

30 November 2016 | 3QFY16 Results Review

UMW Holdings

Dragged by weak O&G performance

- **3Q16 earnings missed consensus estimates**
- **Jack up rigs were hardly utilised**
- **Auto earnings flat despite improved Perodua contribution**
- **Maintain NEUTRAL at unchanged TP of RM5.30/share**

3Q16 well behind consensus. UMW registered a core net loss of RM93m for its 3Q16, which brought 9M16 core net loss to RM119m. This is against our already bearish FY16F of a RM123m net loss and well behind consensus' FY16F net profit of RM103m. Our forecasts are maintained for now as we expect 4Q16 core operating performance to improve but UMW is unlikely to meet consensus' bullish profit forecast.

Auto division pretax profit was flat quarter-on-quarter despite a 54% increase in associate earnings (mainly driven by Perodua). Run out of end-of-life models i.e. Innova, Vios and Camry might have impacted UMW Toyota's (UMWT) margins in 3Q16 but was compensated by better equity earnings from Perodua following launch of the Bezza model. The major facelifted Vios was launched in Oct16 but has yet to make an impact. UMWT sold an average 2K/month of the Vios in 3Q16 but Vios sales in Oct16 was just 1.5K units. The Sienta which was launched in Aug16 is a small volume generator i.e. ~600 in 3Q16 as it is a CBU priced at a premium to B-segment MPV peers. The new Innova and facelift Camry has yet to be launched and we suspect these might be pushed into FY17F as it is already close to year end.

O&G losses deepened. UMW's jack-up rigs were largely unutilised in the quarter while Naga 1 (semi-submersible rig) was operational only up till August. Its contract with Petronas Carigali had expired and there is no indication from the client to exercise its 2-year extension option. Management indicated of potential asset impairments next quarter, while benefits from mobilisation of Naga 6 and Naga 8 for their new contracts with Carigali and Hess respectively (See Exhibit 3) in 4Q16 will be offset by Naga 1's contract expiry. Naga 2 meanwhile will commence its contract with Ophir from 2Q17. South East Asian jack-up utilisation rate is stabilising at ~40% and rates at ~USD75K/day. UMWOG managed to squeeze in +ve operating cash flow in 3Q16. Part of its short-term debt has been restructured but there is still a remaining RM1.3b (vs. RM2.3b previously) in short-term debt vs. gross cash of RM908m, inclusive of RM308m loan from UMW.

Recommendation. Maintain NEUTRAL on UMW at unchanged TP of RM5.30/share. Share price has taken a beating in the past week and UMW is now trading at 0.9x FY17F BV.

Maintain NEUTRAL

Maintain Target price (TP): RM5.30

RETURN STATS	
Price (29 Nov 2016)	RM4.87
Target Price	RM5.30
Expected Share Price Return	+8.8%
Expected Dividend Yield	+0.6%
Expected Total Return	+9.4%

STOCK INFO	
KLCI	1,626.93
Bursa / Bloomberg	4588 / UMWK MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Par Value (RM)	1.00
Market cap. (RM'm)	5,689.6
Price over NA	0.89
52-wk price Range	RM4.87 - RM8.22
Beta (against KLCI)	1.15
3-mth Avg Daily Vol	0.48m
3-mth Avg Daily Value	RM2.77m
Major Shareholders (%)	
SKIM ASB	42.1%
EPF	16.1%
YPB	5.7%

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INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	13,951.5	14,932.5	14,419.8	11,310.0	12,225.5
EBIT (RM'm)	1,296.5	1,432.9	134.9	-23.8	200.9
Pre-tax Profit (RM'm)	1,501.6	1,621.5	265.6	-49.5	139.1
Core net profit (RM'm)	960.4	836.8	338.0	-123.0	-12.6
FD EPS (sen)	82.2	71.6	28.9	-10.5	-1.1
EPS growth (%)	0.9	-12.9	-59.6	-136.4	-89.7
PER (x)	5.9	6.8	16.8	-46.2	-451.0
Net Dividend (sen)	44.0	41.0	20.0	3.0	3.0
Net Dividend Yield (%)	9.0	8.4	4.1	0.6	0.6

Source: Company, MIDFR

EXHIBIT 1: UMW 3Q16 RESULT SUMMARY

31 Dec (RMm)	3Q15	2Q16	3Q16	YoY	QoQ	9M15	9M16	YTD
Revenue	3,533.2	2,846.8	2,856.8	-19.1%	0.4%	10,258.8	7,902.8	-23.0%
Operating Profit	66.8	41.1	(136.0)	NA	NA	526.3	(77.8)	-114.8%
Finance Cost	(24.8)	(41.3)	(41.1)	65.9%	-0.5%	(84.7)	(125.6)	48.3%
Associates	(0.3)	26.5	40.8	NA	54.0%	62.7	89.4	42.8%
Investment Income	30.5	18.5	14.6	-52.1%	-20.8%	95.6	58.2	-39.1%
Pretax Profit	72.2	44.8	(121.6)	NA	NA	599.9	(55.7)	-109.3%
Taxation	(44.3)	(48.5)	(41.3)			(202.6)	(115.8)	
Minorities	14.4	8.4	(34.0)	NA	NA	150.2	(47.2)	
Net Profit	13.5	(12.1)	(128.8)	NA	NA	247.1	(124.4)	-150.3%
Core net profit	52.5	68.6	(92.8)	-276.6%	NA	286.3	(118.6)	NA
EPS (FD, sen)	4.5	5.9	-7.9			24.5	-10.2	
DPS (sen)	0.0	0.0	0.0			10.0	0.0	
Margins (%):								
Operating	1.9%	1.4%	-4.8%			5.1%	-1.0%	
Pretax Profit	2.0%	1.6%	-4.3%			5.8%	-0.7%	
Core Net Profit	1.5%	2.4%	-3.2%			2.4%	-1.6%	
Tax Rate	61.4%	108.3%	-33.9%			33.8%	-207.7%	

Source: Company, MIDFR

EXHIBIT 2: UMW 3Q16 RESULT BREAKDOWN

Segmental Breakdown	3Q15	2Q16	3Q16	YoY	QoQ	9M15	9M16	YTD
Automotive	2,596.1	2,177.1	2,263.4	-12.8%	4.0%	7,334	5,996	-18.2%
Equipment	474.8	351.2	342.8	-27.8%	-2.4%	1,481	1,052	-29.0%
Manuf & Eng	183.8	157.0	144.6	-21.3%	-7.9%	520	447	-14.1%
Oil & Gas (Listed)	212.7	130.0	49.7	-76.7%	-61.8%	709	267	-62.3%
Oil & Gas (Unlisted)	70.0	42.3	58.4	-16.5%	38.3%	227	154	-31.9%
Revenue	3,537.4	2,857.5	2,858.9	-19.2%	0.0%	10,271.1	7,917.0	-22.9%
Automotive	113.4	133.3	133.5	17.7%	0.1%	610	349	-42.7%
Equipment	64.4	43.3	33.6	-47.9%	-22.6%	197	116	-41.2%
Manuf & Eng	0.8	10.9	2.5	226.9%	-77.5%	3	20	575.3%
Oil & Gas (Listed)	11.5	(64.0)	(133.0)	NA	NA	62	(265)	NA
Oil & Gas (Unlisted)	(65.2)	(45.3)	(36.1)	NA	NA	(154)	(117)	-24.2%
Pretax profit	124.8	78.3	0.3	-100%	-100%	718.3	103.2	-85.6%
Pretax margins								
Automotive	4.4%	6.1%	5.9%			8.3%	5.8%	
Equipment	13.6%	12.3%	9.8%			13.3%	11.0%	
Manuf & Eng	0.4%	6.9%	1.7%			0.6%	4.5%	
Oil & Gas (Listed)	5.4%	-49.2%	-267.9%			8.7%	-99.3%	
Oil & Gas (Unlisted)	-93.2%	-107.1%	-61.9%			-68.1%	-75.8%	
Toyota TIV (units)	23,301	17,033	17,271	-25.9%	1.4%	62,097	44,520	-28.3%
Average revenue/car (RM)	111,418	127,819	131,050	17.6%	2.5%	118,111	134,692	14.0%
USD:RM	3.66	4.19	4.01					

Source: Company, MAA, MIDFR

EXHIBIT 3: UMWOG DRILLING RIG FLEET

Drilling rigs	Customer	Contract duration	Mobilisation
Naga 1 (Semi-sub)	Bidding for contracts		
Naga 2	Ophir Production (T'ganu)	50+ day drilling contract	Apr-17
Naga 3	Bidding for contracts		
Naga 4	Bidding for contracts		
Naga 5	Bidding for contracts		
Naga 6	Petronas Carigali Sdn Bhd	2 yrs + 1 yr option	Nov-16
Naga 7	Bidding for contracts		
Naga 8	Hess Exploration	18 mth firm + 12 mth option	Oct-16

Source: Company, MIDFR

Income Statement	FY13	FY14	FY15	FY16F	FY17F
Revenue	13,951.5	14,932.5	14,419.8	11,310.0	12,225.5
Operating expenses	(12,655.0)	(13,499.6)	(14,157.6)	(11,333.8)	(12,024.5)
EBIT	1,296.5	1,567.0	262.1	(23.8)	200.9
Net interest expense	(18.3)	(85.1)	(126.6)	(155.8)	(192.3)
Associates	157.5	139.6	130.1	130.2	130.5
PBT	1,501.6	1,621.5	265.6	(49.5)	139.1
Taxation	(351.5)	(408.5)	(259.9)	44.9	(2.2)
Minority Interest	(431.3)	(561.0)	44.6	(118.5)	(149.6)
Net profit	718.9	652.0	(38.9)	(123.0)	(12.6)
Core net profit	960.4	836.8	338.0	(123.0)	(12.6)
Consensus net profit	960.4	836.8	338.0	103.9	270.3
Balance Sheet	FY13	FY14	FY15	FY16F	FY17F
Non-current assets	6,075.2	7,923.4	10,511.7	11,255.9	11,963.6
PPE	3,893.3	5,669.7	8,132.7	8,746.7	9,323.9
Investments in associate	1,776.2	1,797.5	1,894.5	2,024.7	2,155.2
Others	405.7	456.3	484.6	484.6	484.6
Current assets	8,731.4	8,596.2	7,568.9	6,869.5	7,352.6
Inventories	1,754.2	1,830.4	1,891.6	1,696.5	1,833.8
Receivables	1,855.1	1,238.3	1,273.3	1,583.4	1,833.8
Others	2,578.4	2,156.8	1,675.7	1,210.1	1,210.1
Cash & equivalent	2,543.8	3,370.7	2,728.3	2,379.4	2,474.8
TOTAL ASSETS	14,806.7	16,519.7	18,080.6	18,125.4	19,316.2
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,613.9	2,852.6	2,827.1	2,922.0	3,048.0
Reserves	5,778.6	5,996.3	5,812.7	5,655.9	5,608.7
TOTAL EQUITY	8,976.6	9,433.1	9,223.9	9,162.0	9,240.9
Non-current liabilities	1,774.7	2,017.0	3,165.1	4,115.1	5,065.1
Long-term borrowings	1,602.2	1,803.0	2,782.5	3,732.5	4,682.5
Deferred tax liabilities	34.2	27.4	34.1	34.1	34.1
Others	138.3	186.6	348.5	348.5	348.5
Current liabilities	4,055.4	5,069.6	5,691.6	4,848.3	5,010.3
Short-term borrowings	1,464.3	2,292.6	3,159.1	2,859.1	2,859.1
Payables	2,070.1	2,217.0	2,230.3	1,814.5	1,961.4
Others	520.9	560.0	302.2	174.6	189.7
TOTAL LIABILITIES	5,830.0	7,086.6	8,856.7	8,963.4	10,075.4

Cash Flow Statement	FY13	FY14	FY15	FY16F	FY17F
Operating activities					
PBT	1,501.6	1,621.5	265.6	(49.5)	139.1
Depreciation & Amortization	325.3	378.7	765.5	488.0	524.8
Chgs in working capital	(423.7)	(149.1)	(134.2)	(113.2)	(225.8)
Interest expense	18.3	(48.9)	(120.8)	(155.8)	(192.3)
Tax paid	(374.4)	(418.3)	(275.5)	44.9	(2.2)
Others	(152.5)	(18.9)	(125.3)	25.6	61.8
CF from Operations	894.6	1,364.9	375.3	240.0	305.5
Investing activities					
Capex	(999.9)	(2,185.5)	(2,168.8)	(1,250.0)	(1,250.0)
Others	888.7	1,870.6	264.6	148.0	148.0
CF from Investments	(111.2)	(315.0)	(1,904.2)	(1,102.0)	(1,102.0)
Financing activities					
Dividends paid	(1,050.3)	(947.2)	(806.1)	(58.1)	(58.1)
Net proceeds in borrowings	240.7	1,150.7	1,692.3	650.0	950.0
Others	66.9	-	-	-	-
CF from Financing	(742.7)	203.6	886.3	591.9	891.9
Net changes in cash	40.7	1,253.5	(642.6)	(270.1)	95.4
Beginning cash	1,547.7	1,492.3	3,276.6	2,649.5	2,379.4
Overdrafts & Deposits	-	-	15.6	-	-
Ending cash	1,588.3	2,745.8	2,649.5	2,379.4	2,474.8
Ratios	FY13	FY14	FY15	FY16F	FY17F
Revenue growth	0.6%	7.0%	-3.4%	-21.6%	8.1%
EBIT growth	-32.0%	10.5%	-90.6%	>100%	-942.8%
Core net profit growth	-24.5%	-12.9%	-59.6%	-136.4%	-89.7%
PBT margin	10.8%	10.9%	1.8%	-0.4%	1.1%
Core net profit margin	5.2%	5.6%	2.3%	-1.1%	-0.1%
ROE	12.9%	10.1%	-0.6%	-1.9%	-0.2%
ROA	9.7%	9.1%	0.8%	-0.1%	1.1%
Net gearing (%)	5.8%	7.7%	34.8%	46.0%	54.8%
Book value/share (RM)	5.45	5.63	5.48	5.34	5.30
PBV (x)	0.89	0.86	0.89	0.91	0.92
EV/EBITDA (x)	3.8	3.5	9.9	21.3	14.8

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.