

23 May 2019 | 1QFY19 Results Review

UMW Holdings

Supported by strong Perodua earnings

- **1Q19 broadly within our expectation**
- **Automotive earnings supported by strong Perodua earnings, despite Bukit Raja depreciation**
- **FY19F/2F earnings revised down 5.8%/5% to reflect new more conservative USD:MYR assumption**
- **Maintain NEUTRAL at lower TP of RM5.85**

1Q19 broadly in-line. UMW's 1Q19 net profit came in at RM87m for 1Q19, accounting for 20% of our forecast and 17% of consensus. This is broadly in-line with our expectation as we expect Toyota TIV to improve in the coming quarters following launch of the all new Yaris model in Apr19. Our current 75K FY19F Toyota TIV is in-line with management's target.

Automotive segment. Automotive revenues improved 15%yoy on the back of higher Toyota TIV (+8.2%yoy) but pretax saw a slight decline (-1.4%yoy) given higher depreciation from the new Bukit Raja plant. This was partly compensated by higher earnings from Perodua, which we expect to register record high earnings in FY19F following launch of the Aruz.

Equipment division. The equipment division registered improved revenue (+2.6%yoy) but pretax earnings were down by 6.2%yoy. Margins were hit by higher competition in both the heavy equipment and industrial equipment units. However, the revival of a few mega projects bodes well for the sector in the mid-term.

M&E division. The M&E (mechanical & engineering) segment registered a strong 40%yoy revenue increase which was driven by higher fan case volumes for UMW Aerospace and improved sales of the auto components business. The division swung from a RM3m pretax loss in 1Q18 to a pretax profit of RM2.3m in 1Q19.

Forecast revision. Although UMW's 1Q19 was broadly in-line with our expectation, we trim our FY19F/20F earnings by 5.8%/5% given changes to our USD:MYR assumptions. We now assume FY19F/20F USD:MYR average at USD:MYR4.12 versus USD:MYR4.05 previously, following the recent OPR cut and in-line with the change in our in-house expectation.

Recommendation. We keep UMW at **NEUTRAL** at a lower **TP of RM5.85** (from RM6.15 previously) following the earnings downgrade in this report. While we stick to our view that BR is a significant game changer for UMW, we would expect some gestation period before more meaningful earnings accretion kicks in. For the meantime, we think the market has sufficiently discounted the group's FY19F earnings growth prospects.

Maintain NEUTRAL

Revised Target Price (TP):RM5.85

(from RM6.15)

RETURN STATS

Price (21 st May 2019)	RM5.45
Target Price	RM5.85
Expected Share Price Return	+7.3%
Expected Dividend Yield	+2.1%
Expected Total Return	+9.4%

STOCK INFO

KLCI	1603.74
Bursa / Bloomberg	4588 / UMWK MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	6367.18
52-wk price Range	RM4.70 – RM6.98
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	0.65m
3-mth Avg Daily Value	RM4.1m
Major Shareholders (%)	
SKIM ASB	40.8%
EPF	10.3%
YPB	7.3%

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INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	10,965.1	11,046.5	11,306.3	10,003.3	10,871.6
EBIT (RM'm)	(2,202.8)	120.4	522.9	616.5	847.3
Pre-tax Profit (RM'm)	(2,153.8)	252.9	786.2	785.6	1,030.2
Core net profit (RM'm)	(401.8)	163.8	341.7	414.1	529.2
FD EPS (sen)	(34.4)	14.0	29.2	35.4	45.3
EPS growth (%)	NA	NA	108.6	21.2	27.8
PER (x)	NA	38.9	18.6	16.0	12.0
Net Dividend (sen)	0.0	6.5	7.5	8.9	11.3
Net Dividend Yield (%)	0.0	1.2	1.4	1.6	2.1

Source: Company, MIDFR

EXHIBIT 1: UMW SUM-OF-PARTS VALUATION

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	410	PER	12	4,926	
Equipment	98	PER	12	1,181	
Serendah land		RNAV		586	RNAV of Serendah land (830acres@RM16psf) (net of debt)
Aerospace		DCF		133	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		Book Value		26	50% discount to BV
Total value				6,852	
No of shares (m)				1,168	
Fair value (RM)				5.85	

Source: Company, MIDFR

EXHIBIT 2: UMW 1Q19 RESULTS

FYE Dec (RMm)	1Q18	4Q18	1Q19	YoY	QoQ
Revenue	2,415.3	2,681.8	2,774.8	14.9%	3.5%
Operating Profit	90.3	18.2	76.5	-15.2%	320.7%
Finance Cost	(13.8)	(32.1)	(19.2)	38.9%	-40.1%
Associates	56.3	96.3	65.6	16.7%	-31.8%
Investment Income	21.6	21.5	17.7	-17.8%	-17.6%
Pretax Profit	154.3	103.9	140.7	-8.8%	35.3%
Taxation	(29.6)	(29.8)	(29.5)		
MI / Distribution to Perpetual Sukuk holders	19.7	61.1	24.3	NA	NA
Loss from discontinued operations (UMWOG)	(30.9)	2.0	(0.4)	-98.8%	NA
Net Profit	74.1	15.1	86.5	16.8%	474.2%
Core net profit incl. discontinued operations	74.1	15.1	86.5	16.8%	474.2%
Core net profit from continuing operations	108.8	126.4	113.2	4.0%	-10.4%
EPS (FD, sen)	6.3	1.3	7.4		
DPS (sen)	5.0	2.5	0.0		
Margins (%):					
Operating	3.7%	0.7%	2.8%		
Pretax Profit	6.4%	3.9%	5.1%		
Core Net Profit	3.1%	0.6%	3.1%		
Tax Rate	19.2%	28.7%	20.9%		

Source: Company, MIDF

EXHIBIT 3: UMW 1Q19 SEGMENTAL BREAKDOWN

Segmental Breakdown	1Q18	4Q18	1Q19	YoY	QoQ
Automotive	1,877.1	2,046.1	2,162.5	15.2%	5.7%
Equipment	373.0	397.8	382.8	2.6%	-3.8%
Manuf & Eng	168.5	242.5	237.1	40.7%	-2.2%
Oil & Gas (Listed)	0.0	0.0	0.0	NA	NA
Oil & Gas (Unlisted)	23.4	8.2	5.1	-78.2%	-37.5%
Revenue	2,442.0	2,694.5	2,787.6	14.2%	3.5%
Automotive	125.9	125.5	124.2	-1.4%	-1.0%
Equipment	44.9	26.0	42.2	-6.2%	61.9%
Manuf & Eng	(2.9)	9.5	2.3	NA	-75.4%
Oil & Gas (Listed)	0.0	0.0	0.0	NA	NA
Oil & Gas (Unlisted)	(30.7)	2.3	(0.1)	-99.5%	-106.1%
Pretax profit	137.3	163.3	168.6	22.8%	3.2%
Pretax margins					
Automotive	6.7%	6.1%	5.7%		
Equipment	12.0%	6.5%	11.0%		
Manuf & Eng	-1.7%	3.9%	1.0%		
Oil & Gas (Listed)	NA	NA	NA		
Oil & Gas (Unlisted)	-131.1%	28.2%	-2.7%		
Toyota TIV (units)	12,683	12,902	13,722	8.2%	6.4%
Average revenue/car (RM)	147,998	158,586	157,596	6.5%	-0.6%
Net profit	74.1	50.5	86.5		
Automotive	81.4	105.0	85.6	5.2%	-18.5%
Equipment	36.6	18.2	30.8	-15.8%	69.5%
Manuf & Eng	(9.2)	3.2	(3.2)	-65.3%	-199.7%
Oil & Gas (Listed)	0.0	0.0	0.0	NA	NA
Oil & Gas (Unlisted)	(17.1)	(0.3)	0.8	-104.7%	-336.9%
Others	(17.7)	(75.6)	(27.5)	55.6%	-63.6%
Core net profit from continuing operations	108.8	126.4	113.2	4.0%	-10.4%

Source: Company, MIDF

Income Statement (RMm)	FY16	FY17	FY18	FY19F	FY20F
Revenue	10,965.1	11,046.5	11,306.3	10,003.3	10,871.6
Operating expenses	(13,167.9)	(10,926.1)	(10,783.4)	(9,386.8)	(10,024.4)
EBIT	(2,202.8)	120.4	522.9	616.5	847.3
Net interest expense	(105.7)	(39.2)	(88.1)	(102.1)	(107.1)
Associates	154.8	171.7	265.6	271.2	290.1
PBT	(2,153.8)	252.9	786.2	785.6	1,030.2
Taxation	(140.7)	(122.3)	(142.5)	(128.6)	(185.0)
Minority Interest	(603.9)	(22.8)	139.9	(242.9)	(315.9)
Net profit	(1,690.6)	(651.2)	341.7	414.1	529.2
Core net profit	(401.8)	163.8	341.7	414.1	529.2
<i>Consensus net profit</i>	103.9	80.0	433.4	499.6	561.1
<i>MIDF vs. consensus</i>			-21.2%	-17.1%	-5.7%
Balance Sheet (RMm)	FY16	FY17	FY18	FY19F	FY20F
Non-current assets	10,070.2	4,833.8	5,505.3	5,760.0	6,323.9
PPE	7,639.0	2,658.1	3,119.0	3,102.6	3,376.3
Investments in associate	1,996.7	1,661.5	1,843.9	2,115.1	2,405.1
Others	434.4	514.2	542.4	542.4	542.4
Current assets	6,136.0	5,261.9	5,185.4	5,883.7	6,143.9
Inventories	1,517.9	1,410.7	1,531.6	1,570.9	1,707.3
Receivables	1,416.7	1,029.1	1,032.3	1,058.8	1,150.7
Others	274.4	1,658.6	1,302.8	1,302.8	1,302.8
Cash & equivalent	2,927.0	1,163.4	1,318.7	1,951.2	1,983.1
TOTAL ASSETS	16,206.1	10,095.7	10,690.7	11,643.7	12,467.7
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	3,082.3	1,131.2	2,371.1	2,544.1	2,790.2
Reserves	5,905.5	2,463.1	2,740.4	3,051.0	3,447.9
TOTAL EQUITY	9,572.0	4,178.4	5,695.7	6,179.3	6,822.3
Non-current liabilities	4,678.1	2,264.4	2,486.3	2,966.5	2,966.6
Long-term borrowings	3,732.5	2,069.7	2,298.2	2,778.4	2,778.5
Deferred tax liabilities	34.1	34.0	34.8	34.8	34.8
Others	911.5	160.7	153.3	153.3	153.3
Current liabilities	4,619.2	3,652.9	2,508.7	2,498.0	2,678.8
Short-term borrowings	2,859.1	685.3	534.5	534.5	534.5
Payables	1,623.5	2,795.5	1,811.5	1,858.0	2,019.3
Others	136.6	172.0	162.7	105.5	125.1
TOTAL LIABILITIES	9,297.3	5,917.3	4,995.0	5,464.4	5,645.4

Cash Flow Statement (RMm)	FY16	FY17	FY18	FY19F	FY20F
Operating activities					
PBT	347.3	109.5	619.8	785.6	1,030.2
Depreciation & Amortization	488.0	105.1	203.4	280.7	279.2
Chgs in working capital	72.8	1,124.6	(878.2)	(68.2)	(47.4)
Interest expense	(155.8)	(175.9)	(74.6)	(102.1)	(107.1)
Tax paid	0.0	(131.9)	(138.8)	(128.6)	(185.0)
Others	(903.2)	(585.9)	(343.9)	(169.1)	(183.0)
CF from Operations	(150.9)	445.6	(612.3)	598.3	786.9
Investing activities					
Capex	(966.3)	(1,003.8)	(914.7)	(700.0)	(700.0)
Others	370.7	(976.7)	606.2	427.4	147.0
CF from Investments	(595.6)	(1,980.5)	(308.5)	(272.6)	(553.0)
Financing activities					
Dividends paid	0.0	(75.9)	(6.2)	(103.5)	(132.3)
Net proceeds in borrowings	650.0	176.0	104.1	480.2	0.2
Others	(429.2)	0.0	1,064.4	(69.9)	(69.9)
CF from Financing	220.8	100.1	1,162.2	306.8	(202.0)
Net changes in cash	(525.7)	(1,434.8)	241.5	632.5	31.9
Beginning cash	2,649.5	1,607.3	1,187.9	1,318.7	1,951.2
Overdrafts & Deposits	31.2	176.6	(110.7)	0.0	0.0
Ending cash	2,154.9	1,187.9	1,318.7	1,951.2	1,983.1
Ratios	FY16	FY17	FY18	FY19F	FY20F
Revenue growth	-29.8%	8.7%	-11.4%	2.6%	8.7%
EBIT growth	>100%	-6.0%	67.6%	20.6%	37.4%
Core net profit growth	-218.9%	-140.8%	108.6%	21.2%	27.8%
PBT margin	3.4%	1.0%	6.4%	7.9%	9.5%
Core net profit margin	-3.7%	1.5%	3.0%	4.1%	4.9%
ROE	1.4%	2.2%	11.1%	11.9%	13.8%
ROA	1.8%	2.1%	4.9%	5.5%	7.0%
Net gearing (%)	38.3%	38.1%	26.6%	22.0%	19.5%
Book value/share (RM)	5.55	2.61	2.85	3.11	3.45
PBV (x)	0.98	2.09	1.92	1.75	1.58
EV/EBITDA (x)	12.3	19.3	11.0	8.6	6.8

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.