

# UMW Holdings

## Another Round of Disappointment

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**6M16 results came in below expectations. Negative deviations were: (i) weaker Auto segment dragged by softer consumer sentiment and higher import costs, (ii) slowdown in foreign mining activities, and (iii) greater losses in the O&G segment. No dividend was declared, which also missed. Post-results, we cut our FY16E/FY17E earnings by 52%/10% in favour of lower earnings assumptions mainly in the O&G segment. Maintain UNDERPERFORM with a lower TP of RM4.45 (from RM4.95, previously) based on SoP valuation.**

**6M16 results were below expectations**, as the group reported 6M16 core NP of RM2.1m which missed our/consensus' full-year core NP estimates of RM198.5m/RM220.9m. Negative deviations were mainly due to: (i) automotive segment facing high import costs from unfavourable forex rates and lower Toyota sales (-14% YoY at 22,779 units in 6M16) from stiff domestic competition with shrinking market share, (ii) slowdown in construction and mining activities, and (iii) prevailing losses in the oil & gas segment from lower rig utilisation rates, as demand by oil majors was affected by weak oil prices.

**YoY**, 6M16 revenue declined by 25% due to weakness across all segments. The auto segment declined the largest in absolute sales value (-21%) as poor consumer sentiment from higher living costs suppressed market demand for automobiles. Sales in the equipment segment fell by 30% amidst slowing construction and mining activities in Myanmar due to state government restrictions. Meanwhile, the Oil & Gas segment (-56%) was dragged by industry softness from weak oil prices, leading to lower rig utilisation by oil majors. In terms of PBT, the auto segment (-57%) saw compressed margins (-5 pts) from higher import costs from unfavourable forex rates while the Oil & Gas segment (-362%) yielded negative PBT margins of -61% due to high overhead costs caused by low operational efficiency from low rig utilisation. The underlying factors above led 6M16 PBT to record at RM65.9m (-88%).

**QoQ**, auto sales grew by 29% as sales figures normalised from a low base at 1Q16, where sales were previously discouraged by pre-emptive purchases prior to January 2016 in anticipation of vehicle price hikes. Oil & Gas revenue increased by 48% on better rig utilisation. While PBT recorded an impressive growth of 113%, core PATAMI recorded losses on higher taxation and zakat with certain expenses not allowable for tax purposes and loss position in some subsidiaries.

**On the Auto Segment**, management guided lower combined sales for Perodua and UMW of 286k units (-10k units), which is broadly in line with our sales volume assumptions. While 2H16 is expected to be challenging for the automotive sector, the Perodua Bezza is expected to thrive in the market for its attractive specifications within its competitive price range. Meanwhile, margins from Toyota are expected to be low amidst prevailing weakness in forex. **On the Oil & Gas segment**, we continue to anticipate weakness in the short to medium term in lieu of softness and uncertainty in oil prices with oil majors expected to be less aggressive with their exploration efforts. With five rigs (NAGA 2, 3, 4, 5 and 7) not being chartered and another one only commencing charter in 4Q16, high overhead costs with lower returns will continue to exert stress on the group's FY16 earnings.

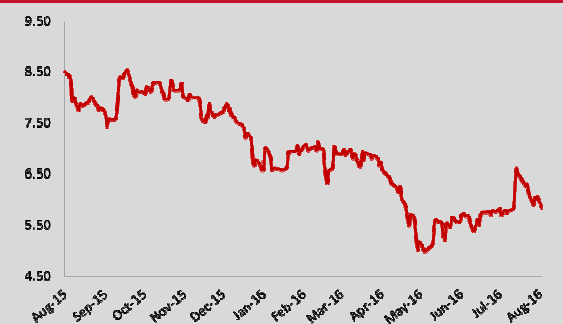
**Post-results, we have cut our FY16E/FY17E PATAMI by 52%/10%** to account mainly for: (i) lower earnings from Automotive segment (mainly for lower Toyota sales per our latest revised 2016 TIV forecasts), (ii) lower equipment sales in lieu of the persistent weakness in the mining sectors, and (iii) widening loss expectations in the Oil & Gas segment in 2H16-FY17 from lower average rig utilisation.

**Maintain UNDERPERFORM but downgrade our TP to RM4.45 (from RM4.95)** based on our SoP valuation to FY17E revised fundamentals, implying a 17.5x FY17E PER.

# UNDERPERFORM ↔

Price: **RM5.85**  
Target Price: **RM4.45** ↓

### Share Price Performance



KLCI	1,681.60
YTD KLCI chg	-0.6%
YTD stock price chg	-25.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,834.5
Issued shares	1,168.3
52-week range (H)	8.84
52-week range (L)	4.88
3-mth avg daily vol:	1,250,013
Free Float	36%
Beta	1.1

### Major Shareholders

Skim Amanah Saham	41.7%
Employees Provident Fund	16.1%
Yayasan Pelaburan Bumiputra	5.7%

### Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	14,441.6	10,441.1	11,272.8
EBIT	135.6	98.8	388.0
PBT	269.7	256.4	596.3
<b>Net Profit</b>	<b>239.7</b>	<b>94.3</b>	<b>298.4</b>
<b>Core Net Profit</b>	<b>239.7</b>	<b>94.3</b>	<b>298.4</b>
Consensus (NP)	-	220.9	348.4
Earnings Revision	-	-52%	-10%
Core EPS (sen)	20.5	8.1	25.5
Core EPS growth (%)	-69.5%	-60.6%	216.3%
NDPS (sen)	20.0	8.0	8.0
BVPS (RM)	5.6	5.6	5.8
PER (x)	28.5	72.5	22.9
PBV (x)	1.0	1.0	1.0
Net Gearing (x)	0.8	0.6	0.7
Net Div. Yield (%)	3.4%	1.4%	1.4%

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Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	2,846.8	2,199.2	29.4%	3,485.3	-18.3%	5,046.0	6,725.7	-25.0%
EBIT	41.1	17.1	139.5%	176.0	-76.7%	58.2	459.5	-87.3%
PBT/(LBT)	44.8	21.1	112.6%	207.6	-78.4%	65.9	527.6	-87.5%
Taxation	(48.5)	(26.0)	-86.6%	(74.3)	34.6%	(74.5)	(158.3)	52.9%
<b>PATAMI</b>	<b>(12.1)</b>	<b>16.6</b>	<b>-173.1%</b>	<b>68.4</b>	<b>-117.7%</b>	<b>4.5</b>	<b>233.6</b>	<b>-98.1%</b>
<b>Core PATAMI</b>	<b>(14.9)</b>	<b>16.9</b>	<b>-187.8%</b>	<b>53.2</b>	<b>-128.0%</b>	<b>2.1</b>	<b>225.4</b>	<b>-99.1%</b>
Core EPS (sen)	(1.3)	1.4	-187.8%	4.5	-128.0%	0.2	19.3	-99.1%
DPS (sen)	-	-		10.0		-	10.0	

\* Note that the 1HFY16 core LATAMI of RM14.9m has been adjusted by excluding non-core items amounting to RM2.7m, which consists of: (i) reversal of impairment losses of receivables of RM2.0m, (ii) provision for write down of inventories of RM2.7m, (iii) gain on disposal of quoted or unquoted investments of RM2.8m, (iv) gain on disposal of property, plant and equipment of RM1.6m, and (v) reversal for impairment losses of assets of RM3.0m.

EBIT margin	1.4%	0.8%		5.0%		1.2%	6.8%	
Pretax margin	1.6%	1.0%		6.0%		1.3%	7.8%	
Core NP margin	-0.5%	0.8%		1.5%		0.0%	3.4%	
Effective tax rate	-108.3%	-123.4%		-35.8%		-113.1%	-30.0%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
<b>Revenue</b>	<b>2,846.8</b>	<b>2,199.2</b>	<b>29.4%</b>	<b>3,485.3</b>	<b>-18.3%</b>	<b>5,046.0</b>	<b>6,725.7</b>	<b>-25.0%</b>
Automotive	2,177.1	1,556.0	39.9%	2,732.7	-20.3%	3,733.1	4,738.2	-21.2%
Equipment	351.2	358.0	-1.9%	353.6	-0.7%	709.1	1,006.6	-29.6%
O&G	130.0	87.7	48.3%	183.4	-29.1%	217.7	495.9	-56.1%
M&E	157.0	145.4	7.9%	165.4	-5.1%	302.4	336.5	-10.1%
Other segment	31.5	52.1	-39.4%	50.2	-37.2%	83.6	148.5	-43.7%
<b>Segment PBT</b>	<b>44.8</b>	<b>21.1</b>	<b>112.6%</b>	<b>207.6</b>	<b>-78.4%</b>	<b>65.9</b>	<b>527.6</b>	<b>-87.5%</b>
Automotive	133.3	82.7	61.1%	263.4	-49.4%	216.0	496.9	-56.5%
Equipment	43.3	39.2	10.4%	33.7	28.7%	82.6	133.0	-37.9%
O&G	(64.0)	(68.4)	6.5%	8.0	-900.5%	(132.4)	50.5	-362.4%
M&E	10.9	6.6	65.5%	0.4	2627.0%	17.5	2.2	694.3%
Other segment	(78.7)	(39.1)	-101.5%	(97.8)	19.5%	(117.8)	(154.9)	23.9%
<b>Segment PBT margin</b>								
Automotive	6.1%	5.3%		9.6%		5.8%	10.5%	
Equipment	12.3%	11.0%		9.5%		11.6%	13.2%	
O&G	-49.2%	-78.0%		4.4%		-60.8%	10.2%	
M&E	6.9%	4.5%		0.2%		5.8%	0.7%	
Other segment	-249.6%	-75.0%		-194.8%		-140.9%	-104.3%	

Source: Company, Kenanga Research

Sum-of-Parts Valuation of UMW

Sum-of-Parts Valuation of UMW		FY17	
Segment	(x)	Value (RMm)	Remarks
Others business	12.0	4,399.8	Based on 12.0x FY17 PER (excluding UMWOG contribution)
UMWOG	0.5	798.9	Based on 0.5x FY17 PBV with effective stake of 55.73%
<b>Total value</b>		<b>5,198.7</b>	
No. of shares		1,168.3	
<b>Fair value</b>		<b>4.45</b>	

Source: Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating
	29/08/16		Actual	1 Yr Fwd	2 Yr Fwd			Actual	1 Yr Fwd	2 Yr Fwd				
	(RM)	(RMm)				(%)	(%)							
BERJAYA AUTO BHD	2.28	2,598.5	13.3	10.8	10.1	7.9%	43.5%	198.0	242.5	258.5	22.5%	6.6%	2.62	OP
DRB-HICOM BHD	1.24	2,397.2	11.8	N.M.	31.0	1.6%	6.3%	202.8	-991.9	76.4	-589.1%	-107.7%	0.76	UP
MBM RESOURCES BERHAD	2.55	996.3	11.9	13.8	10.7	2.7%	5.0%	84.0	72.2	93.4	-14.0%	29.4%	2.37	UP
TAN CHONG MOTOR HOLDINGS BHD	1.90	1,240.3	21.6	N.M.	50.0	2.6%	2.0%	57.1	-70.0	24.7	-222.6%	-135.3%	1.66	UP
UMW HOLDINGS BHD	5.85	6,834.6	28.5	72.2	22.9	1.4%	4.0%	239.7	94.3	298.4	-60.7%	216.4%	4.45	UP

Source: Kenanga Research

30 August 2016

**Stock Ratings are defined as follows:****Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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