

23 May 2018 | 1Q18 Result Review

UMW Holdings

Solid showing, maiden dividends in 2 years

- **Strong recovery in 1Q18, underpins earlier BUY thesis**
- **Massive 79% dividend payout signals optimism**
- **Proxy to further RM strength and TIV recovery**
- **Reaffirm BUY at unchanged TP of RM7.11**

Earnings within expectations. UMW registered 1Q18 net profit of RM74m (or actually RM109m for continuing operations excluding non-listed O&G units). The reported RM74m net profit was in-line and accounts for 20% of our FY18F and 21% of consensus. UMW has started to deconsolidate its non-listed O&G units in 1Q18. Even on a like-for-like basis (excluding non-listed O&G losses for both 1Q18 and 1Q17), earnings grew by a strong 29%yoy. On reported basis, 1Q18 earnings more than tripled yoy.

Auto margins almost doubled. Despite weaker volumes in-line with industry (given wait-and-see ahead of GE14), UMW autos delivered strong 45%yoy earnings growth. Auto margins almost doubled from 4% a year ago to 6.7% and are highest in the past 2 years. These are sustainable earnings given the strong RM now and gradual rollback of discounting in the market as inventories normalise. This was also supported by strong Perodua TIV (+11%yoy) following launch of the new Myvi late-FY17. The trend underpins our thesis of a strong recovery driven by the auto segment.

Volume recovery soon. Buyers have been holding back purchases in 1Q18 ahead of GE14 and the trend is obvious for the non-nationals, possibly in anticipation of manifestos related to vehicle duty reduction (which affects mainly the non-nationals). However, as it turns out, duty reduction will only be offered for 1st car buyers. As it is, April TIV numbers (to be released in detail today) has already shown a recovery (+10%yoy) after a 4%yoy decline throughout 1Q18. We expect a significant boost from the GST/SST-free period – though effective from 1st June, most key players are already offering GST rebates from mid-May.

Further margin expansion. On top of this, we estimate the USD:RM booked in for 1Q18 was RM4.16 (against an estimated RM4.26 in 4Q17), compared to RM3.90-4.00 levels now. Impact of forex is delayed by a quarter given physical stock-up.

Maiden dividends after 2 years. Underlining management's optimism on earnings recovery, UMW announced its maiden dividend in 2 years (of 5sen/share), representing a massive 79% payout, well above UMW's historical payout ratio of 50%. At this rate, UMW may outperform our earlier forecast of a 50% payout.

Upward revision cycle. Our forecasts (about a quarter ago) were previously 20%/39% (FY18F/19F) ahead of consensus but the gap has now narrowed to just 6%/27% reflecting positive uptrend in consensus revision cycle.

Maintained BUY

Unchanged Target Price (TP):RM7.11

RETURN STATS

Price (22 May 2018)	RM6.60
Target Price	RM7.11
Expected Share Price Return	+7.7%
Expected Dividend Yield	+3.8%
Expected Total Return	+11.5%

STOCK INFO

KLCI	1,845.03
Bursa / Bloomberg	4588 / UMWK MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	7,710.74
Price over NA	2.46
52-wk price Range	RM4.70 – RM6.98
Beta (against KLCI)	1.36
3-mth Avg Daily Vol	2.05m
3-mth Avg Daily Value	RM12.6m
Major Shareholders (%)	
SKIM ASB	40.7%
EPF	9.4%
YPB	7.3%

MIDF RESEARCH is a unit of MIDF AMANAH INVESTMENT BANK

Kindly refer to the last page of this publication for important disclosures

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	14,419.8	10,965.1	11,046.5	10,013.6	11,121.3
EBIT (RM'm)	134.9	(2,202.8)	120.4	650.6	936.1
Pre-tax Profit (RM'm)	265.6	(2,153.8)	252.9	659.1	1,052.9
Core net profit (RM'm)	338.0	(401.8)	163.8	370.3	578.7
FD EPS (sen)	28.9	(34.4)	14.0	31.7	47.5
EPS growth (%)	(59.6)	NA	NA	126.1	56.3
PER (x)	22.8	NA	47.1	20.8	13.9
Net Dividend (sen)	20.0	0.0	0.0	15.8	24.8
Net Dividend Yield (%)	3.0	0.0	0.0	2.4	3.8

Source: Company, MIDFR

Recommendation. Re-affirm BUY on UMW at unchanged TP of RM7.11/share. Key catalysts: **(1) A deleveraged balance sheet post** UMWOG demerger allows room for acquisitive growth and possible resumption of dividend payouts – successful acquisitions from PNB and MBM to increase Perodua stake are strong share price catalysts **(2) Reversal of prior years' market share loss**, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy **(3) Redevelopment of UMW's 830 acres Serendah land** which will unlock value of the asset – easily worth 40sen/share on our estimates **(4) A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production.

EXHIBIT 1: UMW ACTUAL 1Q18 NET PROFIT BY DIVISION AGAINST OUR FORECAST

Divisions	1Q18A	FY18F
Automotive	81.38	359.2
Equipment	36.60	129.2
Manuf & Eng	(9.16)	(10.1)
Oil & Gas (Listed)	-	-
Oil & Gas (Unlisted)	(17.06)	(75.6)
Others	(17.67)	(32.4)
Net profit (RMm)	74.08	370.3
Net profit ex-O&G (RMm)	108.8	478.4

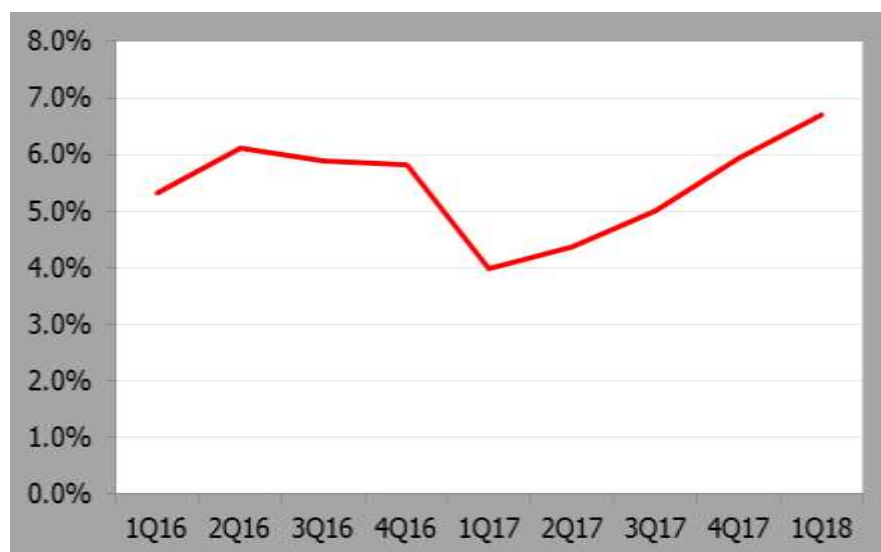
Source: Company, MIDF

EXHIBIT 2: UMW NET PROFIT FORECAST BREAKDOWN (RM MIL)

	FY16	FY17	FY18F	FY19F
Automotive	301.0	261.6	359.2	471.8
Equipment	115.3	112.5	129.2	117.2
Manuf & Eng	(2.0)	(37.7)	(10.1)	19.7
Oil & Gas (Listed)	(661.0)	(86.4)		
Oil & Gas (Unlisted)	(541.3)	(66.5)	(75.6)	
Others	(902.6)	(19.7)	(32.4)	(30.0)
Net profit	(1,690.6)	163.8	370.3	578.7
Net profit ex-O&G	714.0	469.5	521.6	578.7

Source: Company, MIDF

EXHIBIT 3: UMW AUTOS PRETAX MARGINS RECOVERING STRONGLY



Source: Company, MIDF

EXHIBIT 4: UMW SUM-OF-PARTS VALUATION

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive – UMW Toyota	238	PER	12	2,851	
Automotive - Perodua	234	PER	15	3,513	
Equipment	117	PER	12	1,407	
Serendah land		RNAV		586	<i>RNAV of Serendah land (830acres@RM16psf) (net of debt)</i>
Aerospace		DCF		189	<i>Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)</i>
Non-listed O&G		Book Value		114	<i>Based on BV of assets net of 4Q17 impairment</i>
Total value				8,659	
No of shares (m)				1,218	
Fair Value (RM)				7.11	

Source: Company, MIDF

EXHIBIT 5: UMW 1Q18 RESULTS

FYE Dec (RMm)	1Q17	4Q17*	1Q18	YoY	QoQ
Revenue	2,695.2	2,954.7	2,415.3	-10.4%	-18.3%
Operating Profit	97.3	16.1	91.7	-5.8%	469.3%
Finance Cost	(17.8)	(77.1)	(23.6)	32.7%	-69.4%
Associates	41.3	58.3	57.6	39.6%	-1.2%
Investment Income	18.1	20.3	21.6	19.4%	6.4%
Pretax Profit	138.9	17.6	147.3	6.1%	737.7%
Taxation	(24.6)	(33.0)	(29.6)		
Minorities	(30.7)	4.0	19.7	NA	NA
Loss from discontinued operations (UMWOG)	(124.8)	(413.2)	(23.9)		
Net Profit	20.2	(432.7)	74.1	NA	NA
Core net profit incl. discontinued operations	20.2	107.6	74.1	267.4%	-31.2%
Core net profit from continuing operations	84.6	101.4	108.8	28.6%	7.3%
EPS (FD, sen)	1.7	9.2	6.3		
DPS (sen)	0.0	0.0	5.0		
Margins (%):					
Operating	3.6%	0.5%	3.8%		
Pretax Profit	5.2%	0.6%	6.1%		
Core Net Profit	0.7%	3.6%	3.1%		
Tax Rate	17.7%	187.8%	20.1%		

Source: Company, MIDF *Pre-deconsolidation of non-listed O&G unit

EXHIBIT 6: UMW 1Q18 SEGMENTAL BREAKDOWN

Segmental Breakdown	1Q17	4Q17*	1Q18	YoY	QoQ
Automotive	2,190.9	2,386.7	1,877.1	-14.3%	-21.4%
Equipment	342.4	393.5	373.0	8.9%	-5.2%
Manuf & Eng	165.9	170.0	168.5	1.6%	-0.9%
Oil & Gas (Listed)	74.3	-	-	-100.0%	#DIV/0!
Oil & Gas (Unlisted)	36.3	26.2	23.4	-35.4%	-10.6%
Revenue	2,809.7	2,976.4	2,442.0	-13.1%	-18.0%
Automotive	87.1	141.6	125.9	44.6%	-11.1%
Equipment	39.5	29.6	44.9	13.6%	51.6%
Manuf & Eng	3.1	(3.0)	(2.9)	-192.2%	-5.8%
Oil & Gas (Listed)	(104.9)	-	-	-100.0%	#DIV/0!
Oil & Gas (Unlisted)	(15.0)	(412.3)	(23.7)	57.9%	-94.2%
Pretax profit	9.8	(244.1)	144.3	1375.6%	-159.1%
Pretax margins					
Automotive	4.0%	5.9%	6.7%		
Equipment	11.5%	7.5%	12.0%		
Manuf & Eng	1.9%	-1.8%	-1.7%		
Oil & Gas (Listed)	-141.2%	NA	NA		
Oil & Gas (Unlisted)	-41.5%	-1574.1%	-101.3%		
Toyota TIV (units)	16,503	20,202	12,683	-23.1%	-37.2%
Average revenue/car (RM)	132,755	118,141	147,998	11.5%	25.3%
USD:RM (Spot, delayed by 3-month)	4.45	4.26	4.16	-6.5%	-2.3%
Net profit	20.2	107.6	74.1		
Automotive	56.0	85.7	81.4	45.4%	-5.1%
Equipment	31.1	24.9	36.6	17.6%	46.9%
Manuf & Eng	(2.4)	(9.3)	(9.2)	275.9%	-1.1%
Oil & Gas (Listed)	(58.0)	0.0	-	-100.0%	-100.0%
Oil & Gas (Unlisted)	(10.7)	(85.0)	(17.1)	58.8%	-79.9%
Others	4.3	91.2	(17.7)	-511.4%	-119.4%
Core net profit from continuing operations	84.6	101.4	108.8	28.6%	7.3%

* Pre-deconsolidation of non-listed O&G unit

Source: Company, MIDF

Income Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	14,419.8	10,965.1	11,046.5	10,013.6	11,121.3
Operating expenses	(14,157.6)	(13,167.9)	(10,926.1)	(9,363.0)	(10,185.2)
EBIT	262.1	(2,202.8)	120.4	650.6	936.1
Net interest expense	(126.6)	(105.7)	(39.2)	(93.1)	(117.4)
Associates	130.1	154.8	171.7	101.6	234.2
PBT	265.6	(2,153.8)	252.9	659.1	1,052.9
Taxation	(259.9)	(140.7)	(122.3)	(111.5)	(204.7)
Minority Interest	44.6	(603.9)	(22.8)	(177.3)	(269.5)
Net profit	(38.9)	(1,690.6)	(651.2)	370.3	578.7
Core net profit	338.0	(401.8)	163.8	370.3	578.7
Core net profit (ex-O&G)	NA	414.4	336.3	521.6	578.7
Consensus net profit	338.0	103.9	80.0	348.0	455.9
MIDF vs. consensus				6%	27%
Balance Sheet (RMm)	FY15	FY16	FY17	FY18F	FY19F
Non-current assets	10,511.7	10,070.2	4,820.3	6,325.8	7,440.9
PPE	8,132.7	7,639.0	2,749.1	3,686.1	4,567.0
Investments in associate	1,894.5	1,996.7	2,053.5	2,155.1	2,389.3
Others	484.6	434.4	17.7	484.6	484.6
Current assets	7,568.9	6,136.0	5,121.7	5,622.9	6,225.9
Inventories	1,891.6	1,517.9	1,650.3	1,502.0	1,668.2
Receivables	1,273.3	1,416.7	1,650.3	1,502.0	1,668.2
Others	1,675.7	274.4	657.6	1,210.1	1,210.1
Cash & equivalent	2,728.3	2,927.0	1,163.4	1,408.6	1,679.4
TOTAL ASSETS	18,080.6	16,206.1	9,942.0	11,948.7	13,666.8
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,827.1	3,082.3	1,093.4	1,549.4	1,818.9
Reserves	5,812.7	5,905.5	2,498.2	3,603.0	3,892.4
TOTAL EQUITY	9,223.9	9,572.0	4,175.8	5,736.6	6,295.5
Non-current liabilities	3,165.1	4,678.1	2,213.0	3,515.1	4,465.1
Long-term borrowings	2,782.5	3,732.5	2,069.7	3,132.5	4,082.5
Deferred tax liabilities	34.1	34.1	34.0	34.1	34.1
Others	348.5	911.5	109.2	348.5	348.5
Current liabilities	5,691.6	4,619.2	3,553.2	2,697.0	2,906.2
Short-term borrowings	3,159.1	2,859.1	685.3	859.1	859.1
Payables	2,230.3	1,623.5	1,765.2	1,606.6	1,784.3
Others	302.2	136.6	1,102.7	231.3	262.8
TOTAL LIABILITIES	8,856.7	9,297.3	5,766.1	6,212.1	7,371.3

Cash Flow Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Operating activities					
PBT	265.6	347.3	109.5	659.1	1,052.9
Depreciation & Amortization	765.5	488.0	105.1	164.9	221.2
Chgs in working capital	(134.2)	72.8	(243.5)	181.9	(123.1)
Interest expense	(120.8)	(155.8)	(175.9)	(93.1)	(117.4)
Tax paid	(275.5)	0.0	(12.9)	(111.5)	(204.7)
Others	(125.3)	(903.2)	663.2	(8.6)	(116.8)
CF from Operations	375.3	(150.9)	445.6	792.9	712.1
Investing activities					
Capex	(2,168.8)	(966.3)	(1,003.8)	(1,250.0)	(1,250.0)
Others	264.6	370.7	(976.7)	148.0	148.0
CF from Investments	(1,904.2)	(595.6)	(1,980.5)	(1,102.0)	(1,102.0)
Financing activities					
Dividends paid	(806.1)	0.0	0.0	(185.2)	(289.4)
Net proceeds in borrowings	1,692.3	650.0	176.0	950.0	950.0
Others	0.0	(429.2)	(75.9)	0.0	0.0
CF from Financing	886.3	220.8	100.1	764.8	660.6
Net changes in cash	(642.6)	(525.7)	(1,434.8)	455.7	270.7
Beginning cash	3,276.6	2,649.5	2,927.0	952.9	1,408.6
Overdrafts & Deposits	15.6	31.2	(1,800.0)	0.0	0.0
Ending cash	2,649.5	2,154.9	952.9	1,408.6	1,679.4
Ratios	FY15	FY16	FY17	FY18F	FY19F
Revenue growth	-3.4%	-29.8%	8.7%	-9.0%	11.1%
EBIT growth	-90.6%	>100%	-6.0%	113.3%	43.9%
Core net profit growth	-59.6%	-218.9%	-140.8%	126.1%	56.3%
PBT margin	1.8%	3.4%	1.0%	6.6%	9.5%
Core net profit margin	2.3%	-3.7%	1.5%	3.7%	5.2%
ROE	-0.6%	1.4%	2.0%	9.0%	13.4%
ROA	0.8%	1.8%	2.1%	5.7%	7.3%
Net gearing (%)	50.2%	56.5%	51.6%	61.7%	72.9%
Book value/share (RM)	5.48	5.55	3.43	3.58	3.83
PBV (x)	1.21	1.19	1.93	1.84	1.72
EV/EBITDA (x)	12.1	14.0	23.9	12.6	9.5

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Hafiz Hezry
hafiz.hezry@midf.com.my
03-2173 8392

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.