

30 November 2016

UMW Holdings

Another Drag by Weak O&G Segment

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9M16 results came in below expectations. Negative deviation was largely in part due to greater losses in the O&G segment. No dividend was declared, as expected. Post-results, we forecast core NL for FY16 and cut FY17E core NP by 43% to account for greater losses assumption in the O&G segment. Maintain UNDERPERFORM with a lower TP of RM4.27 (from RM4.45, previously) based on SoP valuation.

9M16 results were below expectations, as the group reported a 9M16 core LATAMI of RM125.6m which missed our/consensus' full-year core NP estimates of RM94.3/RM103.9m. Negative deviations were mainly due to significantly higher losses arising from the oil & gas segment from lower rig utilisation rates as well as highly competitive charter rates alongside steep overhead costs.

YoY, 9M16 revenue fell by 23% due to weakness across all segments. The auto segment saw a decline in total sales (-18%) as consumer demand for automobiles was undermined by poor sentiment from higher living costs. Sales in the equipment segment fell by 29% amidst slowing construction and mining activities in Myanmar due to state government restrictions. Meanwhile, the Oil & Gas segment (-62%) continued to slump as industry activity was dampened by discouraging oil prices, leading to lower rig utilisation by oil majors. In terms of PBT, the auto segment (-43%) was dragged further due to higher import costs from unfavourable forex rates. The Oil & Gas segment (-529%) continued to be deeply affected by high overhead costs resulting from low operational efficiency from low rig utilisation. The underlying factors above led 9M16 LBT to record at RM55.7m (-109%).

QoQ, auto sales grew by 4% as recent model launches (i.e. Alphard, Vellfire and facelifted variants of the Camry, Innova and Vios) have reinvigorated market demand. Revenue from the Oil & Gas segment (-62%) saw further downwards pressure as fewer rigs were chartered during the quarter. Ultimately, the PBT decreased by 371% primarily as a result of the widening operating losses incurred by the Oil & Gas segment.

On the Auto Segment, management maintained their combined sales estimate for both Perodua and UMW of 286k units, broadly in line with our sales volume assumptions for FY16. With the launch of the Perodua Bezza as well as other fresh Toyota models to offer, we expect to see some recovery in terms of unit sales for the group, which should make up for the weaker sales garnered during the first half of the year. However, margins are expected to continue to be thin given the prevailing unfavourable forex. **On the Oil & Gas segment**, we continue to anticipate weakness in the short to medium term judging by the softness and uncertainty in oil prices seen recently. Hence, oil majors may continue to keep their exploration activities at minimal levels. At this juncture, 5 rigs (NAGA 1, 3, 4, 5 and 7) are not being chartered with 2 other rigs only recently beginning their charters while another only commencing in 2Q17. As such, high overhead costs with lower returns are expected to stress the group's FY16 segment earnings.

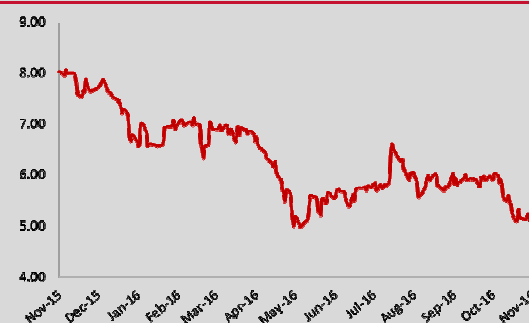
Post-results, we forecast losses for FY16 and reduce our FY17E core PATAMI (-43%) as we expect an extended drag from the weakness in the Oil and Gas segment, possibly only seeing a meaningful recovery in 2H17 where 3 rigs are anticipated to be chartered.

Maintain UNDERPERFORM but reduce our TP to RM4.27 (from RM4.45, previously) based on our SoP valuation to FY17E's revised fundamentals, implying a 29.2x FY17E PER.

UNDERPERFORM ↔

Price: RM4.87
Target Price: RM4.27 ↓

Share Price Performance



KLCI	1,626.93
YTD KLCI chg	-3.9%
YTD stock price chg	-38.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	5,689.6
Issued shares	1,168.3
52-week range (H)	8.22
52-week range (L)	4.87
3-mth avg daily vol:	477,423
Free Float	36%
Beta	1.1

Major Shareholders

Skim Amanah Saham	42.1%
Employees Provident Fund	16.1%
Yayasan Pelaburan Bumiputra	5.7%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	14,441.6	10,459.5	11,126.9
EBIT	135.6	-129.9	102.3
PBT	269.7	-95.6	209.2
Net Profit	-37.2	-181.8	170.1
Core Net Profit	239.7	-181.8	170.1
Consensus (NP)	-	103.9	270.3
Earnings Revision	-	-293%	-43%
Core EPS (sen)	20.5	-15.6	14.6
Core EPS growth (%)	-69.5%	-175.9%	-193.6%
NDPS (sen)	20.0	8.0	8.0
BVPS (RM)	5.6	5.4	5.5
PER (x)	23.7	(31.3)	33.4
PBV (x)	0.9	0.9	0.9
Net Gearing (x)	0.8	0.7	0.9
Net Div. Yield (%)	4.1%	1.6%	1.6%

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Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	2,856.8	2,846.8	0.4%	3,533.2	-19.1%	7,902.8	10,258.8	-23.0%
EBIT	(136.0)	41.1	-431.2%	66.8	-303.6%	(77.8)	526.3	-114.8%
PBT/(LBT)	(121.6)	44.8	-371.4%	72.2	-268.4%	(55.7)	599.9	-109.3%
Taxation	(41.3)	(48.5)	15.0%	(44.3)	6.9%	(115.8)	(202.6)	42.8%
PATAMI	(128.8)	(12.1)	-962.3%	13.5	-1052.7%	(124.4)	247.1	-150.3%
Core PATAMI	(127.6)	(14.9)	-758.8%	81.7	-256.1%	(125.6)	307.1	-140.9%
Core EPS (sen)	(10.9)	(1.3)	-758.8%	7.0	-256.1%	(10.7)	26.3	-140.9%
DPS (sen)	-	-	-	-	-	-	10.0	-

* Note that the 9M16 core LATAMI of RM128.8m has been adjusted by excluding non-core items amounting to RM1.2m, which consists of: (i) reversal of impairment losses of receivables of RM2.2m, (ii) provision for write down of inventories of RM3.1m, (iii) gain on disposal of quoted or unquoted investments of RM1.8m, (iv) loss on disposal of property, plant and equipment of RM0.6m, and (v) reversal for impairment losses of assets of RM0.9m.

EBIT margin	-4.8%	1.4%		1.9%		-1.0%	5.1%	
Pretax margin	-4.3%	1.6%		2.0%		-0.7%	5.8%	
Core NP margin	-4.5%	-0.5%		2.3%		-1.6%	3.0%	
Effective tax rate	-33.9%	-108.3%		-61.4%		-207.7%	-33.8%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Revenue	2,856.8	2,846.8	0.4%	3,533.2	-19.1%	7,902.8	10,258.8	-23.0%
Automotive	2,263.4	2,177.1	4.0%	2,596.1	-12.8%	5,996.5	7,334.4	-18.2%
Equipment	342.8	351.2	-2.4%	474.8	-27.8%	1,052.0	1,481.4	-29.0%
O&G	49.7	130.0	-61.8%	212.7	-76.7%	267.3	708.6	-62.3%
M&E	144.6	157.0	-7.9%	183.8	-21.3%	447.0	520.3	-14.1%
Other segment	56.3	31.5	78.6%	65.7	-14.3%	140.0	214.2	-34.7%
Segment PBT	(121.6)	44.8	-371.4%	72.2	-268.4%	(55.7)	599.9	-109.3%
Automotive	133.5	133.3	0.1%	113.4	17.7%	349.5	610.3	-42.7%
Equipment	33.6	43.3	-22.6%	64.4	-47.9%	116.1	197.4	-41.2%
O&G	(133.0)	(64.0)	-107.9%	11.5	-1261.5%	(265.5)	61.9	-528.8%
M&E	2.5	10.9	-77.5%	0.8	226.9%	20.0	3.0	575.4%
Other segment	(158.1)	(78.7)	-100.8%	(117.7)	-34.2%	(275.9)	(272.6)	-1.2%
Segment PBT margin								
Automotive	5.9%	6.1%		4.4%		5.8%	8.3%	
Equipment	9.8%	12.3%		13.6%		11.0%	13.3%	
O&G	-267.9%	-49.2%		5.4%		-99.3%	8.7%	
M&E	1.7%	6.9%		0.4%		4.5%	0.6%	
Other segment	-280.6%	-249.6%		-179.1%		-197.1%	-127.3%	

Source: Company, Kenanga Research

Sum-of-Parts Valuation of UMW

Sum-of-Parts Valuation of UMW		FY17	
Segment	(x)	Value (RMm)	Remarks
Others business	12.0	4,168.0	Based on 12.0x FY17 PER (excluding UMWOG contribution)
UMWOG	0.5	819.9	Based on 0.5x FY17 PBV with effective stake of 55.73%
Total value		4,987.8	
No. of shares		1,168.3	
Fair value		4.27	

Source: Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating
	29/11/16		Actual	1 Yr Fwd	2 Yr Fwd			Actual	1 Yr Fwd	2 Yr Fwd				
	(RM)	(RMm)				(%)	(%)							
BERMAZ AUTO BHD	2.11	2,416.9	12.3	13.9	9.8	8.5%	43.5%	197.6	174.6	247.2	-11.6%	41.6%	2.67	OP
DRB-HICOM BHD	0.98	1,894.5	N.M.	70.0	25.8	2.0%	6.3%	-991.9	27.8	73.5	-102.8%	164.4%	1.02	UP
MBM RESOURCES BERHAD	2.40	937.7	11.2	11.8	9.6	2.9%	5.0%	84.0	79.4	97.3	-5.5%	22.5%	2.49	UP
TAN CHONG MOTOR HOLDINGS BHD	1.86	1,214.2	21.1	N.M.	48.9	2.7%	2.0%	57.1	-70.0	24.7	-222.6%	-135.3%	1.66	UP
UMW HOLDINGS BHD	4.87	5,689.6	23.8	N.M.	33.4	1.6%	4.0%	239.7	-181.8	170.1	-175.8%	-193.6%	4.27	UP

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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