

Outthink. Outperform.

O&G division continues to bleed

UMW's net losses widened to RM128.8m in 3Q16 as oil and gas (O&G) division posted operating loss of RM133m. We maintain our earnings forecasts pending a management meeting. Maintain SELL rating with unchanged SOTP of RM4.52.

9M16 headline earnings miss expectations

UMW's core losses continued to widen in 3Q16 at RM128.8m against a RM12.1m loss in 2Q16. 9M16 core net losses came in at RM124.4m which miss our and street expectations. Its business continued to be impacted by the weakening Ringgit, challenging automotive sales and O&G division.

O&G division deteriorated further qoq

Revenue was rather flat at RM2.8bn qoq with automotive sales inching up 4%. However, this was offset by the other business segments namely equipment (-2.4%), manufacturing and engineering (-7.9%) and O&G (-16.9%). Core net losses widened in 3Q16 as the O&G division continued to be a drag to earnings with only NAGA 1 partially working in 3Q16.

Outlook

Automotive sales will likely remain challenging on the back of the weak consumer sentiment while the equipment segment should remain weak due to low activity levels in the mining and logging sectors. Meanwhile, sluggish demand will continue to impact the manufacturing and engineering segment, but support is likely from increased European market exports and OEM sales. For UMWOG, we believe 4Q16 will see a rebound from 3Q16 low as NAGA 6 and 8 have been deployed for work. However, the outlook for drilling market remains soft.

Maintain SELL with a TP of RM4.52

We maintain our earnings forecasts pending an update from a management meeting. Maintain SELL rating with an unchanged SOTP-based TP of RM4.52. Risks to our recommendation include; i) higher-than-expected sales volume growth for Toyota and Perodua, and (ii) a sharp rebound in oil prices, which will lead to improvement in its O&G segment.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	14,932.5	14,419.8	12,406.4	13,117.4	13,757.4
EBITDA (RMm)	803.3	1,111.5	927.7	1,288.9	1,273.5
Pretax profit (RMm)	1,621.5	265.6	613.7	839.0	552.7
Net profit (RMm)	658.3	(38.9)	220.4	370.6	303.9
EPS (sen)	56.3	(3.3)	18.9	31.7	26.0
PER (x)	8.6	(147.6)	25.8	15.4	18.7
Core net profit (RMm)	672.6	172.1	220.4	370.6	303.9
Core EPS (sen)	57.6	14.7	18.9	31.7	26.0
Core EPS growth (%)	(21.1)	(74.4)	28.0	68.2	(18.0)
Core PER (x)	8.5	33.1	25.8	15.4	18.7
Net DPS (sen)	41.0	20.0	20.0	30.0	30.0
Dividend Yield (%)	8.4	4.1	4.1	6.2	6.2
EV/EBITDA (x)	9.4	6.8	8.1	5.9	6.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			2.1	1.4	0.9

Source: Company, Affin Hwang estimates

Results Note

UMW Holdings

UMW MK
Sector: Auto & Autoparts

RM4.87 @ 29 November 2016

SELL (maintain)

Downside: 7.2%

Price Target: RM4.52

Previous Target: RM4.52



Price Performance

	1M	3M	12M
Absolute	-19.1%	-16.8%	-39.4%
Rel to KLCI	-16.9%	-14.0%	-37.3%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	5,689.6/1,273.8
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	4.87-8.22
Est free float	24.5%
BV per share (RM)	5.46
P/BV (x)	0.89
Net cash/ (debt) (RMm) (3Q16)	(3,209.1)
ROE (2016E)	6.9%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

PNB	42.1%
EPF	16.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q16	QoQ % chg	YoY % chg	9M16	YoY % chg	Comment
Revenue	2,856.8	0.4	(19.1)	7,902.8	(23.0)	9M16 revenue fell 23% yoy as business continued to be impacted by the weakening Ringgit, challenging automotive sales and O&G division.
Op costs	(2,992.8)	6.7	(10.7)	(7,980.6)	(16.9)	
EBIT	(136.0)	(431.2)	(174.3)	(77.8)	(111.9)	3Q16 registered operating loss of RM136m dragged down by O&G division.
<i>EBIT margin (%)</i>	<i>-4.8</i>	<i>-6.2ppts</i>	<i>-9.9ppts</i>	<i>(1.0)</i>	<i>-7.3ppts</i>	
Int expense	(41.1)	(0.5)	65.9	(125.6)	48.3	
Int and other inc	14.6	(20.8)	(52.1)	58.2	(39.1)	
Associates	40.8	54.0	>100%	89.4	42.8	
Pretax profit	(121.6)	(371.4)	(268.4)	(55.7)	(109.3)	
Tax	(41.3)	(15.0)	(6.9)	(115.8)	(42.8)	
<i>Tax rate (%)</i>	<i>(33.9)</i>	<i>-142ppts</i>	<i>-95ppts</i>	<i>-207.7</i>	<i>241.5ppts</i>	
MI	34.0	(505.3)	(336.6)	47.2	(131.4)	
Net profit	(128.8)	962.3	(1,052.7)	(124.4)	(150.3)	
EPS (sen)	(11.0)	960.6	(1,050.9)	(10.7)	(150.4)	
Core net profit	(128.8)	962.3	(199.2)	(124.4)	(133.3)	Below our and street expectations

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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