



UMW Holdings (UMWH MK) : HOLD

Mkt. Cap: US\$1,232m | **3m Avg. Daily Val:** US\$0.41m

Last Traded Price (28 Nov 2019): RM4.40

Price Target 12-mth: RM4.65 (6% upside) (Prev RM4.55)

Analyst

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Dragged by lower auto sales

- 3QFY19 earnings missed expectations as auto sales dipped
- Declared special dividend of 4.0 sen following disposal of Shah Alam land
- Expect earnings to pick up in 4QFY19 on improved auto sales
- Cut earnings forecast by 8-9% for FY19-21F; maintain HOLD with higher TP of RM4.65

Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	11,306	11,927	12,408	12,813
EBITDA	726	809	855	894
Pre-tax Profit	786	640	691	723
Net Profit	491	332	373	396
Net Pft (Pre Ex.)	400	332	373	396
Net Pft Gth (Pre-ex) (%)	143.0	(17.0)	12.2	6.2
EPS (sen)	42.0	28.5	31.9	33.9
EPS Pre Ex. (sen)	34.3	28.5	31.9	33.9
EPS Gth Pre Ex (%)	143	(17)	12	6
Diluted EPS (sen)	34.3	28.5	31.9	33.9
Net DPS (sen)	5.00	8.54	4.79	5.09
BV Per Share (sen)	285	305	332	361
PE (X)	10.5	15.5	13.8	13.0
PE Pre Ex. (X)	12.8	15.5	13.8	13.0
P/Cash Flow (X)	nm	7.4	7.5	7.1
EV/EBITDA (X)	12.4	11.3	10.7	10.3
Net Div Yield (%)	1.1	1.9	1.1	1.2
P/Book Value (X)	1.5	1.4	1.3	1.2
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	15.4	9.7	10.0	9.8

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Stripping off various non-core adjustments, UMW Holdings (UMWH) recorded core net profit of RM95m in 3QFY19 (-62% y-o-y; +204% q-o-q). This brings 9M19 earnings to RM204m, falling short of our and consensus expectations.

This was mainly due to; 1) auto sales undershooting our estimates, 2) slowdown in construction activities dragging the equipment segment's earnings, 3) 2QFY19 earnings were adjusted downward by RM27m as a result of the [elimination of the reversal of provision for a financial guarantee](#)

Following the disposal of its industrial land in Shah Alam for RM287.7m, UMWH declared a special dividend of 4.0 sen, amounting to RM46.7m. The rest of the proceeds will be used for capital expenditure (capex), debt settlement and working capital.

Sub-par performance

- The auto segment recorded revenue of RM2,296m (-13.1% y-o-y; -3.7% q-o-q), in tandem with the drop in Toyota sales volume of 16,357 units (-21.9% y-o-y; -6.7% q-o-q). However, the high contribution from Perodua and improved margin helped to cushion the impact on bottom line. Profit before tax (PBT) for the auto division came in at RM141m (-7.4% y-o-y; -7.3% q-o-q). Note that 3QFY18 was boosted by the Goods and Services Tax (GST) holiday period.
- Perodua registered resilient sales volume of 56,972 units (+11.5% y-o-y; -6.8 q-o-q), backed by strong demand for the Myvi, Aruz and new Axia models.
- The equipment segment came in below expectations, with PBT of RM30.7m (-29.3% y-o-y; -13.2% q-o-q). The drop in earnings was attributed to lower demand in



the heavy equipment business, which resulted from the slowdown in constructions activities and intense competition in the market.

- On the other hand, the manufacturing and engineering segment continued to improve with PBT of RM15.4m in 3QFY19, attributed to; i) its aerospace business which delivered higher volume of fan cases, ii) increased sales from its auto component business.

Outlook

Improvement expected in 4QFY19.

- Auto sales are likely to perform better in the next quarter, supported by strong demand for the Toyota Vios and Yaris models and year-end campaigns.
- The manufacturing and engineering segment should improve with its aerospace business with Rolls-Royce gaining traction. We expect the aerospace business to further narrow its losses this year on the back of increased delivery of fan cases. The group expect it to breakeven in FY20
- The equipment segment is still impacted by competitive pricing for heavy equipment. However, we expect this segment to gradually recover with construction works on existing infrastructure projects expected to pick up in upcoming quarters.

Valuation & Recommendation

Cut FY19-21F forecast by 8%-9% largely on lower auto sales assumption. We reduce our earnings forecast by 9%/8%/8% for FY19F/20F/21F, mainly on a more conservative sales volume assumption for FY19. We forecast 3% sales volume growth, down from 7% previously.

Maintain HOLD with revised target price (TP) of RM4.65.

Following the adjustment in our earnings forecast and rolling forward our valuation to FY20, we maintain our HOLD call. We believe the stock offers limited upside at this juncture. We expect the auto segment to remain a major contributor, while progressive contribution from the aerospace business should lift UMWH's earnings.

Flash Note

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	3,290	2,966	2,883	(12.4)	(2.8)
Other Oper. (Exp)/Inc	(3,118)	(2,865)	(2,803)	(10.1)	(2.2)
Operating Profit	172	101	80.1	(53.3)	(20.6)
Other Non Opg (Exp)/Inc	94.9	(18.9)	(8.4)	nm	(55.3)
Associates & JV Inc	57.2	76.1	85.2	48.9	11.9
Net Interest (Exp)/Inc	4.74	(24.9)	(15.0)	nm	39.7
Exceptional Gain/(Loss)	(94.9)	18.9	8.43	nm	(55.3)
Pre-tax Profit	234	152	150	(35.6)	(1.2)
Tax	(43.5)	(36.3)	(21.0)	(51.7)	(42.2)
Minority Interest	(35.1)	(65.7)	(26.0)	26.0	(60.5)
Net Profit	155	50.1	103	(33.3)	106.4
Net profit bef Except.	250	31.2	94.9	(62.0)	204.1
EBITDA	221	186	162	(26.6)	(12.8)
Margins (%)					
Opg Profit Margins	5.2	3.4	2.8		
Net Profit Margins	4.7	1.7	3.6		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Dec 18	5.40	5.56	HOLD
2:	28 Feb 19	5.80	5.56	HOLD
3:	12 Mar 19	5.70	5.56	HOLD
4:	23 May 19	5.28	5.10	HOLD
5:	28 Aug 19	5.01	4.55	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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