



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

25 May 2016

Major segments still under pressure

HOLD
(Maintained)

AmInvestment Bank Bhd

www.amesecurities.com

03-2036 2304

Rationale for report: Company result

Price	RM5.40
Fair Value	RM5.45
52-week High/Low	RM10.90/RM5.39

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	14,441.6	12,818.2	13,408.8	13,653.4
Core net profit (RM mil)	218.1	252.5	276.4	371.0
FD Core EPS (sen)	18.7	21.6	23.7	31.8
FD Core EPS growth (%)	(74.1)	15.8	9.5	34.2
Consensus Net Profit (RM mil)	-	360.2	454.1	498.8
DPS (sen)	41.0	10.8	11.8	15.9
PE (x)	28.9	25.0	22.8	17.0
EV/EBITDA (x)	14.8	12.9	12.4	9.1
Div yield (%)	7.6	2.0	2.2	2.9
ROE (%)	(0.4)	3.8	4.2	5.6
Net Gearing (%)	49.8	47.4	53.7	55.9

Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,308.8
Book Value (RM/share)	5.64
P/BV (x)	1.0
ROE (%)	(0.4)
Net Gearing (%)	49.8

Major Shareholders
Skim ASB (40.8%)
EPF (17.6%)

Free Float	32.6
Avg Daily Value (RMmil)	5.8

Price performance	3mth	6mth	12mth
Absolute (%)	(21.7)	(33.7)	(49.3)
Relative (%)	(19.9)	(31.6)	(44.3)



Investment Highlights

- We maintain HOLD on UMW Holdings (UMW) with a lower fair value of RM5.45/share (from RM6.36). UMW registered a net profit of RM16.6 mil, and a core net loss of RM14mil in 1QFY16 after stripping out EIs, which fared grimly against our and consensus estimates of a full-year net profit of RM355.1mil and RM360.2mil respectively. No dividends were declared, as expected.
- Auto topline fell 22% YoY on a 38% drop in sales in 1QFY16, following price hikes of 3-8% on Toyota cars from January. The latter move, and a slight improvement in the USD-MYR rate (averaging 4.19 in 1QFY16 vs. 4.28 in 4QFY15), helped defend a war-time net profit margin of 3.6% (close to FY15's 4% but a far cry from the previous 6-7% seen).
- UMW pragmatically lowered its target for Group auto sales in 2016 to 296K units from 303K previously. The target for Perodua was maintained at 216K, but the combined target for Toyota and Lexus was slashed to 80K from 87K. UMW's associates' line was 34% lower YoY in 1QFY16 as Perodua sales fell 18% during the period. We see no catalysts for UMW's Auto segment as support from new models will be limited and consumer sentiment remains soft. The Hilux and Fortuner were launched on May 5, Alphard and Vellfire slated for 3Q and the Innova for later this year. Only the Hilux is a volume model for Toyota.
- O&G segment saw its second consecutive quarter of losses as rig utilisation and charter rates remain depressed. More losses are expected as it becomes increasingly difficult to secure charters due to the low oil price environment.
- Equipment segment saw its top and bottom-line drop 45% and 62% YoY respectively, as machinery sales fell with the downturn in the construction and mining sectors, as well as weak global demand and prices for commodities. Margins held steady but may deteriorate due to rising competition in the local market for UMW's distribution of Toyota forklifts, which previously enjoyed a market share of 50%.
- Manufacturing & Engineering segment, which sells lubricants and car parts, continued to contribute meagre earnings and see poor margins due to the contraction in the auto industry.
- Tax during the quarter was at 123% of PBT. The company said this was because certain expenses were not allowed to offset tax, taxes in some foreign units were based on contract values and not earnings, and some subsidiaries were loss-making.
- Net gearing expanded to 53.7% at end-March from 49.8% at end-2015 (FY14: 12.4%), on an increment in its net debt position to RM3.5bil from RM3.3bil. The question of the RM2.1bil in short-term debt in 55.7% owned UMW Oil and Gas (UMWOG) still looms with the bulk of it due soon, raising the possibility of a debt refinancing or potential cash call that would require UMW's support.
- Maintain HOLD with a lower fair value of RM5.45/share as we trim our forecasts on: - (1) lower projections for Auto sales given poor performance YTD and lack of catalysts moving forward (2) continued margin compression given that USD-MYR remains elevated at 4.12 vs. the average of 3.91 in 2015 (3) higher net loss projections for UMWOG for the next 3 years.

EXHIBIT 1: EARNINGS FROM 1QFY15 TO 1QFY16

31 Dec (RMm)	1Q15	2Q15	3Q15	4Q15	FY15	1Q16
Revenue	3,240.4	3,485.3	3,533.2	4,160.9	14,441.6	2,119.2
Operating Profit	283.5	176.0	66.8	(359.7)	135.6	17.1
Finance Cost	(32.1)	(27.8)	(24.8)	(41.9)	(126.8)	(43.3)
Associates	33.4	29.5	(0.3)	35.8	134.4	22.1
Investment Income	35.3	29.9	30.5	31.5	126.4	25.2
Pretax Profit	320.1	207.6	72.2	(334.3)	269.7	21.1
Taxation	(84.0)	(74.3)	(44.3)	(57.3)	(267.5)	(26.0)
Minorities	70.9	64.9	14.4	(105.5)	39.4	(21.5)
Net Profit	165.2	64.4	13.5	(286.0)	(37.2)	16.6
Core net profit	181.9	96.1	173.2	(354.6)	218.1	(14.0)
EPS (sen)	14.1	5.5	1.2	-24.5	-3.2	1.4
DPS (sen)	0.0	10.0	0.0	10.0	20.0	0.0
Margins (%):						
Operating	8.7%	5.0%	1.9%	-8.6%	0.9%	0.8%
Pretax Profit	9.9%	6.0%	2.0%	-8.0%	1.9%	1.0%
Net Profit	5.1%	1.8%	0.4%	-6.9%	-0.3%	0.8%
Tax Rate	26.2%	35.8%	61.4%	-17.1%	99.2%	123.4%
Toyota sales	16,241	22,555	23,301	31,663	93,760	10,216
Average revenue per car (RM)	123,487	121,156	111,418	106,618	114,230	152,309
Perodua sales	57,153	51,349	49,025	55,780	213,307	47,181

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: DERIVATION OF SOP-BASED FAIR VALUE

Segments	FY16F NET PROFIT	PE (x)	Value (RMm)	Value (RM/share)
Auto related	578.38	9.00	5,205.46	4.46
Equipment	176.57	8.00	1,412.53	1.21
Manufacturing & Eng	12.86	8.00	102.86	0.09
O&G	-	-	-	0.42
Others	-	-	(200.00)	(0.17)
Net debt	-	-	(645.66)	(0.55)
Total RNAV			5,875.19	
Fair Value				5.45

EXHIBIT 3: EARNINGS BY SEGMENT

Segments	1Q15	2Q15	3Q15	4Q15	FY2015	1Q16	YOY	QOQ
Automotive	2,005.5	2,732.7	2,596.1	3,375.9	10,710.2	1,556.0	-22.4%	-53.9%
Equipment	653.0	353.6	474.8	402.9	1,884.3	358.0	-45.2%	-11.1%
Manufacturing & Eng	171.1	165.4	183.8	182.4	702.7	145.4	-15.0%	-20.3%
Oil & Gas	312.5	183.4	212.7	131.0	839.5	87.7	-71.9%	-33.0%
Others	115.9	69.5	82.6	94.8	362.8	62.8	-45.8%	-33.7%
Elimination	(17.6)	(19.3)	(16.9)	(25.9)	(79.7)	(10.7)	-39.3%	-58.8%
Revenue	3,240.4	3,485.3	3,533.2	4,160.9	14,419.8	2,199.2	-32.1%	-47.1%

Automotive	233.5	263.4	113.4	247.9	858.2	82.7	-64.6%	-66.6%
Equipment	99.3	33.7	64.4	27.5	224.9	39.2	-60.5%	42.5%
Manufacturing & Eng	1.8	0.4	0.8	13.9	16.8	6.6	265.6%	-52.5%
Oil & Gas	42.5	8.0	11.5	(411.3)	(349.4)	(68.4)	-261.1%	-83.4%
Others	(57.1)	(97.8)	(117.7)	(212.3)	(484.9)	(39.1)	-31.5%	-81.6%
Pretax profit	320.0	207.6	72.2	(334.3)	265.6	21.1	-93.4%	-106.3%

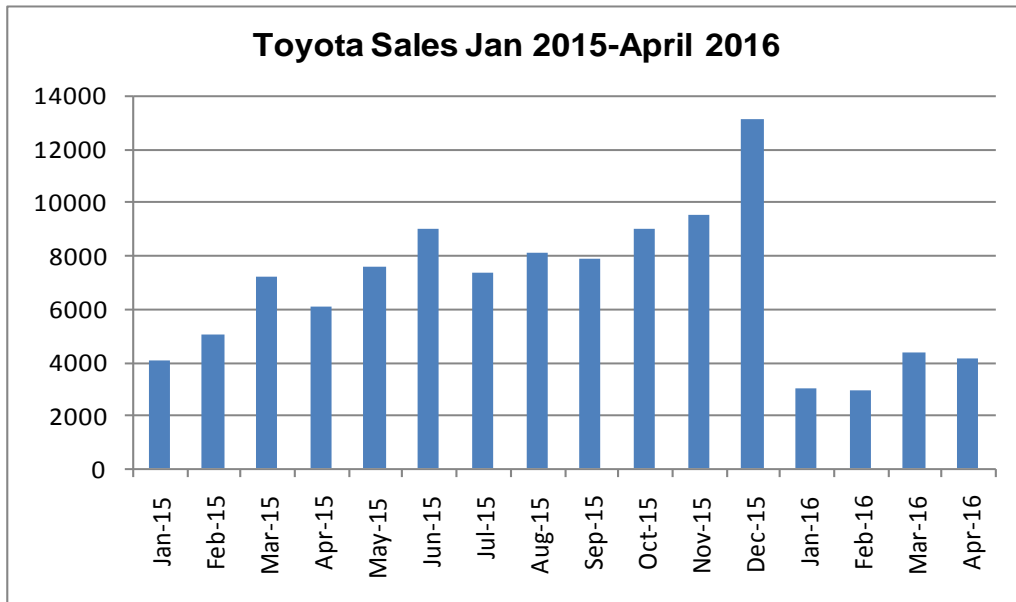
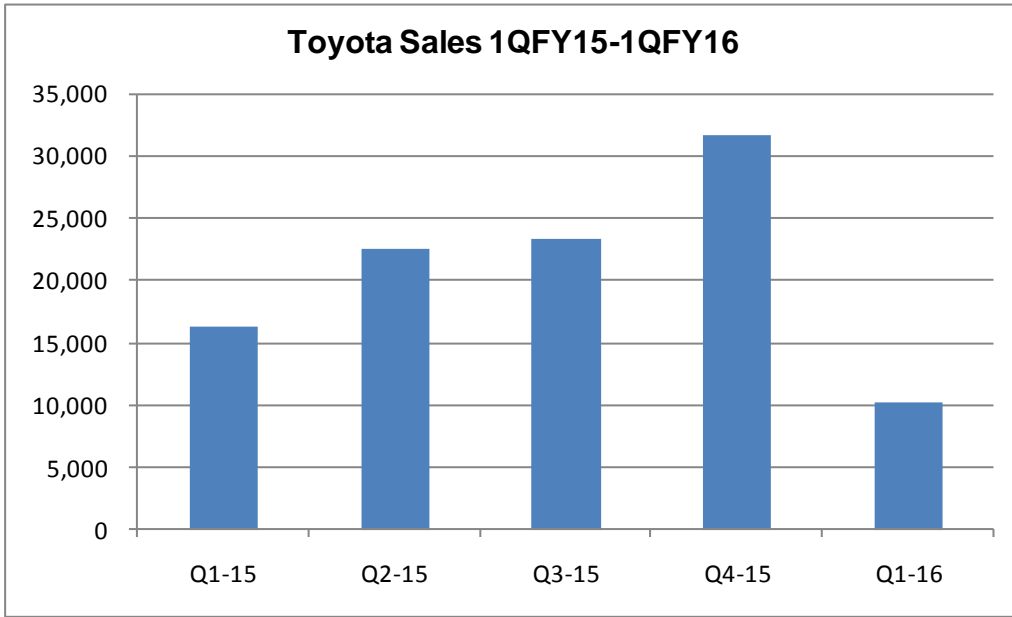
Automotive	116.7	130.6	59.5	124.5	431.3	55.5	-52.5%	-55.4%
Equipment	78.7	26.6	51.4	26.4	183.0	30.2	-61.7%	14.5%
Manufacturing & Eng	1.3	0.5	(0.0)	8.5	10.2	1.1	-12.6%	-86.5%
Oil & Gas	17.9	2.3	0.1	(228.0)	(207.6)	(36.2)	-302.1%	-84.1%
Others	(49.5)	(91.5)	(97.4)	(217.4)	(455.8)	(34.0)	-31.3%	-84.4%
Net profit	165.2	68.4	13.5	(286.0)	(38.9)	16.6	-90.0%	-105.8%

Pretax margins	1Q15	2Q15	3Q15	4Q15	FY2015	1Q16
Automotive	11.6%	9.6%	4.4%	7.3%	8.0%	5.3%
Equipment	15.2%	9.5%	13.6%	6.8%	11.9%	11.0%
Manufacturing & Eng	1.1%	0.2%	0.4%	7.6%	2.4%	4.5%
Oil & Gas	13.6%	4.4%	5.4%	-314.1%	-41.6%	-78.0%

Net profit margins	1Q15	2Q15	3Q15	4Q15	FY2015	1Q16
Automotive	5.8%	4.8%	2.3%	3.7%	4.0%	3.6%
Equipment	12.1%	7.5%	10.8%	6.5%	9.7%	8.4%
Manufacturing & Eng	0.8%	0.3%	0.0%	4.6%	1.5%	0.8%
Oil & Gas	5.7%	1.3%	0.1%	-174.1%	-24.7%	-41.3%

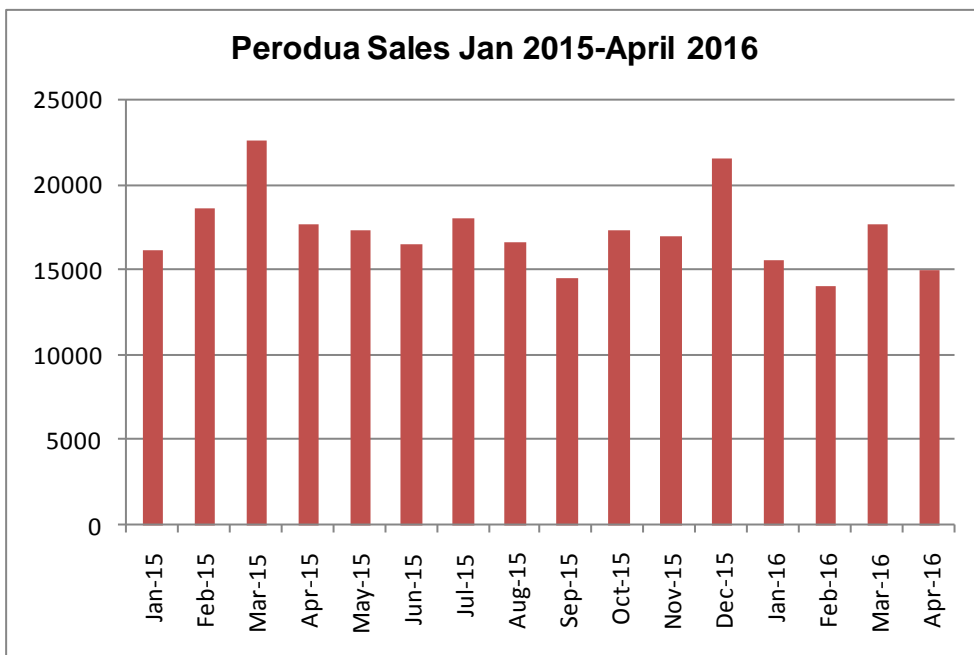
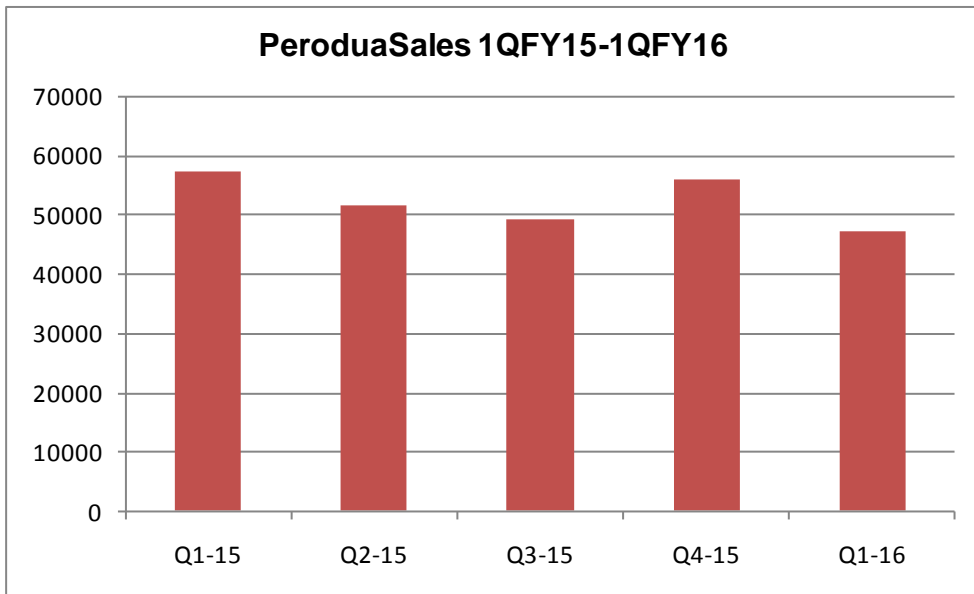
Source: Company, AmlInvestment Bank Bhd

EXHIBIT 4: TOYOTA SALES



Source: Malaysian Automotive Association, AmlInvestment Bank Bhd

EXHIBIT 5: PERODUA SALES



Source: Malaysian Automotive Association, AmlInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	14,932.5	14,441.6	12,818.2	13,408.8	13,653.4
EBITDA	1,811.7	646.3	729.0	794.7	1,101.8
Depreciation/Amortisation	(378.7)	(502.0)	(570.9)	(638.9)	(706.9)
Operating income (EBIT)	1,432.9	144.4	158.0	155.7	394.8
Other income & associates	139.6	134.4	215.2	240.7	249.4
Net interest	48.9	(0.4)	0.9	2.1	3.4
Exceptional items	-	-	-	-	-
Pretax profit	1,621.5	278.4	374.1	398.5	647.7
Taxation	(408.5)	(267.5)	(90.9)	(96.8)	(157.4)
Minorities/pref dividends	(561.0)	(39.4)	(30.7)	(25.3)	(119.3)
Net profit	652.0	(28.4)	252.5	276.4	371.0
Core net profit	842.5	218.1	252.5	276.4	371.0
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	5,669.7	8,102.8	9,142.1	10,121.3	11,040.6
Intangible assets	25.6	25.2	25.2	25.2	25.2
Other long-term assets	2,353.3	2,429.9	337.4	(1,391.1)	(3,283.2)
Total non-current assets	8,048.5	10,557.9	9,504.6	8,755.4	7,782.7
Cash & equivalent	3,370.7	2,734.1	2,909.0	3,068.0	3,351.8
Stock	1,830.4	1,890.0	1,677.5	1,754.8	1,786.8
Trade debtors	2,078.5	1,833.4	1,627.3	1,702.3	1,733.3
Other current assets	1,191.5	1,209.9	1,200.5	1,200.5	1,200.5
Total current assets	8,471.1	7,667.4	7,414.3	7,725.5	8,072.4
Trade creditors	2,217.0	2,241.2	1,989.3	2,080.9	2,118.9
Short-term borrowings	2,386.7	3,725.0	3,792.7	4,416.0	4,893.3
Other current liabilities	465.8	371.8	116.9	118.9	138.8
Total current liabilities	5,069.6	6,338.0	5,898.9	6,615.8	7,150.9
Long-term borrowings	1,803.0	2,289.8	2,239.8	2,189.8	2,141.8
Other long-term liabilities	214.0	213.7	83.5	83.5	83.5
Total long-term liabilities	2,017.0	2,503.4	2,323.2	2,273.2	2,225.2
Shareholders' funds	6,580.5	6,584.4	6,584.6	6,584.7	6,584.9
Minority interests	2,852.6	2,799.4	2,713.5	2,619.4	2,493.1
BV/share (RM)	5.63	5.64	5.64	5.64	5.64
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	1,621.5	278.4	374.1	398.5	647.7
Depreciation/Amortisation	378.7	502.0	570.9	638.9	706.9
Net change in working capital	(149.1)	67.9	111.4	(58.7)	(5.2)
Others	(486.1)	100.7	(306.1)	(337.5)	(406.8)
Cash flow from operations	1,364.9	949.0	750.3	641.3	942.7
Capital expenditure	(2,185.5)	(2,280.4)	(1,500.0)	(1,500.0)	(1,500.0)
Net investments & sale of fixed assets	2,250.8	1,180.0	-	-	-
Others	(380.3)	(639.9)	1,300.0	1,300.0	1,200.0
Cash flow from investing	(315.0)	(1,740.3)	(200.0)	(200.0)	(300.0)
Debt raised/(repaid)	1,151.6	1,323.4	(50.0)	(50.0)	(47.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(947.2)	(805.2)	(212.2)	(232.3)	(311.9)
Others	(0.9)	(0.9)	-	-	-
Cash flow from financing	203.6	517.3	(262.2)	(282.3)	(358.9)
Net cash flow	1,253.5	(274.0)	288.1	159.0	283.8
Net cash/(debt) b/f	1,565.1	2,830.4	2,620.9	2,909.0	3,068.0
Net cash/(debt) c/f	2,825.0	2,620.9	2,909.0	3,068.0	3,351.8
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	7.0	(3.3)	(11.2)	4.6	1.8
EBITDA growth (%)	11.7	(64.3)	12.8	9.0	38.6
Pretax margin (%)	10.9	1.9	2.9	3.0	4.7
Net profit margin (%)	4.4	(0.2)	2.0	2.1	2.7
Interest cover (x)	nm	358.2	nm	nm	nm
Effective tax rate (%)	25.2	96.1	24.3	24.3	24.3
Dividend payout (%)	59.1	nm	37.5	37.5	37.5
Debtors turnover (days)	48	49	49	45	46
Stock turnover (days)	44	47	51	47	47
Creditors turnover (days)	52	56	60	55	56

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 7: PB BAND CHART

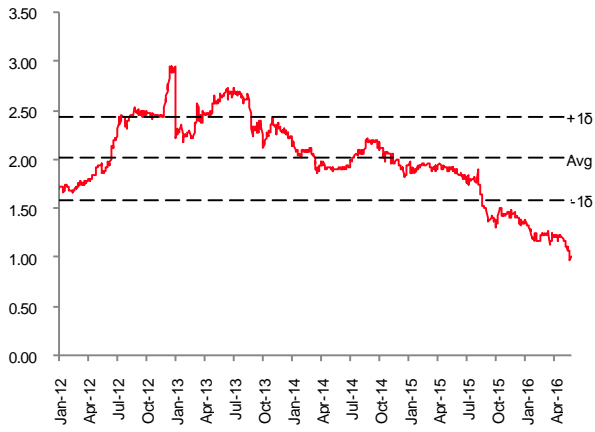
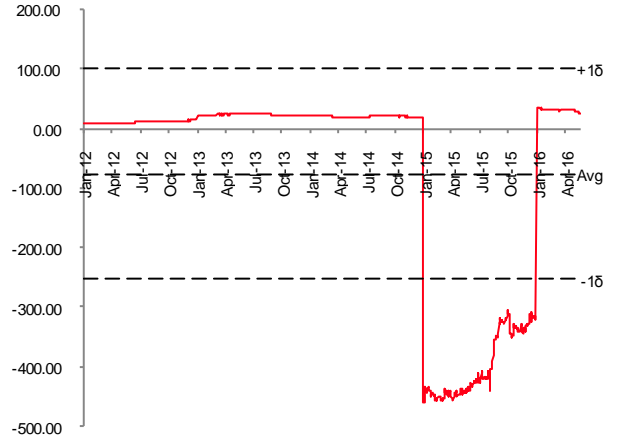


EXHIBIT 8: PE BAND CHART



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Printed by

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