01 November 2018 | Corporate Update

UMW Holdings

Moving On

Maintain BUY

***Revised* Target Price (TP):RM6.50**

(previously RM7.11)

- **MBM takeover offer allowed to lapse**
- **Toyota to hit major inflection point in FY19F**
- **Rides on national car offensive next year**
- **Maintain BUY at a lower TP of RM6.50 (previously RM7.11)**

UMW-MBM deal allowed to lapse. The offer to buyout MBM's major shareholder (Medbumikar's 50.1% stake in MBM Resources, which would have led to an MGO) has been allowed to lapse and UMW is no longer pursuing the acquisition. While it would have been an opportunity for MBM's minority shareholders to exit a value-trap, unfortunately Med-Bumikar has not responded to the offer. This also means UMW's shareholding in Perodua will remain status quo at 38%. UMW has also decided not to pursue another 10% Perodua stake from PNB. As mentioned yesterday, the deal was merely an icing to our previous contrarian BUY call and the sharp price retracement in the past 1 month more than reflects the deal falling through.

Hitting a major inflection point. Fundamentally, we expect Toyota market share to hit a major inflection point in FY19F as the new Bukit Raja plant comes on-stream from 1Q19. We forecast Toyota TIV to rise 13%yoy to 81K in FY19F and market share to expand to close to 14% from 12% in FY18F. This is expected to be driven by the new Vios and more importantly, the all-new Yaris (Honda Jazz competitor) which fills a major gap in UMWT's model mix. Toyota TIV should rise further to ~90K in FY20F. UMWT is targeting to regain pole position in the non-national segment over the mid-term.

New Rush locally assembled. Unlike the previous generation Rush which was brought in as CBU, the latest version is locally assembled, contract manufactured by Perodua. Pricing is slightly cheaper than the outgoing model, but the new Rush is highly specced (Toyota active safety features, 7 airbags). UMWT is targeting 3000-4000 annual sales volume, 4%-5% of our FY19F Toyota TIV.

Rides on national car offensive. Both Proton and Perodua will be launching their respective SUVs within the next 2-8 months. These are important models that fill up gaps in their respective model mix. UMW is one of the major beneficiaries being the largest shareholder in Perodua with a 38% stake. Our FY19F 10% earnings growth for Perodua has yet to factor in the new SUV, which could drive a gap-up in market share. For now, we forecast conservative flattish market share in FY19F.

Re-affirm BUY on UMW at a lower TP of RM6.50/share (from RM7.11/share) following earnings revisions in this report. We had also updated the latest carrying value of the non-listed O&G assets in our SOP valuation. 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.

RETURN STATS	
Price (31 Oct 2018)	RM4.75
Target Price	RM6.50
Expected Share Price Return	+36.8%
Expected Dividend Yield	+4.2%
Expected Total Return	**+41.0%**

STOCK INFO	
KLCI	1709.27
Bursa / Bloomberg	4588 / UMWH MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	5479.30
Price/NA	1.72
52-wk price Range	RM4.20 – RM6.98
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	1.04m
3-mth Avg Daily Value	RM5.22m
Major Shareholders (%)	
SKIM ASB	40.8%
EPF	11.5%
YPB	7.3%

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	614.2	899.9
Pre-tax Profit (RM'm)	265.6	(2,153.8)	252.9	622.7	900.3
Core net profit (RM'm)	338.0	(401.8)	163.8	340.6	466.1
FD EPS (sen)	28.9	(34.4)	14.0	29.2	38.3
EPS growth (%)	(59.6)	NA	NA	108.0	36.8
PER (x)	16.4	NA	33.9	16.3	12.4
Net Dividend (sen)	20.0	0.0	0.0	14.6	19.9
Net Dividend Yield (%)	4.2	0.0	0.0	3.1	4.2

Source: Company, MIDFR

Bukit Raja is a game changer. The new Bukit Raja plant which will come on-stream in 1Q19 is a game changer for UMW Toyota (UMWT) as (1) it will allow product expansion to fill up major gaps in UMWT's model mix (2) Allow for more models to be localised – currently only the Vios, Camry, Hilux, Fortuner and Innova are locally assembled. More recently, the latest Rush was localised but via a contract manufacturing arrangement with Perodua. To recap, the RM1.8b plant (depreciated over >30 years), which is also one of Toyota's 3 most globally advanced assembly plant, will double UMWT's capacity to 100K from 50K (on single-shift). Bukit Raja will be the main plant for passenger vehicle assembly while the old ASSB plant will focus on commercial vehicles and pick-up production.

Bukit Raja removes UMWT's constraint in localising the latest models and expanding its product range. The new plant has an automation rate of 70% vs. ASSB's (old plant) 30%. As such, Bukit Raja will require less than half ASSB's existing staff. Given lower production at ASSB (as passenger car production will be transferred to Bukit Raja), Bukit Raja will merely receive transfers from ASSB rather than employ a new set of workforce, which should accelerate break-even. UMWT is targeting a utilisation rate of 80%-90% for Bukit Raja (more than enough for break-even) with two immediate models to be produced there.

We forecast Toyota TIV to rise 13%yoy to 81K in FY19F and market share to expand to close to 14% from 12% in FY18F. This is expected to be driven by the new Vios and more importantly, the all-new Yaris (Honda Jazz competitor) which fills a major gap in UMWT's model mix. Toyota TIV should rise further to ~90K in FY20F. In the mid-term, the group looks to regain its pole position in the non-national segment with ~100K target TIV.

Targeted expansion. UMW Toyota will likely focus its expansion into segments: (1) Where it is currently under-represented e.g. small hatchback, small MPV, B-segment SUV, C-segment SUV. (2) High-volume segments. The first model to be assembled at Bukit Raja, targeted in 1Q19, will be the new Vios, which has already been launched in Thailand. The Vios generates 20K-30K/annum volume for UMWT, or circa 30%-40% of Toyota TIV and is its key volume generator. During early years of launch, the Vios generated almost 40K volumes. We think UMWT would target around mid-30K volumes for the new Vios in FY19F.

Looking for structural market share expansion. Another important model for Bukit Raja will be the new Yaris which fill up UMWT's gap in the small hatchback segment. The Honda Jazz had been enjoying a "honeymoon" period with little competitors from the main Japanese marques in this segment. The first Jazz was launched in 2003 in CBU form, but the big kicker was launch of the CKD versions in 2014, which brought down pricing to RM73K-RM88K (from ~RM90K) after qualifying for EEV incentives. The latest Jazz is priced at RM70K-RM83K, overlapping its B-segment sedan, the City (priced at RM74K-RM86K). The Jazz generates ~1K/month volume and is estimated to account for ~20% of Honda TIV. UMWT's entry into this segment via the Yaris will be a game changer and should give it a much needed structural market share expansion.

Maiden CKD SUV. The new Rush was recently launched by UMWT. What is significant is that the new model is locally assembled compared to previous generation Rush which was imported as CBU. The new Rush is also in the process of qualifying for EEV incentives, which will lower duty cost meaningfully depending on base localisation. The new Rush is contract manufactured by Perodua at it B-segment plant (the first plant) and is targeted to generate 3000-4000 volumes/annum, circa 4%-5% of our FY19F Toyota TIV. Reflecting the cost savings from localisation, the new Rush is priced at RM93K-RM98K (pending Government approval) vs. the outgoing CBU Rush which was priced at RM102K-RM107K at launch. On top of this, the new Rush is highly specced carrying Toyota's latest active safety features and qualifying for 5-star ASEAN NCAP safety rating for both variants on offer (i.e. 1.5G and 1.5S).

Aerospace seeing hiccups. The aerospace division may see break-even be pushed out by another year as Rolls Royce (RR) is facing issues with the Trent 1000 engines (problems with the engines' compressor, supplied by other vendors). RR is in the process of rectifying the issue, but this is likely to impact the earlier projected volume of fan cases to be assembled by UMW Aerospace. Earlier projection was for 80 units of fan case assembly in FY18F, rising to 160 units in FY19F, which would have brought UMW to break-even. Management however, guided that the target to turn profitable in FY20F remains on track.

Earnings revisions. Our FY18F/FY19F earnings are revised down by 8%/19.5%. This is mainly to reflect: (1) Exclusion of 10% Perodua stake purchase from PNB which we had factored in earlier (2) A delay in aerospace segment break-even towards FY20F (3) Losses from non-listed O&G assets running into FY19F given a delay in disposal – 9 assets left to be disposed. At this juncture we have yet to factor in Perodua's new SUV into our projections pending more concrete pricing and launch details.

Recommendation. Re-affirm BUY on UMW at a lower TP of RM6.50/share (from RM7.11/share) following earnings revisions in this report. We had also updated the latest carrying value of the non-listed O&G assets in our SOP valuation. 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.

EXHIBIT 1: UMW SUM-OF-PARTS VALUATION

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	*Comments*
Automotive – **UMW Toyota**	233	PER	12	2,795	
Automotive - **Perodua**	185	PER	15	2,780	
Equipment	114	PER	12	1,367	
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	*Based on 50% discount to Book Value of assets*
Total value				**7,643**	
No of shares (m) **Fair Value (RM)**				1,168 **6.50**	

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)	(9,399.4)	(10,221.4)
EBIT	**262.1**	**(2,202.8)**	**120.4**	**614.2**	**899.9**
Net interest expense	(126.6)	(105.7)	(39.2)	(93.1)	(117.9)
Associates	130.1	154.8	171.7	101.6	118.3
PBT	**265.6**	**(2,153.8)**	**252.9**	**622.7**	**900.3**
Taxation	(259.9)	(140.7)	(122.3)	(104.2)	(195.5)
Minority Interest	44.6	(603.9)	(22.8)	(177.9)	(238.7)
Net profit	(38.9)	(1,690.6)	(651.2)	340.6	466.1
Core net profit	**338.0**	**(401.8)**	**163.8**	**340.6**	**466.1**
Consensus net profit	*338.0*	*103.9*	*80.0*	*364.0*	*483.2*
MIDF vs. consensus				***-6%***	***-4%***

Balance Sheet (RMm)	FY15	FY16	FY17	FY18F	FY19F
Non-current assets	**10,511.7**	**10,070.2**	**4,820.3**	**6,325.8**	**7,324.9**
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	2,273.4
Others	484.6	434.4	17.7	484.6	484.6
Current assets	**7,568.9**	**6,136.0**	**5,121.7**	**5,605.7**	**6,228.3**
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	1,391.5	1,681.7
TOTAL ASSETS	**18,080.6**	**16,206.1**	**9,942.0**	**11,931.5**	**13,553.2**
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,827.1	3,082.3	1,093.4	1,550.0	1,788.7
Reserves	5,812.7	5,905.5	2,498.2	3,588.2	3,821.2
TOTAL EQUITY	**9,223.9**	**9,572.0**	**4,175.8**	**5,722.3**	**6,194.1**
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**	**2,694.1**	**2,894.0**
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	228.4	250.6
TOTAL LIABILITIES	**8,856.7**	**9,297.3**	**5,766.1**	**6,209.2**	**7,359.1**

Cash Flow Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Operating activities					
PBT	265.6	347.3	109.5	622.7	900.3
Depreciation & Amortization	765.5	488.0	105.1	164.9	221.2
Chgs in working capital	(134.2)	72.8	(243.5)	179.0	(132.4)
Interest expense	(120.8)	(155.8)	(175.9)	(93.1)	(117.9)
Tax paid	(275.5)	0.0	(12.9)	(104.2)	(195.5)
Others	(125.3)	(903.2)	663.2	(8.5)	(0.4)
CF from Operations	**375.3**	**(150.9)**	**445.6**	**760.9**	**675.3**
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	(170.3)	(233.0)
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**	**779.7**	**717.0**
Net changes in cash	**(642.6)**	**(525.7)**	**(1,434.8)**	**438.6**	**290.2**
Beginning cash	3,276.6	2,649.5	2,927.0	952.9	1,391.5
Overdrafts & Deposits	15.6	31.2	(1,800.0)	0.0	0.0
Ending cash	**2,649.5**	**2,154.9**	**952.9**	**1,391.5**	**1,681.7**

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%	101.4%	46.5%
Core net profit growth	-59.6%	-218.9%	-140.8%	108.0%	36.8%
PBT margin	1.8%	3.4%	1.0%	6.2%	8.1%
Core net profit margin	2.3%	-3.7%	1.5%	3.4%	4.2%
ROE	-0.6%	1.4%	2.0%	8.3%	10.9%
ROA	0.8%	1.8%	2.1%	5.4%	7.1%
Net gearing (%)	50.2%	56.5%	51.6%	62.3%	74.0%
Book value/share (RM)	5.48	5.55	3.43	3.57	3.77
PBV (x)	0.87	0.86	1.39	1.33	1.26
EV/EBITDA (x)	9.7	11.3	18.6	10.5	7.9

DAILY PRICE CHART

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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 *rise* 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 *fall* 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.