

**HLIB Research**

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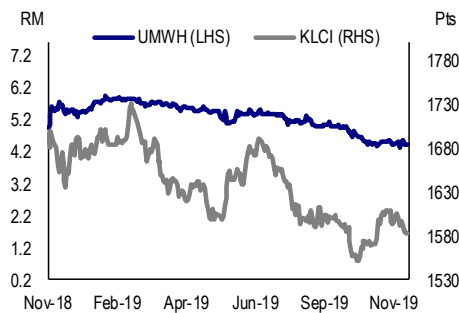
**HOLD** (Maintain)

**Target Price: RM4.25**
**Previously: RM5.20**
**Current Price: RM4.40**

Capital upside	-3.4%
Dividend yield	1.8%
Expected total return	-1.6%

**Sector coverage:** Automotive

**Company description:** UMW imports, assembles, and markets passenger and commercial vehicles and related spare parts. It also trades light and heavy equipment for industrial, construction, and agricultural sectors. UMW also assembles parts for aircraft engines.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	-0.7	-12.2	-11.6
Relative	-1.1	-11.5	-5.4

**Stock information**

Bloomberg ticker	UMWH MK
Bursa code	4588
Issued shares (m)	1,168
Market capitalisation (RM m)	5,140
3-mth average volume ('000)	351
SC Shariah compliant	Yes

**Major shareholders**

Permodalan Nasional Berhad	61.6%
Employess Provident Fund	11.3%
Kumpulan Wang Persaraan	6.9%

**Earnings summary**

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	290	322	382
EPS - core (sen)	24.8	27.6	32.7
P/E (x)	17.7	16.0	13.5

# UMW Holdings

## Below expectations

Adjusted for quarterly distribution for Perpetual Sukuk, core PATMI at RM83.3m for 3QFY19 (+5.8% QoQ; -8.8% YoY) and RM233.0m for 9MFY19 (+4.7% YoY), was below HLIB's FY19 forecast (67.6%) and consensus (53.1%). The disappointment was mainly attributed to lower than expected contribution from Equipment and M&E segments. UMW will continue to leverage on Perodua and M&E (mainly aerospace) segment for earnings growth, while Toyota and Equipment segment remains unexciting. Cut earnings for FY19 by 6.5%, FY20 by 17.3% and FY21 by 19.7%. Maintain HOLD with lower TP: RM4.25 (from RM5.20) based on 10% discount to SOP: RM4.72.

**Below expectations.** UMW reported core PATMI of RM83.8m (adjusted for quarterly provision of RM14.0m Perpetual Sukuk distribution) for 3QFY19 (+5.8% QoQ; -8.8% YoY) and RM233.0m for 9MFY19 (+4.7% YoY), achieved 67.6% of HLIB's FY19 forecast and 53.1% of consensus. The disappointment was mainly due to lower than expected contribution from Equipment and Manufacturing & Engineering (M&E) segments.

**Dividend.** Declared a special dividend of 4 sen/share (ex-date: 12 Dec 2019).

**QoQ.** Adjusted for quarterly distribution for Perpetual Sukuk, core earnings improved by +5.8% mainly driven by stronger Perodua contribution and lower group tax rate.

**YoY.** Core earnings declined by 8.8%, mainly due to a high base effect for both Automotive and Equipment segments during the tax holiday period last year.

**YTD.** Core earnings improved marginally by 4.5% on higher contribution from Perodua (higher sales volume) and lower losses from discontinued O&G operations.

**Automotive.** UMW will continue to leverage on the growth of Perodua (Aruz and updated Axia), while Toyota may face stiff competitions with upcoming attractive new launches by close competitors in 2020-2021. We remain cautious on the negative impact from the depreciated RM/USD, deteriorating consumer sentiment and heightened competitive market in 2020.

**Equipment.** Demand for equipment (mining, construction and logging) remains sluggish in the near term, given the slowdown of domestic as well as regional economic activity. The anticipated re-commencement of mega projects may provide some growth to the segment.

**M&E.** Automotive parts will leverage on the increasing local car production volume, namely Perodua and Proton for earnings sustainability. UMW Aerospace production ramp up plan is on track to turn profitable in FY20.

**Forecast.** Cut earnings for FY19 by 6.5%, FY20 by 17.3% and FY21 by 19.7%.

**Maintain HOLD, TP: RM4.25.** Maintain HOLD recommendation on UMW with lower TP: RM4.25 (from RM5.20) based on 10% discount to SOP of RM4.72 (from RM5.78) following cut in earnings. We believe UMW is fairly valued at its current level.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Cash	1,170	1,312	1,234	1,721	1,035
Receivables	1,411	1,549	1,598	1,648	1,692
Inventories	902	960	1,006	1,037	1,065
PPE	2,658	2,821	3,053	3,129	3,202
Others	3,955	4,116	4,248	4,385	4,535
<b>Assets</b>	<b>10,096</b>	<b>10,758</b>	<b>11,139</b>	<b>11,920</b>	<b>11,529</b>
Payables	949	708	773	791	814
Debt	2,755	3,931	3,793	4,035	3,096
Others	2,213	405	405	405	405
<b>Liabilities</b>	<b>5,917</b>	<b>5,044</b>	<b>4,971</b>	<b>5,231</b>	<b>4,315</b>
Shareholder's equity	3,047	3,345	3,591	3,867	4,169
Perpetual sukuk	0	1,098	1,098	1,098	1,098
Minority interest	1,131	1,272	1,480	1,724	1,947
<b>Equity</b>	<b>4,178</b>	<b>5,714</b>	<b>6,169</b>	<b>6,689</b>	<b>7,214</b>

### Cash Flow Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Profit before taxation	267	800	655	771	795
D&A	265	274	348	354	357
Working capital	440	(438)	(30)	(64)	(49)
Taxation	(137)	(163)	(147)	(184)	(183)
Others	365	(206)	(263)	(273)	(300)
<b>CFO</b>	<b>1,199</b>	<b>268</b>	<b>562</b>	<b>604</b>	<b>620</b>
Capex	(870)	(915)	(580)	(430)	(430)
Asset disposal	69	62	0	0	0
Acquisitions	(935)	132	0	0	0
Others	(201)	309	132	137	150
<b>CFI</b>	<b>(1,937)</b>	<b>(412)</b>	<b>(448)</b>	<b>(293)</b>	<b>(280)</b>
Changes in debt	211	78	(138)	242	(939)
Shares issued	0	0	0	0	0
Dividends	0	(58)	(76)	(105)	(117)
Distribution to Perps	0	(35)	(70)	(70)	(70)
Others	(76)	1,035	92	108	99
<b>CFF</b>	<b>135</b>	<b>1,019</b>	<b>(191)</b>	<b>176</b>	<b>(1,026)</b>
<b>Net cash flow</b>	<b>(602)</b>	<b>875</b>	<b>(77)</b>	<b>486</b>	<b>(686)</b>
Forex	(3)	1	(0)	0	(0)
Others	(419)	(734)	0	(0)	0
Beginning cash	2,194	1,170	1,312	1,234	1,721
Ending cash	1,170	1,312	1,234	1,721	1,035

### Income Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Revenue	11,067	11,304	11,836	12,208	12,537
EBITDA	389	816	796	909	909
EBIT	124	542	449	555	552
Net finance cost	(39)	(13)	(58)	(58)	(57)
Associates & JV	182	271	263	273	300
Profit before tax	267	800	655	771	795
Tax	(122)	(124)	(147)	(184)	(183)
Operation net profit	145	676	508	587	612
Discontinued operation	(805)	(177)	0	0	0
Reported net profit	(660)	499	508	587	612
Minority interest	20	(120)	(116)	(135)	(124)
Perpetual sukuk	0	(35)	(70)	(70)	(70)
Reported PATMI	(641)	344	322	382	418
Exceptionals	542	(54)	0	0	0
<b>Core PATMI</b>	<b>(99)</b>	<b>290</b>	<b>322</b>	<b>382</b>	<b>418</b>
Concensus			438	593	533
HLIB/Concensus (%)			73.5%	64.4%	78.5%

### Valuation & Ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Reported EPS (sen)	(54.8)	29.4	27.6	32.7	35.8
Core EPS (sen)	(8.5)	24.8	27.6	32.7	35.8
Core P/E (x)	N.M.	17.7	16.0	13.5	12.3
DPS (sen)	0.0	7.5	8.0	10.0	10.0
Dividend yield (%)	0.0%	1.7%	1.8%	2.3%	2.3%
BVPS (RM)	2.61	2.86	3.07	3.31	3.57
P/B (x)	1.7	1.5	1.4	1.3	1.2
EBITDA margin	3.5%	7.2%	6.7%	7.4%	7.3%
EBIT margin	1.1%	4.8%	3.8%	4.5%	4.4%
PBT margin	2.4%	7.1%	5.5%	6.3%	6.3%
Net margin	0.0%	-0.3%	-0.6%	-0.6%	-0.6%
ROE	-2.5%	9.1%	9.3%	10.2%	10.4%
ROA	-0.8%	2.8%	2.9%	3.3%	3.6%
Net gearing*	-52.0%	-78.3%	-71.2%	-59.8%	-49.5%

### Assumptions

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
<b>Sales (Unit)</b>					
Toyota	69,492	65,551	72,000	72,000	73,440
Lexus	953	1,020	1,000	1,000	1,000
Perodua	204,887	227,243	225,294	227,497	231,947
<b>Average Price (RM)</b>					
UMW	127,322	134,431	126,365	127,629	127,629
Perodua	40,911	41,078	43,676	43,438	43,553

**Figure #1** Quarterly results comparison

FYE Dec (RMm)	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	9MFY18	9MFY19	YoY (%)
Revenue	3,290.0	2,966.0	2,882.7	-2.8%	-12.4%	8,624.4	8,623.5	0.0%
EBITDA	214.7	232.1	164.4	-29.1%	-23.4%	604.2	567.8	-6.0%
EBIT	165.6	147.1	82.5	-43.9%	-50.2%	455.1	314.4	-30.9%
Net finance expense	(7.9)	(39.0)	(26.5)	-32.1%	237.4%	(28.5)	(74.3)	160.5%
Associates	57.2	76.1	85.2	11.9%	48.9%	169.3	227.0	34.1%
Eis	18.6	(32.1)	9.1			86.4	(23.9)	
Reported PBT	233.6	152.1	150.3	-1.2%	-35.6%	682.2	443.1	-35.0%
Tax	(43.5)	(36.3)	(21.0)	-42.2%	-51.7%	(112.7)	(86.8)	-23.0%
Reported operation net profit	190.1	115.8	129.3	11.7%	-32.0%	569.5	356.3	-37.4%
Discontinued operation	(18.9)	(2.0)	1.9	-193.6%	-110.1%	(165.0)	(0.5)	-99.7%
Reported net profit	171.2	113.8	131.2	15.4%	-23.3%	404.6	355.8	-12.0%
Reported PATMI	128.1	57.2	110.3	92.9%	-13.9%	326.6	254.0	-22.2%
Eis & Sukuk Adjustments	(36.3)	21.9	(26.5)	-220.9%	-26.9%	(104.1)	(21.0)	-79.8%
Core PATMI	91.8	79.1	83.8	5.8%	-8.8%	222.5	233.0	4.7%
Reported EPS (Sen)	11.0	4.9	9.4	92.9%	-13.9%	28.0	21.7	-22.2%
Core EPS (Sen)	7.9	6.8	7.2	5.8%	-8.8%	19.0	19.9	4.7%
				<b>pts</b>	<b>pts</b>			<b>pts</b>
EBITDA margin (%)	6.5%	7.8%	5.7%	(2.1)	(0.8)	7.0%	6.6%	(0.4)
EBIT margin (%)	5.0%	5.0%	2.9%	(2.1)	(2.2)	5.3%	3.6%	(1.6)
Core PATMI margin (%)	2.8%	2.7%	2.9%	0.2	0.1	2.6%	2.7%	0.1

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**Figure #2** Quarterly results comparison by segment

FYE Dec (RM m)	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	9MFY18	9MFY19	YoY (%)
<b>Reported Revenue</b>								
Automotive	2,643.4	2,386.4	2,296.9	-3.7%	-13.1%	6,903.1	6,845.9	-0.8%
Equipment	403.4	343.6	353.7	2.9%	-12.3%	1,142.4	1,080.1	-5.5%
Manufacturing & Engineering	253.6	244.5	252.4	3.2%	-0.5%	600.3	734.0	22.3%
Oil & Gas unlisted	0.0	0.0	0.0	#DIV/0!	#DIV/0!	0.0	0.0	#DIV/0!
Others	21.1	18.7	17.4	-7.2%	-17.6%	53.9	52.1	-3.4%
Intersegment	(31.5)	(27.3)	(37.7)	38.4%	19.8%	(75.3)	(88.6)	17.7%
<b>Total</b>	<b>3,290.0</b>	<b>2,966.0</b>	<b>2,882.7</b>	<b>-2.8%</b>	<b>-12.4%</b>	<b>8,624.4</b>	<b>8,623.5</b>	<b>0.0%</b>
<b>Reported PATMI</b>								
Automotive	89.6	102.4	104.4	1.9%	16.5%	257.7	292.4	13.4%
Equipment	32.9	28.2	23.2	-17.9%	-29.6%	99.3	82.2	-17.2%
Manufacturing & Engineering	8.6	6.7	9.1	35.7%	5.5%	(6.7)	12.6	-288.2%
Oil & Gas unlisted (discontinued)	(26.9)	7.1	6.9	N.M.	N.M.	(48.6)	14.9	N.M.
Others	(103.1)	(60.3)	(25.5)	N.M.	N.M.	(25.1)	(113.3)	N.M.
<b>Total</b>	<b>1.2</b>	<b>84.2</b>	<b>118.1</b>	<b>40.3%</b>	<b>N.M.</b>	<b>276.6</b>	<b>288.8</b>	<b>N.M.</b>
<b>Core PATMI</b>	<b>109.5</b>	<b>79.1</b>	<b>83.8</b>	<b>5.8%</b>	<b>N.M.</b>	<b>240.2</b>	<b>233.0</b>	<b>-3.0%</b>

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**Figure #3** UMW automotive sales statistics

Unit Sales	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Toyota (51% ownership)	12,683	19,026	20,940	12,902	13,722	17,529	16,357
Lexus (51% ownership)	143	282	439	156	143	129	271
Perodua (38% ownership)	55,568	61,530	51,105	59,040	60,659	61,123	56,972
<b>Total</b>	<b>68,394</b>	<b>80,838</b>	<b>72,484</b>	<b>72,098</b>	<b>74,524</b>	<b>78,781</b>	<b>73,600</b>
<b>Growth YoY (%)</b>	<b>2.1%</b>	<b>20.9%</b>	<b>7.0%</b>	<b>-2.3%</b>	<b>9.0%</b>	<b>-2.5%</b>	<b>1.5%</b>
<b>Growth QoQ (%)</b>	<b>-7.3%</b>	<b>18.2%</b>	<b>-10.3%</b>	<b>-0.5%</b>	<b>3.4%</b>	<b>5.7%</b>	<b>-6.6%</b>

Company

**Figure #4** UMW sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	4,867.2	4.17	FY20 PE 12x
Equipment	Various	1,114.2	0.95	FY20 PE 10x
Manufacturing & Engineering	Various	799.7	0.68	FY20 PE 18x
Others (including O&G unlisted)	Various	165.2	0.14	Book value based on FY2018
700 acres Serendah land	100.00	914.8	0.78	Based on RM30/sqf
130 acres Serendah land	90.00	152.9	0.13	Based on RM30/sqf
Perpetual Sukuk		(1,097.9)	(0.94)	Based on 2018 Annual Report
Holding Co Net Debt		(1,405.8)	(1.20)	Based on 2018 Annual Report
Subtotal		5,510.3	4.72	
Holding Co Discount			10.0%	
<b>Target Price</b>			<b>4.25</b>	
* No of Shares		1,168.3		As at end FY2018

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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