

Company Result

23 May 2019

UMW Holdings Berhad

BUY

A stellar start

Maintained

Share Price	RM5.45
Target Price	RM6.10

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6367.20
52-week price Range	RM4.20-6.95
Beta (against KLCI)	0.65
3-m Average Daily Volume	1.67m
3-m Average Daily Value^	RM9.59

Share Performance

	1m	3m	12m
Absolute (%)	-2.5	-4.9	-17.0
Relative (%-pts)	-1.4	-0.1	-4.1

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	40.81
EMPLOYEES PROVIDENT FUND	10.84
YAYASAN PELABURAN BUMIPUTRA	7.84
ESTIMATED FREE FLOAT	30.53

Historical Chart



Source: Bloomberg

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Result

- **UMW Holdings Berhad (UMW) registered a headline net profit of RM85.7m in the first quarter of 2019.** After stripping out the exceptional items such as impairment of receivables, loss on sale on investment, gain on disposal of property, plant and equipment (PPE) and derivatives, forex gain as PPE written off, the Group posted a core net profit of RM82.5m, which soared 80% qoq and 9.7% yoy. Meanwhile, revenue stood at RM2.8b, which improved 3.5% qoq and 14.9% yoy.
- **The Group's YoY performance was spurred by higher cars sales in Auto segment coupled with higher delivery of fan cases under Aerospace business.**
- **Below expectations.** The Group's 3MFY19 core net profit of RM82.5m was below ours and consensus expectation, only matching 13.1% and 16.5% of full year net earnings forecasts due to lower than expected margin.

Comment

- **Automotive segment banking on new launches.** Auto revenue improved 5.7% qoq and 15.2% yoy banking on higher Toyota and Perodua vehicles sold domestically during this quarter. Domestic Toyota car sales increased 5% qoq and 8.2% yoy while Perodua gained 2.8% qoq and 9.2% yoy, thanks to new launches from these two marques such as new Toyota Vios, new Toyota Rush, new Toyota Camry and Perodua Aruz. On top of recent new car launching, existing models such as Toyota Hilux, all-new Perodua Myvi and Perodua Axia also enjoyed encouraging sales. Therefore, it led to both Toyota and Perodua regained their local market share to 10% and 42.4% respectively in 1Q19 (from 9.5% and 41.1% respectively in 1Q18). However, Auto PBT tumbled 1% qoq and 1.4% yoy due to higher depreciation cost following completion new Bukit Raja plant earlier this year which led to PBT margin drop by 0.4ppts qoq and 1.0ppts yoy during this quarter. Looking forward, we believe Auto segment will improve further, amid newly launched models and lower hire purchase rate.
- **Price competitiveness bogged down Equipment division.** Equipment segment's revenue chalked up 2.6% yoy but down 3.8% qoq while PBT improved 61.9% qoq but contracted 6.2% yoy. The higher YoY revenue was underpinned by better sales in Heavy equipment business. However, PBT margin dropped by 1.0ppts YoY due to price competitiveness in both Heavy equipment and Industrial

equipment businesses. Looking forward, the Group expects this segment will be spurred by strong demand in heavy equipment business following resumption of few mega projects by the government.

- **Revamping M&E division.** Manufacturing & Engineering's revenue was down 2.2% qoq but soared 40.7% yoy. Meanwhile, M&E's PBT was down 75.4% qoq to RM2.3m but improved from LBT of RM2.9m from a year ago. The stellar YoY earnings were mainly buoyed by aerospace business, which delivered higher number of fan cases. UMW expects aerospace business to increase its production within the time frame to meet the Rolls-Royce's demand. The Group expects UMW Aerospace to be breakeven by 2020F with 100/150 fan cases being produced in 2019F/2020F before hitting capacities of 250 fan cases in 2021F.

Earnings Outlook/Revision

- **We cut our earnings forecast for FY19 by 44% to RM438.5m which accounts for lower margin.**
- **However, we expect the Group to re-focus on its three core businesses which will resume growth momentum over the medium to longer term.** We favour the stock as: 1) Auto division is expected to register robust growth following new models come in and completion of new plant in Bukit Raja earlier this year which will further boost its Toyota sales volume; 2) M&E division is expected to breakeven in 2020F and move towards into high value-added manufacturing banking on aerospace venture; 3) Joint venture with Komatsu that will bolster its existing market share; 4) Exit of unlisted O&G segment will help to improve the Group's overall profitability.
- **Maintain BUY call on UMW with a lower target price of RM6.10 (RM7.00 previously) following our earnings downgrade.** Our fair value is now based on 16x FY2019F PE with EPS of 38 sen which is slightly below its 5-year historical average PE of 17.3x.

Figure 1: Quarterly Figures

Year to 31 Dec	1Q19 (RMm)	4Q18 (RMm)	1Q18 (RMm)	QoQ % chg	YoY % chg
Revenue	2,774.8	2,681.8	2,415.3	3.5%	14.9%
Operating Profit	76.5	18.2	91.7	320.7%	-16.5%
Pre-tax Profit	140.7	103.9	147.3	35.3%	-4.50%
Profit After Tax	111.2	74.1	117.7	50.0%	-5.50%
Net Profit	85.7	15.4	91.1	456.5%	-5.97%
Core Profit	82.5	48.2	79.0	71.1%	4.35%
Operating Margin (%)	2.8%	0.7%	3.8%	+2.1 ppts	-1.0 ppts
PBT Margin (%)	5.1%	3.9%	6.1%	+1.2 ppts	-1.0 ppts
Net Margin (%)	4.0%	2.8%	4.9%	+1.2 ppts	-0.9 ppts
Core Margin (%)	3.0%	1.8%	3.3%	+1.3 ppts	-0.2 ppts

Source: Company, JF Apex

Figure 2: Segmental Breakdown

FY19	1Q19 (RMm)	4Q18 (RMm)	1Q18 (RMm)	QoQ % chg	YoY % chg
Segmental Revenue					
<u>Continuing operation</u>					
Automotive	2,162.5	2,046.1	1,877.1	5.7%	15.2%
Equipment	382.8	397.8	373.0	-3.8%	2.6%
M & E	237.1	242.5	168.5	-2.2%	40.7%
<u>Discontinued operation</u>					
Oil & Gas (Unlisted)	-	8.2	23.4	N/A	N/A
Segmental PBT					
<u>Continuing operation</u>					
Automotive	124.2	125.5	125.9	-1.0%	-1.4%
Equipment	42.2	26.0	44.9	61.9%	-6.2%
M & E	2.3	9.5	(2.9)	-75.4%	N/A
<u>Discontinued operation</u>					
Oil & Gas (Unlisted)	-	2.3	(23.7)	N/A	N/A
Segmental Margin					
<u>Continuing operation</u>					
Automotive	5.7%	6.1%	6.7%	-0.4 ppts	-1.0 ppts
Equipment	11.0%	6.5%	12.0%	+4.5 ppts	-1.0 ppts
M & E	1.0%	3.9%	-1.7%	-2.9 ppts	N/A
<u>Discontinued operation</u>					
Oil & Gas (Unlisted)	-	28.2%	-101.3%	N/A	N/A

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2015	2016	2017	2018	2019F	2020F
Revenue	14,441.58	10,436.80	11,066.64	11,303.65	12,608.57	13,107.25
Operating profit	135.62	(484.55)	123.70	542.22	582.28	605.06
PBT	269.65	(282.10)	266.57	800.35	806.16	830.34
Net profit	(37.17)	(1,658.04)	(640.63)	379.93	438.53	471.15
Core profit	19.56	(401.80)	(85.77)	379.93	438.53	471.15
Core EPS (sen)	0.02	(0.31)	(0.07)	0.35	0.38	0.40
P/BV (x)	0.69	0.92	1.52	1.11	1.09	0.88
DPS (sen)	0.20	0.00	0.00	0.075	0.06	0.06
Dividend yield (%)	3.67%	0.00%	0.00%	1.38%	1.03%	1.11%
Operating margin (%)	0.94%	-4.64%	1.12%	4.80%	4.62%	4.62%
PBT margin (%)	1.87%	-2.70%	2.41%	7.08%	6.39%	6.34%
Net profit margin (%)	-0.26%	-15.89%	-5.79%	3.36%	3.48%	3.59%
Net Gearing Ratio(x)	0.64	0.88	0.66	0.50	0.64	0.47
ROE (%)	0.21%	-5.36%	-2.05%	7.21%	7.53%	6.55%
ROA (%)	-0.21%	-10.23%	-6.44%	3.53%	3.20%	2.98%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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