

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM5.45 /Target: RM5.30)

1Q19: Earnings In Line But Dividend Missed Expectations

1Q19 RESULTS

Year to 31 Dec	1Q19 (RMm)	qoq % chg	yoy % chg	FY	EPS (sen)	PE (x)
Revenue	2,774.8	3.5	14.9	FY19F	42.0	10.4
-Auto	2,162.5	5.7	15.2	FY20F	43.4	10.1
-Equipment	382.8	(3.8)	2.6	FY21F	45.2	9.7
-Mfg & Eng	237.1	(2.2)	40.7			
Associates	65.6	(31.8)	16.7			
PBT	140.7	35.3	(8.8)			
-Auto	124.2	(1.0)	(1.4)			
-Equipment	42.2	61.9	(6.2)			
-Mfg & Eng	2.3	(75.4)	(181.6)			
Net Profit	86.5	461.6	16.8			
Core Net Profit	78.7	40.5	6.2			
Toyota unit sales	13,722	6.4	8.2			
Perodua unit sales	60,659	2.7	9.2			
PBT Margins	(%)	ppts	ppts			
Overall	5.1	1.2	(1.3)			
-Auto	5.7	(0.4)	(1.0)			
-Equipment	11.0	4.5	(1.0)			
-Mfg & Eng	1.0	(2.9)	2.7			

Source: UMWH, UOB Kay Hian

RESULTS

- 1Q19 results within expectations, but dividend missed.** UMW Holdings (UMW) reported 1Q19 core net profit of RM78.7m (+41% qoq, +6% yoy), which accounted for 16% of both our and consensus full-year forecasts. We deem the results to be within expectation as 1Q typically accounts for 16-24% of the full-year results historically due to seasonality. We also expect the group to report stronger 2Q and 3Q on the back of full contribution of B-segment volume driven models ie Toyota Vios (launched in late-Jan 19) and Toyota Yaris (launched in April). All that being said, the absence of dividend was unexpected, hence missing expectations.
- Automobile segment's sales came in stronger, however, margin was under pressure.** Volume came in stronger (+3% qoq; +9% yoy to 74,381 units) on the back of new models being launched ie the all-new Toyota Vios and first Perodua's SUV- Aruz. However, with higher depreciation from new Bukit Raja plant alongside weaker MYR vs USD, PBT margin corroded marginally by 0.4ppt qoq and 1.0ppt yoy to 5.7%, which caused a 1% drop at PBT level. For 2019, sales target for Toyota including Lexus for the group is at 75,000 units (vs 66,562 units in 2018), largely in line with ours at 77,000 units. The all-new Toyota Vios and Yaris are expected to drive growth in 2019.
- Equipment segment's margin corroded by stiff competition.** 1Q19 sales grew 3% yoy, supported by higher delivery of machines in Heavy Equipment division for the ongoing infrastructure projects such as MRT2, LRT3, Gemas-Johor Bahru double track and Pan Borneo Highway. That said, PBT dropped 6% yoy on lower profitability as a result of competitive pricing for both Heavy Equipment and Industrial Equipment businesses. Outlook wise, while the revival of major infrastructure projects by the government could continue to lead to stronger demand for various equipment, margin could continue to be under pressure due to intensifying competition.
- Manufacturing and engineering segments are gaining traction.** Sales soared 41% yoy driven by the Aerospace business on higher delivery of fan cases (from low base, as the operation just commenced in 4Q17) alongside increased sales from the Auto component business. As production has been steadily increasing in tandem with higher demand orders by Rolls-Royce, PBT turned into profit to RM2.3m vs a loss of RM2.9m in 1Q18. The Aerospace business is steadily increasing its production to meet the expected orders from Rolls-Royce.

RECOMMENDATION

- We made no changes to our 2019-20 earnings forecasts as our earnings assumptions are still intact. However, we cut our dividend assumptions for 2019-20.
- Maintain HOLD with an unchanged target price of RM5.30**, which is based on the SOTP method. Our target price implies a 12.6x 2019F PE. Entry price is RM5.00.

ANALYST

Desmond Chong

+603 2147 1980

desmondchong@uobkayhian.com

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