



AmInvestment Bank

## Company report

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

30 Nov 2016

Slipping into deeper losses

## HOLD

(Maintained)

Al Zaquan

al-zaquan@ambankgroup.com

03-2036 2304

Rationale for report: Company result

Price	RM4.87
Fair Value	RM4.60
52-week High/Low	RM8.22/RM4.87

### Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	14,441.6	12,692.7	12,977.7	13,440.4
Core net profit (RM mil)	216.6	(143.3)	79.4	104.9
FD Core EPS (sen)	18.5	(12.3)	6.8	9.0
FD Core EPS growth (%)	(74.3)	(166.1)	(155.4)	32.1
Consensus Net Profit (RM mil)	-	-	270.3	326.6
DPS (sen)	41.0	(6.1)	3.4	4.5
PE (x)	26.3	nm	71.6	54.2
EV/EBITDA (x)	13.9	nm	27.8	21.3
Div yield (%)	8.4	(1.3)	0.7	0.9
ROE (%)	(0.4)	(2.2)	1.2	1.6
Net Gearing (%)	49.8	48.1	68.9	87.7

### Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	5,689.6
Book Value (RM/share)	5.64
P/BV (x)	0.9
ROE (%)	(0.4)
Net Gearing (%)	49.8

Major Shareholders	Skim ASB (41.7%) EPF (16.1%)
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Free Float	32.6
Avg Daily Value (RMmil)	2.7

Price performance	3mth	6mth	12mth
Absolute (%)	(16.8)	(6.0)	(39.4)
Relative (%)	(14.0)	(5.4)	(37.3)



### Investment Highlights

- We maintain HOLD on UMW Holdings (UMW) with a lower SOP-based FV of RM4.60 (from RM4.90 previously).
- UMW reported a massive core net loss of -RM93mil in 3QFY16 on the back of flat revenue growth, higher operating costs (+7%QoQ) and a higher depreciation charge (+118%QoQ).
- 9MFY16 net loss of RM118mil compares unfavourably against our projection of a profit of RM59mil and consensus RM110mil for the full year.
- We have subsequently cut our earnings projections to a loss of -RM143mil for FY16. Our projections for the next two years have been cut by 20-41%.
- Both of its core segments saw tremendous declines. Revenue of the auto segment fell 18%YoY in 9MFY16 on much lower Toyota sales especially (-28%YoY). The segment's net profit fell 34% and net profit margin down 3ppts to 5.8%.
- Much worse was the O&G segment. Revenue fell 43% in 9MFY16 on low asset utilization. It saw a net loss of RM149mil vs. a profit of RM20mil in the same period a year ago.
- No dividend was declared, as expected.
- Net gearing moderated 1ppts to 51%. The high level of borrowings has maintained interest costs at >RM40mil/quarter from RM20mil-RM25mil historically.
- Prospects for its two core segments are dim.
- Poor consumer sentiment and intense competition continue to weigh on Toyota. Toyota's year-end sale is offering cash rebates and freebies even on recent additions such as the new Vios and Sienta MPV. The aggressive promotions will serve to help Toyota inch closer to its target of 70K for the year against 10MFY16 sales of 50K.
- The O&G segment is relying on a clearer recovery in oil prices to reactivate the capital spending of oil majors and boost demand for its services.

**EXHIBIT 1: EARNINGS SUMMARY**

31 Dec (RMm)	3Q15	2Q16	3Q16	QOQ	YOY	9MFY15	9MFY16	%
Revenue	3,533.2	2,846.8	2,856.8	0%	-19%	10,258.8	7,902.8	-23%
Operating Expenses	(3,630.6)	(2,828.6)	(3,020.2)	7%	-17%	(9,996.1)	(8,051.4)	-19%
Other income	164.3	22.9	27.3	20%	-83%	263.6	70.9	-73%
EBITDA	210.2	170.9	147.5	-14%	-30%	888.1	468.2	-47%
Depreciation	(143.4)	(129.8)	(283.6)	>100%	98%	(361.8)	(546.0)	51%
EBIT	66.8	41.1	(136.0)	<-100%	<-100%	526.3	(77.8)	<-100%
Finance Cost	(24.8)	(41.3)	(41.1)	0%	66%	(84.7)	(125.6)	48%
Associates	(0.3)	26.5	40.8	54%	<-100%	62.7	89.4	43%
Investment Income	30.5	18.5	14.6	-21%	-52%	95.6	58.2	-39%
Pretax Profit	72.2	44.8	(121.6)	<-100%	<-100%	599.9	(55.7)	<-100%
Taxation	(44.3)	(48.5)	(41.3)	-15%	-7%	(202.6)	(115.8)	-43%
Minorities	14.4	8.4	(34.0)	<-100%	<-100%	150.2	(47.2)	<-100%
Net Profit	13.5	(12.1)	(128.8)	>100%	<-100%	247.2	(124.4)	<-100%
Core net profit	129.8	(15.3)	(92.8)	>100%	<-100%	373.8	(118.6)	<-100%
EPS (sen)	1.2	-1.0	-11.0			21.2	(10.6)	
EPS (FD, sen)	11.1	-1.3	-7.9			32.0	(10.2)	
DPS (sen)	0.0	0	0			10.0	0.0	
Margins (%):								
EBITDA	5.9%	6.0%	5.2%			8.7%	5.9%	
EBIT	1.9%	1.4%	-4.8%			5.1%	-1.0%	
Pretax Profit	2.0%	1.6%	-4.3%			5.8%	-0.7%	
Net Profit	0.4%	-0.4%	-4.5%			2.4%	-1.6%	
Tax Rate	61.4%	108.3%	-33.9%			33.8%	<-100%	
Toyota sales	23,301	17,033	17,271	1%	-26%	62,097	44,520	-28%
Perodua sales	49,025	50,189	53,519	7%	9%	157,527	150,889	-4%

Source: Company

## EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	14,932.5	14,441.6	12,692.7	12,977.7	13,440.4
EBITDA	1,811.7	646.3	(192.6)	368.4	539.0
Depreciation/Amortisation	(378.7)	(502.0)	(570.9)	(638.9)	(706.9)
Operating income (EBIT)	1,432.9	144.4	(763.5)	(270.6)	(168.0)
Other income & associates	139.6	134.4	225.2	267.0	286.0
Net interest	48.9	(0.4)	(1.5)	(17.9)	(90.7)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>1,621.5</b>	<b>278.4</b>	<b>(539.8)</b>	<b>(21.4)</b>	<b>27.3</b>
Taxation	(408.5)	(267.5)	131.2	5.2	(6.6)
Minorities/pref dividends	(561.0)	(39.4)	265.4	95.7	84.3
<b>Net profit</b>	<b>652.0</b>	<b>(28.4)</b>	<b>(143.3)</b>	<b>79.4</b>	<b>104.9</b>
Core net profit	842.5	216.6	(143.3)	79.4	104.9
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	5,669.7	8,102.8	9,142.1	10,121.3	11,040.6
Intangible assets	25.6	25.2	25.2	25.2	25.2
Other long-term assets	2,353.3	2,429.9	347.4	(1,354.8)	(3,210.2)
<b>Total non-current assets</b>	<b>8,048.5</b>	<b>10,557.9</b>	<b>9,514.7</b>	<b>8,791.8</b>	<b>7,855.6</b>
Cash & equivalent	3,370.7	2,734.1	4,017.2	1,507.4	(468.3)
Stock	1,830.4	1,890.0	1,661.1	1,698.4	1,758.9
Trade debtors	2,078.5	1,833.4	1,611.4	1,647.6	1,706.3
Other current assets	1,191.5	1,209.9	1,200.5	1,200.5	1,200.5
<b>Total current assets</b>	<b>8,471.1</b>	<b>7,667.4</b>	<b>8,490.1</b>	<b>6,053.8</b>	<b>4,197.4</b>
Trade creditors	2,217.0	2,241.2	1,969.8	2,014.0	2,085.8
Short-term borrowings	2,386.7	3,725.0	4,064.5	3,826.7	3,731.4
Other current liabilities	465.8	371.8	43.8	85.3	89.2
<b>Total current liabilities</b>	<b>5,069.6</b>	<b>6,338.0</b>	<b>6,078.1</b>	<b>5,926.0</b>	<b>5,906.3</b>
Long-term borrowings	1,803.0	2,289.8	3,119.3	2,216.6	1,575.2
Other long-term liabilities	214.0	213.7	83.5	83.5	83.5
<b>Total long-term liabilities</b>	<b>2,017.0</b>	<b>2,503.4</b>	<b>3,202.8</b>	<b>2,300.1</b>	<b>1,658.7</b>
<b>Shareholders' funds</b>	<b>6,580.5</b>	<b>6,584.4</b>	<b>6,584.4</b>	<b>6,584.4</b>	<b>6,584.5</b>
Minority interests	2,852.6	2,799.4	2,847.9	2,820.8	2,785.0
BV/share (RM)	5.63	5.64	5.64	5.64	5.64
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	1,621.5	278.4	(539.8)	(21.4)	27.3
Depreciation/Amortisation	378.7	502.0	570.9	638.9	706.9
Net change in working capital	(149.1)	67.9	51.1	12.2	(43.6)
Others	(486.1)	100.7	(94.0)	(261.8)	(292.6)
<b>Cash flow from operations</b>	<b>1,364.9</b>	<b>949.0</b>	<b>(11.8)</b>	<b>367.9</b>	<b>398.0</b>
Capital expenditure	(2,185.5)	(2,280.4)	(1,500.0)	(1,500.0)	(1,500.0)
Net investments & sale of fixed assets	2,250.8	1,180.0	-	-	-
Others	(380.3)	(639.9)	1,300.0	1,300.0	1,200.0
<b>Cash flow from investing</b>	<b>(315.0)</b>	<b>(1,740.3)</b>	<b>(200.0)</b>	<b>(200.0)</b>	<b>(300.0)</b>
Debt raised/(repaid)	1,151.6	1,323.4	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(947.2)	(805.2)	120.4	(66.8)	(88.2)
Others	(0.9)	(0.9)	-	-	-
<b>Cash flow from financing</b>	<b>203.6</b>	<b>517.3</b>	<b>1,608.0</b>	<b>(2,677.7)</b>	<b>(2,073.8)</b>
<b>Net cash flow</b>	<b>1,253.5</b>	<b>(274.0)</b>	<b>1,396.2</b>	<b>(2,509.7)</b>	<b>(1,975.8)</b>
<b>Net cash/(debt) b/f</b>	<b>1,565.1</b>	<b>2,830.4</b>	<b>2,620.9</b>	<b>4,017.2</b>	<b>1,507.4</b>
<b>Net cash/(debt) c/f</b>	<b>2,825.0</b>	<b>2,620.9</b>	<b>4,017.2</b>	<b>1,507.4</b>	<b>(468.3)</b>
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	7.0	(3.3)	(12.1)	2.2	3.6
EBITDA growth (%)	11.7	(64.3)	(129.8)	(291.3)	46.3
Pretax margin (%)	10.9	1.9	(4.3)	(0.2)	0.2
Net profit margin (%)	4.4	(0.2)	(1.1)	0.6	0.8
Interest cover (x)	nm	358.2	(49,817.1%)	(1,512.5%)	(185.1%)
Effective tax rate (%)	25.2	96.1	24.3	24.3	24.3
Dividend payout (%)	59.1	nm	nm	37.5	37.5
Debtors turnover (days)	48	49	50	46	46
Stock turnover (days)	44	47	51	47	47
Creditors turnover (days)	52	56	61	56	56

Source: Company, AmInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART

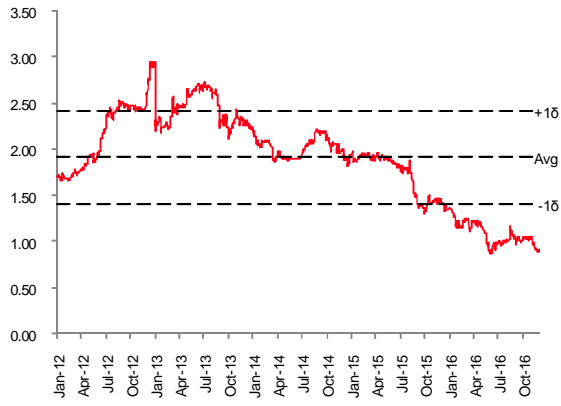
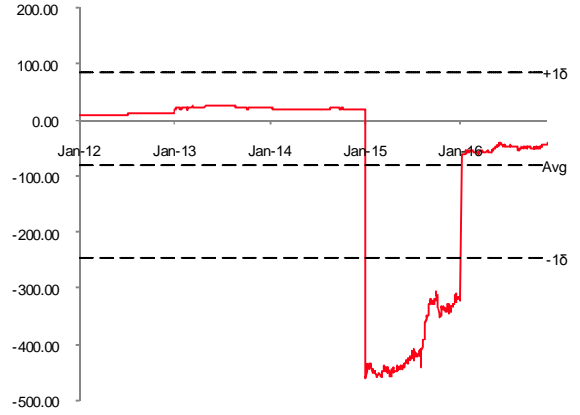


EXHIBIT 4: PE BAND CHART



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