



AmInvestment Bank

## Company report

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

30 Aug 2016

*Still a bumpy road ahead*

## HOLD

(Maintained)

Al Zaquan

al-zaquan@ambankgroup.com

03-2036 2304

**Rationale for report: Company result**

Price	RM5.85
Fair Value	RM4.90
52-week High/Low	RM8.84/RM4.88

### Key Changes

Fair value	↔
EPS	↓

YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	14,441.6	12,692.7	12,977.7	13,440.4
Core net profit (RM mil)	218.1	59.1	107.0	179.3
FD Core EPS (sen)	18.7	5.1	9.2	15.4
FD Core EPS growth (%)	(74.1)	(72.9)	81.0	67.6
Consensus Net Profit (RM mil)	-	220.9	348.4	374.7
DPS (sen)	41.0	2.5	4.6	7.7
PE (x)	31.3	115.6	63.9	38.1
EV/EBITDA (x)	15.7	29.9	26.4	16.8
Div yield (%)	7.0	0.4	0.8	1.3
ROE (%)	(0.4)	0.9	1.6	2.7
Net Gearing (%)	49.8	44.1	65.2	82.6

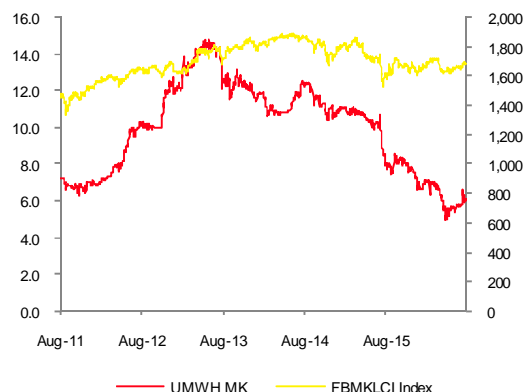
### Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,834.6
Book Value (RM/share)	5.64
P/BV (x)	1.0
ROE (%)	(0.4)
Net Gearing (%)	49.8

Major Shareholders	Skim ASB (41.7%) EPF (16.1%)
--------------------	---------------------------------

Free Float	32.6
Avg Daily Value (RMmil)	7.0

Price performance	3mth	6mth	12mth
Absolute (%)	12.9	(17.4)	(31.2)
Relative (%)	10.0	(18.7)	(34.0)



### Investment Highlights

- We maintain HOLD on UMW Holdings (UMW) with an unchanged SOP-based FV of RM4.90/share, now premised on FY17F numbers.
- We have cut our FY16F-FY18F EPS by 30-50% on poor prospects and YTD performance of its key segments, continuing high interest costs and margin compression.
- UMW saw a net profit of RM5mil in 1HFY16 vs. RM244mil in 1HFY15, a decline of 98%. Stripping out EIs, it swung into a net loss of RM25mil from a profit of RM244mil.
- The 1HFY16 revenue fell 25% YoY due to double-digit declines in all segments: O&G (-56% as major clients cut capex and E&P activities), auto (-21% on lower TIV for Toyota, which was the worst performer as sales fell by a third), equipment (-30% on import restrictions in Myanmar and poor demand on low commodity prices) and manufacturing & engineering (-10% as 1HFY15 earnings included a unit later disposed of).
- The 1HFY16 net profit fell 98% YoY mainly on:- (1) O&G contribution swung into a net loss of RM74mil from a profit of RM20mil; (2) auto bottom line fell 50% as intense competition and forex narrowed net profit margin by nearly 2ppts to 3.3%; (3) equipment net profit fell 40%.
- In summary, 1HFY16 saw the dual effect of poor overall sales and reduced profitability. UMW net profit margin was at 0.1% vs. 3.5% in 1HFY15 and 4-5% in previous financial years.
- On a sequential basis, core net losses continued into 2QFY16, albeit at a slightly smaller quantum of -RM11mil vs. -RM14mil in 1QFY16. Auto top and bottom-lines rose 40% and 25% QoQ as Toyota sales:- (1) normalised from price hikes introduced in January; (2) saw the entry of new Hilux & Fortuner in May; and (3) spiked in June from Hari Raya-led promotions. Net loss of O&G worsened by RM1mil to RM38mil.
- No dividend was declared. Net gearing remained at 53% and management guided that things would remain status quo on this end at least until end-2016.
- Notably, the higher level of borrowings raised interest costs per quarter to >RM40mil in the past 3 quarters from ~RM20-RM25mil historically. UMW is still beset by the depressed macroeconomic environments at its key segments.
- The outlook of stronger associate earnings (from its 38% stake in Perodua) does not mitigate the problem of sharply declining operating income for its two key segments and high interest costs.

**EXHIBIT 1: EARNINGS SUMMARY**

	2QFY15	1QFY16	2QFY16	QOQ %	YOY %	1HFY16	1HFY15	%
<b>Revenue</b>	<b>3,485.3</b>	<b>2,199.2</b>	<b>2,846.8</b>	<b>29.4%</b>	<b>-18.3%</b>	<b>5,046.0</b>	<b>6,725.7</b>	<b>-25.0%</b>
Operating Expenses	(3,336.6)	(2,202.7)	(2,828.6)	28.4%	-15.2%	(5,031.3)	(6,365.5)	-21.0%
Other income	27.3	20.6	22.9	10.9%	-16.3%	43.5	99.3	-56.2%
<b>EBITDA</b>	<b>281.4</b>	<b>149.7</b>	<b>170.9</b>	<b>14.1%</b>	<b>-39.3%</b>	<b>320.6</b>	<b>677.9</b>	<b>-52.7%</b>
<b>EBIT</b>	<b>176.0</b>	<b>17.1</b>	<b>41.1</b>	<b>139.5%</b>	<b>-76.7%</b>	<b>58.2</b>	<b>459.5</b>	<b>-87.3%</b>
Finance Cost	(27.8)	(43.3)	(41.3)	-4.7%	48.6%	(84.6)	(59.9)	41.1%
Associates	29.5	22.1	26.5	20.2%	-10.2%	48.6	63.0	-22.8%
Investment Income	29.9	25.2	18.5	-26.6%	-38.2%	43.6	65.1	-33.0%
<b>Pretax Profit</b>	<b>207.6</b>	<b>21.1</b>	<b>44.8</b>	<b>112.6%</b>	<b>-78.4%</b>	<b>65.9</b>	<b>527.7</b>	<b>-87.5%</b>
Taxation	(74.3)	(26.0)	(48.5)	86.6%	-34.6%	(74.5)	(158.3)	-52.9%
Minorities	64.9	(21.5)	8.4	-139.1%	-87.1%	(13.1)	135.8	-109.7%
<b>Net Profit</b>	<b>68.4</b>	<b>16.6</b>	<b>(12.1)</b>	<b>-173.1%</b>	<b>-117.7%</b>	<b>4.5</b>	<b>233.6</b>	<b>-98.1%</b>
<b>Core net profit</b>	<b>70.5</b>	<b>(14.0)</b>	<b>(10.8)</b>	<b>-22.6%</b>	<b>-115.3%</b>	<b>(24.8)</b>	<b>243.9</b>	<b>-110.2%</b>
EPS (sen)	5.9	1.4	-1.0			0.4	20.0	-98.1%
DPS (sen)	10.0	0.0	0.0			0.0	10.0	-100.0%
Margins								ppts
EBITDA	8.1%	6.8%	6.0%			6.4%	10.1%	(3.7)
EBIT	5.0%	0.8%	1.4%			1.2%	6.8%	(5.7)
Pretax Profit	6.0%	1.0%	1.6%			1.3%	7.8%	(6.5)
Net Profit	2.0%	0.8%	-0.4%			0.1%	3.5%	(3.4)
Tax Rate	35.8%	123.4%	108.3%			113.1%	30.0%	83.1
Toyota sales	22,555	10,216	17,033			27,249	38,796	-29.8%
Average revenue per car	121,156	152,309	127,819			137,000	122,132	12.2%
Perodua sales	51,349	47,181	50,189			97,370	108,502	-10.3%
<b>Segment Earnings</b>								
	2Q15	1QFY16	2Q16	QOQ	YOY	1HFY16	1HFY15	
Automotive	2,732.7	1,556.0	2,177.1	39.9%	-20.3%	3,733.1	4,738.2	-21.2%
Equipment	353.6	358.0	351.2	-1.9%	-0.7%	709.1	1,006.6	-29.6%
Manuf & Eng	165.4	145.4	157.0	7.9%	-5.1%	302.4	336.5	-10.1%
Oil & Gas	183.4	87.7	130.0	48.3%	-29.1%	217.7	495.9	-56.1%
Others	69.5	62.8	57.7	-8.1%	-17.0%	120.5	185.4	-35.0%
Elimination	(19.3)	(10.7)	(26.2)	144.7%	35.4%	(36.8)	(36.9)	-0.2%
<b>Revenue</b>	<b>3,485.3</b>	<b>2,199.2</b>	<b>2,846.8</b>	<b>29.4%</b>	<b>-18.3%</b>	<b>5,046.0</b>	<b>6,725.7</b>	<b>-25.0%</b>
Automotive	263.4	82.7	133.3	61.1%	-49.4%	216.0	496.9	-56.5%
Equipment	33.7	39.2	43.3	10.4%	28.7%	82.6	133.0	-37.9%
Manuf & Eng	0.4	6.6	10.9	65.5%	2627.0%	17.5	2.2	694.3%
Oil & Gas	8.0	(68.4)	(64.0)	-6.5%	-900.5%	(132.4)	50.5	-362.4%
Others	(97.8)	(39.1)	(78.7)	101.5%	-19.5%	(117.8)	(154.9)	-23.9%
<b>Pretax profit</b>	<b>207.6</b>	<b>21.1</b>	<b>44.8</b>	<b>112.6%</b>	<b>-78.4%</b>	<b>65.9</b>	<b>527.6</b>	<b>-87.5%</b>
Automotive	130.6	55.5	69.5	25.2%	-46.8%	124.9	247.3	-49.5%
Equipment	26.6	30.2	32.8	8.7%	23.4%	63.0	105.3	-40.2%
Manuf & Eng	0.5	1.1	3.4	200.1%	649.2%	4.6	1.8	158.9%
Oil & Gas	2.3	(36.2)	(37.5)	3.7%	-1712.0%	(73.7)	20.2	-464.2%
Others	(91.5)	(34.0)	(80.3)	136.1%	-12.3%	(114.3)	(141.0)	-19.0%
<b>Net Profit</b>	<b>68.4</b>	<b>16.6</b>	<b>(12.1)</b>	<b>-173.1%</b>	<b>-117.7%</b>	<b>4.5</b>	<b>233.6</b>	<b>-98.1%</b>
<b>Segment margins</b>								
<b>Pretax margins</b>	2Q15	1QFY16	2Q16			1HFY16	1HFY15	
Automotive	9.6%	5.3%	6.1%			5.8%	10.5%	
Equipment	9.5%	11.0%	12.3%			11.6%	13.2%	
Manuf & Eng	0.2%	4.5%	6.9%			5.8%	0.7%	
Oil & Gas	4.4%	-78.0%	-49.2%			-60.8%	10.2%	
<b>Net profit margins</b>								
Automotive	4.8%	3.6%	3.2%			3.3%	5.2%	
Equipment	7.5%	8.4%	9.3%			8.9%	10.5%	
Manuf & Eng	0.3%	0.8%	2.2%			1.5%	0.5%	
Oil & Gas	1.3%	-41.3%	-28.9%			-33.9%	4.1%	

## EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	14,932.5	14,441.6	12,692.7	12,977.7	13,440.4
EBITDA	1,811.7	646.3	325.3	421.9	731.7
Depreciation/Amortisation	(378.7)	(502.0)	(570.9)	(638.9)	(706.9)
Operating income (EBIT)	1,432.9	144.4	(245.7)	(217.0)	24.7
Other income & associates	139.6	134.4	228.0	274.9	286.0
Net interest	48.9	(0.4)	(1.5)	(17.9)	(90.7)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>1,621.5</b>	<b>278.4</b>	<b>(19.2)</b>	<b>40.0</b>	<b>220.0</b>
Taxation	(408.5)	(267.5)	4.7	(9.7)	(53.5)
Minorities/pref dividends	(561.0)	(39.4)	73.6	76.8	12.8
<b>Net profit</b>	<b>652.0</b>	<b>(28.4)</b>	<b>59.1</b>	<b>107.0</b>	<b>179.3</b>
Core net profit	842.5	218.1	59.1	107.0	179.3
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	350.2	(1,344.0)	(3,199.5)
<b>Total non-current assets</b>	<b>8,048.5</b>	<b>10,557.9</b>	<b>9,517.5</b>	<b>8,802.5</b>	<b>7,866.3</b>
Cash & equivalent	3,370.7	2,734.1	4,280.0	1,749.0	(132.9)
Stock	1,830.4	1,890.0	1,661.1	1,698.4	1,758.9
Trade debtors	2,078.5	1,833.4	1,611.4	1,647.6	1,706.3
Other current assets	1,191.5	1,209.9	1,200.5	1,200.5	1,200.5
<b>Total current assets</b>	<b>8,471.1</b>	<b>7,667.4</b>	<b>8,752.9</b>	<b>6,295.4</b>	<b>4,532.7</b>
Trade creditors	2,217.0	2,241.2	1,969.8	2,014.0	2,085.8
Short-term borrowings	2,386.7	3,725.0	4,064.5	3,826.7	3,731.4
Other current liabilities	465.8	371.8	85.4	90.2	104.6
<b>Total current liabilities</b>	<b>5,069.6</b>	<b>6,338.0</b>	<b>6,119.7</b>	<b>5,930.9</b>	<b>5,921.8</b>
Long-term borrowings	1,803.0	2,289.8	3,119.3	2,216.6	1,575.2
Other long-term liabilities	214.0	213.7	83.5	83.5	83.5
<b>Total long-term liabilities</b>	<b>2,017.0</b>	<b>2,503.4</b>	<b>3,202.8</b>	<b>2,300.1</b>	<b>1,658.7</b>
<b>Shareholders' funds</b>	<b>6,580.5</b>	<b>6,584.4</b>	<b>6,584.5</b>	<b>6,584.5</b>	<b>6,584.6</b>
Minority interests	2,852.6	2,799.4	2,779.2	2,742.7	2,681.6
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	(19.2)	40.0	220.0
Depreciation/Amortisation	378.7	502.0	570.9	638.9	706.9
Net change in working capital	(149.1)	67.9	92.8	(24.5)	(33.1)
Others	(486.1)	100.7	(223.4)	(284.6)	(339.5)
<b>Cash flow from operations</b>	<b>1,364.9</b>	<b>949.0</b>	<b>421.2</b>	<b>369.8</b>	<b>554.4</b>
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
<b>Cash flow from investing</b>	<b>(315.0)</b>	<b>(1,740.3)</b>	<b>(200.0)</b>	<b>(200.0)</b>	<b>(300.0)</b>
Debt raised/(repaid)	1,151.6	1,323.4	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(947.2)	(805.2)	(49.7)	(89.9)	(150.7)
Others	(0.9)	(0.9)	-	-	-
<b>Cash flow from financing</b>	<b>203.6</b>	<b>517.3</b>	<b>1,437.9</b>	<b>(2,700.8)</b>	<b>(2,136.3)</b>
<b>Net cash flow</b>	<b>1,253.5</b>	<b>(274.0)</b>	<b>1,659.1</b>	<b>(2,531.1)</b>	<b>(1,881.9)</b>
<b>Net cash/(debt) b/f</b>	<b>1,565.1</b>	<b>2,830.4</b>	<b>2,620.9</b>	<b>4,280.0</b>	<b>1,749.0</b>
<b>Net cash/(debt) c/f</b>	<b>2,825.0</b>	<b>2,620.9</b>	<b>4,280.0</b>	<b>1,749.0</b>	<b>(132.9)</b>
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	7.0	(3.3)	(12.1)	2.2	3.6
EBITDA growth (%)	11.7	(64.3)	(49.7)	29.7	73.4
Pretax margin (%)	10.9	1.9	(0.2)	0.3	1.6
Net profit margin (%)	4.4	(0.2)	0.5	0.8	1.3
Interest cover (x)	nm	358.2	(16,029.3%)	(1,213.4%)	0.3
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	50	46	46
Stock turnover (days)	44	47	51	47	47
Creditors turnover (days)	52	56	61	56	56

Source: Company, AmInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART

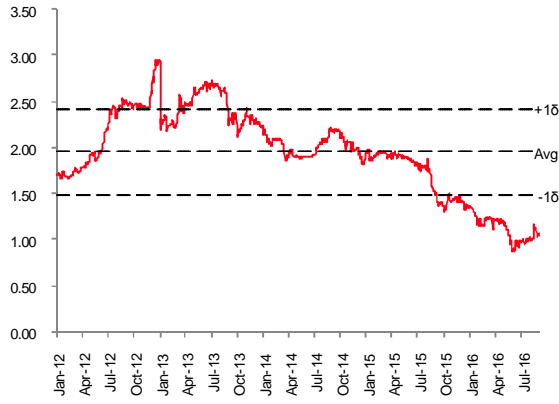
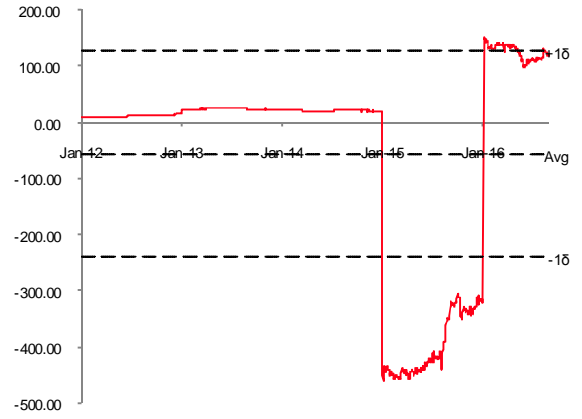


EXHIBIT 4: PE BAND CHART



**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.