

23 May 2019

Consumer Cyclical | Auto & Autoparts

## UMW (UMWH MK)

## Neutral (Maintained)

### Auto Earnings Fell Short Of Expectations

Target Price (Return) MYR5.75 (+6%)  
 Price: MYR5.45  
 Market Cap: USD1,520.9m  
 Avg Daily Turnover (MYR/USD) 9.59m/2.29m

- **Stay NEUTRAL** with a new MYR5.75 TP from MYR6.20, 6% upside. UMW's 1Q19 earnings fell short of our and consensus expectations, with core net profit of MYR85.7m. The negative surprise was mainly due to lower-than-expected automotive earnings. Future quarters are likely to see stronger earnings with the full impact of *Yaris*, *Vios*, and *Rush* sales. The equipment segment recorded lower earnings on margins erosion, while manufacturing & engineering (M&E) registered a lower loss. FX remains a key concern.
- **Below expectations.** UMW's 1Q19 results came out below our and consensus expectations, with core net profit of MYR85.7m (-9.8% YoY, +53% QoQ). The negative variance was mainly attributed to lower-than-expected earnings from the automotive segment. The group's sales and associate contributions from Perodua did not meet our expectations. 1Q19 also saw the first impact of depreciation costs from the new plant. No dividend was declared.
- **The automotive segment** reported earnings of MYR85.6m (+5.2% YoY, -18.5% QoQ). Toyota/Lexus sales volumes of 13,865 units (+8.1% YoY, +6.2% QoQ) was boosted by the introduction of the *Vios*, which accounted for 48% of 1Q19's sales volume. Upcoming quarters are likely to see stronger earnings with the inclusion of the *Yaris* hatchback into UMW's products offerings and full impact of sales from the *Rush* and *Vios*, which began deliveries in February and mid-January. Notably, depreciation costs increased to MYR86.5m (4Q18: MYR54.3m), given the commissioning of the new assembly facility in January.
- **Toyota Corolla Altis could be next.** The 12th generation of Toyota's *Corolla Altis* made its global debut at end-2018, and it should not be too long before it hits Malaysian shores. Given management's strategy to only locally assemble segments B and C vehicles at its Bukit Raja facility, the *Corolla Altis* is one of the candidates besides the *C-HR* and *RAV4*. Based on our latest available information, the current *Corolla Altis* model (CBU) contributed c.4-5% of Toyota/Lexus total sales in 2017.
- **Equipment and M&E.** The equipment division's earnings dropped to MYR30.8m (-15.8% YoY, +69.5% QoQ), as margins eroded due to pricing from competition. Its M&E segment narrowed its losses to MYR3.2m (1Q18: MYR9.2m loss). Management expects the segment to perform better in 2019 on a positive outlook for auto parts and the lubricants business.
- **Key risks and forecasts.** We trim our 2019F-2021F earnings by 7.6%, 7.7%, and 6% after reducing our sales volume assumptions (Figure 6) and revising downwards the associate contribution by Perodua. Given the macroeconomic outlook, an unfavourable FX trend is a key concern. Weaker consumer sentiment is another key risk to earnings.
- **We stick to our call.** The stock looks fairly valued at current levels, trading at 13.3x P/E, near the sector average. Ascribing an unchanged 14x (sector average) target P/E on the revised 2019F net profit, our new TP is MYR5.75.

#### Analysts

Muhammad Afif Bin Zulkaply  
 +603 9280 8883  
[muhammad.afif.zulkaply@rhbgroup.com](mailto:muhammad.afif.zulkaply@rhbgroup.com)

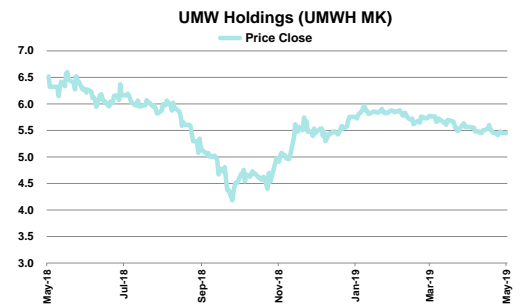


Alexander Chia  
 +603 9280 8889  
[alexander.chia@rhbgroup.com](mailto:alexander.chia@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.4)	(2.5)	(7.2)	10.5	(17.0)
Relative	4.8	(1.4)	(0.1)	16.8	(3.5)
52-wk Price low/high (MYR)	4.2 - 6.95				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	11,067	11,306	11,630	12,246	12,634
Recurring net profit (MYRm)	289	381	479	557	575
Recurring net profit growth (%)	39.0	31.8	25.7	16.1	3.3
Recurring P/E (x)	22.0	16.7	13.3	11.4	11.1
P/BV (x)	2.1	1.9	1.7	1.6	1.4
P/CF (x)	13.9	(13.2)	9.2	16.4	14.4
Dividend Yield (%)	0.0	1.4	1.8	1.8	1.8
EV/EBITDA (x)	17.3	14.2	13.2	12.5	12.4
ROE (%)	6.6	8.3	9.5	10.0	9.6
Net debt to equity (%)	36.1	71.8	63.0	62.1	60.5
Interest coverage (x)	1.0	5.9	4.2	4.7	5.0

Source: Company data, RHB

Figure 1: Earnings Review

FYE Dec (MYRm)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>2,415.3</b>	<b>2,681.8</b>	<b>2,774.8</b>	<b>3.5</b>	<b>14.9</b>	Sales of recently launched Vios drive sales higher.
<b>EBIT</b>	<b>90.3</b>	<b>18.2</b>	<b>76.5</b>	<b>320.7</b>	<b>(15.2)</b>	
<i>EBIT margin (%)</i>	3.7	0.7	2.8			QoQ, margin improved due to better operating leverage.
Finance costs	(13.8)	(32.1)	(19.2)	(40.1)	38.9	
Associates	56.3	96.3	65.6	(31.8)	16.7	
Investment income	21.6	21.5	17.7	(17.6)	(17.8)	
<b>Pretax Profit</b>	<b>154.3</b>	<b>103.9</b>	<b>140.7</b>	<b>35.3</b>	<b>(8.8)</b>	
<i>Pretax margin (%)</i>	6.4	3.9	5.1			
Tax	(29.6)	(29.8)	(29.5)	(1.2)	(0.5)	
<i>Eff tax rate (%)</i>	(19.2)	(28.7)	(20.9)			
Discontinued Op	(30.9)	2.0	(0.4)	(119.5)	(98.8)	
MI	(19.7)	(25.7)	(26.7)	4.1	35.5	
<b>Net Profit</b>	<b>74.1</b>	<b>15.1</b>	<b>84.1</b>	<b>458.5</b>	<b>13.6</b>	
<b>Core Net Profit</b>	<b>95.0</b>	<b>56.0</b>	<b>85.7</b>	<b>53.0</b>	<b>(9.8)</b>	Below our and consensus expectations.
<i>Net Margin (%)</i>	3.1	0.6	3.0			

Source: Company data, RHB

Figure 2: Earnings Review – segmental breakdown

FYE Dec (MYRm)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)
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
M&E	168.5	242.5	237.1	(2.2)	40.7
Others	(3.2)	(4.5)	(7.7)	72.0	137.8
<b>Revenue</b>	<b>2,415.3</b>	<b>2,681.8</b>	<b>2,774.8</b>	<b>3.5</b>	<b>14.9</b>
Automotive	125.9	125.5	124.2	(1.0)	(1.4)
Equipment	44.9	26.0	42.2	61.9	(6.2)
M&E	(2.9)	9.5	2.3	(75.4)	(181.6)
Others	(20.7)	(57.1)	(28.0)	50.9	(35.3)
<b>PBT</b>	<b>147.3</b>	<b>103.9</b>	<b>140.7</b>	<b>35.3</b>	<b>(4.5)</b>
<b>PBT Margins</b>					
<i>Automotive</i>	6.7	6.1	5.7		
<i>Equipment</i>	12.0	6.5	11.0		
<i>M&amp;E</i>	(1.7)	3.9	1.0		
<i>Others</i>	641.9	1,279.3	365.4		
	<b>6.1</b>	<b>3.9</b>	<b>5.1</b>		
Automotive	81.4	105.0	85.6	(18.5)	5.2
Equipment	36.6	18.2	30.8	69.5	(15.8)
M&E	(9.2)	3.2	(3.2)	(199.7)	(65.3)
Others	(17.7)	(75.6)	(27.5)	(63.6)	55.6
<b>NP</b>	<b>91.1</b>	<b>50.8</b>	<b>85.7</b>	<b>(68.7)</b>	<b>(6.0)</b>
<b>NP Margins</b>					
<i>Automotive</i>	4.3	5.1	4.0		
<i>Equipment</i>	9.8	4.6	8.0		
<i>M&amp;E</i>	(5.4)	1.3	(1.3)		
<i>Others</i>	547.5	1,694.0	358.3		
	<b>3.8</b>	<b>1.9</b>	<b>3.1</b>		

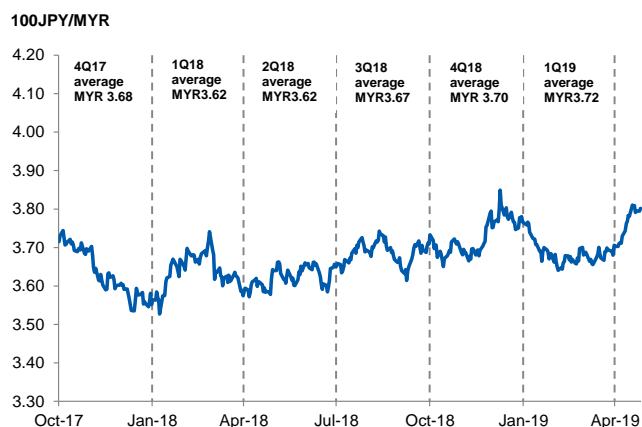
Source: Company data, RHB

Figure 3: UMW vehicle sales summary

FYE Dec (units)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)
<b>Toyota/Lexus</b>	<b>12,826</b>	<b>13,058</b>	<b>13,865</b>	<b>6.2</b>	<b>8.1</b>
- Passenger	8,614	7,251	10,802	49.0	25.4
- Commercial	4,212	5,807	3,063	(47.3)	(27.3)
<b>Perodua</b>	<b>55,568</b>	<b>59,040</b>	<b>60,659</b>	<b>2.7</b>	<b>9.2</b>
- Passenger	55,568	59,040	60,659	2.7	9.2
- Commercial	0	0	0	0.0	0.0
<b>Total</b>	<b>68,394</b>	<b>72,098</b>	<b>74,524</b>	<b>3.4</b>	<b>9.0</b>

Source: Malaysian Automotive Association

Figure 4: 100JPY/MYR



Source: Bloomberg, RHB

Figure 5: USD/MYR



Source: Bloomberg, RHB

Figure 6: Forecast assumptions

FYE Dec	2017	2018	2019F	2020F	2021F
Current - Toyota / Lexus (units)	70,474	66,562	70,000	71,500	72,300
Previous - Toyota / Lexus (units)	70,474	66,562	74,000	76,000	78,000
Perodua (units)	204,887	227,243	230,000	232,500	235,000
FX (JPY/MYR)*	3.85	3.65	3.58	3.58	3.58
FX (USD/MYR)*	4.30	4.04	3.98	3.98	3.98

\*Average rate

Source: RHB

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**KUALA LUMPUR**

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

**JAKARTA**

**PT RHB Sekuritas Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710  
Indonesia  
Tel : +6221 2783 0888  
Fax :+6221 2783 0777

**HONG KONG**

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor, World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong  
Tel : +852 2525 1118  
Fax : +852 2810 0908

**BANGKOK**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

**SINGAPORE**

**RHB Securities Singapore  
Pte Ltd.**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +65 6533 1818  
Fax : +65 6532 6211