

21 May 2019

Buy

Price
RM5.45

Target Price
RM7.10 (from RM7.20)

Market Data

Market Data	
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	6,367.2
52-week high/low (RM)	6.95 / 4.20
Avg daily turnover (RMm)	9.6
KLCI (pts)	1,603.7

Source: Bloomberg, KAF

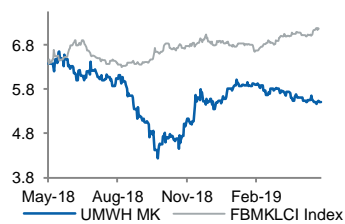
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.8%)
EPF	(10.8%)
Yayasan Perlaburan Bumiputera	(7.8%)
Free Float	30.5

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(7.2)	10.5	(17.0)
Rel Market (%)	(0.1)	17.9	(4.1)



Source: Bloomberg, KAF

Analyst

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UMW Holdings

Revvng up

UMW's 1Q core earnings rose 4% to RM87m on 15% topline growth. The stronger auto sales helped to mitigate higher depreciation from the new Bukit Raja plant. Toyota unit sales improved 6% mainly on Vios deliveries while Perodua sales increased 9% from the new Aruz and Myvi. We maintain Buy; we expect earnings to improve from new Yaris contribution as well as higher fan case deliveries.

Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	11,067	11,304	11,137	11,830	12,111
Core net profit (RMm)	169	517	547	585	615
Core EPS (Sen)	14.4	44.3	46.8	50.1	52.6
EPS growth (%)	(61.4)	>100	5.7	7.1	5.0
DPS (Sen)	0.0	7.5	8.0	9.0	10.0
Core PE (x)	37.8	12.3	11.6	10.9	10.4
Div yield (%)	0.0	1.4	1.5	1.7	1.8
ROE (%)	3.7	17.2	15.1	14.0	12.9
Net Gearing (%)	52.2	45.5	41.4	42.0	39.1
PBV(x)	1.5	1.1	1.0	0.9	0.8

Source: Company, KAF

1Q earnings up 4%. UMW reported 1Q19 core earnings of RM87m – up 4% from a year earlier on 15% topline growth. Earnings rose 80% on a sequential basis. 1Q earnings make up 15% of our estimate and 17% of consensus.

Auto revenue up 15%. UMW's auto revenue rose 15% yoy to RM2.2b on the back of 8% increase in unit sales to 14k – making up 19% of our forecast (see Exhibit 3). Vios and Hilux were the top-selling models during the quarter – contributing to 48% and 20% of Toyota sales, respectively. Recall that UMW also commenced delivery of the Rush in February.

Flattish PBT on higher depreciation of new plant. Auto PBT was flattish at RM125m due mainly to higher depreciation from the new Bukit Raja plant. Consequentially, auto PBT margin contracted 1ppt to 5.7% from a year earlier. Group depreciation had increased to RM86m (compared to RM51m a year earlier).

Perodua sales up 9%. Perodua sold 9% more vehicles in 1Q – 61k vs. 56k a year earlier and up 3% on a sequential basis. The stronger performance was mainly due to continued Myvi deliveries (top-selling model making up ~40% of sales). Perodua had also launched the new Aruz in January with 20k bookings and 9.8k units delivered in 1Q. Perodua unit sales is in line at 24% of our forecast. Associate contribution rose 17%.

M&E in the black. The M&E division remained profitable at the PBT level at RM2m vs. 4Q's RM9m (and from RM3m losses a year earlier). This is on the back of 94% yoy topline growth. We expect profitability to improve in the coming quarters as it ramps up delivery of fan cases. We forecast 120 deliveries this year (vs. estimated 50 last year). Meanwhile, the equipment division's PBT held steady at RM42m.

Adjustments. We have tweaked our model to account for lower Lexus sales forecast of 1.1k (from 1.25k earlier). We expect stronger quarters ahead – auto earnings should improve on new Yaris volume from April onwards to offset higher depreciation at the plant as well as stronger contribution from Perodua. We maintain our Toyota and Perodua unit sales forecast at 73.5k and 233k, respectively. 1Q is seasonally a weak quarter for UMW.

Maintain Buy. We maintain our Buy recommendation with a lower TP of RM7.10 (from RM7.20 earlier) on housekeeping adjustment and lower Lexus unit sales forecast. We expect Toyota sales to improve from the new Yaris model while Perodua sales should remained strong. For the 4M period, Toyota and Perodua sales rose 6% and 10% respectively.

Exhibit 1: Results summary

FYE 31 Dec	1Q18	2Q18	3Q18	4Q18	1Q19	yoy %	qoq%	FY19F	1Q19/F
Continued operations									
Revenue	2415	2919	3290	2682	2775	15%	3%	11195	25%
Operating profit	90	241	172	18	77	-15%	321%	671	11%
Investment income	22	19	23	22	18	-18%	-18%	90	20%
Finance cost	(14)	(14)	(19)	(32)	(19)	39%	-40%	(120)	16%
JV & Associates	56	54	57	96	66	17%	-32%	431	15%
Pretax profit	154	301	234	104	141	-9%	35%	1071	13%
Tax	(30)	(40)	(43)	(30)	(29)	-1%	-1%	(257)	11%
Profit after tax (continued ops)	125	262	190	74	111	-11%	50%	814	14%
MI & perpetual sukuk holders	(30)	(33)	(35)	(59)	(26)	-14%	-57%	(224)	11%
Net profit (continuing ops)	95	229	155	15	86	-10%	456%	590	15%
Core net profit	83	223	166	48	87	4%	80%	590	15%
Discontinued Operations									
Revenue	23	31	9	8	5	-78%	-37%		
Loss before tax from discontinued ops	(24)	(122)	(18)	2	(0)	-99%	-106%		
Loss after tax from discontinued ops	(24)	(122)	(18)	2	(0)	-98%	-119%		
MI	7	17	(9)	(2)	1	-83%	-151%		
Net loss from discontinued ops	(17)	(105)	(27)	(0)	1	-105%	-337%		
Consolidated									
Revenue	2439	2950	3299	2690	2780	14%	3%		
(Loss)/profit before tax	131	179	216	106	141	8%	32%		
Profit after tax	101	140	172	76	111	10%	46%		
MI	(23)	(15)	(44)	(61)	(24)	7%	-60%		
Net profit	78	124	128	15	87	11%	474%		
Continued ops									
EPS (sen)	8.1	19.6	13.3	1.3	7.3				
Core EPS (sen)	7.1	19.1	14.2	4.1	7.4				
Net DPS (sen)	5.0	0.0	0.0	2.5	2.5				
BV (RM)	2.67	2.72	2.81	2.85	2.93				
EBIT margin (%)	4%	8%	5%	1%	3%				
PBT margin (%)	6%	10%	7%	4%	5%				
PAT margin (%)	5%	9%	6%	3%	4%				
Net margin (%)	4%	8%	5%	1%	3%				
Effective tax rate (%)	19%	13%	19%	29%	21%				

Source: Company, KAF

Exhibit 2: Segmental breakdown

	1Q18	2Q18	3Q18	4Q18	1Q19	yoy %	qoq %	FY19F	1Q19/F
Continued									
Automotive	1877	2383	2643	2046	2163	15%	6%		
Equipment	373	366	403	398	383	3%	-4%		
Manufacturing	168	178	254	242	327	94%	35%		
Others & Eliminations	(3)	(8)	(10)	(4)	(98)				
Total Revenue (RM mil)	2415	2919	3290	2682	2775	15%	3%	11,195	25%
Automotive	126	142	151	126	124	-1%	-1%		
Equipment	45	38	44	26	42	-6%	62%		
Manufacturing	(3)	(1)	16	9	2	-182%	-75%		
Others	(21)	122	23	(57)	(28)				
Total PBT (RM mil)	147	301	234	104	141	-4%	35%	1,071	13%
Automotive PBT margin (%)	7%	6%	6%	6%	6%				
Equipment PBT margin (%)	12%	10%	11%	7%	11%				
Manufacturing PBT (%)	-2%	0%	6%	4%	1%				
Total PBT margin (%)	6%	10%	7%	4%	5%				
USD:MYR average	3.92	3.95	4.09	4.17	4.09				

Source: Company, KAF

Exhibit 3: Unit sales summary

Unit sales	1Q18	2Q18	3Q18	4Q18	1Q19	yoy %	qoq %	FY19F	1Q19/F
Toyota	12,683	19,026	20,940	12,902	13,722	8%	6%	73,500	19%
Lexus	143	237	430	156	143	0%	-8%	1,250	11%
Total	12,826	19,263	21,370	13,058	13,865	8%	6%	74,750	19%
Perodua	55,568	51,905	51,105	59,040	60,659	9%	3%	233,000	26%
Grand total	68,394	71,168	72,475	72,098	74,524	9%	3%	307,750	24%

Source: Company, KAF

Exhibit 4: SOP value

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	52.0	0.04	1%	Carrying value at end-FY18
Equipment division	1278	1.09	15%	10x FY19F PE
M&E division	810	0.69	10%	10x FY19 PE
UMW Toyota	4,347.9	3.72	52%	14x FY19F PE
Perodua	3,260	2.79	39%	12x FY19F PE - 38% stake
Serendah land	510	0.44	6%	RNAV (732 acres at RM16psf)
Company net cash/(debt)	(1958)	-1.68	-24%	FY18A
	8300		100%	
UMWH share base	1168			
Fair value	7.10			

Source: Company, KAF

Exhibit 5: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 6: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Revenue	11,066.6	11,303.6	11,137.4	11,830.4	12,110.7
EBITDA	389.0	815.9	948.4	1,014.7	1,165.3
Depreciation/Amortisation	(265.3)	(273.7)	(335.7)	(336.9)	(344.8)
Operating income (EBIT)	123.7	542.2	612.7	677.8	820.6
Other income & associates	182.0	270.7	430.8	446.1	460.9
Net interest	(39.1)	(12.6)	(30.3)	(32.0)	(129.1)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	266.6	800.3	1,013.3	1,091.9	1,152.4
Taxation	(121.7)	(124.1)	(243.2)	(262.0)	(276.6)
Minorities/pref dividends	(109.6)	(125.4)	(223.4)	(244.4)	(260.8)
Net profit	144.9	550.8	546.7	585.5	615.0
Core net profit	168.6	517.0	546.7	585.5	615.0

Balance Sheet

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Fixed assets	2,658.1	2,820.9	2,602.8	2,576.5	2,542.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	462.4	729.2	729.2	729.2	729.2
Total non-current assets	4,833.8	5,391.2	5,173.0	5,146.7	5,112.5
Cash & equivalent	1,169.6	1,312.0	1,282.2	1,134.5	1,142.1
Stock	1,410.7	1,548.5	1,672.3	1,771.3	1,795.2
Trade debtors	1,021.3	1,076.6	1,114.5	1,173.6	1,187.9
Other current assets	1,315.2	1,148.1	2,277.4	3,277.4	4,277.4
Total current assets	4,916.8	5,085.1	6,346.4	7,356.8	8,402.7
Trade creditors	2,795.5	1,854.0	2,019.0	2,053.2	2,067.0
Short-term borrowings	691.9	535.0	221.6	158.2	96.0
Other current liabilities	165.5	106.3	95.8	95.8	95.8
Total current liabilities	3,652.9	2,495.3	2,336.4	2,307.2	2,258.8
Long-term borrowings	2,069.7	2,298.2	2,671.7	2,855.1	3,039.4
Other long-term liabilities	194.7	250.0	26.9	26.9	26.9
Total long-term liabilities	2,264.4	2,548.3	2,698.5	2,882.0	3,066.2
Shareholders' funds	3,047.2	3,344.6	3,891.3	4,476.8	5,091.8
Minority interests	1,131.2	2,369.8	2,593.2	2,837.6	3,098.4

Cash flow Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Pretax profit	266.6	800.3	1,013.3	1,091.9	1,152.4
Depreciation/Amortisation	265.3	273.7	335.7	336.9	344.8
Net change in working capital	1,216.6	(146.8)	3.2	(123.9)	(24.4)
Others	(619.2)	(752.8)	(930.0)	(962.3)	(894.6)
Cash flow from operations	1,129.3	174.4	422.2	342.5	578.1
Capital expenditure	(869.8)	(915.0)	(607.0)	(800.0)	(800.0)
Net investments & sale of fixed assets	(1,500.4)	(1,496.0)	(1,558.3)	(1,558.3)	(1,558.3)
Others	519.5	2,092.4	1,800.2	1,904.2	1,832.5
Cash flow from investing	(1,850.7)	(318.7)	(365.1)	(454.1)	(525.8)
Debt raised/(repaid)	194.8	77.7	62.0	122.0	125.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	(58.4)	(87.6)	(93.5)	(105.1)
Others	(75.9)	1,000.0	(64.6)	(64.6)	(64.6)
Cash flow from financing	118.9	1,019.2	(90.2)	(36.1)	(44.8)
Net cash flow	(602.4)	874.9	(33.1)	(147.6)	7.6
Cash b/f	1,607.3	1,181.5	1,315.2	1,282.2	1,134.5
Cash c/f	1,181.5	1,315.2	1,282.2	1,134.5	1,142.1

Key Ratios

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue growth (%)	6.0	2.1	(1.5)	6.2	2.4
EBITDA growth (%)	nm	>100	16.2	7.0	14.8
Pretax margins (%)	2.4	7.1	9.1	9.2	9.5
Net profit margins (%)	1.3	4.9	4.9	4.9	5.1
Interest cover (x)	3.2	43.1	20.3	21.2	6.4
Effective tax rate (%)	91.2	32.7	27.3	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	33	34	36	35	36
Stock turnover (days)	55	48	53	53	54
Creditors turnover (days)	77	75	63	63	62

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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