

30 August 2016 | Corporate Update

UMW Holdings

Autos drove better 2Q16 earnings

- **2Q16 earnings looks to have missed consensus estimates**
- **Autos drove improvement driven by the new Hilux**
- **Oil & Gas continues to bleed, but debt partly restructured**
- **Maintain NEUTRAL at unchanged TP of RM5.30/share**

Earnings might have missed consensus. UMW registered a core net profit of RM68m for its 2Q16, reducing its core net loss to RM125m for the 1H16 period – normalised for: (1) Unrealised forex/fair value gain of RM135m (2) Inventory write down of RM3.9m (3) Asset impairment of RM0.9m. This is broadly within our expectations as we expect 3Q16 to deteriorate before an improvement in 4Q16. However, the result looks to have missed consensus' FY16F net profit of RM217m (MIDF FY16F: -RM123m). No dividends were declared.

Autos drove improvement. The core earnings improvement in 2Q16 (vs. a core net loss of RM194m in 1Q16) was mainly driven by earnings improvements at the auto division (+61%qoq). The new Hilux and Fortuner were launched in early May with good feedback for the former in the first 2 months of launch, driving a 67%qoq increase in Toyota TIV (also partly due to an exceptionally weak 1Q16 TIV). We understand however, that bookings for the Hilux have since dwindled to around 1000 units vs. the 4000 bookings it had after the launch. The Hilux is UMW Toyota's 2nd largest volume contributor (~26% of Toyota TIV). On top of this 3Q16 might see margin erosion from the run-out of 3 end-of-life model before a recovery after the actual launches of facelifts/replacements of these models in 4Q16.

Oil & gas continues to bleed. UMW Oil & Gas (UMWOG) continued to bleed (pretax loss of RM64m in 2Q16) as 4 rigs were still idle in the quarter. 3Q16 could deteriorate further as another 2 rigs' (Naga 1 and Naga 6) contracts have expired without any renewal so far. UMWOG continues to be in a cash flow deficit but part of its short-term debt has been restructured. There is still a remaining RM1.3b (vs. RM2.3b previously) in short-term debt to be restructured (vs. gross cash of RM909m, inclusive of RM308m loan from UMW).

Recommendation. Maintain NEUTRAL on UMW at unchanged TP of RM5.30/share. Consensus' FY16F earnings looks too optimistic and we expect downgrades after the weak results.

Maintain NEUTRAL
Maintain Target price (TP): RM5.30

RETURN STATS	
Price (29 August 2016)	RM5.85
Target Price	RM5.30
Expected Share Price Return	-9.4%
Expected Dividend Yield	+0.5%
Expected Total Return	-8.9%

STOCK INFO	
KLCI	1,681.6
Bursa / Bloomberg	4588 / UMWH MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Par Value (RM)	1.00
Market cap. (RM'm)	6,834.5
Price over NA	1.16
52-wk price Range	RM4.88 - RM8.92
Beta (against KLCI)	1.10
3-mth Avg Daily Vol	1.44m
3-mth Avg Daily Value	RM8.04m
Major Shareholders (%)	
SKIM ASB	41.7%
EPF	16.0%
PNB	5.7%

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	13,951.5	14,932.5	14,419.8	11,310.0	12,225.5
EBIT (RM'm)	1,296.5	1,432.9	134.9	-23.8	200.9
Pre-tax Profit (RM'm)	1,501.6	1,621.5	265.6	-49.5	139.1
Core net profit (RM'm)	960.4	836.8	338.0	-123.0	-12.6
FD EPS (sen)	82.2	71.6	28.9	-10.5	-1.1
EPS growth (%)	0.9	-12.9	-59.6	NA	NA
PER (x)	7.1	8.2	20.2	NA	NA
Net Dividend (sen)	44.0	41.0	20.0	3.0	3.0
Net Dividend Yield (%)	7.5	7.0	3.4	0.5	0.5

Source: Company, MIDFR

EXHIBIT 1: UMW 2Q16 RESULT SUMMARY

31 Dec (RMm)	2Q15	1Q16	2Q16	YoY	QoQ	1H15	1H16	YTD
Revenue	3,485.3	2,199.2	2,846.8	-18.3%	29.4%	6,725.7	5,046.0	-25.0%
Operating Profit	176.0	17.1	41.1	NA	NA	459.5	58.2	-87.3%
Finance Cost	(27.8)	(43.3)	(41.3)	48.6%	-4.7%	(60.0)	(84.6)	41.0%
Associates	29.5	22.1	26.5	-10.2%	NA	63.0	48.6	-22.8%
Investment Income	29.9	25.2	18.5	-38.2%	-26.6%	65.1	43.6	-33.0%
Pretax Profit	207.6	21.1	44.8	NA	NA	527.6	65.9	-87.5%
Taxation	(74.3)	(26.0)	(48.5)			(158.3)	(74.5)	
Minorities	64.9	(21.5)	8.4	NA	NA	135.8	(13.1)	
Net Profit	68.4	16.6	(12.1)	NA	NA	233.6	4.5	-98.1%
Core net profit	52.5	(194.3)	68.6	30.6%	NA	250.3	(125.6)	NA
EPS (FD, sen)	4.5	-16.6	5.9			23.2	-10.8	
DPS (sen)	10.0	0.0	0.0			10.0	0.0	
Margins (%):								
Operating	5.0%	0.8%	1.4%			6.8%	1.2%	
Pretax Profit	6.0%	1.0%	1.6%			7.8%	1.3%	
Core Net Profit	1.5%	-8.8%	2.4%			3.5%	0.1%	
Tax Rate	35.8%	123.4%	108.3%			30.0%	113.1%	

Source: Company, MIDFR

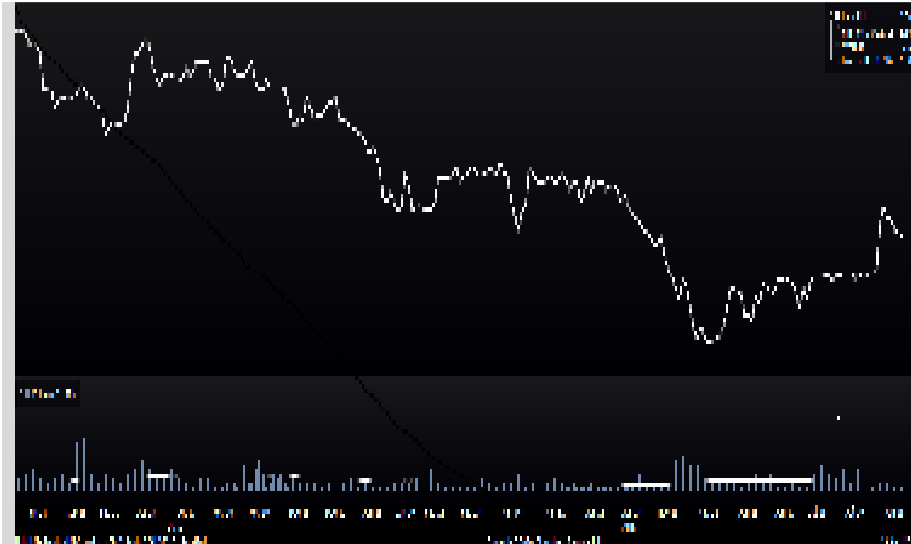
Segmental Breakdown	2Q15	1Q16	2Q16	YoY	QoQ	1H15	1H16	YTD
Automotive	2,732.7	1,556.0	2,177.1	-20.3%	39.9%	4,738	3,733	-21.2%
Equipment	353.6	358.0	351.2	-0.7%	-1.9%	1,007	709	-29.6%
Manuf & Eng	165.4	145.4	157.0	-5.1%	7.9%	336	302	-10.1%
Oil & Gas	183.4	87.7	130.0	-29.1%	48.3%	496	218	-56.1%
Revenue	3,435	2,147	2,815	-18.0%	31.1%	6,577	4,962	-24.6%
Automotive	263.4	82.7	133.3	-49.4%	61.1%	497	216	-56.5%
Equipment	33.7	39.2	43.3	28.7%	10.4%	132.982	83	-37.9%
Manuf & Eng	0.4	6.6	10.9	2654.5%	65.5%	2	17	694.3%
Oil & Gas	8.0	(68.4)	(64.0)	NA	NA	50	(132)	-362.4%
Pretax profit	305	60	124	-60%	105%	683	184	-73.1%
Pretax margins								
Automotive	9.6%	5.3%	6.1%			10.5%	5.8%	
Equipment	9.5%	11.0%	12.3%			13.2%	11.6%	
Manuf & Eng	0.2%	4.5%	6.9%			0.7%	5.8%	
Oil & Gas	4.4%	-78.0%	-49.2%			10.2%	-60.8%	
Toyota TIV (units)	22,555	10,216	17,033	-24.5%	66.7%	38,796	27,249	-29.8%
Average revenue/car (RM)	121,156	152,309	127,819	5.5%	-16.1%	122,132	137,000	12.2%

Source: Company, MAA, MIDFR

Income Statement	FY13	FY14	FY15	FY16F	FY17F
Revenue	13,951.5	14,932.5	14,419.8	11,310.0	12,225.5
Operating expenses	(12,655.0)	(13,499.6)	(14,157.6)	(11,333.8)	(12,024.5)
EBIT	1,296.5	1,567.0	262.1	(23.8)	200.9
Net interest expense	(18.3)	(85.1)	(126.6)	(155.8)	(192.3)
Associates	157.5	139.6	130.1	130.2	130.5
PBT	1,501.6	1,621.5	265.6	(49.5)	139.1
Taxation	(351.5)	(408.5)	(259.9)	44.9	(2.2)
Minority Interest	(431.3)	(561.0)	44.6	(118.5)	(149.6)
Net profit	718.9	652.0	(38.9)	(123.0)	(12.6)
Core net profit	960.4	836.8	338.0	(123.0)	(12.6)
Consensus net profit	960.4	836.8	338.0	216.8	338.2
Balance Sheet	FY13	FY14	FY15	FY16F	FY17F
Non-current assets	6,075.2	7,923.4	10,511.7	11,255.9	11,963.6
PPE	3,893.3	5,669.7	8,132.7	8,746.7	9,323.9
Investments in associate	1,776.2	1,797.5	1,894.5	2,024.7	2,155.2
Others	405.7	456.3	484.6	484.6	484.6
Current assets	8,731.4	8,596.2	7,568.9	6,869.5	7,352.6
Inventories	1,754.2	1,830.4	1,891.6	1,696.5	1,833.8
Receivables	1,855.1	1,238.3	1,273.3	1,583.4	1,833.8
Others	2,578.4	2,156.8	1,675.7	1,210.1	1,210.1
Cash & equivalent	2,543.8	3,370.7	2,728.3	2,379.4	2,474.8
TOTAL ASSETS	14,806.7	16,519.7	18,080.6	18,125.4	19,316.2
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,613.9	2,852.6	2,827.1	2,922.0	3,048.0
Reserves	5,778.6	5,996.3	5,812.7	5,655.9	5,608.7
TOTAL EQUITY	8,976.6	9,433.1	9,223.9	9,162.0	9,240.9
Non-current liabilities	1,774.7	2,017.0	3,165.1	4,115.1	5,065.1
Long-term borrowings	1,602.2	1,803.0	2,782.5	3,732.5	4,682.5
Deferred tax liabilities	34.2	27.4	34.1	34.1	34.1
Others	138.3	186.6	348.5	348.5	348.5
Current liabilities	4,055.4	5,069.6	5,691.6	4,848.3	5,010.3
Short-term borrowings	1,464.3	2,292.6	3,159.1	2,859.1	2,859.1
Payables	2,070.1	2,217.0	2,230.3	1,814.5	1,961.4
Others	520.9	560.0	302.2	174.6	189.7
TOTAL LIABILITIES	5,830.0	7,086.6	8,856.7	8,963.4	10,075.4

Cash Flow Statement	FY13	FY14	FY15	FY16F	FY17F
Operating activities					
PBT	1,501.6	1,621.5	265.6	(49.5)	139.1
Depreciation & Amortization	325.3	378.7	765.5	488.0	524.8
Chgs in working capital	(423.7)	(149.1)	(134.2)	(113.2)	(225.8)
Interest expense	18.3	(48.9)	(120.8)	(155.8)	(192.3)
Tax paid	(374.4)	(418.3)	(275.5)	44.9	(2.2)
Others	(152.5)	(18.9)	(125.3)	25.6	61.8
CF from Operations	894.6	1,364.9	375.3	240.0	305.5
Investing activities					
Capex	(999.9)	(2,185.5)	(2,168.8)	(1,250.0)	(1,250.0)
Others	888.7	1,870.6	264.6	148.0	148.0
CF from Investments	(111.2)	(315.0)	(1,904.2)	(1,102.0)	(1,102.0)
Financing activities					
Dividends paid	(1,050.3)	(947.2)	(806.1)	(58.1)	(58.1)
Net proceeds in borrowings	240.7	1,150.7	1,692.3	650.0	950.0
Others	66.9	-	-	-	-
CF from Financing	(742.7)	203.6	886.3	591.9	891.9
Net changes in cash	40.7	1,253.5	(642.6)	(270.1)	95.4
Beginning cash	1,547.7	1,492.3	3,276.6	2,649.5	2,379.4
Overdrafts & Deposits	-	-	15.6	-	-
Ending cash	1,588.3	2,745.8	2,649.5	2,379.4	2,474.8
Ratios	FY13	FY14	FY15	FY16F	FY17F
Revenue growth	0.6%	7.0%	-3.4%	-21.6%	8.1%
EBIT growth	-32.0%	10.5%	-90.6%	>100%	-942.8%
Core net profit growth	-24.5%	-12.9%	-59.6%	-136.4%	-89.7%
PBT margin	10.8%	10.9%	1.8%	-0.4%	1.1%
Core net profit margin	5.2%	5.6%	2.3%	-1.1%	-0.1%
ROE	12.9%	10.1%	-0.6%	-1.9%	-0.2%
ROA	9.7%	9.1%	0.8%	-0.1%	1.1%
Net gearing (%)	5.8%	7.7%	34.8%	46.0%	54.8%
Book value/share (RM)	5.45	5.63	5.48	5.34	5.30
PBV (x)	1.16	1.12	1.15	1.18	1.19
EV/EBITDA (x)	4.9	4.5	11.7	24.9	17.1

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.