

Company Note

I Malaysia

REDUCE (no change)

Consensus ratings*: Buy 0 Hold 4 Sell 13

Current price: RM5.85
Target price: RM4.70
Previous target: RM4.80
Up/downside: -19.7%
CIMB / Consensus: -20.8%

Reuters: UMWS.KL
Bloomberg: UMWH MK
Market cap: US\$1,690m
RM6,835m
Average daily turnover: US\$1.61m
RM6.52m
Current shares o/s: 1,168m
Free float: 34.2%

* Source: Bloomberg

Key changes in this note

- ▶ FY16F EPS cut to negative
- ▶ FY17-18F EPS decrease by 46-52%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.6	12.9	-31.2
Relative (%)	0.9	10.2	-35.5

Major shareholders	% held
Permodalan Nasional Bhd	50.1
EPF	15.7

Analyst(s)



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UMW Holdings

Running out of gas

- UMWH posted a 1H16 core net loss of RM24m vs. our previous full-year net profit forecast of RM98m
- 1H16 core EPS turns negative due to lower earnings in all divisions, except M&E which was supported by improved sales of shock absorbers and lubricants
- We cut our FY16F EPS to negative and FY17-18F EPS by 46-52%
- Maintain Reduce with a lower SOP-based target price of RM4.70

1H16 results below our and consensus expectations

UMWH's 1H16 results came in below expectations, with a net profit of RM4.5m. Stripping out net forex losses and net gain on derivatives, it swung into a core net loss of RM24m. The deviation came from lower earnings contributions from all divisions (except Manufacturing and Engineering) due to commodity price fluctuations, continued weak consumer sentiment and the RM depreciation vs. US\$.

Sales volumes continue double-digit decline

1H16 auto revenue fell 21.2% yoy on lower Toyota sales (down 30% yoy). The launch of Toyota Hilux failed to boost sales in 2Q16 (-37% yoy), however, we expect sales volumes in 2H16 to improve, driven by new launches (refer to Figure 3). 1H16 auto profit shrank 49.5% yoy on the back of lower sales volume and higher production cost due to the RM depreciation vs. US\$ (averaging at 4.10 in 1H16 vs 3.64 in 1H15)

Oil and gas (O&G) division remains in the red

The O&G division's revenues in 2Q16/1H16 were down 29.1%/56.1% yoy to RM157m/RM302.4m. In the same period, it posted net losses of RM37.5m/RM73.7m vs. net profits of RM2.3m/RM20.2m a year ago. This was due to a lower utilisation of its jack-up rigs, coupled with higher discounts in its charter rates. Three of its rigs have been uncontracted since May 16, with one contract to come in only in Oct 16. Therefore, we expect a lower contribution to revenue in 2H16 from O&G.

Manufacturing and engineering (M&E) is the only positive

Its M&E division was the exception to the rule by posting a net profit of RM4.6m in 1H16, vs. RM1.8m in 1H15. This was due to improved sales of shock absorbers on the back of higher exports to Europe and a better lubricant business. UMW's new venture in the aerospace business, through its contract with Rolls Royce to deliver fan cases is expected to drive the division and thus increase the division's revenue contribution after its completion in 2017. It is expecting its first delivery towards end-2017.

Cutting our FY16-18F EPS

We cut our FY16F EPS to negative territory and FY17-18F EPS by 46-52% to account for: i) lower earnings in the auto segment in view of lower sales and narrower margins, ii) widening losses from the O&G segment as a result of idle and uncontracted rigs and lower charter rates, and iii) lower demand for heavy equipment.

Maintain Reduce with lower TP of RM4.70

Following the earnings revision, we cut our SOP-based target price to RM4.70. We maintain our Reduce call in view of its weak earnings prospects over the next 12 months. We see further downside to the share price if earnings continue to deteriorate and demand for the new launches disappoints. Switch to Berjaya Auto for better growth exposure in the auto sector.

Financial Summary

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (RMm)	14,932	14,442	10,935	10,738	11,257
Operating EBITDA (RMm)	1,812	646	672	1,034	1,115
Net Profit (RMm)	652.0	(38.2)	(10.7)	125.8	168.4
Core EPS (RM)	0.57	(0.03)	(0.01)	0.11	0.15
Core EPS Growth	(4%)	(106%)	(72%)		34%
FD Core P/E (x)	10.35	NA	NA	53.61	40.07
DPS (RM)	0.42	0.20	0.20	0.25	0.30
Dividend Yield	7.20%	3.42%	3.42%	4.27%	5.13%
EV/EBITDA (x)	5.78	16.98	19.48	12.74	12.04
P/FCFE (x)	2.90	10.00	NA	67.16	NA
Net Gearing	9.2%	35.7%	39.0%	39.4%	41.4%
P/BV (x)	1.03	1.05	1.07	1.10	1.14
ROE	10.1%	(0.6%)	(0.2%)	2.0%	2.8%
% Change In Core EPS Estimates			(111%)	(52%)	(46%)
CIMB/consensus EPS (x)			(0.05)	0.38	0.45

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	2Q16	2Q15	yoy % chg	qoq % chg	2Q16 cum	2Q15 cum	yoy % chg	Prev. FY16F	Comments
Revenue	2,846.8	3,485.3	(18.3)	29.4	5,046.0	6,725.7	(25.0)	11,697.8	Lower revenue from all divisions
Operating costs	(2,676.3)	(3,186.7)	(16.0)	28.9	(4,753.5)	(6,029.2)	(21.2)	(10,263)	
EBITDA	170.5	298.6	(42.9)	39.4	292.5	696.5	(58.0)	1,434.7	Below expectations
EBITDA margin (%)	6.0	8.6			5.8	10.4		12.3	Lower profit across all divisions, except M&E
Depn & amort.	(129.8)	(105.4)	23.2	(2.1)	(262.4)	(218.4)	20.1	(650.2)	
EBIT	40.6	193.2	(79.0)	494.0	30.1	478.1	(93.7)	304.9	
Interest expense	(41.3)	(27.8)	48.6	(4.7)	(84.6)	(60.0)	41.0	(187.9)	
Interest & invt inc	18.5	29.9	(38.2)	(26.6)	43.3	65.1	(33.6)	101.2	
Associates' contrib	26.5	29.5	(10.2)	20.2	48.6	63.0	(22.8)		
Exceptionals	0.4	(17.2)	nm	(98.4)	28.5	(18.6)		0.0	Net forex loss and gain on derivatives
Pretax profit	44.8	207.6	(78.4)	112.6	65.9	527.6	(87.5)	218.1	Below expectations
Tax	(48.5)	(74.3)	(34.6)	86.6	(74.5)	(158.3)	(52.9)	(54.5)	Higher tax rate due to expenses that were not allowable for tax purposes and losses in subsidiaries
Tax rate (%)	108.3	35.8			113.1	30.0		25.0	
Minority interests	(8.4)	(64.9)	(87.1)	(139.1)	13.1	(135.8)	109.7	(65.4)	
Net profit	(12.1)	68.4	(117.7)	(173.2)	4.5	233.6	(98.1)	98.1	Below expectations
Core net profit	(12.6)	85.7	(114.7)	15.3	(24.0)	252.2	(109.5)	98.1	
EPS (sen)	(1.0)	5.9	(117.7)	(173.2)	0.4	20.0	(98.1)	8.4	
Core EPS (sen)	(1.1)	7.3	(114.7)	15.3	(2.1)	21.6	(109.5)	8.4	

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Segmental breakdown

Revenue	2Q16	2Q15	yoy % chg	qoq % chg	2Q16 cum	2Q15 cum	yoy % chg	
Segmental								
Automotive	2,177.1	2,732.7	(20.3)	39.9	3,733.1	4,738.2	(21.2)	Toyota and Lexus sales volume dropped 30%yoy and 29%yoy in 1H16
Equipment	351.2	353.6	(0.7)	(1.9)	709.1	1,006.6	(29.6)	Lower demand from construction and mining sectors
Oil & Gas	130.0	183.4	(29.1)	48.3	217.7	495.9	(56.1)	Lower utilisation from oil rigs
Manufacturing & Engineering	157.0	165.4	(5.1)	7.9	302.4	336.5	(10.1)	led due to lower demand from lubricants and auto components products
Others	31.5	50.2	(37.2)	(39.4)	83.6	148.5	(43.7)	
Total	2,846.8	3,485.3	(18.3)	29.4	5,046.0	6,725.7	(25.0)	
PBT	2Q16	2Q15	yoy %	qoq %	2Q16	2Q15	yoy %	
Segmental			chg	chg	cum	cum	chg	
Automotive	133.3	263.4	(49.4)	61.1	216.0	496.9	(56.5)	Dragged by higher production cost
Equipment	43.3	33.7	28.7	10.4	82.6	133.0	(37.9)	
Oil & Gas	-64.0	8.0	(900.5)	(6.5)	(132.4)	50.5	(362.4)	Lower charter day rates
Manufacturing & Engineering	10.9	0.4	2,627.0	65.5	17.5	2.2	694.3	Improved sales of shock absorbers and lubricants
Others	-78.7	-97.8	(19.5)	101.5	(117.8)	(154.9)	(23.9)	
Total	44.8	207.6	(78.4)	(85.0)	65.9	527.6	(87.5)	
PAT	2Q16	2Q15	yoy %	qoq %	2Q16	2Q15	yoy %	
Segmental			chg	chg	cum	cum	chg	
Automotive	69.5	130.6	(46.8)	25.2	124.9	247.3	(49.5)	
Equipment	32.8	26.6	23.4	8.7	63.0	105.3	(40.2)	
Oil & Gas	-37.5	2.3	(1,712.0)	3.7	(73.7)	20.2	(464.2)	
Manufacturing & Engineering	3.4	0.5	649.2	200.1	4.6	1.8	158.9	
Others	-80.3	-91.5	(12.3)	136.1	(114.3)	(141.0)	(19.0)	
Total	(12.1)	68.4	(117.7)	(173.1)	4.5	233.6	(98.1)	
PBT margin	2Q16	2Q15	yoy %	qoq %	2Q16	2Q15	yoy %	
Segmental			chg	chg	cum	cum	chg	
Automotive	6.1	9.6	(36.5)	15.1	5.8	10.5	(44.8)	
Equipment	12.3	9.5	29.6	12.6	11.6	13.2	(11.8)	
Oil & Gas	(49.2)	4.4	(1,229.0)	(36.9)	(60.8)	10.2	(697.8)	
Manufacturing & Engineering	6.9	0.2	2,773.5	53.4	5.8	0.7	783.8	
Others	(249.6)	(194.8)	28.1	232.7	(140.9)	(104.3)	35.0	
Total	1.6	6.0	(73.6)	(88.4)	1.3	7.8	(83.4)	

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Recent and upcoming Toyota launches

Model	Expected/launched date	Remarks
Hilux	May-16	
Sienta	Aug-16	
Alphard	Aug-16	3rd-gen
Vellfire	Aug-16	2nd-gen
Innova	end-2016	New model
Vios	TBA	updated
Camry	TBA	updated

*compilations from media reports and company guidance. May not include all possible models and dates may differ

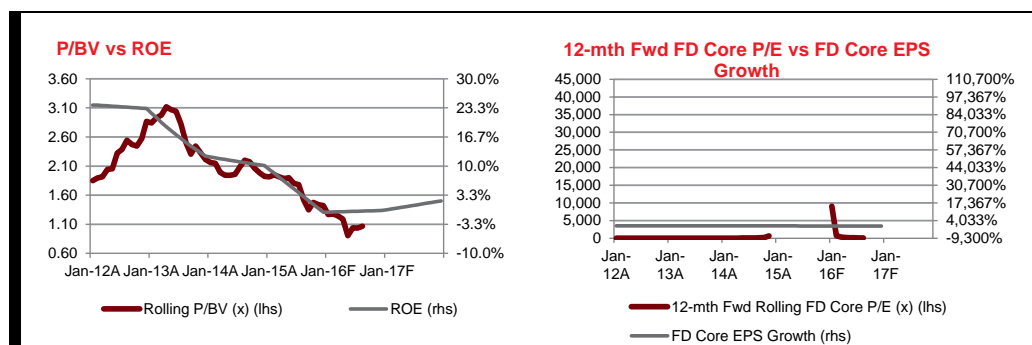
SOURCE: CIMB RESEARCH, COMPANY

Figure 4: SOP valuation

	FY17 Net profit (RM'm)	Target P/E	RNAV (RM'm)
Automotive	296.80	11.00	3,264.82
Oil & gas	55% of UMW-OG market cap		1,052.15
Equipment & manufacturing	144.37	10.00	1,443.68
Others			(250.00)
Total RNAV			5,510.64
No of shares ('m)			1,168.29
RNAV/share (RM)			4.70

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	10,935	10,738	11,257
Gross Profit	1,812	646	672	1,034	1,115
Operating EBITDA	1,812	646	672	1,034	1,115
Depreciation And Amortisation	(379)	(511)	(666)	(669)	(671)
Operating EBIT	1,433	136	6	365	444
Financial Income/(Expense)	49	1	(154)	(163)	(162)
Pretax Income/(Loss) from Assoc.	140	130	120	120	150
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	1,621	266	(27)	323	432
Exceptional Items					
Pre-tax Profit	1,621	266	(27)	323	432
Taxation	(408)	(260)	10	(113)	(151)
Exceptional Income - post-tax					
Profit After Tax	1,213	6	(18)	210	281
Minority Interests	(561)	(45)	7	(84)	(112)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	652	(38)	(11)	126	168
Recurring Net Profit	652	(38)	(11)	126	168
Fully Diluted Recurring Net Profit	652	(38)	(11)	126	168

Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	1,812	646	672	1,034	1,115
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(136)		360	20	(53)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(68)	637	0	0	0
Net Interest (Paid)/Received	(85)	(121)	(263)	(263)	(263)
Tax Paid	(418)	(275)	(267)	10	(113)
Cashflow From Operations	1,104	887	501	800	686
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		263	263	640
Cash Flow From Financing	289	886	12	(55)	263
Total Cash Generated	1,463	(131)	(187)	45	249
Free Cashflow To Equity	2,326	675	(199)	100	(14)
Free Cashflow To Firm	1,260	(897)	65	364	249

BY THE NUMBERS

Balance Sheet

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	3,371	2,728	2,514	2,516	2,376
Total Debtors	2,079	1,739	1,388	1,363	1,429
Inventories	1,830	1,892	1,431	1,405	1,473
Total Other Current Assets	1,191	1,210	1,189	1,189	1,189
Total Current Assets	8,471	7,569	6,522	6,474	6,468
Fixed Assets	5,670	8,133	8,137	8,168	8,197
Total Investments	2,353	1,975	2,719	2,597	2,558
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	10,881	10,790	10,781
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	1,697	1,666	1,747
Other Current Liabilities	466	223	372	372	372
Total Current Liabilities	5,069	5,692	5,794	5,763	5,844
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	8,297	8,267	8,347
Shareholders' Equity	6,580	6,397	6,314	6,121	5,913
Minority Interests	2,853	2,827	2,792	2,876	2,988
Total Equity	9,433	9,224	9,106	8,997	8,901

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	7.0%	(3.3%)	(24.3%)	(1.8%)	4.8%
Operating EBITDA Growth	12.1%	(64.3%)	4.0%	53.8%	7.9%
Operating EBITDA Margin	12.1%	4.5%	6.1%	9.6%	9.9%
Net Cash Per Share (RM)	(0.75)	(2.85)	(3.08)	(3.08)	(3.20)
BVPS (RM)	5.71	5.55	5.47	5.31	5.13
Gross Interest Cover	16.83	1.07	0.02	1.39	1.69
Effective Tax Rate	25.2%	97.6%	0.0%	35.0%	35.0%
Net Dividend Payout Ratio	47%	105%	NA	133%	118%
Accounts Receivables Days	42.42	36.51	44.54	46.76	45.27
Inventory Days	49.86	49.24	59.25	53.34	51.80
Accounts Payables Days	59.63	44.74	38.92	37.95	36.85
ROIC (%)	14.6%	1.3%	0.0%	2.7%	3.3%
ROCE (%)	12.2%	1.8%	0.8%	3.1%	3.6%
Return On Average Assets	10.2%	1.5%	0.5%	2.6%	3.2%

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%	-9.1%	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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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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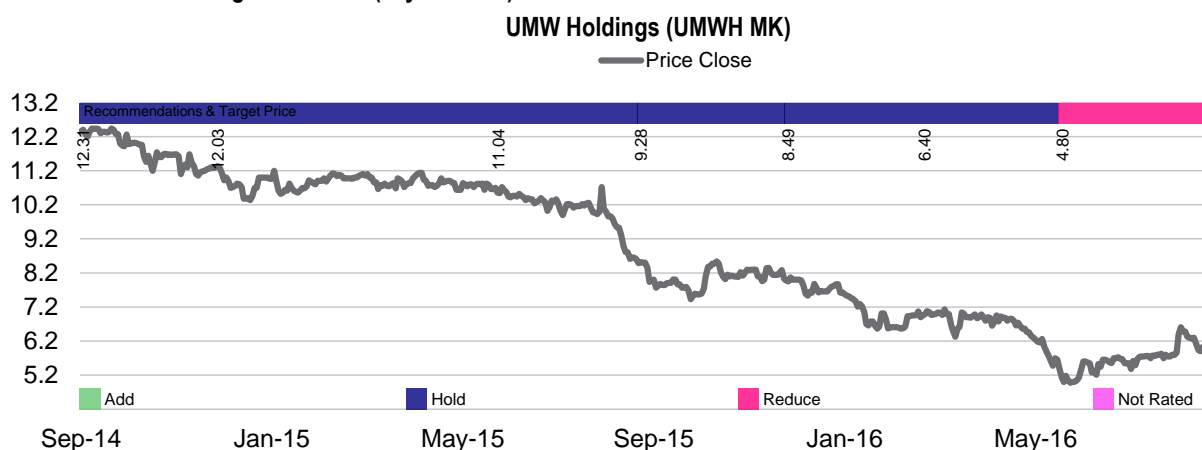
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1574 companies under coverage for quarter ended on 30 June 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	56.5%	7.1%
Hold	32.2%	2.9%
Reduce	9.8%	0.6%

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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Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT - Excellent, 3A, MTLN – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL - Excellent, 4, PTT - Excellent, 5, PTTEP - Excellent, 4, PTTGC - Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART - Excellent, 3B, SAPPE - Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB - Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCN – Good, 1, SCCC - Good, 3A, SIM - Excellent, 3B, SIRI - Good, 1, SPALI - Excellent, 3A, SPRC – not available, no progress, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO - Excellent, 4, TK – Very Good, 3B, TKN – not available, no progress, TMB - Excellent, 4, TPCH – Good, 3B, TOP - Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, UNIQ – not available, 2, VGI – Excellent, 3A, WHA – Good, 3A, WORK – not available, no progress.

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Level 4: Certified

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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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