

# UMW Holdings (UMWH MK)

## 2Q16: Swung to core net loss

# SELL

Share Price MYR 5.85  
 12m Price Target MYR 4.65 (-20%)  
 Previous Price Target MYR 4.65

### Negatively surprised by higher taxes

UMWH's 1H16 pre-tax profit (70% of our FY16 forecast) is in-line as we expect 2H16 pre-tax profit to weaken mainly from higher auto A&P expenses and lower O&G activities. Nonetheless, 1H16 core earnings surprised negatively on higher-than-expected taxes; further clarification needed from management. No dividend was declared in 2Q16. We cut FY16 net profit forecast by 48% to reflect high taxes in 1H16; FY17/18 estimates are unchanged. Valuations are expensive. Maintain SELL; MYR4.65 SOP-based TP unchanged.

### Stronger pre-tax marred by unexplained high taxes

2Q16's core net loss of MYR15m reversed most of 1Q16's core earnings and took 1H16 core net profit to just MYR2m (-99% YoY), accounting for 2% of our and consensus full-year forecasts. Operationally, things look better QoQ in 2Q16 (group pre-tax profit: +113% QoQ) whereby auto revenue (+40% QoQ) and pre-tax profit (+61% QoQ) improved significantly on higher Toyota volume sales (+1.4x QoQ). Stronger pretax profit was also seen at M&E division (+66% QoQ) following its disposal of loss-making auto parts manufacturing operations in India. Having said that, positives from these divisions were partially offset by wider losses at the non-core division (i.e. land rigs and pipes manufacturing operations).

### Cut FY16 earnings by 48% on higher 1H16 taxes

On the back of stiff competition, UMW Toyota has offered substantial discounts in its recent Merdeka sales campaign (MYR1.5-8.0k per unit depending on models). Along with year-end sales campaign, we believe that auto margins will be impacted by higher A&P expenses, leading to weaker 2H16 auto earnings - no changes in our estimates. Nonetheless, we impute higher taxes, due to certain expenses not allowable for tax purpose, into FY16 forecast; further clarity needed from management. For now, we expect taxes to normalise in 2H16 (24% corporate tax).

### Maintain SELL on expensive valuations

Expensive valuations at 133x/35x FY16/FY17 PERs, unattractive dividend yield of just 1% (50% DPR) and poor earnings outlook reaffirm the basis for our SELL rating. Also, potential asset impairments at the O&G division by end-FY16 could negatively affect the sentiment on this stock.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	14,932	14,442	9,993	11,299	11,993
EBITDA	1,812	646	570	762	850
Core net profit	850	425	52	194	236
Core EPS (sen)	72.8	36.4	4.4	16.6	20.2
Core EPS growth (%)	13.0	(50.0)	(87.9)	277.2	21.5
Net DPS (sen)	41.0	25.0	2.2	8.3	10.1
Core P/E (x)	8.0	16.1	132.7	35.2	29.0
P/BV (x)	1.0	1.0	1.0	1.0	1.0
Net dividend yield (%)	7.0	4.3	0.4	1.4	1.7
ROAE (%)	13.2	6.5	0.8	2.9	3.5
ROAA (%)	5.5	2.4	0.3	1.1	1.3
EV/EBITDA (x)	9.1	23.6	24.0	18.7	17.3
Net debt/equity (%)	12.4	49.8	61.6	69.5	75.2
Consensus net profit	-	-	101	290	352
MKE vs. Consensus (%)	-	-	(49.2)	(33.0)	(32.9)

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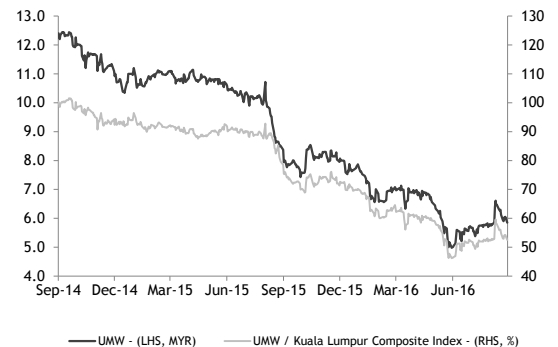
### Statistics

Shariah status	Yes
52w high/low (MYR)	8.54/4.98
3m avg turnover (USDm)	1.7
Free float (%)	94.3
Issued shares (m)	1,168
Market capitalisation	MYR6.8B USD1.7B

### Major shareholders:

Permodalan Nasional Bhd.	40.8%
Employees Provident Fund	16.0%
Bumiputra Investment Foundation	5.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	13	(31)
Relative to index (%)	1	10	(34)

Source: FactSet

## UMWH: Quarterly results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	2Q16	1Q16	%QoQ	2Q15	%YoY	6M16	6M15	%YoY
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)
Interest expense	(41.3)	(43.3)	(4.7)	(27.8)	48.6	(84.6)	(60.0)	41.0
Associates	26.5	22.1	20.2	29.5	(10.2)	48.6	63.0	(22.8)
Investment Income	18.5	25.2	(26.6)	29.9	(38.2)	43.6	65.1	(33.0)
Exceptional item	(2.7)	0.3	NM	(14.5)	(81.2)	(2.4)	(7.8)	(69.2)
<b>Pre-tax profit</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>
Taxation	(48.5)	(26.0)	86.6	(74.3)	(34.6)	(74.5)	(158.3)	(52.9)
Minority interest	(8.4)	21.5	NM	(64.9)	(87.1)	13.1	(135.8)	NM
<b>Net profit</b>	<b>(12.1)</b>	<b>16.6</b>	<b>NM</b>	<b>68.4</b>	<b>(117.7)</b>	<b>4.5</b>	<b>233.6</b>	<b>(98.1)</b>
<b>Recurring net profit</b>	<b>(14.9)</b>	<b>16.9</b>	<b>NM</b>	<b>53.9</b>	<b>(127.6)</b>	<b>2.1</b>	<b>225.8</b>	<b>(99.1)</b>
	<b>2Q16</b>	<b>1Q16</b>	<b>+/- ppt</b>	<b>2Q15</b>	<b>%YoY</b>	<b>6M16</b>	<b>6M15</b>	<b>+/- ppt</b>
EBIT margin (%)	1.4	0.8	0.7	5.0	(3.6)	1.2	6.8	(5.7)
Tax rate (%)	108.3	123.4	(15.1)	35.8	72.5	113.1	30.0	83.1
	<b>2Q16</b>	<b>1Q16</b>	<b>%QoQ</b>	<b>2Q15</b>	<b>%YoY</b>	<b>6M16</b>	<b>6M15</b>	<b>%YoY</b>
<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)
M&E	157.0	145.4	7.9	165.4	(5.1)	302.4	336.5	(10.1)
Oil & Gas	130.0	87.7	48.3	183.4	(29.1)	217.7	495.9	(56.1)
Others	57.7	62.8	(8.1)	69.5	(17.0)	120.5	185.4	(35.0)
Elimination	(26.2)	(10.7)	144.7	(19.3)	35.4	(36.8)	(36.9)	(0.2)
<b>Pre-tax profit</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)
M&E	10.9	6.6	65.5	0.4	NM	17.5	2.2	NM
Oil & Gas	(64.0)	(68.4)	(6.5)	8.0	NM	(132.4)	50.5	NM
Others	(78.7)	(39.1)	101.5	(97.8)	(19.5)	(117.8)	(154.9)	(23.9)
	<b>2Q16</b>	<b>1Q16</b>	<b>+/- ppt</b>	<b>2Q15</b>	<b>%YoY</b>	<b>6M16</b>	<b>6M15</b>	<b>+/- ppt</b>
<b>Pre-tax margins (%)</b>	<b>1.6</b>	<b>1.0</b>	<b>0.6</b>	<b>6.0</b>	<b>(4.4)</b>	<b>1.3</b>	<b>7.8</b>	<b>(6.5)</b>
Automotive	6.1	5.3	0.8	9.6	(3.5)	5.8	10.5	(4.7)
Equipment	12.3	11.0	1.4	9.5	2.8	11.6	13.2	(1.6)
M&E	6.9	4.5	2.4	0.2	6.7	5.8	0.7	5.1
Oil & Gas	(49.2)	(78.0)	28.8	4.4	NM	(60.8)	10.2	NM
Others	(136.5)	(62.2)	(74.2)	(140.7)	4.2	(97.8)	(83.6)	(14.2)
	<b>2Q16</b>	<b>1Q16</b>	<b>%QoQ</b>	<b>2Q15</b>	<b>%YoY</b>	<b>6M16</b>	<b>6M15</b>	<b>%YoY</b>
<b>Vehicle Unit Sales (MAA)</b>	<b>25,239</b>	<b>10,488</b>	<b>140.6</b>	<b>23,087</b>	<b>9.3</b>	<b>35,727</b>	<b>39,690</b>	<b>(10.0)</b>
Toyota	25,239	10,488	140.6	23,087	9.3	35,727	39,690	(10.0)
Perodua	50,189	47,181	6.4	51,349	(2.3)	97,370	108,502	(10.3)

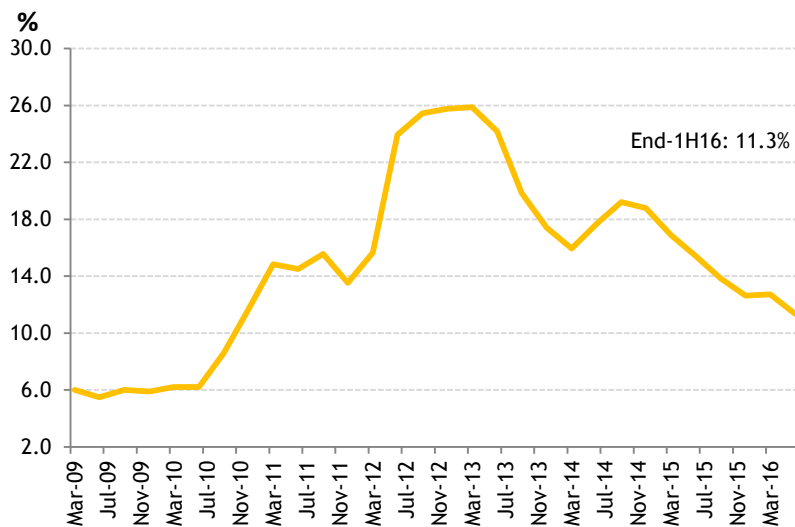
Source: Company, Maybank KE

SOP valuations

Division	Effective Interest (%)	Valuation Method	Value (MYR m)	Per share (MYR)
<b>Automotive</b>				
UMW Toyota	51.0%	10x FY17 PER	702.3	0.60
Perodua	38.0%	11x FY17 PER	2,217.8	1.90
<b>Equipment</b>	100.0%	10x FY17 PER	1,184.5	1.02
<b>Manufacturing &amp; Engineering</b>	100.0%	10x FY17 PER	102.1	0.09
<b>Oil &amp; Gas</b>	55.7%	1x EV/replacement value	1,396.0	1.19
<b>Others</b>				
Land rigs - Sher I, II, III (India)	70.0%	10x FY17 PER	24.7	0.02
Land rigs - Ghazal I, III, IV, V (Middle East)	60.0%	10x FY17 PER	28.2	0.02
WSP	22.5%	Investment cost	128.6	0.11
United Seamless Tubular (USTPL)	32.2%	Investment cost	66.8	0.06
Shanghai Tube-Cote Petroleum Pipe Coating (STPPC)	49.0%	Investment cost	20.0	0.02
Zhongyou BSS (Qinhuangdao) Petropipe (BSS)	34.3%	Investment cost	125.2	0.11
Shanghai BSW Petro-pipe (BSW)	32.4%	Investment cost	31.8	0.03
Jiangsu Tube-Cote Shuguang Coating	28.1%	Investment cost	10.3	0.01
Less: Net debt/(cash) in FY15			(611.8)	(0.52)
<b>SOP (MYR)</b>			<b>5,426.3</b>	<b>4.65</b>

Source: Maybank KE

UMWH: Foreign shareholding (11.3% as at end-Jun 2016)



Source: Maybank KE

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	10.5	(230.7)	nm	35.2	29.0
Core P/E (x)	8.0	16.1	132.7	35.2	29.0
P/BV (x)	1.0	1.0	1.0	1.0	1.0
P/NTA (x)	1.0	1.0	1.0	1.0	1.0
Net dividend yield (%)	7.0	4.3	0.4	1.4	1.7
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	9.1	23.6	24.0	18.7	17.3
EV/EBIT (x)	11.5	nm	nm	88.3	67.7

**INCOME STATEMENT (MYR m)**

Revenue	14,932.5	14,441.6	9,993.4	11,298.5	11,993.3
Gross profit	4,153.9	3,391.4	2,768.8	3,261.0	3,508.1
EBITDA	1,811.7	646.3	570.3	762.4	849.7
Depreciation	(378.6)	(510.5)	(567.2)	(601.0)	(632.4)
Amortisation	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	1,432.9	135.6	3.0	161.2	217.1
Net interest income / (exp)	48.9	(0.4)	(18.6)	(48.7)	(71.1)
Associates & JV	139.6	134.4	109.9	137.8	176.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,621.5	269.7	94.3	250.3	322.9
Income tax	(408.5)	(259.9)	(81.5)	(77.0)	(91.2)
Minorities	(561.0)	(39.4)	38.7	21.0	4.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	652.0	(29.6)	51.5	194.3	236.1
Core net profit	850.3	424.8	51.5	194.3	236.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	3,370.7	2,734.1	1,916.5	1,303.1	801.4
Accounts receivable	2,078.5	1,833.4	1,470.9	1,613.9	1,690.1
Inventory	1,830.4	1,890.0	1,781.4	1,981.9	2,092.2
Property, Plant & Equip (net)	5,669.7	8,102.8	8,585.6	9,034.6	9,452.2
Intangible assets	25.6	25.2	25.1	24.9	24.7
Investment in Associates & JVs	1,857.4	1,979.1	1,988.8	2,026.4	2,103.1
Other assets	1,687.3	1,660.7	1,660.7	1,660.7	1,660.7
<b>Total assets</b>	<b>16,519.7</b>	<b>18,225.3</b>	<b>17,428.9</b>	<b>17,645.4</b>	<b>17,824.4</b>
ST interest bearing debt	2,386.7	3,725.0	4,025.0	4,325.0	4,625.0
Accounts payable	2,217.0	2,241.2	1,484.5	1,651.5	1,743.5
LT interest bearing debt	1,803.0	2,289.8	1,963.1	1,636.4	1,309.7
Other liabilities	680.0	585.0	585.0	585.0	585.0
<b>Total Liabilities</b>	<b>7,086.6</b>	<b>8,841.4</b>	<b>8,058.0</b>	<b>8,198.4</b>	<b>8,263.7</b>
Shareholders Equity	6,580.5	6,584.5	6,610.2	6,707.4	6,825.4
Minority Interest	2,852.6	2,799.4	2,760.7	2,739.7	2,735.3
<b>Total shareholder equity</b>	<b>9,433.1</b>	<b>9,383.9</b>	<b>9,370.9</b>	<b>9,447.0</b>	<b>9,560.7</b>
<b>Total liabilities and equity</b>	<b>16,519.7</b>	<b>18,225.3</b>	<b>17,428.9</b>	<b>17,645.4</b>	<b>17,824.4</b>

**CASH FLOW (MYR m)**

Pretax profit	1,621.5	269.7	94.3	250.3	322.9
Depreciation & amortisation	378.7	510.7	567.4	601.2	632.6
Adj net interest (income)/exp	(94.1)	(121.4)	(120.9)	(120.4)	(119.8)
Change in working capital	(136.4)	67.9	(285.6)	(176.4)	(94.5)
Cash taxes paid	(418.3)	(273.8)	(81.5)	(77.0)	(91.2)
Other operating cash flow	26.2	496.0	(91.3)	(89.1)	(105.8)
Cash flow from operations	1,377.7	949.1	82.3	388.5	544.1
Capex	(2,185.5)	(2,280.4)	(1,050.0)	(1,050.0)	(1,050.0)
Free cash flow	(807.8)	(1,331.2)	(967.7)	(661.5)	(505.9)
Dividends paid	(947.2)	(805.2)	(25.8)	(97.1)	(118.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,150.7	1,322.6	(26.7)	(26.7)	(26.7)
Other invest/financing cash flow	1,726.6	414.0	100.2	100.2	100.2
Effect of exch rate changes	6.4	64.6	0.0	0.0	0.0
Net cash flow	1,128.8	(335.4)	(919.9)	(685.1)	(550.4)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	7.0	(3.3)	(30.8)	13.1	6.1
EBITDA growth	11.7	(64.3)	(11.8)	33.7	11.5
EBIT growth	10.5	(90.5)	(97.8)	5,301.0	34.7
Pretax growth	12.9	(83.4)	(65.0)	165.6	29.0
Reported net profit growth	(0.1)	nm	nm	277.2	21.5
Core net profit growth	13.0	(50.0)	(87.9)	277.2	21.5
<b>Profitability ratios (%)</b>					
EBITDA margin	12.1	4.5	5.7	6.7	7.1
EBIT margin	9.6	0.9	0.0	1.4	1.8
Pretax profit margin	10.9	1.9	0.9	2.2	2.7
Payout ratio	73.5	nm	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.4	nm	0.5	1.7	2.0
Revenue/Assets (x)	0.9	0.8	0.6	0.6	0.7
Assets/Equity (x)	2.5	2.8	2.6	2.6	2.6
ROAE (%)	13.2	6.5	0.8	2.9	3.5
ROAA (%)	5.5	2.4	0.3	1.1	1.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	35.7	36.7	58.2	63.2	64.0
Days receivable outstanding	47.4	48.8	59.5	49.1	49.6
Days inventory outstanding	59.9	60.6	91.5	84.3	86.4
Days payables outstanding	71.6	72.6	92.8	70.2	72.0
Dividend cover (x)	1.4	(0.1)	2.0	2.0	2.0
Current ratio (x)	1.7	1.2	1.1	1.0	0.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.1	2.2	2.2	2.2
Net debt/equity (%)	12.4	49.8	61.6	69.5	75.2
Net interest cover (x)	na	nm	0.2	3.3	3.1
Debt/EBITDA (x)	2.3	9.3	10.5	7.8	7.0
Capex/revenue (%)	14.6	15.8	10.5	9.3	8.8
Net debt/ (net cash)	819.1	3,280.6	4,071.5	4,658.3	5,133.3

Source: Company; Maybank

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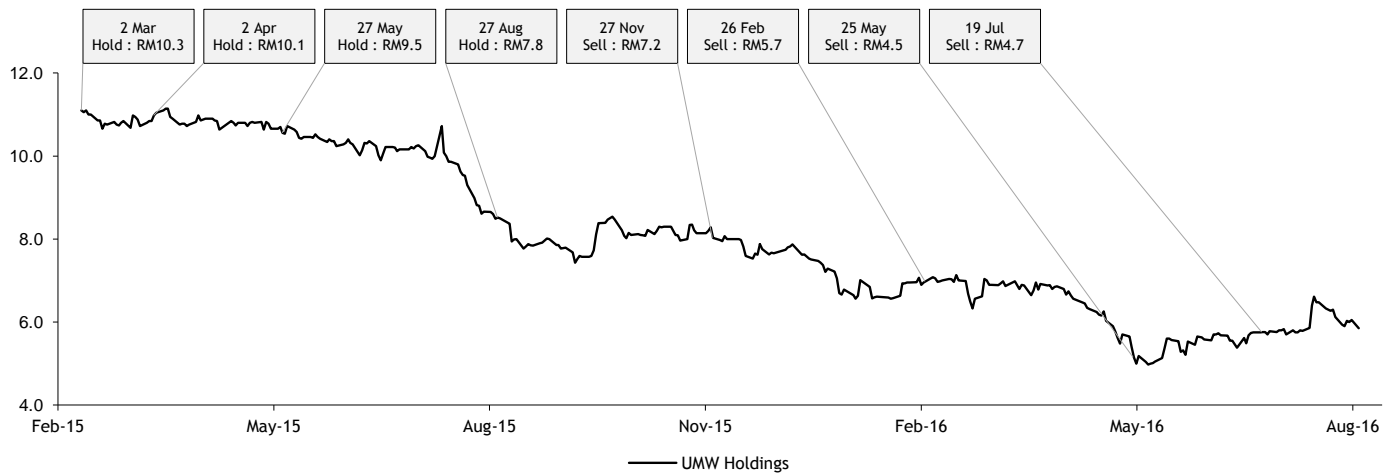
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