

UMW Holdings Bhd

TP: RM5.42 (-0.6%)

Positives Mostly Priced-In

Last Traded: RM5.45

SELL

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Review

- UMW Holdings Bhd (UMW) reported lower-than-expected IQFY19 results. Excluding all exceptional items, IQFY19 core net profit increased by 3.9% YoY to RM86.7mn. This accounting for 16% and 17% of our and consensus' full-year estimates, respectively. The lower-than-expected earnings were mainly due to lower margins and higher depreciation charges.
- Automotive** – IQFY19 revenue increased by 15.2% YoY to RM2,162.5mn, underpinned by increased number of vehicles sold. Toyota sold 13,722 units in IQFY19 (+8.2% YoY) while Lexus registered a flattish sales of 143 units. We understand that top selling models in IQ19 were Vios (all-new model launched in January) and Hilux, which accounted for 68% of Toyota's sales. However, PBT was marginally lower by 1.4% YoY mainly due to higher depreciation at the new Bukit Raja plant.
- Equipment** – IQFY19 revenue grew 2.6% YoY to RM382.8mn. However, PBT decreased by 6.2% YoY to RM42.2mn, dragged by a lower profit margin as a result of competitive pricing for both Heavy Equipment and Industrial Equipment businesses.
- Manufacturing & Engineering (M&E)** – This segment registered a PBT of RM2.3mn compared to a LBT of RM2.9mn recorded last year. The commendable results were mainly underpinned by higher delivery of fan cases to Rolls-Royce and higher demand of products from KYB UMW (manufactures shock absorbers and motorcycle suspension components)
- No dividend was declared for the quarter under review.

Impact

- We revise downward our FY19 and FY20 earnings forecasts by 17.2% and 20.1% after imputing lower margins and higher depreciation charges. Also, we now expect the Rolls-Royce plant to break-even by FY20 instead of FY19.

Outlook

- All in, we believe UMW's earnings outlook has turned bright, given 1) completion of its new plant in Bukit Raja, and 2) ability to launch new attractive CKD models such as C-HR.
- Nonetheless, the automotive segment is expected to remain competitive due to a slew of new model launches in FY19 and stringent loan approvals, which are expected to curb volume growth going forward.

Valuation

- UMW's SOP valuation is revised lower to **RM5.42/share** after rolling forward our base year to FY20 and imputing new regional peer's PE into our valuation.
- We believe that most of the positives have already been priced-in given UMW's rich valuation. UMW is currently trading at CY20 P/E of 13x, which is a premium to its local peer average PER of 10x-12x and regional

Share Information

Bloomberg Code	UMWH MK
Stock Code	4588
Listing	Main Market
Share Cap (mn)	1,168.3
Market Cap (RMmn)	6,495.7
52-wk Hi/Lo (RM)	6.95/4.20
12-mth Avg Daily Vol ('000 shrs)	1,697
Estimated Free Float (%)	30.5
Beta	0.7

Major Shareholders (%)

PNB	- 48.65
EPF	- 10.84
KWAP	- 6.51

Forecast Revision

	FY19	FY20
Forecast Revision (%)	(17.2)	(20.1)
Net profit (RMm)	462.4	479.7
Consensus	499.5	561.1
TA's / Consensus (%)	93	85
Previous Rating	Buy (Downgraded)	

Financial Indicators

	FY19	FY20
Net Debt / Equity (x)	0.5	0.6
FCPS (sen)	23.4	26.9
Price / CFPS (x)	23.3	20.3
Core ROA (%)	3.9	3.7
NTA/Share (RM)	3.2	3.5
Price/NTA (x)	1.7	1.5

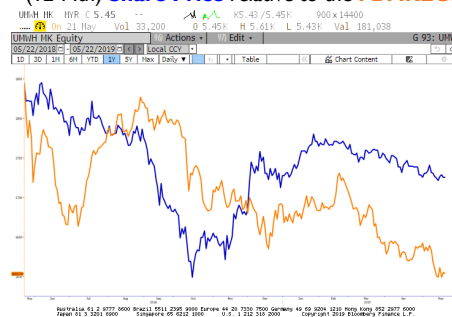
Scorecard

	% of FY	
vs TA	16	Below
vs Consensus	17	Below

Share Performance (%)

Price Change	UMW:BM KLCI	
1 mth	(2.3)	(1.1)
3 mth	(7.3)	(6.8)
6 mth	6.9	(5.4)
12 mth	(14.8)	(13.1)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

peers' average of 4x-9x.

- While we are positive on the long-term fundamentals of UMW, we believe tougher near term competition in the automotive sector, especially in mid-to-high-end sedan segment, may negatively affect UMW and offset gains to be made in other segments. With that, we downgrade UMW to **SELL** from Buy.

SOP Valuations

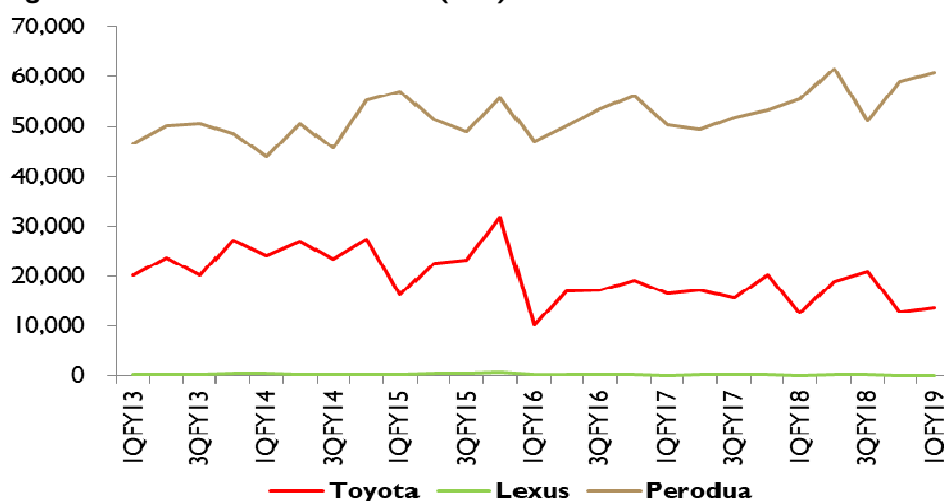
Segments	PER (x)	Equity Value (RM mn)	Reasoning
Automotive	16	6,615	2x premium to peer's weighted average
Equipment	10	1,354	Regional peers' average
M&E	10	213	Regional peers' average
Serendah Land		627	40% discount to RNAV
Total Equity Value		8,810	
Net debts (holding co.)		(1,773.3)	
Shares outstanding (mn)		1,168	
Holding co. discount		10%	
SOP TP (RM)		5.42	

Figure 1: Quarterly Breakdown of Revenue and PBT

Revenue (RMmn)	1QFY18	4QFY18	1QFY19	% 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
Manufacturing & Eng.	168.5	242.5	237.1	(2.2)	40.7
Others	15.9	14.7	16.0	8.8	0.8
Elimination	(19.1)	(19.2)	(23.7)	(23.5)	(23.9)

Pretax Profit (RMmn)	1QFY18	4QFY18	1QFY19	% QoQ	% YoY
Automotive	125.9	125.5	124.2	(1.0)	(1.4)
Equipment	44.9	26.0	42.2	61.9	(6.2)
Manufacturing & Eng.	(2.9)	9.5	2.3	(75.4)	nm
Others	(13.7)	(57.1)	(28.0)	50.9	>-100

Figure 2: Vehicle Sales Breakdown (unit)



Source: Company, TA Research

Quarterly Results Analysis

FYE 31 Dec	(RM mn)	1QFY18	4QFY18	1QFY19	% QoQ	% YoY
Turnover		2,415.3	2,681.8	2,774.8	3.5	14.9
EBIT		78.7	51.0	77.5	52.1	(1.5)
Finance Cost		(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)
El		11.6	(32.8)	(1.0)	nm	nm
Pretax		154.3	103.9	140.7	35.3	(8.8)
Taxation		(29.6)	(29.8)	(29.5)	1.2	0.5
MI		(29.7)	(23.3)	(25.5)	(9.3)	14.0
Reported net profit		95.0	50.8	85.7	68.7	(9.8)
Core net profit		83.5	83.6	86.7	3.7	3.9
Core EPS	(sen)	7.1	7.2	7.4		
DPS	(sen)	5.0	2.5	0.0		
EBIT Margin	(%)	3.3	1.9	2.8		
Pretax Margin	(%)	6.4	3.9	5.1		
Core net margin	(%)	3.5	3.1	3.1		
Tax Rate	(%)	19.2	28.7	20.9		

*Earnings exclude discontinued operations

Earnings Summary

FYE Dec 31 (RM mn)		FY16	FY17	FY18	FY19F	FY20F
Revenue		10,436.8	11,066.6	11,303.6	12,400.6	13,321.9
EBITDA		687.2	674.6	815.9	825.7	874.5
EBITDA margin	(%)	6.6	6.1	7.2	6.7	6.6
Pretax profit		(282.1)	266.6	800.3	745.7	781.9
Net profit		(536.5)	164.7	520.8	427.0	630.6
Core Net Profit		406.0	450.3	422.9	462.4	479.7
Adj. Core EPS	(sen)	34.8	38.5	36.2	39.6	41.1
EPS growth	(%)	n.a.	10.9	(6.1)	9.4	3.7
Core PER	(x)	15.7	14.1	15.1	13.8	13.3
DPS	(sen)	0.0	0.0	7.5	7.0	7.0
Div. Yield	(%)	0.0	0.0	1.4	1.3	1.3
Core ROE	(%)	8.6	14.8	12.6	12.4	11.6

All discontinued operations are excluded

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Thursday, May 23, 2019, the analyst, Angeline Chin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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