

28 February 2019 | 4QFY18 Results Review

UMW Holdings

Weakness at UMW Toyota

- **FY18 results missed expectations**
- **Weakness at UMW Toyota given run-out of old Vios; partly countered by Perodua back order fulfilment**
- **Earnings under review pending briefing today**
- **Maintain BUY at unchanged TP of RM6.60**

Core earnings underperformed. UMW's FY18F core earnings underperformed expectations. Net profit came in at RM15m for 4Q18, bringing full year earnings to RM342m – this accounted for 91% of our forecast and 76% of consensus.

Auto division. Auto division revenue contracted 23%qoq on the back of a sharp 38%qoq drop in Toyota TIV, while pretax dropped 17%qoq. This was mainly due to run-out of the previous generation Vios ahead of launch of the new model in Jan19. With the new generation model, the number of Vios variant has been reduced to 3 vs. 5 for the outgoing generation – the top end TRD variant and lowest end Vios-J manual has been taken out given minimal volumes generated previously. Pricing is more or less maintained but the new Vios comes with more advanced safety features such as front collision warning. We estimate FY19F Vios volume of 30K-35K accounting for 37%-43% of our FY19F Toyota TIV.

Perodua partly countered the weakness. Despite, the weakness at UMW Toyota, Perodua registered strong growth – associate earnings expanded by 68%qoq given fulfilment of back orders for the MyVi which faced production issues in 3Q18.

Bukit Raja unlocks UMW's potential. UMW intends to plug the gaps in its model mix once the new Bukit Raja plant comes on stream early January 2019. The first model to be produced is the new Vios followed by another B-segment model (Yaris) and a potential 3rd model. At 70% automation rate and 50K capacity on single shift, UMW aims for Bukit Raja to hit at least 80%-90% utilisation (on single shift) within its 1st year of operations, sufficient for Bukit Raja manufacturing operations to be profitable.

Recommendation. Maintain BUY at unchanged TP of RM6.60. Our forecasts are under review pending a briefing today, but we expect the weakness at UMW Toyota to be temporary and contained to FY18. Key catalysts: **(1) A deleveraged balance sheet post UMWOG demerger** allows room for acquisitive growth and resumption of dividend payout **(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.

Maintain BUY

Unchanged Target Price (TP):RM6.60

RETURN STATS

Price (27 Feb 19)	RM5.82
Target Price	RM6.60
Expected Share Price Return	+13.4%
Expected Dividend Yield	+3.8%
Expected Total Return	+17.2%

STOCK INFO

KLCI	1713.45
Bursa / Bloomberg	4588 / UMH 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%

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18	FY19F
Revenue (RM'm)	14,419.8	10,965.1	11,046.5	9,753.1	10,357.5
EBIT (RM'm)	134.9	(2,202.8)	120.4	529.7	822.7
Pre-tax Profit (RM'm)	265.6	(2,153.8)	252.9	786.2	892.3
Core net profit (RM'm)	338.0	(401.8)	163.8	341.7	507.1
FD EPS (sen)	28.9	(34.4)	14.0	29.2	41.7
EPS growth (%)	(59.6)	NA	NA	127.8	36.0
PER (x)	19.7	NA	40.7	19.9	13.7
Net Dividend (sen)	20.0	0.0	0.0	7.5	21.7
Net Dividend Yield (%)	3.5	0.0	0.0	1.3	3.8

Source: Company, MIDFR

EXHIBIT 1: UMW SUM-OF-PARTS VALUATION

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive	458	PER	12	5,542	
Equipment	117	PER	12	1,414	
Serendah land		RNAV		586	RNAV of Serendah land (830acres@RM16psf) (net of debt)
Aerospace		DCF		81	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		Book Value		34	50% discount to BV
Total value				7,657	
No of shares (m)				1,168	
Fair value (RM)				6.60	

Source: Company, MIDFR

EXHIBIT 2: UMW 4Q18 RESULTS

FYE Dec (RMm)	4Q17	3Q18	4Q18	YoY	QoQ	FY17	FY18	YTD
Revenue	2,954.7	3,290.0	2,681.8	-9.2%	-18.5%	11,046.5	11,306.3	2.4%
Operating Profit	16.1	171.6	18.2	NA	-89.4%	120.4	522.9	334.2%
Finance Cost	(77.1)	(18.6)	(32.1)	-58.4%	72.3%	-119.0	-88.1	-26.0%
Associates	58.3	57.2	96.3	65.2%	68.3%	171.7	265.6	54.7%
Investment Income	20.3	23.4	21.5	6.2%	-7.8%	79.8	85.8	7.5%
Pretax Profit	17.6	233.6	103.9	NA	-55.5%	252.9	786.2	210.9%
Taxation	(33.0)	(43.5)	(29.8)			-122.3	-142.5	
MI / Distribution to Perpetual Sukuk holders	4.0	43.9	61.1	NA	NA	-22.8	139.9	
Loss from discontinued operations (UMWOG)	(413.2)	(18.0)	2.0			-804.5	-162.1	
Net Profit	(432.7)	128.1	15.1	-103.5%	-88.2%	-651.2	341.7	NA
Core net profit incl. discontinued operations	107.6	128.1	15.1	-86.0%	-88.2%	163.8	341.7	108.6%
Core net profit from continuing operations	101.4	131.2	126.4	24.6%	-3.7%	336.3	476.6	41.7%
EPS (FD, sen)	9.2	11.0	1.3			14.0	29.2	
DPS (sen)	0.0	0.0	2.5			0.0	7.5	
Margins (%):								
Operating	0.5%	5.2%	0.7%			1.1%	4.6%	
Pretax Profit	0.6%	7.1%	3.9%			2.3%	7.0%	
Core Net Profit	3.6%	3.9%	0.6%			-5.9%	3.0%	
Tax Rate	187.8%	18.6%	28.7%			48.4%	18.1%	

Source: Company, MIDF

EXHIBIT 3: UMW 4Q18 SEGMENTAL BREAKDOWN

Segmental Breakdown	4Q17	3Q18	4Q18	YoY	QoQ	FY17	FY18	YTD
Automotive	2,386.7	2,643.4	2,046.1	-14.3%	-22.6%	8,953.8	8,949.2	-0.1%
Equipment	393.5	403.4	397.8	1.1%	-1.4%	1,456.6	1,540.2	5.7%
Manuf & Eng	170.0	253.6	242.5	42.6%	-4.4%	645.6	842.8	30.5%
Oil & Gas (Listed)	0.0	0.0	0.0	#DIV/0!	#DIV/0!	214.2	0.0	-100.0%
Oil & Gas (Unlisted)	26.2	9.5	8.2	-68.8%	-13.8%	120.4	72.4	-39.9%
Revenue	2,976.4	3,309.9	2,694.5	-9.5%	-18.6%	11,390.6	11,404.6	0.1%
Automotive	141.6	151.3	125.5	-11.4%	-17.0%	433.7	545.1	25.7%
Equipment	29.6	43.5	26.0	-12.2%	-40.1%	140.6	152.3	8.3%
Manuf & Eng	(3.0)	15.5	9.5	NA	-39.1%	(16.3)	21.6	-232.9%
Oil & Gas (Listed)	0.0	0.0	0.0	NA	NA	(283.2)	0.0	-100.0%
Oil & Gas (Unlisted) *	(412.3)	(17.8)	2.3	-100.6%	-113.0%	(519.6)	(161.1)	-69.0%
Pretax profit	(244.1)	192.6	163.3	-166.9%	-15.2%	(244.7)	558.0	NA
Pretax margins								
Automotive	5.9%	5.7%	6.1%			4.8%	6.1%	
Equipment	7.5%	10.8%	6.5%			9.7%	9.9%	
Manuf & Eng	-1.8%	6.1%	3.9%			-2.5%	2.6%	
Oil & Gas (Listed)	NA	NA	NA			-132.2%	NA	
Oil & Gas (Unlisted)	-1574.1%	-187.4%	28.2%			-431.7%	-222.5%	
Toyota TIV (units)	20,202	20,940	12,902	-36.1%	-38.4%	69,492	65,551	-5.7%
Average revenue/car (RM)	118,141	126,237	158,586	34.2%	25.6%	128,846	136,523	6.0%
USD:RM (Spot, delayed by 3-month)	4.26	3.95		-100.0%	-100.0%	4.34		
Net profit	107.6	128.1	50.5			(110.9)	377.1	
Automotive	85.7	89.6	105.0	22.5%	17.1%	261.6	362.7	38.7%
Equipment	24.9	32.9	18.2	-27.0%	-44.7%	112.5	117.5	4.4%
Manuf & Eng	(9.3)	8.6	3.2	-134.4%	-63.1%	(37.7)	(3.5)	-90.6%
Oil & Gas (Listed)	0.0	0.0	0.0	-100.0%	#DIV/0!	(213.3)	0.0	-100.0%
Oil & Gas (Unlisted)	(85.0)	(26.9)	(0.3)	-99.6%	-98.7%	(176.1)	(148.9)	-15.4%
Others	91.2	23.8	(75.6)	-182.9%	-417.2%	(57.9)	49.4	-185.3%
Core net profit from continuing operations	101.4	131.2	126.4	24.6%	-3.7%	336.3	476.6	41.7%

Source: Company, MIDF

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

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(Bank Pelaburan)

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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.