

## Company Note

### I Malaysia

## REDUCE *(no change)*

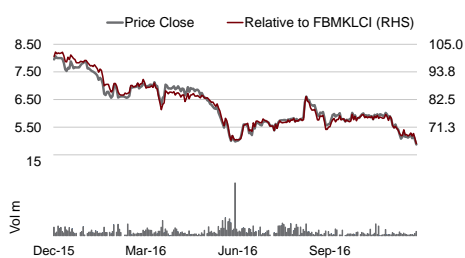
Consensus ratings\*: Buy 0 Hold 4 Sell 13

Current price:	RM4.87
Target price:	RM4.23
Previous target:	RM4.70
Up/downside:	-13.0%
CIMB / Consensus:	-12.8%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,274m RM5,690m
Average daily turnover:	US\$0.62m RM2.60m
Current shares o/s:	1,168m
Free float:	34.2%

\*Source: Bloomberg

### Key changes in this note

- FY17-18F EPS decreased by 31-100%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-19.1	-16.8	-39.4
Relative (%)	-16.5	-13.5	-36.1

Major shareholders	% held
Permodalan Nasional Bhd	50.1
EPF	15.7

### Analyst(s)



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## UMW Holdings

### Still in the red

- 9M16 earnings disappointed our and market expectations at RM117.4m. Our FY16 forecast was core net loss of RM10.7m.
- The O&G business segment remained a drag to UMW's holdings due to lower rig utilisation and charter rates.
- We cut our FY16-18F EPS as we project wider losses for UMW.
- Maintain Reduce with a lower SOP-based target price of RM4.23 (10% discount to RNAV).

### 9M16 earnings disappoint

UMW Holdings's (UMWH) 9M16 core net loss of RM117.4m (stripping off net forex loss of RM205.6m and net gain on derivatives of RM197.6m) came in below our and consensus expectations. The deviation came from lower earnings contributions from all divisions, mainly dragged by the O&G division's swing to losses of RM248.4m from profit of RM20.4m in 9M15. 9M16 revenue fell 23% yoy on the back of commodity price fluctuations, continued weak consumer sentiment and the RM depreciation against US\$.

### Sales volumes continued double-digit decline

9M16 auto revenue fell 21.2% yoy on lower sales for Toyota (-28% yoy) and Lexus (-29% yoy), reducing auto earnings by 34% yoy. Moreover, the RM depreciation against the US\$ resulted in higher import costs for CKD kits and CBU models, further compressing margins. Sequentially, 3Q16 auto revenue improved 4% and earnings rose 11% given higher Toyota sales (+1.4% qoq) with the rollout of facelift models (Innova, Sienta, Alphard). The recently-launched facelift Vios should help improve sales in 4Q16.

### Oil and gas (O&G) division remained a drag

The O&G division's revenues in 9M16 were down 40.5% yoy to RM421.6m. In the same period, it posted wider net losses of RM248.4m vs. net profit of RM20.4m a year ago. This was due to lower utilisation of its jack-up rigs, coupled with higher discounts in its charter rates. Two of its rigs have commenced work while another two have secured contracts, which should narrow losses in the division.

### Rolls Royce contract to contribute positively from 2018 onwards

However, the group's new venture in the aerospace business through its contract with Rolls Royce to deliver fan cases is expected to drive the division and thus increase the division's revenue contribution after the plant is fully completed in 2017. It expects to make its first delivery towards end-2017 and significantly contribute to the Manufacturing segment in 2018.

### Slashing our FY16-18F EPS

We cut our FY16-18F EPS as we project wider losses for UMW to account for: (i) lower earnings in the auto segment in view of narrowing margins, ii) widening losses from the O&G segment as a result of idle rigs and lower charter rates, and iii) lower demand for heavy equipment.

### Maintain Reduce with lower target price of RM4.23

Following the earnings revision, we cut our SOP-based target price to RM4.23 (10% discount to RNAV) as we roll over our valuation basis to CY18. We maintain our Reduce call in view of its weak earnings prospects over the next 12 months as its O&G division continues to be hit significantly. Key upside risks to our call are improving crude oil prices, which could improve rig demand and charter rates, and stronger RM vs. US\$.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (RMm)	14,932	14,442	9,838	10,574	11,399
Operating EBITDA (RMm)	1,945	1,054	382	611	861
Net Profit (RMm)	700.7	243.8	(169.9)	0.2	118.1
Core EPS (RM)	0.65	0.26	(0.15)	0.00	0.10
Core EPS Growth	(8%)	(60%)	(155%)		60990%
FD Core P/E (x)	7	18	NA	29,054	48
DPS (RM)	0.41	0.20	0.15	0.20	0.20
Dividend Yield	8.42%	4.11%	3.08%	4.11%	4.11%
EV/EBITDA (x)	4.81	11.16	32.40	21.47	15.91
P/FCFE (x)	6.84	5.97	16.64	21.53	11.43
Net Gearing	8.7%	35.0%	43.1%	51.6%	56.8%
P/BV (x)	0.86	0.86	0.92	0.96	0.98
ROE	11.9%	4.7%	(2.7%)	0.0%	2.0%
% Change In Core EPS Estimates			(1467%)	(100%)	(31%)
CIMB/consensus EPS (x)			(1.63)	0.00	0.39

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	3Q16	3Q15	yoy % chg	2Q16	qoq % chg	3Q16 cum	3Q15 cum	yoy % chg	Prev. FY16F Comments
Revenue	2,856.8	3,533.2	(19.1)	2,846.8	0.4	7,902.8	10,258.8	(23.0)	10,935.0 Revenue dropped due lower sales of Toyota
Operating costs	(2,807.0)	(3,274.9)	(14.3)	(2,676.3)	4.9	(7,560.2)	(9,304.1)	(18.7)	(9,500) and Lexus and lower utilization and rigs charter rate
<b>EBITDA</b>	<b>49.8</b>	<b>258.3</b>	<b>(80.7)</b>	<b>170.5</b>	<b>nm</b>	<b>342.6</b>	<b>954.8</b>	<b>(64.1)</b>	<b>1,434.7</b>
EBITDA margin (%)	1.7	7.3		6.0		4.3	9.3		13.1 Margin declines due to higher import cost for UMW
Depn & amort.	(151.0)	(143.4)	5.3	(129.8)	16.3	(413.4)	(361.8)	14.3	(665.8) Toyota CKD kits and lower rig utilization
<b>EBIT</b>	<b>(101.2)</b>	<b>114.9</b>	<b>nm</b>	<b>40.6</b>	<b>nm</b>	<b>(70.8)</b>	<b>593.0</b>	<b>nm</b>	<b>126.3</b>
Interest expense	(41.1)	(24.8)	65.9	(41.3)	(0.5)	(125.6)	(84.7)	48.3	(263.1)
Interest & invt inc	14.6	30.5	(52.1)	18.5	(20.8)	58.2	95.6	(39.1)	109.4
Associates' contrib	40.8	(0.3)	nm	26.5	54.0	89.4	62.7		42.8
Exceptionals	(34.9)	(48.1)	(27.5)	0.4	>(100)	(7.0)	(66.7)	(89.6)	0.0 Net forex loss and loss on derivatives
<b>Pretax profit</b>	<b>(121.6)</b>	<b>72.2</b>	<b>nm</b>	<b>44.8</b>	<b>nm</b>	<b>(55.7)</b>	<b>599.9</b>	<b>&gt;(100)</b>	<b>(27.4)</b> Below expectations
Tax	(41.3)	(44.3)	(6.9)	(48.5)	(15.0)	(115.8)	(202.6)	(42.8)	9.6 Higher tax rate due to expenses that were not
Tax rate (%)	(33.9)	61.4		108.3		(207.7)	33.8		35.0 allowable for tax purposes and losses in subs
Minority interests	34.0	(14.4)	nm	(8.4)	nm	47.2	(150.2)	nm	7.1
<b>Net profit</b>	<b>(128.8)</b>	<b>13.5</b>	<b>nm</b>	<b>(12.1)</b>	<b>&gt;100</b>	<b>(124.4)</b>	<b>247.1</b>	<b>nm</b>	<b>(10.7)</b>
Core net profit	(94.0)	61.6	nm	(12.6)	>100	(117.4)	313.8	nm	(10.7) Below expectations
EPS (sen)	(11.0)	1.2	nm	(1.0)	>100	(10.6)	21.2	nm	(0.9)
Core EPS (sen)	(8.0)	5.3	nm	(1.1)	>100	(10.0)	26.9	nm	(0.9)

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Segmental breakdown

Revenue	3Q16	3Q15	yoy % chg	2Q16	qoq % chg	3Q16 cum	3Q15 cum	yoy % chg
Automotive	2,263.4	2,596.1	(12.8)	2,177.1	4.0	5,996.5	7,334.4	(18.2)
Equipment	342.8	474.8	(27.8)	351.2	(2.4)	1,052.0	1,481.4	(29.0)
Oil & Gas	203.9	212.7	(4.1)	130.0	56.8	421.6	708.6	(40.5)
Manufacturing & Engineering	144.6	183.8	(21.3)	157.0	(7.9)	447.0	520.3	(14.1)
Others	(98.2)	65.7	>(100)	31.5	>(100)	(14.5)	214.2	>(100)
<b>Total</b>	<b>2,856.5</b>	<b>3,533.2</b>	<b>(19.2)</b>	<b>2,846.8</b>	<b>0.3</b>	<b>7,902.5</b>	<b>10,258.8</b>	<b>(23.0)</b>
<b>PBT</b>								
Automotive	133.5	113.4	17.7	133.3	0.1	349.5	610.3	(42.7)
Equipment	33.6	64.4	(47.9)	43.3	(22.6)	116.1	197.4	(41.2)
Oil & Gas	-250.0	11.5	nm	-64.0	>100	(382.4)	61.9	nm
Manufacturing & Engineering	2.5	0.8	>100	10.9	(77.5)	20.0	3.0	>100
Others	-41.1	-117.7	(65.1)	-78.7	(47.8)	(158.9)	(272.6)	(41.7)
<b>Total</b>	<b>(121.6)</b>	<b>72.2</b>	<b>nm</b>	<b>44.8</b>	<b>nm</b>	<b>(55.7)</b>	<b>599.9</b>	<b>nm</b>
<b>PAT</b>								
Automotive	77.3	59.5	29.9	69.5	11.2	202.2	306.8	(34.1)
Equipment	25.0	51.4	(51.3)	32.8	(23.6)	88.0	156.7	(43.8)
Oil & Gas	-174.6	0.1	nm	-37.5	>100	(248.4)	20.4	nm
Manufacturing & Engineering	-2.9	0.0	nm	3.4	>(100)	1.7	1.7	(3.2)
Others	-53.6	-97.4	(45.0)	-80.3	(33.2)	(167.9)	(238.4)	(29.6)
<b>Total</b>	<b>(128.8)</b>	<b>13.5</b>	<b>nm</b>	<b>(12.1)</b>	<b>&gt;100</b>	<b>(124.4)</b>	<b>247.1</b>	<b>nm</b>
<b>PBT margin</b>								
Automotive	5.9	4.4	35.0	6.1	(3.7)	5.8	8.3	(30.0)
Equipment	9.8	13.6	(27.8)	12.3	(20.7)	11.0	13.3	(17.1)
Oil & Gas	(122.6)	5.4	nm	(49.2)	149.1	(90.7)	8.7	nm
Manufacturing & Engineering	1.7	0.4	315.4	6.9	nm	4.5	0.6	>100
Others	41.9	(179.1)	nm	(249.6)	nm	1,094.0	(127.3)	nm
<b>Total</b>	<b>(4.3)</b>	<b>2.0</b>	<b>nm</b>	<b>1.6</b>	<b>nm</b>	<b>(0.7)</b>	<b>5.8</b>	<b>nm</b>

\*included the Oil &amp; Gas (unlisted) segment under Others

SOURCES: CIMB, COMPANY REPORTS

Figure 3: SOP valuation

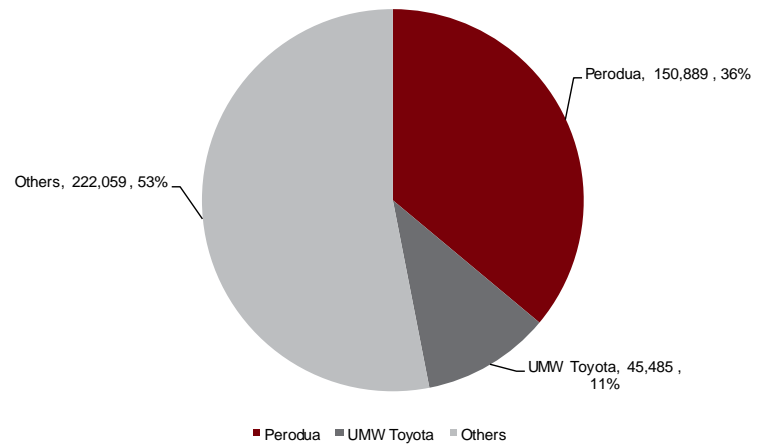
Segmental	Equity value (RMm)	Valuation method	Comments
Automotive	4,435.40	PE 10.0x	Pegged to 10x forward earnings, in line with the sector's average
UMWOG	1,002.09	DCF	CIMB's TP of RM0.90/share, based on DCF-valuation.
Equipment	902.25	PE 10.0x	Pegged to 10x forward earnings
M&E	220.27	PE 10.0x	Pegged to 10x forward earnings
Others	(451.03)		
<b>Total equity value (RMm)</b>	<b>6,108.96</b>		
Net debt (holding company level)	(611.8)		
Share base	1,168		
Holding company discount	10%		
<b>SOP (RM)</b>	<b>4.23</b>		

SOURCES: CIMB, COMPANY REPORTS

**Figure 4: Quarterly sales volume trend**

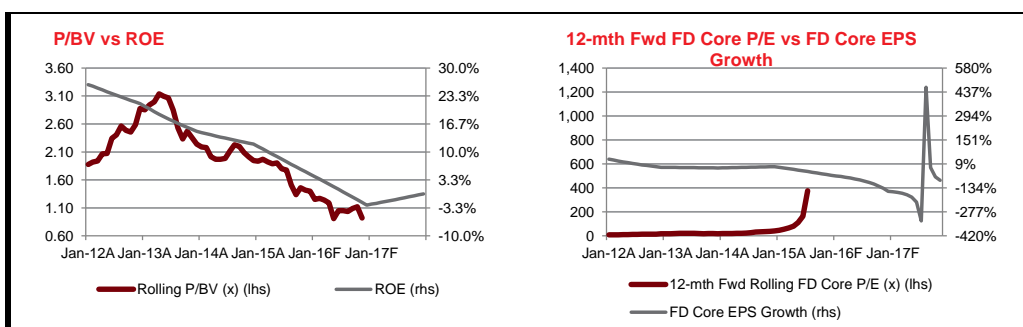
(units)		1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	%yoy	%qoq	9M16	9M15	%yoy
UMW Toyota	Toyota	16,241	22,555	23,301	31,663	10,216	17,033	17,271	(25.9)	1.4	44,520	62,097	(28.3)
	Lexus	362	532	472	735	272	359	334	(29.2)	(7.0)	965	1,366	(29.4)
	<b>Total</b>	<b>16,603</b>	<b>23,087</b>	<b>23,773</b>	<b>32,398</b>	<b>10,488</b>	<b>17,392</b>	<b>17,605</b>	<b>(25.9)</b>	<b>1.2</b>	<b>45,485</b>	<b>63,463</b>	<b>(28.3)</b>
Perodua	Perodua	57,153	51,349	49,025	55,780	47,181	50,189	53,519	9.2	6.6	150,889	157,527	(4.2)

SOURCES: CIMB, COMPANY REPORTS

**Figure 5: Market share of UMW Holdings**

SOURCES: MAA, CIMB RESEARCH

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
<b>Total Net Revenues</b>	<b>14,932</b>	<b>14,442</b>	<b>9,838</b>	<b>10,574</b>	<b>11,399</b>
<b>Gross Profit</b>	<b>4,154</b>	<b>3,391</b>	<b>1,476</b>	<b>1,586</b>	<b>1,710</b>
<b>Operating EBITDA</b>	<b>1,945</b>	<b>1,054</b>	<b>382</b>	<b>611</b>	<b>861</b>
Depreciation And Amortisation	(379)	(511)	(528)	(575)	(622)
<b>Operating EBIT</b>	<b>1,567</b>	<b>543</b>	<b>(146)</b>	<b>36</b>	<b>240</b>
Financial Income/(Expense)	49	(0)	(63)	(90)	(120)
Pretax Income/(Loss) from Assoc.	140	134	129	151	204
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>1,755</b>	<b>677</b>	<b>(80)</b>	<b>97</b>	<b>323</b>
Exceptional Items	(85)	(127)			
<b>Pre-tax Profit</b>	<b>1,670</b>	<b>551</b>	<b>(80)</b>	<b>97</b>	<b>323</b>
Taxation	(408)	(267)	(80)	(24)	(81)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,262</b>	<b>283</b>	<b>(160)</b>	<b>73</b>	<b>242</b>
Minority Interests	(561)	(39)	(10)	(73)	(124)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>701</b>	<b>244</b>	<b>(170)</b>	<b>0</b>	<b>118</b>
Recurring Net Profit	765	309	(170)	0	118
<b>Fully Diluted Recurring Net Profit</b>	<b>765</b>	<b>309</b>	<b>(170)</b>	<b>0</b>	<b>118</b>

### Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
<b>EBITDA</b>	<b>1,945</b>	<b>1,054</b>	<b>382</b>	<b>611</b>	<b>861</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(136)	68	321	(87)	(97)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	379	511	528	575	622
Net Interest (Paid)/Received	(46)	1	63	90	120
Tax Paid	(418)	(274)	(80)	(24)	(81)
<b>Cashflow From Operations</b>	<b>1,724</b>	<b>1,360</b>	<b>1,215</b>	<b>1,164</b>	<b>1,425</b>
Capex	(2,186)	(2,280)	(1,000)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	0	44	0	0	0
Acq. Of Subsidiaries/investments				0	0
Other Investing Cashflow	131	126	123	97	66
<b>Cash Flow From Investing</b>	<b>(2,054)</b>	<b>(2,111)</b>	<b>(877)</b>	<b>(903)</b>	<b>(934)</b>
Debt Raised/(repaid)	1,152	1,692	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(514)	(479)	(175)	(234)	(234)
Preferred Dividends					
Other Financing Cashflow	(388)				
<b>Cash Flow From Financing</b>	<b>250</b>	<b>1,213</b>	<b>(175)</b>	<b>(234)</b>	<b>(234)</b>
Total Cash Generated	(81)	462	162	27	258
<b>Free Cashflow To Equity</b>	<b>821</b>	<b>941</b>	<b>338</b>	<b>261</b>	<b>492</b>
<b>Free Cashflow To Firm</b>	<b>(416)</b>	<b>(878)</b>	<b>151</b>	<b>74</b>	<b>305</b>

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	3,371	2,734	2,148	1,475	1,008
Total Debtors	2,079	1,833	1,240	1,333	1,437
Inventories	1,830	1,890	1,617	1,738	1,874
Total Other Current Assets	1,314	1,210	1,210	1,210	1,210
<b>Total Current Assets</b>	<b>8,594</b>	<b>7,667</b>	<b>6,214</b>	<b>5,755</b>	<b>5,528</b>
Fixed Assets	5,670	8,103	8,538	8,963	9,341
Total Investments	4	3	3	3	3
Intangible Assets	26	25	25	25	25
Total Other Non-Current Assets	2,227	2,427	2,426	2,426	2,426
<b>Total Non-current Assets</b>	<b>7,926</b>	<b>10,558</b>	<b>10,993</b>	<b>11,418</b>	<b>11,796</b>
Short-term Debt	2,387	3,725	2,725	2,525	2,325
Current Portion of Long-Term Debt					
Total Creditors	2,217	2,241	1,696	1,823	1,965
Other Current Liabilities	466	372	372	372	372
<b>Total Current Liabilities</b>	<b>5,070</b>	<b>6,338</b>	<b>4,793</b>	<b>4,720</b>	<b>4,662</b>
Total Long-term Debt	1,803	2,290	3,290	3,490	3,690
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	214	160	160	160
<b>Total Non-current Liabilities</b>	<b>2,017</b>	<b>2,503</b>	<b>3,450</b>	<b>3,650</b>	<b>3,850</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>7,087</b>	<b>8,841</b>	<b>8,243</b>	<b>8,370</b>	<b>8,512</b>
Shareholders' Equity	6,580	6,584	6,155	5,922	5,806
Minority Interests	2,853	2,797	2,809	2,882	3,006
<b>Total Equity</b>	<b>9,433</b>	<b>9,381</b>	<b>8,964</b>	<b>8,804</b>	<b>8,812</b>

### Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	7.0%	(3.3%)	(31.9%)	7.5%	7.8%
Operating EBITDA Growth	6.8%	(45.8%)	(63.8%)	60.0%	41.1%
Operating EBITDA Margin	13.0%	7.3%	3.9%	5.8%	7.6%
Net Cash Per Share (RM)	(0.70)	(2.81)	(3.31)	(3.89)	(4.29)
BVPS (RM)	5.63	5.64	5.27	5.07	4.97
Gross Interest Cover	18.40	4.29	(0.78)	0.19	1.28
Effective Tax Rate	24.5%	48.6%	0.0%	25.0%	25.0%
Net Dividend Payout Ratio	42%	37%	NA	1300%	189%
Accounts Receivables Days	48.08	49.44	57.17	44.40	44.34
Inventory Days	60.69	61.44	76.75	68.13	68.03
Accounts Payables Days	72.59	73.63	86.16	71.45	71.35
ROIC (%)	12.4%	3.9%	(0.9%)	0.2%	1.3%
ROCE (%)	13.3%	4.6%	(0.2%)	0.9%	2.1%
Return On Average Assets	11.0%	3.9%	(0.2%)	1.0%	2.4%

### Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
ASP (% chg, main prod./serv.)	0.0%	0.0%	2.0%	0.0%	1.5%
Unit sales grth (% , main prod./serv.)	6.4%	-5.7%	-9.1%	6.4%	-100.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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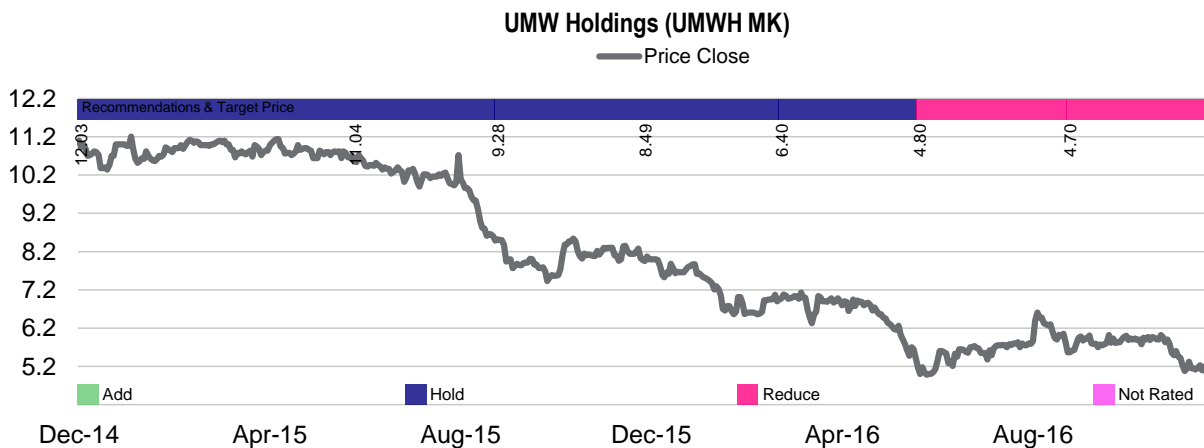
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Add	57.7%	7.5%
Hold	31.7%	2.8%
Reduce	9.8%	0.6%

### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### **Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.