

30 August 2018 | 2Q18 Results Review

UMW Holdings

Core earnings doubled

- 2Q18 earnings within expectations
- Core earnings more than doubled YoY
- Expecting strong 3Q18
- Reaffirm BUY at unchanged TP of RM7.11

Earnings within expectations. UMW registered core net profit of RM76m for its 2Q18, which brought 1H18 core earnings to RM150m. While this accounts for only 40% and 43% of our and consensus FY18F respectively, we consider it as in-line given an exceptionally strong 3Q18 ahead driven by the tax-holiday period.

Core earnings more than doubled. 2Q18 earnings were up 177%yoy mainly driven by strong recovery in auto earnings from a stronger RM and improved Toyota TIV (+11%yoy). The 2Q18 captured only 1 month of the 3-moth tax holiday period. We expect exceptionally strong TIV in 3Q18 which should more than make up for the shortfall in 1H18, notwithstanding expectations of a weak 4Q18 post-SST. On sequential basis, earnings were largely flat despite Toyota TIV rising by 50%qoq - Perodua invoiced sales actually fell 10%qoq (despite capturing one-month of tax holiday) possibly due to dealers holding back purchases in May to avoid complications in the transition to a zero-rated GST. This should improve in 3Q18. While there is a disruption of the MyVi line due to technical issues at one of the vendors (affecting 3K unit deliveries) the matter is already being rectified and the MyVi line is expected to be up and running from mid-Sept.

Exceptionals from unlisted O&G. The 2Q18 involved: (1) Write down of investments (2) Partial write-back of past provision for a financial guarantee (amount provided for previously was RM254m). While the exact amount of the 2 items was not forthcoming, we estimate the former at RM88m and the latter at RM137m. We estimate that the carrying value of the non-listed O&G units has been written down to circa RMR26m, now insignificant.

Slow progress in disposal this year. We understand that there has been little progress this year on disposal of the unlisted O&G unit, but note that core losses (~RM17m/quarter) is now less than half that of the run-rate in FY17 given massive impairments already taken. That said, one of the 9 assets left which is listed is slated to be fully disposed soon.

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, and **(4) A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production.

Maintain BUY

Unchanged Target Price (TP):RM7.11

RETURN STATS

Price (29 Aug 2018)	RM6.05
Target Price	RM7.11
Expected Share Price Return	+17.5%
Expected Dividend Yield	+4.1%
Expected Total Return	+21.6%

STOCK INFO

KLCI	1820.64
Bursa / Bloomberg	4588 / UMW MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	7068.18
1.65	2.46
52-wk price Range	RM4.70 – RM6.98
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	0.65m
3-mth Avg Daily Value	RM4.1m
Major Shareholders (%)	
SKIM ASB	40.8%
EPF	10.3%
YPB	7.3%

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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)	20.9	NA	43.2	19.1	12.7
Net Dividend (sen)	20.0	0.0	0.0	15.8	24.8
Net Dividend Yield (%)	3.3	0.0	0.0	2.6	4.1

Source: Company, MIDFR

EXHIBIT 1: 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 2: UMW 2Q18 RESULTS

FYE Dec (RMm)	2Q17	1Q18	2Q18	YoY	QoQ	1H17	1H18	YTD
Revenue	2,785.7	2,415.3	2,919.1	4.8%	20.9%	5,515.0	5,334.5	-3.3%
Operating Profit	(35.3)	91.7	241.5	-784.5%	163.4%	54.7	333.1	508.8%
Finance Cost	(24.0)	(23.6)	(13.8)	-42.5%	-41.3%	(52.9)	(37.4)	-29.3%
Associates	28.0	57.6	54.4	94.1%	-5.6%	68.0	112.0	64.6%
Investment Income	20.1	21.6	19.3	-3.8%	-10.5%	38.2	40.9	7.1%
Pretax Profit	(11.2)	147.3	301.3	NA	104.6%	108.1	448.6	315.0%
Taxation	(35.2)	(29.6)	(39.6)			(60.2)	(69.2)	
Minorities	(15.6)	19.7	15.2	NA	NA	(46.3)	34.9	
Loss from discontinued operations (UMWOG)	(178.5)	(23.9)	(122.1)			(283.4)	(146.0)	
Net Profit	(209.3)	74.1	124.4	NA	67.9%	(189.1)	198.5	NA
Core net profit incl. discontinued operations	27.2	74.1	75.5	177.4%	1.9%	47.4	149.6	215.7%
Core net profit from continuing operations	67.6	108.8	110.3	63.0%	1.3%	152.3	219.1	43.9%
EPS (FD, sen)	2.3	6.3	6.5			4.1	12.8	
DPS (sen)	0.0	5.0	0.0			0.0	5.0	
Margins (%):								
Operating	-1.3%	3.8%	8.3%			1.0%	6.2%	
Pretax Profit	-0.4%	6.1%	10.3%			2.0%	8.4%	
Core Net Profit	1.0%	3.1%	2.6%			-3.4%	3.7%	
Tax Rate	-314.7%	20.1%	13.1%			55.7%	15.4%	

Source: Company, MIDF

EXHIBIT 3: UMW 2Q18 SEGMENTAL BREAKDOWN

Segmental Breakdown	2Q17	1Q18	2Q18	YoY	QoQ	1H17	1H18	YTD
Automotive	2,260.3	1,877.1	2,382.7	5.4%	26.9%	4,451.2	4,259.7	-4.3%
Equipment	351.4	373.0	365.9	4.2%	-1.9%	693.8	739.0	6.5%
Manuf & Eng	153.9	168.5	178.3	15.9%	5.8%	319.8	346.8	8.5%
Oil & Gas (Listed)	139.9	0.0	0.0	-100.0%	#DIV/0!	214.2	0.0	-100.0%
Oil & Gas (Unlisted)	32.7	23.4	31.3	-4.2%	33.7%	67.9	54.7	-19.4%
Revenue	2,938.1	2,442.0	2,958.3	0.7%	21.1%	5,746.9	5,400.2	-6.0%
Automotive	99.0	125.9	142.4	43.9%	13.1%	186.0	268.4	44.3%
Equipment	32.2	44.9	37.8	17.4%	-15.9%	71.7	82.7	15.3%
Manuf & Eng	(9.6)	(2.9)	(0.5)	-94.3%	-80.8%	(6.5)	(3.4)	-47.7%
Oil & Gas (Listed)	(178.3)	0.0	0.0	-100.0%	#DIV/0!	(283.2)	0.0	-100.0%
Oil & Gas (Unlisted) *	(70.6)	(23.7)	(121.9)	72.6%	413.6%	(85.7)	(145.6)	70.0%
Pretax profit	39.6	144.3	57.8	45.8%	-59.9%	(117.6)	202.1	-271.9%
Pretax margins								
Automotive	4.4%	6.7%	6.0%			4.2%	6.3%	
Equipment	9.2%	12.0%	10.3%			10.3%	11.2%	
Manuf & Eng	-6.2%	-1.7%	-0.3%			-2.0%	-1.0%	
Oil & Gas (Listed)	-127.4%	NA	NA			-132.2%	NA	
Oil & Gas (Unlisted)	-216.1%	-101.3%	-389.3%			-126.1%	-266.0%	
Toyota TIV (units)	17,220	12,683	19,026	10.5%	50.0%	33,719	31,709	-6.0%
Average revenue/car (RM)	131,262	147,998	125,232	-4.6%	-15.4%	132,009	134,338	1.8%
USD:RM (Spot, delayed by 3-month)	4.33	4.16	3.92	-9.5%	-5.8%	4.39	4.04	
Net profit	(209.3)	74.1	124.4			(189.1)	198.5	
Automotive	57.0	81.4	86.7	52.2%	6.5%	112.9	168.1	48.8%
Equipment	24.8	36.6	29.8	20.1%	-18.7%	55.9	66.4	18.7%
Manuf & Eng	(14.1)	(9.2)	(6.2)	-56.1%	-32.4%	(16.5)	(15.4)	-7.2%
Oil & Gas (Listed)	(28.4)	0.0	0.0	-100.0%	#DIV/0!	(86.4)	0.0	-100.0%
Oil & Gas (Unlisted)	(52.0)	(17.1)	(104.7)	101.4%	513.4%	(62.7)	(121.7)	94.1%
Others	(196.5)	(17.7)	118.8	-160.4%	-772.1%	(192.2)	101.1	-152.6%
Core net profit from continuing operations	67.6	108.8	110.3	63.0%	1.3%	152.3	219.1	43.9%

* 2Q18 losses inflated by write-off of assets

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

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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.