

Company Result

30 November 2016

UMW Holdings

SELL

No sign of recovery

Maintained

Share Price	RM4.87
Target Price	RM4.00

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	5689.59
52-week price Range	RM4.87– 8.22
Beta (against KLCI)	1.15
3-m Average Daily Volume	0.48m
3-m Average Daily Value [^]	RM2.77m

Share Performance

	1m	3m	12m
Absolute (%)	-18.3	-16.5	-39.0
Relative (%-pts)	-16.0	-9.8	-37.3

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	42.11
EMPLOYEES PROVIDENT FUND	16.05
YAYASAN PELABURAN BUMIPUTRA	5.72
KUMPULAN WANG PERSARAAN	2.91

Historical Chart



Source: Bloomberg

Team Coverage

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- **UMW continued to report a wider net loss of RM128.83mill in 3Q16 for second consecutive quarter from RM12.13 mill losses in last quarter and net earnings of RM13.52mill a year ago.** Meanwhile, revenue stood at RM2856.79mill, which declined 19.1% y-o-y while flat q-o-q with 0.4% growth.
- As for 9M2016, the group reported a net loss of RM124.38mill as compared to net profit of RM247.1mill in 9M2015. Meanwhile, revenue declined by 23% y-o-y to RM7902.76mill.
- **Well below expectations** – The Group reported RM124.38mill net loss in 9M16, significantly fell short of our FY16 net profit expectation of RM34.02mill and consensus of RM103.91mill. The lackluster result was dented by sluggish performance of automotive, oil & gas and equipment divisions.

Comment

- **Auto division remained subdued in 9M16.** Auto division recorded a yearly decline in both topline and bottomline for 9M16 on weak consumer sentiment towards big-ticket items with lower 9M16 Total Industry Volume (TIV), declining by 13.8% y-o-y. The intense competition among car makers coupled with the depreciation of Ringgit Malaysia further impacted the segment's performance. Toyota sales down 28.3% y-o-y in 9M16 as we reckon that consumers have adopted a 'wait & see' attitude for possible goodies rendered to auto sector from the National Budget 2017 in Oct'16, which did not materialise.
- **Softer growth in Perodua sales for 9M16.** Perodua sales in 9M16 declined by 4.2% y-o-y despite maintaining its pole position since 2006 with the largest market share of 37.5%. The weaker performance owing to lower consumer spending amid rising in cost of living as compared to last year.
- **Automotive segment improved in quarterly basis.** The automotive division in 3Q16 managed to post a positive quarterly growth in its topline and bottomline supported by better sales in Perodua for the current quarter. Perodua sales in 3Q16 up by 6.6% q-o-q and 9.2% y-o-y as we opine the higher orders deriving from its first sedan model, Bezza, which has boosted its sales in this quarter.
- **Equipment division stayed weaker in 9M16.** The equipment division recorded a negative yearly growth for its 9M16 PBT and revenue, dented by low commodity prices which affected a weaker demand for heavy

equipment. Meanwhile, the restriction imposed on heavy equipment importation by the government in Myanmar also caused the weaker performance for equipment division in 9M16. Similarly, as compared to last quarter, equipment division in 3Q16 still declined for its topline and bottomline for both quarterly and yearly bases owing to weaker growth in the mining sector and stiff competition in the construction sector which caused the decline in equipment sales.

- **O&G division still in the doldrums** – Oil & Gas segment posted contraction in 9M16 after posted a pre-tax loss of RM265.46mill from a PBT of RM61.91mill in 9M15. The continued weaker growth due to low utilisation for some of the assets in the Group, low level of exploration, development and production activities in the oil and gas industry amid low oil price as well as lack of available wells and new drilling contracts. Meanwhile, its 3Q16 revenue declined by 61.81% q-o-q while its pre-tax loss widened to RM133.04mill from RM64mill losses in last quarter. The dismal performance was affected by the lesser income-generating assets coupled with the continued pressure on charter rates.
- **Improved PBT for M&E division in 9M16.** For 9M16, Manufacturing & Engineering's PBT posted a yearly positive growth despite its weaker topline growth. The higher PBT supported by successful disposal of the loss-making automotive component companies in India in November 2015 which booked in 1Q16. Besides, the weaker topline in 9M16 partly due to lower sales in auto-components business segment including the low export orders for KAYABA 4-wheeler products, Original Equipment Market products and power steering pumps during 1H16. However, its 3Q16 PBT managed to post a positive growth as compared to 3Q15 following the improvement in the shock absorber business.

Earnings Outlook/Revision

- **We cut our FY16 net profit forecast of RM34.02mill to net loss of RM136.2mill with no sign of recovery in near term. We also slashed down our net earnings forecast for FY17 by 12%** mainly attributable to lower earnings contribution from Automotive, M&E and O&G segments amid challenging business outlook going forward.
- **Auto Division to perform slightly better in last quarter.** However, we reckon that the performance of auto division to pick up moderately in 4Q16 due to year-end sales promotion for the purpose of stock clearance. Furthermore consumers will place order for booking a new car in conjunction of Christmas celebration in Dec'16. However, downside risks remain amid stringent hire purchase approvals coupled with possibility of further losing its market share pursuant to more attractive new models launched by its major competitors.

Valuation & Recommendation

- **Maintain SELL call on UMW with a lower target price of RM4.00 (previous TP: RM4.43)** following our earnings cut as headwinds persist. We pegged our target price at 20x FY2017F PE based on revised EPS of 20 sen (from 22 sen).
- We opine the operating environment for the group's businesses to remain under pressure going forward. Auto division will continue its softer growth amid weaker consumer sentiment towards big-ticket items. Meanwhile, the group's oil and gas division will continue to be dented by depressing oil price. Hence, we expect the Group to continue facing tough times ahead with no positives to drive the recovery of share price in near future.

Figure 1: Quarterly Figures

Year to 31 Dec	3Q16	2Q16	3Q15	QoQ	YoY	9M16	9M15	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg	(RMm)	(RMm)	% chg
Revenue	2856.79	2846.81	3533.18	0.35%	-19.14%	7902.76	10258.85	-23.0%
Operating Profit	-136.02	41.07	66.82	-431.21%	-303.58%	-77.81	526.31	-114.8%
Pre-tax Profit	-121.62	44.81	72.24	-371.43%	-268.36%	-55.74	599.88	-109.3%
Profit After Tax	-162.88	-3.73	27.91	N/A	-683.53%	-171.54	397.28	-143.2%
Net Profit	-128.83	-12.13	13.52	N/A	-1052.66%	-124.375	247.12	-150.3%
Operating Margin (%)	-4.8%	1.4%	1.9%	-6.2ppt	-6.7%	-1.0%	5.1%	-6.1ppt
PBT Margin (%)	-4.3%	1.6%	2.0%	-5.8ppt	-6.3%	-0.7%	5.8%	-6.6ppt

Figure 2: Segmental Breakdown

2016	3Q16	2Q16	3Q15	Q-O-Q	Y-O-Y	9M16	9M15	Y-O-Y
	(RMm)	(RMm)	(RMm)	(%)	(%)	(RMm)	(RMm)	(%)
Segmental Revenue								
Automotive	2263.37	2177.14	2596.14	3.96%	-12.82%	5996.49	7334.36	-18.24%
Equipment	342.85	351.15	474.78	-2.36%	-27.79%	1051.97	1481.42	-28.99%
Oil & Gas	49.65	130.01	212.70	-61.81%	-76.66%	267.34	708.57	-62.27%
M & E	144.57	156.97	183.81	-7.90%	-21.34%	446.99	520.27	-14.09%
Others	-71.25	57.69	82.65	-223.49%	-186.20%	49.22	268.04	-81.64%
Elimination	-26.64	-26.15	-16.90	1.88%	57.65%	-63.48	-53.81	17.96%
Total Revenue	2702.56	2846.81	3533.179	-5.07%	-23.51%	7748.531	10258.846	-24.47%
Segmental PBT								
Automotive	133.47	133.29	113.39	0.14%	17.71%	349.50	610.29	-42.73%
Equipment	33.55	43.34	64.38	-22.59%	-47.89%	116.14	197.36	-41.16%
Oil & Gas	-133.04	-64.00	11.45	N/A	-1261.51%	-265.46	61.91	-528.78%
M & E	2.46	10.91	0.75	-77.47%	226.86%	19.96	2.96	575.36%
Total PBT	36.44	123.54	189.981	-70.50%	-34.97%	220.133	872.515	-74.77%
Segmental Margin								
Automotive	5.90%	6.12%	4.37%	-0.23ppt	1.53ppt	5.83%	8.32%	-2.49ppt
Equipment	9.79%	12.34%	13.56%	-2.56ppt	-3.77ppt	11.04%	13.32%	-2.28ppt
Oil & Gas	-267.94%	-49.22%	5.39%	-218.7ppt	-273.32ppt	-99.30%	8.74%	-108.03ppt
M & E	1.70%	6.95%	0.41%	-5.25ppt	1.29ppt	4.46%	0.57%	3.90ppt

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016F	2017F
Revenue	13,951.46	14,958.91	14,419.75	10,469.17	13,401.52
Operating profit	1,296.46	1,426.78	166.64	104.69	522.66
PBT	1,435.67	1,620.83	265.36	164.22	532.06
Net profit	679.61	650.70	-38.93	-136.22	234.21
Core net profit	679.61	650.70	214.35	-136.22	234.21
EPS (sen)	0.58	0.56	-0.03	-0.12	0.20
P/BV (x)	0.63	0.60	0.62	0.58	0.53
DPS (sen)	0.44	0.41	0.20	0.10	0.20
Dividend yield (%)	9.03%	8.42%	4.11%	2.05%	4.11%
Operating margin (%)	9.29%	9.54%	1.16%	1.00%	3.90%
PBT margin (%)	10.29%	10.84%	1.84%	1.57%	3.97%
Net profit margin (%)	4.87%	4.35%	-0.27%	-1.30%	1.75%
Net Gearing Ratio(x)	0.37	0.38	0.66	0.79	0.83
ROE (%)	7.57%	6.89%	-0.42%	-1.40%	2.17%
ROA (%)	4.59%	3.96%	-0.22%	-0.62%	0.90%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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