

UMW (SELL ↔, EPS ↓)

INDUSTRY: UNDERWEIGHT

EARNINGS EVALUATION

25 May 2016

Price Target: RM4.38 (↓)

Share price: RM5.40

Expect Continued Tough Market Ahead

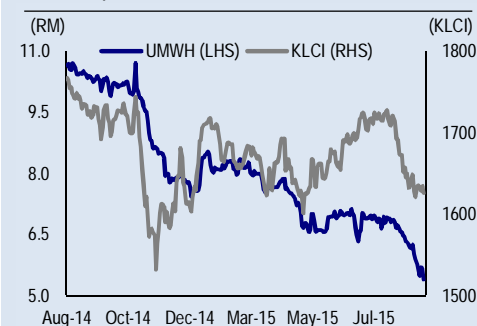
Results	<ul style="list-style-type: none"> ▪ Below Expectations - Reported core profit of RM1.6m in 1Q16, which was only 0.7% of HLIB's FY16 expectation and 0.4% of consensus.
Deviations	<ul style="list-style-type: none"> ▪ Mainly dragged by lower margins on lower sales volume (automotive and manufacturing divisions), lower charter rates and utilization rates (O&G), and higher operational costs (inputs and marketing expenses).
Dividends	<ul style="list-style-type: none"> ▪ None.
Highlights	<ul style="list-style-type: none"> ▪ Automotive: 1Q16 earnings weakened further on weaker Toyota, Lexus and Perodua sales volume, after price hikes effective Jan 2016. Management cut sales target for Toyota to 80k units (from 85k units) and Perodua to 200k units (from 216k units) for FY16, attributed to the weak market sentiment. New launches for FY16 include Toyota Hilux, Fortuner, Innova, Vios (upgrade) and Perodua Sedan. ▪ Equipment: Continued to be affected by weak business sentiment on mining and construction in the quarter (especially domestic market). Myanmar jade mining industry is clouded by uncertainties concerning new policies by the new government. ▪ Oil & Gas: 1Q16 earnings reflected the ongoing weak demand for jack-up rigs due to the low oil price situation. UMWOG suffered from depressed utilization rates. Outlook for upcoming quarters remains bleak as Naga 6 contract is expected to end in 2Q16. ▪ Manufacturing & Engineering: 1Q16 earnings was affected by weak domestic automotive market as well as weak consumer sentiment. The upcoming new assembly plant for fan case to supply to Rolls Royce is expected to contribute positively in 2018.
Risks	<ul style="list-style-type: none"> ▪ Prolonged tightening of banks' HP rules. ▪ Slowdown in the Malaysian economy affecting car sales. ▪ Global automotive supply chain disruption. ▪ Appreciation of US\$. ▪ Plunge in crude oil price and slowdown in O&G exploration.
Forecasts	<ul style="list-style-type: none"> ▪ We cut earnings for FY16E by 65.3% and FY17E by 12.3%, mainly drag by lower car sales assumption and loss making UMWOG, but increase FY18E by 2.4% on new contributions from MRO manufacturing.
Rating	<p>SELL (↔)</p> <ul style="list-style-type: none"> ▪ Positives – 1) Control largest market share of Malaysia TIV with leading brand - Toyota, Lexus and Perodua; and 2) Investing into new business segment. ▪ Negatives – 1) Slump in crude oil prices affecting demand and charter rates for jack-up rigs; 2) Tightening of bank's lending rules; 3) Intense competition from rival automotive marques; and 4) Weak RM.
Valuation	<ul style="list-style-type: none"> ▪ Maintain SELL recommendation with lower SOP based TP: RM4.38 (from RM5.50) after cutting earnings estimates and lowered P/E multiples on weakened market sentiment.

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KLCI	1626
Expected share price return	-18.9%
Expected dividend return	1.5%
Expected total return	-17.4%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	6,309
3-mth avg. volume ('000)	891
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-21.3	-21.7	-49.3
Relative	-16.8	-19.9	-44.3

Major shareholders

PNB	54.7%
EPF	17.8%
KWAP	2.9%

Summary Earnings Table

FYE Dec (RM m)	FY15A	FY16E	FY17E	FY18E
Turnover	14,442	11,891	13,816	15,394
EBITDA	1,569	771	1,171	1,455
Pre-tax Profit	270	274	667	909
Rpt. net profit	-37	76	290	437
Norm. net profit	256	76	290	437
Norm. EPS (sen)	21.9	6.5	24.8	37.4
P/E (x)	24.6	82.8	21.7	14.4
Book Value (RM)	5.6	5.6	5.7	5.8
P/B (x)	1.0	1.0	1.0	0.9
Net Dvd Yield (%)	3.7	1.5	3.7	4.6
Net Gearing	49.8	54.8	67.9	69.7
ROE (%)	3.9	1.2	4.4	6.5
ROA (%)	1.5	0.4	1.5	2.3

Consensus

EPS (sen)	31.5	39.1	42.9
% Diff	-79.3	-36.5	-12.9
HLIB			

Figure #1: Quarterly Result Comparison

FYE Dec (Rm)	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	Comment
Revenue	3,240.4	4,160.9	2,199.2	-47.1	-32.1	Revenue dropped significantly on lower contribution across all segments (See Figure #3).
EBITDA	404.0	326.1	122.6	-62.4	-69.6	
EBITDA Margin (%)	12.5	7.8	5.6	-28.8	-55.3	EBITDA margin declined further on lower sales (lower economy of scales).
EBIT	291.0	182.4	-10.0	-105.5	-103.4	
EBIT Margin (%)	9.0	4.4	-0.5	-4.8	-9.4	Filtered through lower EBITDA margins.
Net Finance Expense	3.1	-10.3	-18.1	75.6	-689.2	
Associates	33.4	35.8	22.1	-38.3	-34.0	Associates still reported profits from Perodua contribution.
Eis	-7.4	-542.1	27.1			Related to derivatives, forex, impairments and provisions.
Reported PBT	320.0	-334.3	21.1	-106.3	-93.4	
Tax	-84.0	-57.3	-26.0	-54.6	-69.0	
Reported Net Profit	236.0	-391.6	-4.9	-98.7	-102.1	
Reported PATAMI	165.2	-286.0	16.6	-105.8	-90.0	
Core PATAMI	172.6	-59.8	1.6	-102.7	-99.1	1Q16 returned to profits from lower losses from other segment (valued business segment related to oil & gas).
Reported EPS (Sen)	14.1	-24.5	1.4	-105.8	-90.0	
Core EPS (Sen)	14.8	-5.1	0.1	-102.7	-99.1	

Company, HLIB

Figure #2: UMW Group Automotive Sales Statistics

Unit Sales	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Toyota (51% ownership)	24,185	26,937	23,508	27,405	16,241	22,555	23,301	31,663	10,318
Lexus (51% ownership)	449	367	369	416	362	532	472	735	272
Perodua (38% ownership)	44,024	50,456	45,837	55,262	57,153	51,349	49,025	55,780	47,181
Total	68,658	77,760	69,714	83,083	73,756	74,436	72,798	88,178	57,771
Growth YoY (%)	2.38	4.98	-2.07	8.94	7.43	-4.27	4.42	6.13	-21.67

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Figure #3: UMW Earnings Breakdown

	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,005.5	3,375.9	1,556.0	-53.9	-22.4	Lower sales volume of Toyota and Lexus due to weakened consumer sentiment and effective price increase in Jan 2016 (See Figure #2).
Equipment	653.0	402.9	358.0	-11.1	-45.2	Lower on weak market sentiment for construction and mining sectors.
Oil & Gas	312.5	131.0	87.7	-33.0	-71.9	Lower time charter rates and utilization rate for the rigs.
Manufacturing & Engineering	171.1	182.4	145.4	-20.3	-15.0	Lower demand for lubricants and auto components.
Others	115.9	94.8	62.8	-33.7	-45.8	Lower on business disposals and drop in sales.
Intersegment	(17.6)	(25.9)	(10.7)	-58.8	-39.3	
Total	3,240.4	4,160.9	2,199.2	-47.1	-32.1	

Reported PATAMI

Automotive	116.7	124.5	55.5	-55.4	-52.5	Lower margins on lower sales volume and higher input cost (due to unfavorable forex movement) and operational costs – sales and distributional costs.
Equipment	78.7	26.4	30.2	14.5	-61.7	Earnings improved qoq on better sales mix from export.
Oil & Gas	17.9	(228.0)	(36.2)	N.M.	N.M.	Operational losses in 1Q16 due to low time charter rates and utilization rate for the rigs.
Manufacturing & Engineering	1.3	8.5	1.1	-86.5	-12.6	Drop in tandem with lower sales.
Others	(49.5)	(217.4)	(34.0)	N.M.	N.M.	Lower impairments and operational losses in 1Q16.
Total	165.2	(286.0)	16.6	N.M.	-90.0	Affected by derivatives losses, forex movements and impairments.
Core PATAMI	172.6	(59.8)	1.6	N.M.	N.M.	

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Figure #5: UMW SOP

Division	Stakes (%)	FY17 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	405.8	3,246.8	2.78	FY17 PE 8x
Equipment	Various	154.6	1,236.8	1.06	FY17 PE 8x
Oil & Gas	55.73	(44.9)	831.4	0.71	Target Price of RM0.69
Manufacturing & Engineering	Various	5.2	31.1	0.03	FY17 PE 6x
Others	Various	(230.5)	(230.5)	(0.20)	
Target Price (RM)				4.38	Implied FY17 P/E of 17.6x & P/B of 0.8x
* No of Shares		1,168.3			As at end FY2015

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Figure #6: HLIB Forecast versus Consensus

	FY16		Difference (%)	FY17		Difference (%)	FY18		Difference (%)
	HLIB	Consensus		HLIB	Consensus		HLIB	Consensus	
Revenue (RMm)	11,890.7	13,598.0	-12.6%	13,815.5	13,990.0	-1.2%	15,393.6	14,627.0	5.2%
EBITDA (RMm)	770.9	1,209.0	-36.2%	1,171.0	1,356.0	-13.6%	1,455.0	1,453.0	0.1%
Core Profit (RMm)	76.2	360.2	-78.8%	290.2	454.1	-36.1%	436.7	498.8	-12.5%
EPS (Sen)	6.5	31.5	-79.3%	24.8	39.1	-36.5%	37.4	42.9	-12.9%

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Figure #7: Peers Comparison

Peers	Market Cap (RMm)	Recommendation	PE-16 (x)	PE-17 (x)	PB-16 (x)	ROE-16 (%)	DY-16 (%)
MBM	840.0	Buy	10.7	9.3	0.6	5.9	5.6
DRB	1,739.9	Hold	N.M.	12.9	0.2	N.M.	0.0
UMW	6,308.8	Sell	82.8	21.7	1.0	1.2	1.5
TCM	1,292.3	Sell	N.M.	N.M.	0.5	N.M.	1.0
BAUTO	2,634.7	N.A.	13.1	11.8	4.5	37.9	4.1
Average			35.5	13.9	1.4	15.0	2.4

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	14,932	14,442	11,891	13,816	15,394
Operating cost	-12,983	-12,872	-11,120	-12,645	-13,939
EBITDA	1,949	1,569	771	1,171	1,455
Depreciation	-379	-765	-571	-585	-640
EBIT	1,570	804	200	586	815
Interest income	131	126	99	93	84
Interest expense	-85	-127	-159	-166	-174
Associates	140	134	133	155	184
Exceptionals	-134	-668	0	0	0
Pretax profit	1,621	270	274	667	909
Taxation	-408	-267	-182	-225	-256
Minorities	-561	-39	-16	-152	-217
Net profit	652	-37	76	290	437
Core PATAMI	786	256	76	290	437
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	55.8	-3.2	6.5	24.8	37.4
FD Core EPS (sen)	67.3	21.9	6.5	24.8	37.4

Balance sheet

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17E	FY18E
Fixed assets	5,674	8,106	8,655	9,390	9,500
Other assets	4,027	4,038	4,071	4,117	4,182
Working capital	2,037	1,968	1,567	1,850	2,077
Receivables	1,618	1,458	1,189	1,382	1,539
Payables	-1,411	-1,380	-1,168	-1,328	-1,464
Inventory	1,830	1,890	1,546	1,796	2,001
Net cash	-819	-3,281	-3,570	-4,495	-4,720
Cash	3,371	2,734	2,841	2,471	2,347
ST debt	-2,387	-3,725	-3,725	-3,725	-3,725
LT debt	-1,803	-2,290	-2,686	-3,242	-3,342
Equity	6,580	6,584	6,509	6,624	6,768
Share capital	584	584	584	584	584
Reserves	5,996	6,000	5,925	6,040	6,184
Minorities	2,853	2,799	2,768	2,791	2,823
Other liabilities	1,486	1,447	1,447	1,447	1,447

Assumption Metrics

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
GDP Growth (%)	6.0%	5.0%	4.2%	4.5%	4.5%
TIV ('000)	666.5	666.7	613.4	674.7	698.4
Growth (%)	1.6%	0.0%	-8.0%	10.0%	3.5%
Unit Sale (Unit)	299.2	309.2	287.7	309.5	318.7
Toyota ('000)	102.0	93.8	76.9	86.1	88.7
Lexus ('000)	1.6	2.1	1.8	1.8	1.8
Perodua ('000)	195.6	213.3	209.0	221.6	228.2
Average Price					
UMW (RM '000)	100.5	97.0	101.9	101.9	101.9
Perodua (RM '000)	40.2	38.5	38.9	39.6	40.4

Cashflow

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17E	FY18E
EBITDA	1,949	1,569	771	1,171	1,455
Net interest	46	-1	-60	-73	-90
WCap changes	-136	69	401	-283	-227
Taxation	-418	-283	-182	-225	-256
Others	68	-279	0	0	0
Opex cashflow	1,509	1,075	930	590	882
Capex & acq.	-2,204	-2,388	-1,120	-1,320	-750
Free cashflow	-695	-1,313	-190	-730	132
Other inv cashflow	1,745	502	100	108	120
Net borrowings	1,151	1,323	396	556	100
Share issuance	0	0	0	0	0
Dividends paid	-514	-479	-152	-175	-292
Other fin cashflow	-433	-307	-47	-129	-184
Net cashflow	1,254	-274	107	-370	-124
Forex translation	12	65	0	0	0
Beginning cash	1,565	2,830	2,621	2,728	2,358
Ending cash	2,830	2,621	2,728	2,358	2,234

Valuation ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Rep. EPS (sen)	55.8	-3.2	6.5	24.8	37.4
FD Core EPS (sen)	67.3	21.9	6.5	24.8	37.4
PER (x)	9.7	-169.7	82.8	21.7	14.4
FD PER (x)	8.0	24.6	82.8	21.7	14.4
Net DPS (sen)	57.0	20.0	8.0	20.0	25.0
Net DY (%)	10.6	3.7	1.5	3.7	4.6
BV/ share (RM)	5.6	5.6	5.6	5.7	5.8
P/BV (x)	1.0	1.0	1.0	1.0	0.9
FCF/share (sen)	-59.5	-112.4	-16.3	-62.5	11.3
Market Cap	6,309	6,309	6,309	6,309	6,309
Net cash	-819	-3,281	-3,570	-4,495	-4,720
Enterprise value	7,128	9,589	9,879	10,804	11,029
EV/EBITDA (x)	3.7	6.1	12.8	9.2	7.6
ROE (%)	12.2	3.9	1.2	4.4	6.5
ROA (%)	5.1	1.5	0.4	1.5	2.3

Other Ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Growth (%)					
Sales	7.0	-3.3	-17.7	16.2	11.4
EBITDA	8.1	-19.5	-50.9	51.9	24.3
EBIT	5.5	-48.8	-75.1	192.4	39.2
PBT	8.4	-46.6	-70.8	143.6	36.3
Core PATAMI	-6.0	-67.4	-70.2	280.8	50.5
Margins (%)					
EBITDA	13.1	10.9	6.5	8.5	9.5
EBIT	10.5	5.6	1.7	4.2	5.3
PBT	10.9	1.9	2.3	4.8	5.9
Core PATAMI	5.3	1.8	0.6	2.1	2.8
Net Gearing (%)	12.4	49.8	54.8	67.9	69.7

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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.