

UMW (SELL ↔, EPS ↓)

INDUSTRY: UNDERWEIGHT

EARNINGS EVALUATION

30 November 2016

Price Target: RM4.00 (↓)

Share price: RM4.87

Dragged by weakened economic outlook

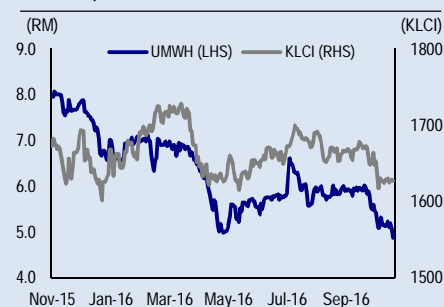
Results	<ul style="list-style-type: none"> ▪ Below Expectation - Reported core net loss of RM92.7m in 3Q16, expanding 9M16 loss to RM106.3m as compared to HLIB forecasted earnings of RM78.7m for FY16 and consensus of RM110.4m.
Deviations	<ul style="list-style-type: none"> ▪ Lower than expected sales and margins across all segments.
Dividends	<ul style="list-style-type: none"> ▪ None.
Highlights	<ul style="list-style-type: none"> ▪ YoY: Revenue dropped by 19.1% on overall lower sales across all segments – Automotive, Equipment, O&G (including UMWOG), Manufacturing and Others. Combined with higher cost structures, UMW reported core net loss of RM92.7m (from profit of RM71.1m in 3Q15). ▪ QoQ: Despite a flattish revenue of +0.4%, UMW reported a wider core net loss position, dragged by UMWOG, and Others segment (its valued business investments). ▪ YTD: Similarly, core net loss of RM106.3m in 9M16 was mainly dragged by disappointing automotive (lower sales and higher cost structures), UMWOG (lower utilization and charter rate) and Others segments. ▪ Outlook: Earnings for 4Q16 is expected to improve on the expectation of higher car sales volume (driven by new launches and aggressive marketing campaigns) and higher count of rigs utilization (commencement of Naga 6 and 8). ▪ Entering FY17, the renewed weakening bias of RM (against US\$) may further affect the margins of automotive segment, with ongoing competitive pressure within the automotive sector (due to low consumer sentiments), while O&G segment is likely to remain depressed from low utilization and charter rate. The upcoming commencement of fan cowl manufacturing by 3Q17 is only expected to breakeven at the early stage.
Risks	<ul style="list-style-type: none"> ▪ Prolonged tightening of banks' HP rules. ▪ Slowdown in the Malaysian economy affecting car sales. ▪ Global automotive supply chain disruption. ▪ Appreciation of US\$. ▪ Plunge in crude oil price and slowdown in O&G exploration.
Forecasts	<ul style="list-style-type: none"> ▪ Cut earnings for FY16E to loss of RM102.5m (from profit of RM78.7m), FY17E to profit of RM115.8m (from RM293.1m) and FY18E to profit of RM384.7m (from RM440.0m) after imputing lower sales volume (automotive) and utilization rate (UMWOG) as well as higher losses for Others segment.
Rating	<p>SELL (↔→)</p> <ul style="list-style-type: none"> ▪ UMW group continues to be dragged by weakened consumer sentiment, depreciating RM (against US\$), and slowdown in oil & gas exploration activity. Furthermore, sustainability of dividend payout is a concern given consecutive losses, increased capex commitment and financing support to subsidiary UMWOG.
Valuation	<ul style="list-style-type: none"> ▪ Maintained SELL recommendation with lower SOP based TP of RM4.00 (from RM4.38), post earnings revision.

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KLCI	1627
Expected share price return	-17.9%
Expected dividend return	1.6%
Expected total return	-16.2%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	5,690
3-mth avg. volume ('000)	477
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-19.1	-16.8	-39.4
Relative	-16.9	-14.0	-37.3

Major shareholders

PNB	55.7%
EPF	16.1%
KWAP	2.9%

Summary Earnings Table

FYE Dec (RM m)	FY15A	FY16E	FY17F	FY18F
Turnover	14,442	10,951	13,474	15,281
EBITDA	1,569	484	856	1,316
Pre-tax Profit	270	-37	324	775
Rpt. net profit	-37	-102	116	385
Norm. net profit	256	-102	116	385
Norm. EPS (sen)	21.9	-8.8	9.9	32.9
P/E (x)	26.7	-66.7	59.0	17.8
Book Value (RM)	5.6	5.4	5.4	5.7
P/B (x)	1.0	1.1	1.1	1.0
Net Dvd Yield (%)	3.4	0.9	1.7	2.6
Net Gearing	49.8	52.8	70.1	69.6
ROE (%)	3.9	-1.6	1.8	5.9
ROA (%)	1.5	-0.6	0.6	2.0

Consensus:

EPS (sen)	11.0	24.5	28.5
% Diff	-179.7	-59.5	15.5
HLIB			

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	Comment
Revenue	3,533.2	2,846.8	2,856.8	0.4	-19.1	YoY: Revenue dropped on lower Toyota and Lexus sales (Automotive) due to weaker consumer sentiment; lower O&G contribution on lower utilization and charter rate of rigs (UMWOG); slowdown in the mining and construction sectors (Equipment); and lower demand for automotive parts and components and lubricants (Manufacturing). QoQ: Flat on stronger automotive sales offsetting the lower contribution from UMWOG (lower rig chartered out in 3Q16).
EBITDA	326.5	167.7	51.0	-69.6	-84.4	
EBITDA Margin (%)	9.2	5.9	1.8	-69.7	-80.7	YoY & QoQ: EBITDA margin declined, being dragged by Automotive segment and O&G segment (lower rigs utilization).
EBIT	183.1	37.9	-100.0	-363.7	-154.6	
EBIT Margin (%)	5.2	1.3	-3.5	-4.8	-8.7	Filtered through lower EBITDA margin.
Net Finance Expense	5.7	-22.8	-26.4	16.1	-560.3	
Associates	-0.3	26.5	40.8	54.0	-12746.1	
Els	-116.3	3.2	-36.1			Related to derivatives, forex, impairments and provisions.
Reported PBT	72.2	44.8	-121.6	-371.4	-268.4	
Tax	-44.3	-48.4	-41.3	-14.8	-6.9	
Reported Net Profit	27.9	-3.6	-162.9	4389.4	-683.5	
Reported PATAMI	13.5	-12.0	-128.7	970.0	-1051.8	
Core PATAMI	71.1	-15.2	-92.7	509.7	-230.3	Core net loss in 3Q16, mainly dragged by O&G segment.
Reported EPS (Sen)	1.2	-1.0	-11.0	970.0	-1051.8	
Core EPS (Sen)	6.1	-1.3	-7.9	509.7	-230.3	

Company, HLIB

Figure #2: Cumulative Result Comparison

FYE Dec (RMm)	9M15	9M16	YoY (%)	FY16E	Dif (%)	Comment
Revenue	10,258.8	7,902.8	-23.0	11,890.7	66.5	Revenue declined across all segments: 1) Automotive – lower car sales volume; 2) O&G – lower rigs utilization and charter rates; 3) Equipment – lower equipment demand; and 4) Manufacturing – lower demand from domestic market.
EBITDA	1,013.8	341.4	-66.3	770.9	44.3	
EBITDA Margin (%)	9.9	4.3	-5.6	6.5	-2.2	EBITDA margin declined on lower group sales volume and asset utilization rates.
EBIT	652.0	-72.0	-111.0	200.1	-36.0	
EBIT Margin (%)	6.4	-0.9	-7.3	1.7	-2.6	Filtered through lower EBITDA margin.
Net Finance Expense	10.9	-67.4	-716.9	-59.8	112.7	
Associates	62.7	89.4	42.8	136.0	65.8	Higher contribution from associates, driven by Perodua.
Els	-125.7	-5.8		0.0		Related to derivatives, forex, impairments and provisions.
Reported PBT	599.9	-55.7	-109.3	276.3	-20.2	
Tax	-202.6	-115.7	-42.9	-181.8	63.6	
Reported Net Profit	397.3	-171.4	-143.2	94.5	-181.4	
Reported PATAMI	247.1	-124.2	-150.2	78.7	-157.7	
Core PATAMI	314.1	-106.3	-133.8	78.7	-134.9	Core PATAMI turned to loss, mainly dragged down by Automotive, O&G and Others segment.
Reported EPS (Sen)	21.2	-10.6	-150.2	6.7	-157.7	
Core EPS (Sen)	26.9	-9.1	-133.8	6.7	-134.9	

Company, HLIB

Figure #3: UMW Group Automotive Sales Statistics

Unit Sales	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	9M15	9M16
Toyota (51% ownership)	16,241	22,555	23,301	31,663	10,318	17,033	17,271	45,856	34,304
Lexus (51% ownership)	362	532	472	735	272	359	334	1,004	693
Perodua (38% ownership)	57,153	51,349	49,025	55,780	47,181	50,189	53,519	100,374	103,708
Total	73,756	74,436	72,798	88,178	57,771	67,581	71,124	147,234	138,705
Growth YoY (%)	7.43	-4.27	4.42	6.13	-21.67	-9.21	-2.30		-5.8
Growth QoQ (%)	-11.2	0.9	-2.2	21.1	-34.5	17.0	5.2		

Company, HLIB

Figure #4: UMW Earnings Breakdown

	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,596.1	2,177.1	2,263.4	4.0	-12.8	Related to sales volume of Toyota and Lexus, which declined YoY but improved QoQ.
Equipment	474.8	351.2	342.8	-2.4	-27.8	Dropped YoY on slowdown in the mining sector and stiff competition in the construction sector, but stable QoQ.
Oil & Gas	212.7	130.0	49.7	-61.8	-76.7	More rigs came off-charters in 3Q16.
Manufacturing & Engineering	183.8	157.0	144.6	-7.9	-21.3	Lower demand from domestic automotive manufacturing sector.
Others	82.6	57.7	83.0	43.8	0.4	
Intersegment	(16.9)	(26.2)	(26.6)	1.9	57.7	
Total	3,533.2	2,846.8	2,856.8	0.4	-19.1	

Reported PATAMI

Automotive	59.5	69.5	77.3	11.2	29.9	Attributed to stronger contribution from Perodua associates, which was partially offset by weaker UMW Toyota.
Equipment	51.4	32.8	25.0	-23.6	-51.3	In line with lower sales.
Oil & Gas	0.1	(37.5)	(75.5)	N.M.	N.M.	Lower utilization rate of rigs (UMWOG) in the quarter.
Manufacturing & Engineering	(0.0)	3.4	(2.9)	N.M.	N.M.	Attributed to lower sales.
Others	(97.4)	(80.3)	(152.8)	90.3	56.8	
Total	13.5	-12.1	(128.8)	N.M.	N.M.	
Core PATAMI	71.1	(15.2)	(92.7)	N.M.	N.M.	

Company, HLIB

Figure #5: UMW SOP

Division	Stakes (%)	FY17 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	357.4	2,859.0	2.45	FY17 PE 8x
Equipment	Various	159.0	1,271.9	1.09	FY17 PE 8x
Oil & Gas	55.73	(131.1)	771.1	0.66	Target Price of RM0.64
Manufacturing & Engineering	Various	5.2	31.1	0.03	FY17 PE 6x
Others	Various	(275.5)	(275.5)	(0.24)	
Target Price (RM)				4.00	Implied FY17 P/E of 40.2x & P/B of 0.7x

Company, HLIB

Figure #6: HLIB Forecast versus Consensus

	FY16E			FY17F			FY18F		
	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)
Revenue (RMm)	10,950.6	11,416.0	-4.1%	13,473.6	12,316.0	9.4%	15,281.5	13,292.0	15.0%
EBITDA (RMm)	483.8	618.3	-21.8%	855.6	1,051.0	-18.6%	1,316.2	1,139.0	15.6%
Core Profit (RMm)	-102.5	110.4	-192.8%	115.8	289.9	-60.1%	384.7	326.6	17.8%
EPS (Sen)	-8.8	11.0	-179.7%	9.9	24.5	-59.5%	32.9	28.5	15.5%

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17F	FY18F
Revenue	14,932	14,442	10,951	13,474	15,281
Operating cost	-12,983	-12,872	-10,467	-12,618	-13,965
EBITDA	1,949	1,569	484	856	1,316
Depreciation	-379	-765	-602	-620	-641
EBIT	1,570	804	-118	235	676
Interest income	131	126	107	97	87
Interest expense	-85	-127	-159	-166	-174
Associates	140	134	133	158	187
Exceptionals	-134	-668	0	0	0
Pretax profit	1,621	270	-37	324	775
Taxation	-408	-267	-135	-180	-209
Minorities	-561	-39	70	-29	-182
Net profit	652	-37	-102	116	385
Core PATAMI	786	256	-102	116	385
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	55.8	-3.2	-8.8	9.9	32.9
Core EPS (sen)	67.3	21.9	-8.8	9.9	32.9

Balance sheet

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17F	FY18F
Fixed assets	5,674	8,106	8,624	9,324	9,433
Other assets	4,027	4,038	4,071	4,118	4,184
Working capital	2,037	1,968	1,420	1,774	2,048
Receivables	1,618	1,458	1,095	1,347	1,528
Payables	-1,411	-1,380	-1,099	-1,325	-1,466
Inventory	1,830	1,890	1,424	1,752	1,987
Net cash	-819	-3,281	-3,363	-4,461	-4,616
Cash	3,371	2,734	3,048	2,505	2,451
ST debt	-2,387	-3,725	-3,725	-3,725	-3,725
LT debt	-1,803	-2,290	-2,686	-3,242	-3,342
Equity	6,580	6,584	6,365	6,364	6,632
Share capital	584	584	584	584	584
Reserves	5,996	6,000	5,781	5,780	6,048
Minorities	2,853	2,799	2,939	2,943	2,971
Other liabilities	1,486	1,447	1,447	1,447	1,447

Assumption Metrics

FYE 31 Dec	FY14A	FY15A	FY16E	FY17F	FY18F
GDP Growth (%)	6.0%	5.0%	4.2%	4.5%	4.5%
TIV ('000)	666.5	666.7	595.0	654.5	677.4
Growth (%)	1.6%	0.0%	-10.8%	10.0%	3.5%
Unit Sale (Unit)	299.2	309.2	276.1	311.8	321.1
Toyota ('000)	102.0	93.8	65.6	82.0	84.5
Lexus ('000)	1.6	2.1	1.4	1.4	1.4
Perodua ('000)	195.6	213.3	209.0	228.4	235.2
Average Price					
UMW (RM '000)	100.5	97.0	111.6	109.3	109.3
Perodua (RM '000)	40.2	38.5	38.9	39.6	40.4

Cashflow

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17F	FY18F
EBITDA	1,949	1,569	484	856	1,316
Net interest	46	-1	-53	-69	-88
WCap changes	-136	69	548	-354	-274
Taxation	-418	-283	-135	-180	-209
Others	68	-279	0	0	0
Opex cashflow	1,509	1,075	845	253	745
Capex & acq.	-2,204	-2,388	-1,120	-1,320	-750
Free cashflow	-695	-1,313	-275	-1,067	-5
Other inv cashflow	1,745	502	100	110	122
Net borrowings	1,151	1,323	396	556	100
Share issuance	0	0	0	0	0
Dividends paid	-514	-479	-117	-117	-117
Other fin cashflow	-433	-307	210	-24	-154
Net cashflow	1,254	-274	313	-542	-54
Forex translation	12	65	0	0	0
Beginning cash	1,565	2,830	2,621	2,935	2,392
Ending cash	2,830	2,621	2,935	2,392	2,338

Valuation ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17F	FY18F
Rep. EPS (sen)	55.8	-3.2	-8.8	9.9	32.9
Core EPS (sen)	67.3	21.9	-8.8	9.9	32.9
PER (x)	10.5	-183.9	-66.7	59.0	17.8
Core PER (x)	8.7	26.7	-66.7	59.0	17.8
Net DPS (sen)	41.0	20.0	5.0	10.0	15.0
Net DY (%)	7.0	3.4	0.9	1.7	2.6
BV/ share (RM)	5.6	5.6	5.4	5.4	5.7
P/BV (x)	1.0	1.0	1.1	1.1	1.0
FCF/share (sen)	-59.5	-112.4	-23.6	-91.4	-0.4
Market Cap	6,835	6,835	6,835	6,835	6,835
Net cash	-819	-3,281	-3,363	-4,461	-4,616
Enterprise value	7,654	10,115	10,198	11,296	11,450
EV/EBITDA (x)	3.9	6.4	21.1	13.2	8.7
ROE (%)	12.2	3.9	-1.6	1.8	5.9
ROA (%)	5.1	1.5	-0.6	0.6	2.0

Other Ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17F	FY18F
Growth (%)					
Sales	7.0	-3.3	-24.2	23.0	13.4
EBITDA	8.1	-19.5	-69.2	76.8	53.8
EBIT	5.5	-48.8	-114.7	-299.1	187.0
PBT	8.4	-46.6	-104.0	-965.4	139.3
Core PATAMI	-6.0	-67.4	-140.0	-213.0	232.2
Margins (%)					
EBITDA	13.1	10.9	4.4	6.3	8.6
EBIT	10.5	5.6	-1.1	1.7	4.4
PBT	10.9	1.9	-0.3	2.4	5.1
Core PATAMI	5.3	1.8	-0.9	0.9	2.5
Net Gearing (%)	12.4	49.8	52.8	70.1	69.6

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.