5%	-57.1%	-43.1%

Assumptions

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Sales (Unit)					
Toyota	69,492	65,551	72,000	72,000	73,440
Lexus	953	1,020	1,000	1,000	1,000
Perodua	204,887	227,243	225,294	227,497	231,947
Average Price (RM)					
UMW	127,322	134,431	126,365	127,629	127,629
Perodua	40,911	41,078	43,676	43,438	43,553

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
Revenue	2,415.3	2,681.8	2,774.8	3.5%	14.9%
EBITDA	140.0	117.0	171.3	46.4%	22.3%
EBIT	89.2	62.8	84.8	35.1%	-5.0%
Net finance expense	(11.1)	(22.3)	(8.8)	-60.7%	-20.9%
Associates	57.6	96.3	65.6	-31.8%	13.9%
Exceptional items	11.6	(32.8)	(1.0)		
Reported PBT	147.3	103.9	140.7	35.3%	-4.5%
Tax	(29.6)	(29.8)	(29.5)	-1.2%	-0.5%
Reported operation net profit	117.7	74.1	111.2	50.0%	-5.5%
Reported discontinued operation	(23.9)	2.0	(0.4)	-119.5%	-98.4%
Reported net profit	93.8	76.1	110.8	45.6%	18.2%
Reported PATMI	74.1	50.5	86.5	71.4%	16.8%
Els	11.6	(32.8)	(1.0)	-97.0%	-108.5%
Provision for Perp Distribution	0.0	(17.7)	(17.7)	0.0%	#DIV/0!
Core PATMI	62.5	47.8	69.8	45.8%	11.6%
Reported EPS (Sen)	6.3	4.3	7.4	71.4%	16.8%
Core EPS (Sen)	5.4	4.1	6.0	45.8%	11.6%
EBITDA margin (%)	5.8%	4.4%	6.2%	1.8%	0.4%
EBIT margin (%)	3.7%	2.3%	3.1%	0.7%	-0.6%
Core PATMI margin (%)	2.6%	1.8%	2.5%	0.7%	-0.1%

Bursa, HLIB Research

- The higher group revenue was driven by higher sales volume of Toyota and ramped up productions of fan cases production by UMW aerospace.
- Group EBITDA improved on higher margins for automotive segment (higher sales volume and RM appreciation) as well as adaption of accounting MFRS 16 (finance lease accounting) effective 1QFY19.
- Group EBIT was mainly dragged by the higher depreciation charges due to commencement of new Bukit Raja assembly plant in 1QFY19, and combined with adaption of MFRS 16.
- Associates contribution dropped QoQ, due to lower Perodua contribution on lower sales to dealerships.
- Adjusted Core PATMI at RM69.8m, inclusive of attributed RM17.7m provision for Perpetual Sukuk distribution for 1QFY19.

Figure #2 Template for table/ charts

FYE Dec (RM m)	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
Reported Revenue					
Automotive	1,877.1	2,046.1	2,162.5	5.7%	15.2%
Equipment	373.0	397.8	382.8	-3.8%	2.6%
Manufacturing & Engineering	168.5	242.5	237.1	-2.2%	40.7%
Oil & Gas unlisted	0.0	0.0	0.0	#DIV/0!	#DIV/0!
Others	15.9	14.7	16.0	8.8%	0.8%
Intersegment	(19.1)	(19.2)	(23.7)	23.5%	23.9%
Total	2,415.3	2,681.8	2,774.8	3.5%	14.9%
Reported PATMI					
Automotive	81.4	105.0	85.6	-18.5%	5.2%
Equipment	36.6	18.2	30.8	69.5%	-15.8%
Manufacturing & Engineering	(9.2)	3.2	(3.2)	-199.7%	-65.3%
UMWOG	0.0	0.0	0.0	N.M.	N.M.
Oil & Gas unlisted (discontinued)	(17.1)	(0.3)	0.8	N.M.	N.M.
Others	(144.6)	(111.0)	(27.5)	N.M.	N.M.
Total	(52.8)	15.1	86.5	474.2%	N.M.
Core PATMI	62.5	65.5	69.8	6.5%	N.M.

Bursa, HLIB Research

- Automotive revenue increased on higher sales volume of Toyota (see figure #3).
- Manufacturing & Engineering registered lower losses YoY in 1QFY19 due to ramping up of Rolls Royce fan cases production.
- Immaterial impact from Oil & Gas unlisted segment as the group has almost completed its divestment exercise since end 2018.

Figure #3 UMW automotive sales statistics

Unit Sales	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Toyota (51% ownership)	12,683	19,026	20,940	12,902	13,722
Lexus (51% ownership)	143	282	439	156	143
Perodua (38% ownership)	55,568	61,530	51,105	59,040	60,659
Total	68,394	80,838	72,484	72,098	74,524
Growth YoY (%)	2.1%	20.9%	7.0%	-2.3%	9.0%
Growth QoQ (%)	-7.3%	18.2%	-10.3%	-0.5%	3.4%

Company

Figure #4 UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,885.8	4.18	FY20 PE 12x
Equipment	Various	1,339.4	1.15	FY20 PE 10x
Manufacturing & Engineering	Various	1,803.3	1.54	FY20 PE 18x
Others (including O&G unlisted)	Various	165.2	0.14	Book value based on FY2018
Land Valuation	0.90	488.0	0.42	700 Acres of land in Serendah
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2018 Annual Report
Holding Co Net Debt		(1,405.8)	(1.20)	Based on 2018 Annual Report
Subtotal		6,178.0	5.29	
Holding Co Discount			10.0%	
Target Price (RM)			4.75	
* No of Shares		1,168.3		

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HOLD	Expected absolute return of -10% to +10% over the next 12 months.
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UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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