



Company Note

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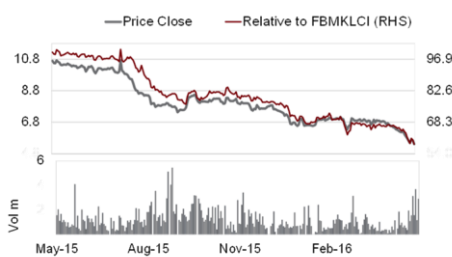
REDUCE (previously HOLD)

Consensus ratings: Buy 0 Hold 7 Sell 10

Current price:	RM5.40
Target price:	RM4.80
Previous target:	RM6.40
Up/downside:	-11.1%
CIMB / Consensus:	-19.1%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,531m
	RM6,309m
Average daily turnover:	US\$1.46m
	RM5.90m
Current shares o/s:	1,168m
Free float:	34.2%

Key changes in this note

- FY16-18F Revenue decreased by 17-19%.
- FY16-18 EPS decreased by 37-80%.

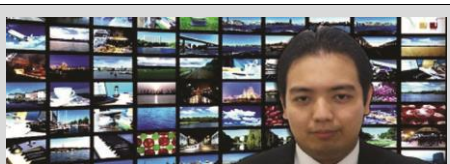


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-21.3	-21.7	-49.4
Relative (%)	-15.9	-19.4	-40.3

Major shareholders	% held
Permodalan Nasional Bhd	50.1
EPF	15.7

Analyst(s)



Mohd Shanaz NOOR AZAM

T (60) 3 2261 9078

E shanaz.azam@cimb.com

UMW Holdings

1Q16 results: Starting off weak

- 1Q16 core net loss of RM10.9m; below expectations as we expected the company to turn profitable.
- Core EPS plunged 106.5% yoy due to lower earnings across all segments, hit by soft commodity prices, poor consumer sentiment and a weaker ringgit.
- We cut our FY16-18 EPS forecasts by 37-80% to account for lower automotive earnings and widening O&G losses.
- Downgrade from Hold to Reduce, with a lower SOP-based target price of RM4.80.

1Q16 results below expectations

UMW's 1Q16 results came in below both our and consensus expectations, with a net profit of RM16.6m (US\$4.1). Stripping off net forex loss and net gain on derivative, it the company slipped into core net loss of RM10.9m (US\$2.7m). The deviation came from lower earnings across all segments due to commodity price fluctuations, weak consumer sentiment and ringgit depreciation against the US\$.

Double-digit decline in Toyota sales volume

Automotive revenue fell by 22.4% yoy due to lower sales volume from Toyota which suffered from lack of new model launches. Toyota sales volume fell by 37% yoy in 1Q16. However, we expect recent IMV model launches to push sales volume in 2H16. Overall, automotive profit shrunk 52.5% yoy to RM55.5m (US\$13.6m) on the back of lower sales volume and higher production cost due to RM depreciation against the US\$.

Equipment division lacks catalysts

Equipment revenue plunged 45.2% yoy in 1Q16 to RM358m, resulting in segment profit declining 61.7% yoy to RM30.2m (US\$7.4m). The impact of a soft commodity price outlook on domestic demand remains a concern, especially in the construction and mining sectors. Demand from Myanmar operations could be affected by policy changes regarding the country's jade mining activities.

Oil & gas division remains loss-making

The O&G segment posted net loss of RM36.2m (US\$8.9m) in 1Q16 vs. net profit of RM32.2m (US\$7.9m) in 1Q15 on the back of higher discounts in charter rates and lower utilisation of its jackup rigs. We do not expect significant improvement from this division given the weak industry outlook. We understand that only three of its seven units are employed and demand for jackup rigs in ASEAN has more than halved since 2014.

Cutting our FY16-18 EPS by 37-80%

We cut our FY16-18 EPS forecasts by 37-80% to account for: i) lower automotive earnings in view of lower shipment volume and higher production and promotional expenses and ii) widening O&G losses due to lower charter and rig utilisation rates.

Downgrade from Hold to Reduce, with target price of RM4.80

Following the earnings revision, we cut our SOP-based target price to RM4.80. We downgrade UMW from Hold to Reduce in view of its weak earnings prospects over the next 12 months. We see further downside to its share price if earnings continue to deteriorate over the next few quarters, if demand from the new launches disappoint. Switch to Berjaya Auto for better exposure to the sector. The stock could re-rate if consumer demand for automotive recovers and losses from its O&G division narrow.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (RMm)	14,932	14,442	11,698	11,555	12,116
Operating EBITDA (RMm)	1,812	646	855	1,192	1,278
Net Profit (RMm)	652.0	(38.2)	98.1	260.1	313.8
Core EPS (RM)	0.57	(0.03)	0.09	0.23	0.27
Core EPS Growth	(4%)	(106%)		165%	21%
FD Core P/E (x)	9.55	NA	63.46	23.94	19.85
DPS (RM)	0.42	0.20	0.20	0.25	0.30
Dividend Yield	7.80%	3.70%	3.70%	4.63%	5.56%
EV/EBITDA (x)	5.49	16.17	14.31	10.27	9.67
P/FCFE (x)	2.68	9.23	26.14	23.87	31.04
Net Gearing	9.2%	35.7%	33.8%	31.6%	30.2%
P/BV (x)	0.95	0.97	0.97	0.98	0.99
ROE	10.1%	(0.6%)	1.5%	4.1%	5.0%
% Change In Core EPS Estimates			(80.2%)	(55.3%)	(37.0%)
CIMB/consensus EPS (x)			0.27	0.58	0.63

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	1Q16	1Q15	yoy % chg	4Q15	qoq % chg	Prev. FY16F	Comments
Revenue	2,199.2	3,240.4	(32.1)	4,160.9	(47.1)	14,361.6	Lower revenue from all divisions
Operating costs	(2,076.9)	(2,842.5)	(26.9)	(4,116.9)	(49.6)	(12,927)	
EBITDA	122.3	397.9	(69.3)	44.0	177.9	1,434.7	Below expectation
EBITDA margin (%)	5.6	12.3		1.1		10.0	Lower profit from all divisions
Deprn & amort.	(132.6)	(113.0)	17.3	(403.7)	(67.2)	(497.1)	In line
EBIT	(10.3)	284.9	(103.6)	(359.7)	(97.1)	1,057.6	
Interest expense	(43.3)	(32.2)	34.5	(41.9)	3.4	(131.7)	Above expectation
Interest & invt inc	25.2	35.3	(28.7)	31.5	(20.2)	160.6	
Associates' contrib	22.1	33.4	(34.0)	35.8	(38.3)		
Exceptionals	27.5	(1.4)	<i>nm</i>	-	<i>nm</i>		Gain on derivatives
Pretax profit	21.1	320.0	(93.4)	(334.3)	106.3	1,086.5	Below expectation
Tax	(26.0)	(84.0)	(69.0)	(57.3)	(54.6)	(380.3)	
Tax rate (%)	123.4	26.3		(17.1)		35.0	
Minority interests	21.5	(70.9)	130.4	105.5	(79.6)	(210.3)	
Net profit	16.6	165.2	(90.0)	(286.0)	105.8	495.9	Below expectations
Core net profit	(10.9)	166.5	(106.5)	(286.0)	(96.2)	495.9	
EPS (sen)	1.4	14.1	(90.0)	(24.5)	105.8	42.4	
Core EPS (sen)	(0.9)	14.3	(106.5)	(24.5)	(96.2)	42.4	

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Revenue, PBT and PAT breakdown

Revenue Segmental	1Q16	1Q15	yoy % chg	4Q15	qoq % chg	
Automotive	1,556.0	2,005.5	(22.4)	3,375.9	(53.9)	Lower sales volume from Toyota
Equipment	358.0	653.0	(45.2)	402.9	(11.1)	
Oil & Gas	87.7	312.5	(71.9)	131.0	(33.0)	Lower utilisation from oil rigs
Manufacturing & Engineering	145.4	171.1	(15.0)	182.4	(20.3)	Declined due to lower demand from lubricants and auto components products
Others	52.1	98.3	(47.0)	68.8	(24.3)	
Total	2,199.2	3,240.4	(32.1)	4,160.9	(47.1)	
PBT Segmental						
Automotive	82.7	233.5	(64.6)	247.9	(66.6)	
Equipment	39.2	99.3	(60.5)	27.5	42.5	
Oil & Gas	-68.4	42.5	(261.1)	(411.3)	(83.4)	
Manufacturing & Engineering	6.6	1.8	265.6	13.4	(50.8)	
Others	-39.1	-57.1	(31.5)	(211.8)	(81.5)	
Total	21.1	320.0	(93.4)	(334.3)	(106.3)	
PAT Segmental						
Automotive	55.5	116.7	(52.5)	124.5	(55.4)	
Equipment	30.2	78.7	(61.7)	26.4	14.5	
Oil & Gas	-36.2	17.9	(302.1)	(228.0)	(84.1)	
Manufacturing & Engineering	1.1	1.3	(12.6)	8.5	(86.5)	
Others	-34.0	-49.5	(31.3)	(217.4)	(84.4)	
Total	16.6	165.2	(90.0)	(286.0)	(105.8)	

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: UMW's SOP valuation table

	FY17 Net profit (RM'm)	Target P/E	RNAV (RM'm)
Automotive	292.10	11.00	3,213.10
Oil & gas	55% of UMW-OG market cap		1,052.37
Equipment & manufacturing	159.32	10.00	1,593.20
Others			(250.00)
Total RNAV			5,608.67
No of shares ('m)			1,168.29
RNAV/share (RM)			4.80

SOURCE: CIMB RESEARCH, COMPANY

Figure 1: Earnings revision

FYE December (RM m)	Previous			New			Changes		
	FY16F	FY17F	FY18F	FY16F	FY17F	FY18F	FY16F	FY17F	FY18F
Turnover	14,361.6	14,085.3	14,608.3	11,697.8	11,555.4	12,116.1	-19%	-18%	-17%
EBITDA	1,434.7	1,543.2	1,412.4	855.1	1,191.9	1,278.4	-40%	-23%	-9%
EBIT	937.6	1,037.5	901.0	204.9	537.9	620.8	-78%	-48%	-31%
Pretax profit	1,086.5	1,249.0	1,120.6	218.1	578.1	697.3	-80%	-54%	-38%
Net profit	495.9	581.4	497.9	98.1	260.1	313.8	-80%	-55%	-37%
Core net profit	495.9	581.4	497.9	98.1	260.1	313.8	-80%	-55%	-37%

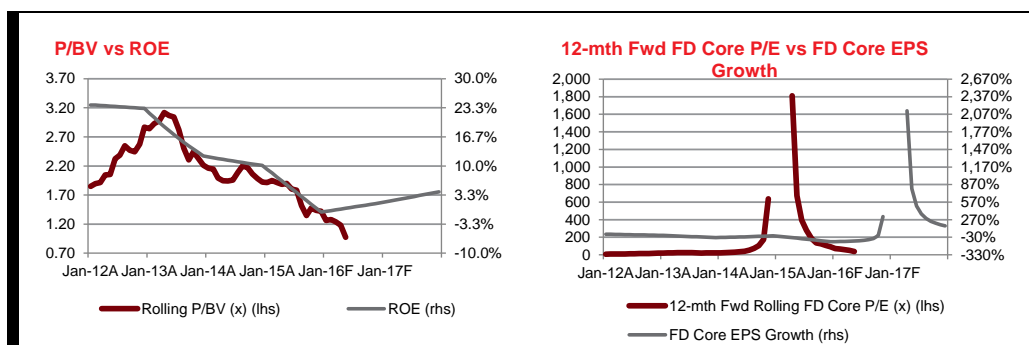
SOURCE: CIMB RESEARCH, COMPANY

Figure 5: Sector comparisons

Company	Recom.	Price	Target Price	Mkt Cap (US\$)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		RM	RM		CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16
Berjaya Auto	Add	2.30	2.68	639	12.1	11.7	5.08	4.29	46.0%	39.6%	6.9	6.4	4.1%	4.3%
DRB-Hicom	Hold	0.90	1.10	422	68.4	66.9	0.21	0.21	0.3%	0.3%	-5.2	-4.5	0.9%	0.5%
Tan Chong Motor Holdings	Hold	1.98	2.11	314	17.3	15.5	0.46	0.45	3.0%	2.9%	14.4	7.6	4.0%	4.0%
UMW Holdings	Reduce	5.40	4.80	1,531	na	12.6	0.97	0.91	-0.7%	7.4%	72.8	5.2	4.6%	5.9%
Sector average					42.7	14.3	0.66	0.65	1.7%	4.5%	3.4	1.0	3.9%	4.6%

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	14,932	14,442	11,698	11,555	12,116
Gross Profit	1,812	646	855	1,192	1,278
Operating EBITDA	1,812	646	855	1,192	1,278
Depreciation And Amortisation	(379)	(511)	(650)	(654)	(658)
Operating EBIT	1,433	136	205	538	621
Financial Income/(Expense)	49	1	(87)	(80)	(73)
Pretax Income/(Loss) from Assoc.	140	130	100	120	150
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	1,621	266	218	578	697
Exceptional Items					
Pre-tax Profit	1,621	266	218	578	697
Taxation	(408)	(260)	(55)	(145)	(174)
Exceptional Income - post-tax					
Profit After Tax	1,213	6	164	434	523
Minority Interests	(561)	(45)	(65)	(173)	(209)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	652	(38)	98	260	314
Recurring Net Profit	652	(38)	98	260	314
Fully Diluted Recurring Net Profit	652	(38)	98	260	314

Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	1,812	646	855	1,192	1,278
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(136)		539	11	(45)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(68)	637	0	0	0
Net Interest (Paid)/Received	(85)	(121)	(188)	(188)	(188)
Tax Paid	(418)	(275)	(267)	(55)	(145)
Cashflow From Operations	1,104	887	938	961	901
Capex	(2,186)	(2,169)	(700)	(700)	(700)
Disposals Of FAs/subsidiaries	0	44	0	0	0
Acq. Of Subsidiaries/investments	2,256	(3)	0	0	0
Other Investing Cashflow	0	224	0	0	0
Cash Flow From Investing	71	(1,904)	(700)	(700)	(700)
Debt Raised/(repaid)	1,152	1,692	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(947)	(806)	(251)	(318)	(377)
Preferred Dividends					
Other Financing Cashflow	84		188	188	565
Cash Flow From Financing	289	886	(63)	(130)	188
Total Cash Generated	1,463	(131)	175	131	389
Free Cashflow To Equity	2,326	675	238	261	201
Free Cashflow To Firm	1,260	(897)	426	449	389

BY THE NUMBERS

Balance Sheet

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	3,371	2,728	2,922	3,093	3,181
Total Debtors	2,079	1,739	1,485	1,467	1,538
Inventories	1,830	1,892	1,274	1,258	1,319
Total Other Current Assets	1,191	1,210	1,189	1,189	1,189
Total Current Assets	8,471	7,569	6,870	7,007	7,228
Fixed Assets	5,670	8,133	8,153	8,199	8,241
Total Investments	2,353	1,975	2,655	2,564	2,533
Intangible Assets	26	38	25	25	25
Total Other Non-Current Assets	0	365	0	0	0
Total Non-current Assets	8,049	10,512	10,833	10,787	10,799
Short-term Debt	2,387	3,238	3,725	3,725	3,725
Current Portion of Long-Term Debt					
Total Creditors	2,217	2,230	1,815	1,793	1,880
Other Current Liabilities	466	223	372	372	372
Total Current Liabilities	5,069	5,692	5,912	5,890	5,977
Total Long-term Debt	1,852	2,783	2,340	2,340	2,340
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	138	318	136	136	136
Total Non-current Liabilities	1,990	3,100	2,476	2,476	2,476
Total Provisions	27	65	27	27	27
Total Liabilities	7,086	8,857	8,416	8,394	8,481
Shareholders' Equity	6,580	6,397	6,423	6,364	6,301
Minority Interests	2,853	2,827	2,865	3,038	3,247
Total Equity	9,433	9,224	9,288	9,403	9,549

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	7.0%	(3.3%)	(19.0%)	(1.2%)	4.9%
Operating EBITDA Growth	12.1%	(64.3%)	32.3%	39.4%	7.3%
Operating EBITDA Margin	12.1%	4.5%	7.3%	10.3%	10.6%
Net Cash Per Share (RM)	(0.75)	(2.85)	(2.72)	(2.58)	(2.50)
BVPS (RM)	5.71	5.55	5.57	5.52	5.46
Gross Interest Cover	16.83	1.07	1.09	2.86	3.30
Effective Tax Rate	25.2%	97.6%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	47%	105%	170%	79%	77%
Accounts Receivables Days	42.42	36.51	43.15	46.62	45.27
Inventory Days	49.86	49.24	53.43	44.59	43.41
Accounts Payables Days	59.63	44.74	38.04	38.13	37.12
ROIC (%)	14.6%	1.3%	1.4%	4.1%	4.7%
ROCE (%)	12.2%	1.8%	2.0%	4.2%	4.7%
Return On Average Assets	10.2%	1.5%	1.6%	3.6%	4.2%

Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
ASP (% chg, main prod./serv.)	0.0%	0.0%	2.0%	0.0%	1.5%
Unit sales grth (% , main prod./serv.)	6.4%	-5.7%	-9.9%	6.4%	-100.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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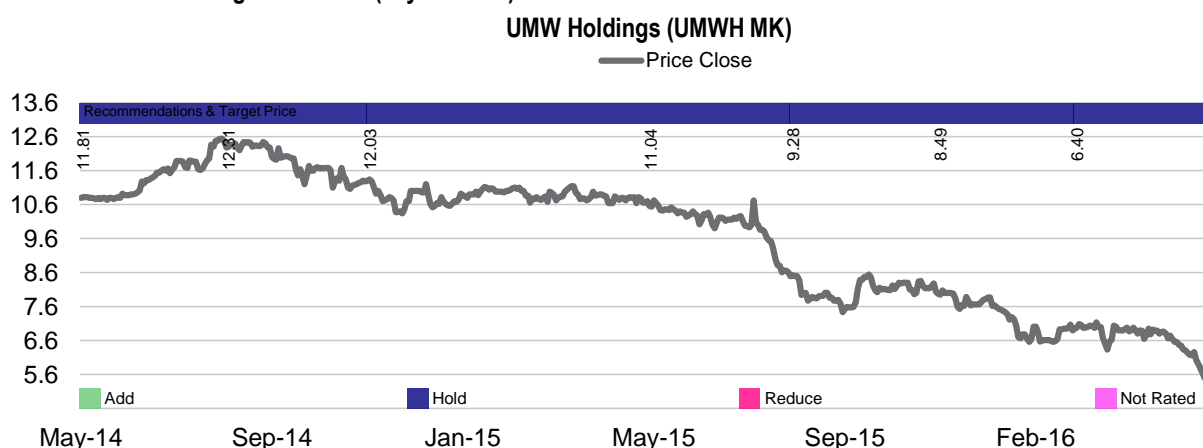
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1539 companies under coverage for quarter ended on 31 March 2016

	Rating Distribution (%)	Investment Banking clients (%)
Add	59.2%	6.9%
Hold	30.9%	3.1%
Reduce	8.7%	0.5%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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