

UMW Holdings (UMWH MK)

Not firing on all cylinders yet

1Q19 below expectations

1Q19 core net profit from continuing ops fell short at 15%/17% of our/street's full-year forecasts. Shortfalls were mainly from weaker-than-expected auto sales growth and lack of margin recovery, the potentials of which have yet to be fully unlocked. For this, we cut FY19-21E net profit by 15%-16%. Our SOTP-based TP is also reduced to MYR6.60 (-12%). Maintain BUY. UMWH is still our preferred pick in the sector for expected market share gains from new Toyota and Perodua launches, supported by undemanding valuations at 12.3x 12M fwd PER.

Better operational scale ahead

Despite better turnover YoY (+15% YoY) led by the auto division, 1Q19 core net profit was flat, likely attributable to still inefficient production scale at its new Bukit Raja Toyota plant. Much of our growth projection banks on Toyota's new launches, especially the B-segment *Vios* and *Yaris*. Volume contribution from *Vios* was seen for 2/3 months in 1Q19 while *Yaris* has yet to contribute as it was launched only in mid-Apr 2019. 1Q19 Toyota volume sales grew just +7.7% YoY vs. our earlier forecast of +23% YoY for 2019. We expect these two models to account for 42% of our 2019 revised sales forecast of 72k units (+8% YoY).

Unlocking auto division's potential

Incorporating a soft 1Q19, we reduce our FY19/20/21 Toyota sales projection by 12% each to 72k/79k/86k units. UMWH's auto division is likely to peak in 3Q19 when *Vios* and *Yaris* record a full-quarter contribution, backed by higher operational scale of the new factory. This is where we expect auto margins to show some recovery (6-7% at 51%-owned UMW Toyota level), albeit not as much as earlier anticipated (7-8% previously); we took account of a higher USD/MYR of 4.15 vs. 4.10 initially. Together, we lower FY19/20/21E core profit by 15%/15%/16%.

Mitigating headwinds from MYR's fluctuation

Similar to peers, UMWH took the opportunity of a stronger MYR in 1Q19 to stock up, raising inventory by 9% QoQ to MYR1.7b (-3 months sales). *Yaris*' launch should also lower UMWH's imported component costs given its high localisation rate. With two key models of higher local content, this should help mitigate some of the USD/MYR volatility ahead.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	11,067	11,304	11,725	13,235	14,234
EBITDA	389	816	1,102	1,254	1,405
Core net profit	290	455	486	562	629
Core EPS (sen)	24.8	38.9	41.6	48.1	53.9
Core EPS growth (%)	(28.3)	57.0	6.8	15.6	12.1
Net DPS (sen)	0.0	7.5	20.8	24.0	26.9
Core P/E (x)	21.0	14.0	13.1	11.3	10.1
P/BV (x)	2.0	1.9	1.7	1.6	1.4
Net dividend yield (%)	0.0	1.4	3.8	4.4	4.9
ROAE (%)	0.9	16.3	13.9	14.6	15.0
ROAA (%)	2.2	4.4	4.4	4.8	5.0
EV/EBITDA (x)	22.6	11.3	8.3	7.3	6.5
Net gearing (%) (incl perps)	38.1	26.6	21.2	16.0	9.9
Consensus net profit	-	-	486	542	601
MKE vs. Consensus (%)	-	-	0.1	3.6	4.7

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BUY

Share Price	MYR 5.45
12m Price Target	MYR 6.60 (+21%)
Previous Price Target	MYR 7.50

Company Description

UMW Holdings operates 3 core division: Auto (Toyota franchise in Msia), Industrial & Heavy Equipment and Manufacturing & Engineering.

Statistics

52w high/low (MYR)	6.63/4.20
3m avg turnover (USDm)	2.1
Free float (%)	81.3
Issued shares (m)	1,168
Market capitalisation	MYR6.4B
	USD1.5B

Major shareholders:

Permodalan Nasional Bhd.	50.4%
Employees Provident Fund	10.8%
Bumiputra Investment Foundation	7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(7)	(17)
Relative to index (%)	(1)	(1)	(5)

Source: FactSet

Fig. 1: UMWH's quarterly results summary - for continuing operations

	Quarterly results				
FY Dec (MYR m)	1Q19	4Q18	%QoQ	1Q18	%YoY
Turnover	2,774.8	2,679.2	3.6	2,415.3	14.9
EBIT	76.5	37.5	104.0	90.3	(15.2)
Interest expense	(19.2)	(42.3)	(54.5)	(13.8)	38.9
Associates	65.6	101.4	(35.3)	57.6	13.9
Investment Income	17.8	21.4	(17.2)	21.6	(17.7)
Pre-tax profit	140.7	118.1	19.1	155.6	(9.6)
Taxation	(29.5)	(11.4)	NM	(29.6)	(0.5)
Minority interest	(25.5)	(25.7)	(0.7)	(26.7)	(4.3)
Sukuk	0.0	(35.4)	NM	0.0	NM
Net profit / (loss)	85.7	45.6	88.0	99.4	(13.7)
Exceptional item	(1.1)	0.3	NM	(15.1)	NM
Recurring net profit / (loss)	84.6	45.9	84.2	84.2	0.4
	1Q19	4Q18	+/- ppt	1Q18	%YoY
EBIT margin (%)	2.8	1.4	1.4	3.7	(1.0)
Tax rate (%)	20.9	9.7	11.3	19.0	1.9
	1Q19	4Q18	%QoQ	1Q18	%YoY
Revenue	2,774.8	2,679.2	3.6	2,415.3	14.9
Automotive	2,162.5	2,043.6	5.8	1,877.1	15.2
Equipment	382.8	397.2	(3.6)	373.0	2.6
M&E	237.1	242.8	(2.4)	168.5	40.7
Others	16.0	14.7	8.8	15.9	0.8
Elimination	(23.7)	(19.2)	23.5	(19.1)	23.9
Pre-tax profit	140.7	118.1	19.1	155.6	(9.6)
Automotive	124.2	130.3	(4.7)	125.9	(1.4)
Equipment	42.2	33.9	24.5	44.9	(6.2)
M&E	2.3	9.4	(75.2)	(2.9)	NM
Others	(28.0)	(55.5)	(49.5)	(20.7)	35.3
	1Q19	4Q18	+/- ppt	1Q18	%YoY
Pre-tax margins (%)	5.1	4.4	0.7	6.4	(1.4)
Automotive	5.7	6.4	(0.6)	6.7	(1.0)
Equipment	11.0	8.5	2.5	12.0	(1.0)
M&E	1.0	3.9	(2.9)	(1.7)	2.7
	1Q19	4Q18	%QoQ	1Q18	%YoY
Vehicle Unit Sales (MAA)					
Toyota	13,808	13,058	5.7	12,826	7.7
Perodua	60,659	59,040	2.7	55,568	9.2

Source: Company, Maybank Kim Eng

Tweaking our auto sales projections

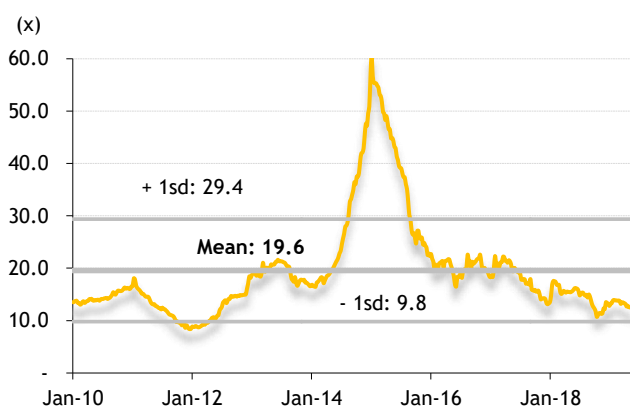
Despite multiple new launches, 4M19 (Jan-Apr) Toyota sales came in below our expectation at 19.3k units (+5% YoY), making up only 24% of our 2019 projection of 82k units (+23% YoY). As a result, we are reducing our FY19/20/21 Toyota sales projection by 12% each to 72k/79k/86k units. On the other hand, Perodua's 4M19 sales is above our 2019 estimate at 82.8k units (+10% YoY vs. our forecast of +3% YoY to 234k units). As such, we raise our FY19/20/21 Perodua sales forecasts slightly (+1-3%) to 240k/235k/231k units.

Fig 2: SOTP valuations

Division	Effective Interest (%)	Valuation Method	Value (MYR m)	Per share (MYR)
Automotive				
UMW Toyota	51.0%	13x FY20 PER	3,295.3	2.81
Perodua	38.0%	13x FY20 PER	3,682.8	3.15
Equipment				
UMW Komatsu Heavy Equipment	76.0%	10x FY20 PER	407.7	0.35
Industrial Equipment	100.0%	10x FY20 PER	1,071.7	0.92
Manufacturing & Engineering				
	100.0%	10x FY20 PER	322.1	0.28
Land assets				
Mixed development plots (551 acres)	100.0%	Market value @ MYR15 psf	360.0	0.31
Industrial plots (160 acres)	100.0%	Market value @ MYR15 psf	104.5	0.09
Industrial plots (129 acres)	90.0%	Market value @ MYR15 psf	75.9	0.06
Less: Holding co's net debt/(cash) in end FY19E			(1,600.0)	(1.37)
SOP (MYR)			7,973.9	6.60

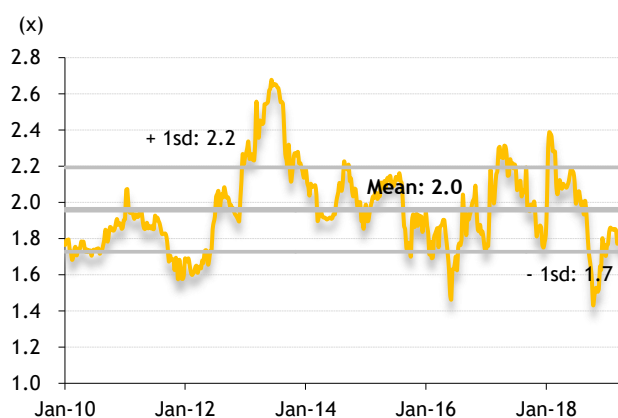
Source: Maybank Kim Eng

Fig. 3: 12m Fwd PER band



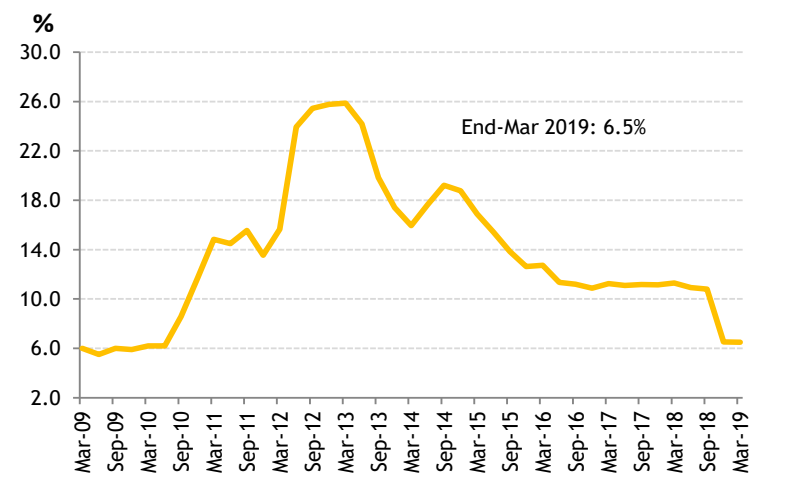
Source: Bloomberg, Maybank Kim Eng

Fig. 4: 12m Fwd PBV band



Source: Bloomberg, Maybank Kim Eng

Fig 5: UMWH's foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, target price, and rating for UMWH. Key risks are: (i) weak consumer sentiment affecting demand for cars while (ii) USD/MYR forex volatility will affect UMWH's margins and profitability.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	178.0	13.2	13.1	11.3	10.1
Core P/E (x)	21.0	14.0	13.1	11.3	10.1
P/BV (x)	2.0	1.9	1.7	1.6	1.4
P/NTA (x)	2.0	1.9	1.7	1.6	1.4
Net dividend yield (%)	0.0	1.4	3.8	4.4	4.9
FCF yield (%)	4.0	nm	3.1	4.0	6.2
EV/EBITDA (x)	22.6	11.3	8.3	7.3	6.5
EV/EBIT (x)	71.1	16.9	12.2	10.4	9.0
INCOME STATEMENT (MYR m)					
Revenue	11,066.6	11,303.6	11,725.0	13,235.3	14,234.4
Gross profit	1,916.1	1,899.9	2,230.0	2,540.3	2,795.5
EBITDA	389.0	815.9	1,102.2	1,254.4	1,405.0
Depreciation	(265.3)	(273.7)	(352.6)	(371.0)	(387.2)
EBIT	123.7	542.2	749.6	883.3	1,017.8
Net interest income / (exp)	(39.1)	(12.6)	(32.1)	(20.6)	(2.5)
Associates & JV	182.0	270.7	292.1	300.2	298.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	266.6	800.3	1,009.6	1,163.0	1,314.0
Income tax	(121.7)	(124.1)	(235.5)	(273.1)	(311.2)
Minorities	(109.6)	(120.0)	(217.4)	(257.5)	(302.7)
Perpetual securities	0.0	(35.4)	(70.8)	(70.8)	(70.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	35.3	520.8	485.9	561.6	629.3
Core net profit	289.7	454.9	485.9	561.6	629.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,169.6	1,311.8	1,456.9	1,683.9	2,036.2
Accounts receivable	1,021.3	1,076.6	1,112.4	1,240.7	1,325.6
Inventory	1,410.7	1,548.5	1,563.5	1,761.1	1,883.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,658.1	2,820.9	2,968.3	3,097.3	3,210.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,713.3	1,841.0	1,996.8	2,160.6	2,322.9
Other assets	2,122.7	2,159.2	2,159.2	2,159.2	2,159.2
Total assets	10,095.7	10,758.0	11,257.1	12,102.8	12,937.6
ST interest bearing debt	691.9	535.0	485.0	485.0	485.0
Accounts payable	2,795.5	1,854.0	1,872.0	2,108.6	2,255.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,069.7	2,298.2	2,298.2	2,298.2	2,298.2
Other liabilities	360.0	356.0	356.0	356.0	356.0
Total Liabilities	5,917.3	5,043.6	5,011.5	5,248.1	5,394.8
Shareholders Equity	3,047.2	3,344.6	3,658.4	4,010.0	4,395.4
Minority Interest	1,131.2	1,271.9	1,489.4	1,746.8	2,049.5
Total shareholder equity	4,178.4	4,616.6	5,147.7	5,756.8	6,445.0
Perpetual securities	0.0	1,097.9	1,097.9	1,097.9	1,097.9
Total liabilities and equity	10,095.7	10,758.0	11,257.1	12,102.8	12,937.6
CASH FLOW (MYR m)					
Pretax profit	266.6	800.3	1,009.6	1,163.0	1,314.0
Depreciation & amortisation	265.3	273.7	352.6	371.0	387.2
Adj net interest (income)/exp	(233.5)	(139.2)	(136.7)	(136.7)	(136.7)
Change in working capital	1,059.5	(167.6)	(32.8)	(89.3)	(60.7)
Cash taxes paid	(131.9)	(139.0)	(235.5)	(273.1)	(311.2)
Other operating cash flow	(112.8)	(453.8)	(260.0)	(279.6)	(296.1)
Cash flow from operations	1,113.2	174.4	697.2	755.3	896.4
Capex	(869.8)	(915.0)	(500.0)	(500.0)	(500.0)
Free cash flow	243.4	(740.6)	197.2	255.3	396.4
Dividends paid	(75.9)	(123.1)	(243.0)	(280.8)	(314.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	211.0	1,177.7	(50.0)	0.0	0.0
Other invest/financing cash flow	(980.9)	560.9	240.9	252.5	270.6
Effect of exch rate changes	(52.9)	(732.7)	0.0	0.0	0.0
Net cash flow	(655.3)	142.2	145.2	227.0	352.3

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.0	2.1	3.7	12.9	7.5
EBITDA growth	357.9	109.7	35.1	13.8	12.0
EBIT growth	nm	338.3	38.2	17.8	15.2
Pretax growth	nm	200.2	26.2	15.2	13.0
Reported net profit growth	nm	1,374.4	(6.7)	15.6	12.1
Core net profit growth	(28.3)	57.0	6.8	15.6	12.1
Profitability ratios (%)					
EBITDA margin	3.5	7.2	9.4	9.5	9.9
EBIT margin	1.1	4.8	6.4	6.7	7.2
Pretax profit margin	2.4	7.1	8.6	8.8	9.2
Payout ratio	0.0	16.8	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	0.3	4.6	4.1	4.2	4.4
Revenue/Assets (x)	1.1	1.1	1.0	1.1	1.1
Assets/Equity (x)	3.3	3.2	3.1	3.0	2.9
ROAE (%)	0.9	16.3	13.9	14.6	15.0
ROAA (%)	2.2	4.4	4.4	4.8	5.0
Liquidity & Efficiency					
Cash conversion cycle	6.5	1.1	22.0	21.0	21.1
Days receivable outstanding	32.7	33.4	33.6	32.0	32.5
Days inventory outstanding	65.7	56.6	59.0	56.0	57.4
Days payables outstanding	91.9	89.0	70.6	67.0	68.7
Dividend cover (x)	nm	5.9	2.0	2.0	2.0
Current ratio (x)	1.4	2.2	2.3	2.3	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	2.1	2.2	2.3	2.4
Net gearing (%) (incl perps)	38.1	26.6	21.2	16.0	9.9
Net gearing (%) (excl. perps)	38.1	33.0	25.8	19.1	11.6
Net interest cover (x)	3.2	43.1	23.3	43.0	nm
Debt/EBITDA (x)	7.1	3.5	2.5	2.2	2.0
Capex/revenue (%)	7.9	8.1	4.3	3.8	3.5
Net debt/ (net cash)	1,592.0	1,521.4	1,326.3	1,099.3	747.0

Source: Company; Maybank

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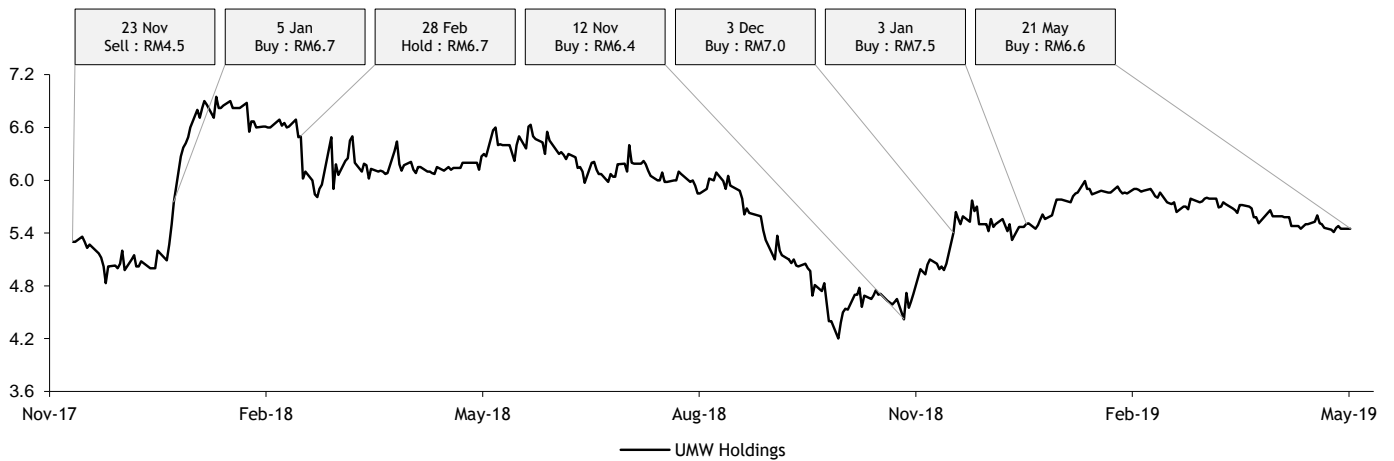
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