

UMW (SELL ↔, EPS ↔)

INDUSTRY: UNDERWEIGHT

EARNINGS EVALUATION

30 August 2016

Price Target: RM4.38 (↔)

Share price: RM5.85

To Leverage on Bezza in 2H16

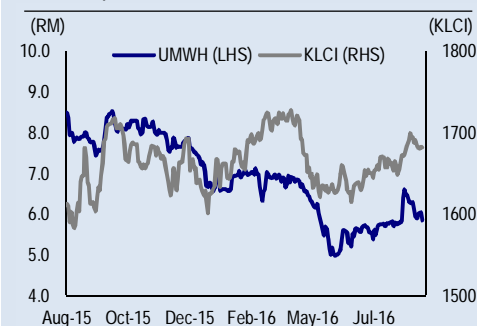
Results	<ul style="list-style-type: none"> ▪ Within Expectation - Reported core net loss of RM15.2m in 2Q16, dragged down 1H16 to losses of RM13.6m as compared to HLIB's forecasted earnings of RM78.7m for FY16 (but below consensus of RM199.4m). We consider the numbers to be in line as we expect stronger 2H16 earnings mainly driven by stronger automotive sales on new launches by Toyota and Perodua, as well as improving utilization of rigs (under UMWOG).
Deviations	<ul style="list-style-type: none"> ▪ None.
Dividends	<ul style="list-style-type: none"> ▪ None.
Highlights	<ul style="list-style-type: none"> ▪ YoY: Revenue dropped by 18.3% on lower automotive sales (Toyota and Lexus) and UMWOG (lower utilization and charter rate). Reversed to core net loss of RM15.2m on lower revenue and higher cost structure (related to automotive imported input costs as well as sales and marketing costs). ▪ QoQ: Despite revenue improving by 29.4% (on higher automotive sales and higher rigs utilization), UMW turned to net loss position, being dragged by Others segment (its valued business investments). ▪ YTD: Similarly, core loss of RM13.6m in 1H16 was mainly dragged by disappointing automotive (lower sales and higher cost structures) and UMWOG (lower utilization and charter rate). ▪ Outlook: UMW has cut Toyota & Lexus sales target downwards to 70k units for 2016 (from 85k) despite YTD-July only achieving 33.1k sales. On a bright note, Perodua has been receiving encouraging orders for Bezza (at 1k orders/day), which will support stronger earnings in 2H16 for automotive segment. UMWOG is also expected to report lower losses in 2H16 on new contracts for NAGA 6 for 2 years. Meanwhile equipment and manufacturing segments are expected to be relatively stable despite soft market conditions.
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"> ▪ Unchanged.
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; and 3) Intense competition from rival automotive marques.
Valuation	<ul style="list-style-type: none"> ▪ Maintained SELL recommendation with unchanged SOP based TP: RM4.38.

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KLCI	1682
Expected share price return	-25.1%
Expected dividend return	1.4%
Expected total return	-23.8%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	6,835
3-mth avg. volume ('000)	1,218
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	2.6	16.1	-31.2
Relative	0.9	13.0	-34.0

Major shareholders

SKIM Amanah Saham	55.7%
EPF	16.1%
Vanguard	1.8%

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	276	670	912
Rpt. net profit	-37	79	293	440
Norm. net profit	256	79	293	440
Norm. EPS (sen)	21.9	6.7	25.1	37.7
P/E (x)	27.9	90.8	24.4	16.3
Book Value (RM)	5.6	5.6	5.7	5.8
P/B (x)	1.1	1.1	1.1	1.1
Net Dvd Yield (%)	3.3	1.3	3.3	4.1
Net Gearing	49.8	54.8	67.8	69.6
ROE (%)	3.9	1.2	4.5	6.6
ROA (%)	1.5	0.4	1.6	2.3

Consensus:

EPS (sen)	13.7	27.2	32.1
% Diff	-50.8	-7.8	17.3

HLIB

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	Comment
Revenue	3,485.3	2,199.2	2,846.8	29.4	-18.3	Revenue dropped yoy on lower Toyota and Lexus sales, due to weaker consumer sentiment and lower O&G contribution on lower utilization and charter rate of rigs. Nevertheless, revenue improved yoy on stronger automotive sales and additional Naga 4 rig operation during Q2.
EBITDA	283.3	122.6	167.7	36.8	-40.8	
EBITDA Margin (%)	8.1	5.6	5.9	5.7	-27.5	EBITDA margin declined yoy on lower margins on automotive sector due to higher cost structures as well as lower rigs utilization. Nevertheless, EBITDA margin improved slightly yoy on higher group revenue.
EBIT	177.9	-10.0	37.9	-480.3	-78.7	
EBIT Margin (%)	5.1	-0.5	1.3	1.8	-3.8	Filtered through lower EBITDA margin yoy.
Net Finance Expense	2.1	-18.1	-22.8	25.6	-1186.6	
Associates	29.5	22.1	26.5	20.2	-10.2	
Els	-1.9	27.1	3.2			Related to derivatives, forex, impairments and provisions.
Reported PBT	207.6	21.1	44.8	112.6	-78.4	
Tax	-74.3	-26.0	-48.4	86.3	-34.8	
Reported Net Profit	133.4	-4.9	-3.6	-26.5	-102.7	
Reported PATAMI	68.4	16.6	-12.0	-172.6	-117.6	
Core PATAMI	70.4	1.6	-15.2	-1055.7	-121.6	Turned to core net loss in 2Q16, dragged by other division and others (valued businesses).
Reported EPS (Sen)	5.9	1.4	-1.0	-172.6	-117.6	
Core EPS (Sen)	6.0	0.1	-1.3	-1055.7	-121.6	

Company, HLIB

Figure #2: Cumulative Result Comparison

FYE Dec (RMm)	1H15	1H16	YoY (%)	FY16E	Dif (%)	Comment
Revenue	6,725.7	5,046.0	-25.0	11,890.7	42.4	Revenue declined yoy on lower contribution from O&G (lower rigs utilization and charter rates) and others (disposal of businesses).
EBITDA	687.3	290.4	-57.8	770.9	37.7	
EBITDA Margin (%)	10.2	5.8	-4.5	6.5	-0.7	EBITDA margin declined yoy on lower rigs utilization as well as lower margins on automotive sector due to lower revenue and higher cost structures.
EBIT	468.9	27.9	-94.0	200.1	14.0	
EBIT Margin (%)	7.0	0.6	-6.4	1.7	-1.1	Filtered through lower EBITDA margin.
Net Finance Expense	5.2	-40.9	-890.8	-59.8	68.5	
Associates	63.0	48.6	-22.8	136.0	35.7	Lower contribution from associates with losses from valued business segments and lower contribution from Perodua on lower volume sales and forex impact.
Els	-9.4	30.3		0.0		Related to derivatives, forex, impairments and provisions.
Reported PBT	527.6	65.9	-87.5	276.3	23.8	
Tax	-158.3	-74.4	-53.0	-181.8	40.9	
Reported Net Profit	369.4	-8.6	-102.3	94.5	-9.1	
Reported PATAMI	233.6	4.6	-98.1	78.7	5.8	
Core PATAMI	243.0	-13.6	-105.6	78.7	-17.3	Core PATAMI turned to loss, mainly dragged down by Automotive, O&G and others segment.
Reported EPS (Sen)	20.0	0.4	-98.1	6.7	5.8	
Core EPS (Sen)	20.8	-1.2	-105.6	6.7	-17.3	

Company, HLIB

Figure #3: UMW Group Automotive Sales Statistics

Unit Sales	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Toyota (51% ownership)	24,185	26,937	23,508	27,405	16,241	22,555	23,301	31,663	10,318	17,033
Lexus (51% ownership)	449	367	369	416	362	532	472	735	272	359
Perodua (38% ownership)	44,024	50,456	45,837	55,262	57,153	51,349	49,025	55,780	47,181	50,189
Total	68,658	77,760	69,714	83,083	73,756	74,436	72,798	88,178	57,771	67,581
Growth YoY (%)	2.38	4.98	-2.07	8.94	7.43	-4.27	4.42	6.13	-21.67	-9.21

Company, HLIB

Figure #4: UMW Earnings Breakdown

	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,732.7	1,556.0	2,177.1	39.9	-20.3	Related to sales volume of Toyota and Lexus, which declined yoy but improved qoq.
Equipment	353.6	358.0	351.2	-1.9	-0.7	Stable qoq and yoy.
Oil & Gas	183.4	87.7	130.0	48.3	-29.1	New contribution of NAGA 4 in 2Q16.
Manufacturing & Engineering	165.4	145.4	157.0	7.9	-5.1	Stable.
Others	69.5	62.8	57.7	-8.1	-17.0	
Intersegment	(19.3)	(10.7)	(26.2)	144.7	35.4	
Total	3,485.3	2,199.2	2,846.8	29.4	-18.3	

Reported PATAMI

Automotive	130.6	55.5	69.5	25.2	-46.8	Lower yoy margins due to lower sales volume and higher input cost (unfavorable forex movement) and operational cost – sales and distributional cost.
Equipment	26.6	30.2	32.8	8.7	23.4	
Oil & Gas	2.3	(36.2)	(37.5)	N.M.	N.M.	Attributed to impairments, low charter rates and utilization rates yoy.
Manufacturing & Engineering	0.5	1.1	3.4	200.1	649.2	
Others	(91.5)	(34.0)	(80.3)	136.1	-12.3	
Total	68.4	16.6	(12.1)	N.M.	N.M.	Affected by derivatives losses, forex movements and impairments.
Core PATAMI	70.4	1.6	(15.2)	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

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Figure #6: HLIB Forecast versus Consensus

	FY16		Difference (%)	FY17		Difference (%)	FY18		Difference (%)
	HLIB	Consensus		HLIB	Consensus		HLIB	Consensus	
Revenue (RMm)	7,139.3	6,447.0	10.74%	7,248.5	6,843.0	5.93%	7,507.7	7,189.0	4.43%
EBITDA (RMm)	2,642.1	2,453.0	7.71%	2,650.6	2,362.0	12.22%	2,704.1	2,360.0	14.58%
Core Profit (RMm)	1,768.5	1,199.0	47.50%	1,784.1	1,157.0	54.20%	1,844.3	1,153.0	59.96%
EPS (Sen)	52.9	37.6	40.69%	53.4	36.0	48.24%	55.2	36.5	51.15%

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	585	815
Interest income	131	126	100	93	84
Interest expense	-85	-127	-159	-166	-174
Associates	140	134	136	158	187
Exceptionals	-134	-668	0	0	0
Pretax profit	1,621	270	276	670	912
Taxation	-408	-267	-182	-225	-256
Minorities	-561	-39	-16	-152	-217
Net profit	652	-37	79	293	440
Core PATAMI	786	256	79	293	440
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	55.8	-3.2	6.7	25.1	37.7
FD Core EPS (sen)	67.3	21.9	6.7	25.1	37.7

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	4,072	4,119	4,184
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	-3,568	-4,492	-4,714
Cash	3,371	2,734	2,843	2,475	2,353
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	6,511	6,629	6,777
Share capital	584	584	584	584	584
Reserves	5,996	6,000	5,927	6,045	6,193
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	294.1	316.3	325.7
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	215.4	228.4	235.2
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	102	110	122
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	109	-368	-122
Forex translation	12	65	0	0	0
Beginning cash	1,565	2,830	2,621	2,730	2,362
Ending cash	2,830	2,621	2,730	2,362	2,240

Valuation ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Rep. EPS (sen)	55.8	-3.2	6.7	25.1	37.7
FD Core EPS (sen)	67.3	21.9	6.7	25.1	37.7
PER (x)	10.5	-183.9	86.8	23.3	15.5
FD PER (x)	8.7	26.7	86.8	23.3	15.5
Net DPS (sen)	41.0	20.0	8.0	20.0	25.0
Net DY (%)	7.0	3.4	1.4	3.4	4.3
BV/ share (RM)	5.6	5.6	5.6	5.7	5.8
P/BV (x)	1.0	1.0	1.0	1.0	1.0
FCF/share (sen)	-59.5	-112.4	-16.3	-62.5	11.3
Market Cap	6,835	6,835	6,835	6,835	6,835
Net cash	-819	-3,281	-3,568	-4,492	-4,714
Enterprise value	7,654	10,115	10,402	11,326	11,548
EV/EBITDA (x)	3.9	6.4	13.5	9.7	7.9
ROE (%)	12.2	3.9	1.2	4.5	6.6
ROA (%)	5.1	1.5	0.4	1.6	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	192.5	39.2
PBT	8.4	-46.6	-70.5	142.4	36.2
Core PATAMI	-6.0	-67.4	-69.3	272.2	50.1
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	0.7	2.1	2.9
Net Gearing (%)	12.4	49.8	54.8	67.8	69.6

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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.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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