

UMW Holdings (UMWH MK)

Just cannot catch a break

SELL

Share Price MYR 4.87
 12m Price Target MYR 4.50 (-7%)
 Previous Price Target MYR 4.65

Unexplained losses at non-core division

UMWH's 3Q16 core losses widened by 7x QoQ to MYR125m, mainly due to a surprise unexplained pre-tax loss of MYR122m (+2.6x QoQ) at its non-core division. Elsewhere, losses at the O&G (listed) division also widened on low rig utilisation. External headwinds especially from a strong USD would continue to negatively impact UMWH's auto division. Against this backdrop, we now forecast FY16 to fall into a core net loss of MYR209m and expect no dividends over FY16-18 considering these difficult times. Our SOP TP is revised down to MYR4.50 (-3%); maintain SELL.

9M16 results sank to a new low

3Q16 core net loss of MYR125m took 9M16 core losses MYR123m (from a core net profit of MYR307m in 9M15); a huge miss compared to our and consensus' initial core net profit forecasts of MYR52m/79m for FY16 - expect major downgrades by street today. None was spared in 3Q16 in that every core division disappointed with key underperformance in the non-core. Flat QoQ earnings at the auto division was wiped out by losses at the O&G (listed) division. Elsewhere, pre-tax profits at the equipment and M&E division also fell 23%/78% QoQ on weaker demand.

Further clarity needed

Having imputed wider losses at the (i) non-core division and (ii) O&G divisions (both listed and unlisted) on lower utilisation rates, we now expect FY16 to fall into a core net loss of MYR209m before returning to small profits in FY17/18. Our revised forecasts have factored in a normalised loss of MYR25-30m per quarter at the non-core division (vs pre-tax loss of MYR122m in 3Q16 where further clarity is needed). While earnings at the auto division held up quite well in 3Q16, recent strength in USD (USD1/MYR4.47 now vs average of USD1/MYR4.05 in 3Q16) would likely hit UMWH in the next two quarters.

Worst performance in the last 10 years

FY16 appears to be a washout year for UMWH with potential impairment in the O&G divisions in 4Q16. Meanwhile, operational recovery visibility remains hazy. This, coupled with a weak P&L and absence of dividends, support our SELL call.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	14,932	14,442	9,904	10,336	11,413
EBITDA	1,812	646	492	788	951
Core net profit	850	425	(209)	39	128
Core EPS (sen)	72.8	36.4	(17.9)	3.3	11.0
Core EPS growth (%)	13.0	(50.0)	nm	nm	232.5
Net DPS (sen)	41.0	20.0	0.0	0.0	0.0
Core P/E (x)	6.7	13.4	nm	147.7	44.4
P/BV (x)	0.9	0.9	0.9	0.9	0.9
Net dividend yield (%)	8.4	4.1	0.0	0.0	0.0
ROAE (%)	10.1	(0.5)	(3.2)	0.6	2.0
ROAA (%)	5.5	2.4	(1.2)	0.2	0.7
EV/EBITDA (x)	9.1	23.6	25.9	16.6	14.1
Net gearing (%) (incl perps)	8.7	35.0	47.3	51.9	55.1
Consensus net profit	-	-	79	294	304
MKE vs. Consensus (%)	-	-	(365.8)	(86.9)	(57.9)

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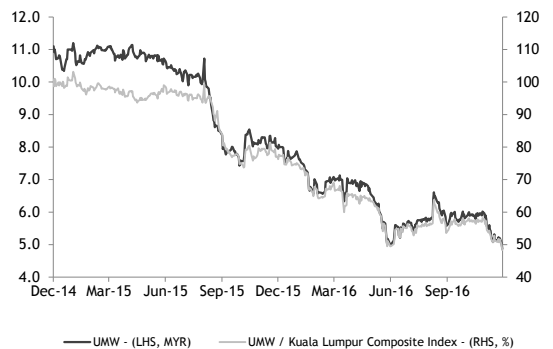
Statistics

Shariah status	Yes
52w high/low (MYR)	8.07/4.87
3m avg turnover (USDm)	0.6
Free float (%)	94.3
Issued shares (m)	1,168
Market capitalisation	MYR5.7B USD1.3B

Major shareholders:

Permodalan Nasional Bhd.	40.8%
Employees Provident Fund	16.0%
Bumiputra Investment Foundation	5.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(19)	(17)	(39)
Relative to index (%)	(17)	(14)	(37)

Source: FactSet

UMWH: Quarterly results summary

FY Dec (MYR m)	Quarterly results					Cumulative		
	3Q16	2Q16	%QoQ	3Q15	%YoY	9M16	9M15	%YoY
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	NM	66.8	(303.6)	(77.8)	526.3	NM
Interest expense	(41.1)	(41.3)	(0.5)	(24.8)	65.9	(125.6)	(84.7)	48.3
Associates	40.8	26.5	54.0	(0.3)	NM	89.4	62.7	42.8
Investment Income	14.6	18.5	(20.8)	30.5	(52.1)	58.2	95.6	(39.1)
Exceptional item	3.6	(2.7)	NM	68.0	(94.8)	1.2	60.2	(98.0)
Pre-tax profit	(121.6)	44.8	NM	72.2	NM	(55.7)	599.9	NM
Taxation	(41.3)	(48.5)	(15.0)	(44.3)	(6.9)	(115.8)	(202.6)	(42.8)
Minority interest	34.0	(8.4)	NM	(14.4)	NM	47.2	(150.2)	NM
Net profit / (loss)	(128.8)	(12.1)	962.3	13.5	NM	(124.4)	247.1	NM
Recurring net profit / (loss)	(125.3)	(14.9)	742.9	81.5	NM	(123.2)	307.3	NM
	3Q16	2Q16	+/- ppt	3Q15	%YoY	9M16	9M15	+/- ppt
EBIT margin (%)	(4.8)	1.4	(6.2)	1.9	(6.7)	(1.0)	5.1	(6.1)
Tax rate (%)	(33.9)	108.3	(142.2)	61.4	(95.3)	(207.7)	33.8	(241.5)
	3Q16	2Q16	%QoQ	3Q15	%YoY	9M16	9M15	%YoY
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)
M&E	144.6	157.0	(7.9)	183.8	(21.3)	447.0	520.3	(14.1)
Oil & Gas (listed)	49.7	130.0	(61.8)	212.7	(76.7)	267.3	708.6	(62.3)
Oil & Gas (unlisted)	58.4	42.3	38.3	226.5	(74.2)	154.2	226.5	(31.9)
Others	24.6	15.4	59.1	(143.9)	(117.1)	49.2	41.5	18.5
Elimination	(26.6)	(26.2)	1.9	(16.9)	57.7	(63.5)	(53.8)	18.0
Pre-tax profit	(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)
M&E	2.5	10.9	(77.5)	0.8	226.7	20.0	3.0	575.3
Oil & Gas (listed)	(133.0)	(64.0)	107.9	11.5	(1,261.5)	(265.5)	61.9	(528.8)
Oil & Gas (unlisted)	(36.1)	(45.3)	(20.2)	(154.2)	(76.6)	(117.0)	(154.2)	(24.2)
Others	(121.9)	(33.5)	264.4	36.5	(434.4)	(158.9)	(118.4)	34.2
	3Q16	2Q16	+/- ppt	3Q15	%YoY	9M16	9M15	+/- ppt
Pre-tax margins (%)	(4.3)	1.6	(5.8)	2.0	(6.3)	(0.7)	5.8	(6.6)
Automotive	5.9	6.1	(0.2)	4.4	1.5	5.8	8.3	(2.5)
Equipment	9.8	12.3	(2.6)	13.6	(3.8)	11.0	13.3	(2.3)
M&E	1.7	6.9	(5.2)	0.4	1.3	4.5	0.6	3.9
Oil & Gas (listed)	(267.9)	(49.2)	(218.7)	5.4	(273.3)	(99.3)	8.7	(108.0)
Oil & Gas (unlisted)	(61.9)	(107.1)	45.3	(68.1)	6.2	(75.8)	(68.1)	(7.8)
Others	(496.4)	(216.8)	(279.7)	(25.3)	(471.1)	(322.8)	(285.2)	(37.6)
	3Q16	2Q16	%QoQ	3Q15	%YoY	9M16	9M15	%YoY
Vehicle Unit Sales (MAA)								
Toyota	17,605	17,392	1.2	23,773	(25.9)	45,485	63,463	(28.3)
Perodua	53,519	50,189	6.6	49,025	9.2	150,889	157,527	(4.2)

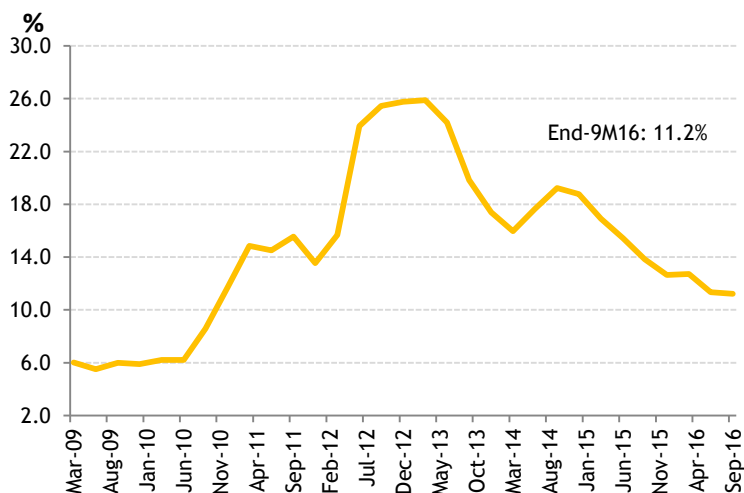
Source: Company, Maybank KE

SOP valuations

Division	Effective Interest (%)	Valuation Method	Value (MYR m)	Per share (MYR)
Automotive				
UMW Toyota	51.0%	10x FY17 PER	696.2	0.60
Perodua	38.0%	11x FY17 PER	2,254.7	1.93
Equipment	100.0%	10x FY17 PER	934.2	0.80
Manufacturing & Engineering	100.0%	10x FY17 PER	147.2	0.13
Oil & Gas	55.7%	1x EV/replacement value	1,396.0	1.19
Others				
Land rigs - Sher I, II, III (India)	70.0%	10x FY17 PER	29.9	0.03
Land rigs - Ghazal I, III, IV, V (Middle East)	60.0%	10x FY17 PER	34.2	0.03
WSP	22.5%	Investment cost	128.6	0.11
United Seamless Tubular (USTPL)	32.2%	Investment cost	66.8	0.06
Shanghai Tube-Cote Petroleum Pipe Coating (STPPC)	49.0%	Investment cost	20.0	0.02
Zhongyou BSS (Qinhuangdao) Petropipe (BSS)	34.3%	Investment cost	125.2	0.11
Shanghai BSW Petro-pipe (BSW)	32.4%	Investment cost	31.8	0.03
Jiangsu Tube-Cote Shuguang Coating	28.1%	Investment cost	10.3	0.01
Less: Net debt/(cash) in FY15			(611.8)	(0.52)
SOP (MYR)			5,263.1	4.50

Source: Maybank KE

UMWH: Foreign shareholding (11.2% as at end-Sep 2016)



Source: Maybank KE

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	20.4	(380.7)	(27.2)	nm	44.4
Core P/E (x)	6.7	13.4	nm	147.7	44.4
P/BV (x)	0.9	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
Net dividend yield (%)	8.4	4.1	0.0	0.0	0.0
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	9.1	23.6	25.9	16.6	14.1
EV/EBIT (x)	11.5	nm	nm	nm	80.6
INCOME STATEMENT (MYR m)					
Revenue	14,932.5	14,441.6	9,903.6	10,336.1	11,412.6
Gross profit	4,153.9	3,391.4	2,669.5	3,013.2	3,361.9
EBITDA	1,811.7	646.3	491.7	787.6	951.1
Depreciation	(378.6)	(510.5)	(729.3)	(758.1)	(784.4)
Amortisation	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	1,432.9	135.6	(237.7)	29.4	166.5
Net interest income / (exp)	48.9	(0.4)	(38.9)	(69.9)	(82.2)
Associates & JV	139.6	134.4	121.4	141.2	173.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,621.5	269.7	(155.1)	100.6	257.6
Income tax	(408.5)	(259.9)	(126.3)	(127.1)	(126.6)
Minorities	(561.0)	(39.4)	72.6	65.0	(3.0)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	652.0	(29.6)	(208.8)	38.5	128.0
Core net profit	850.3	424.8	(208.8)	38.5	128.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	3,370.7	2,734.1	1,683.0	1,253.1	860.6
Accounts receivable	2,078.5	1,833.4	1,189.7	1,225.3	1,313.8
Inventory	1,830.4	1,890.0	2,279.2	2,307.2	2,536.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	5,669.7	8,102.8	8,423.5	8,715.4	8,981.0
Intangible assets	25.6	25.2	25.1	24.9	24.7
Investment in Associates & JVs	1,857.4	1,979.1	2,000.3	2,041.3	2,114.3
Other assets	1,687.3	1,660.7	1,660.7	1,660.7	1,660.7
Total assets	16,519.7	18,225.3	17,261.5	17,227.8	17,491.7
ST interest bearing debt	2,386.7	3,725.0	4,025.0	4,325.0	4,625.0
Accounts payable	2,217.0	2,241.2	1,585.5	1,605.0	1,764.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,803.0	2,289.8	1,963.1	1,636.4	1,309.7
Other liabilities	680.0	585.0	585.0	585.0	585.0
Total Liabilities	7,086.6	8,841.4	8,159.1	8,151.9	8,284.7
Shareholders Equity	6,580.5	6,584.5	6,375.6	6,414.1	6,542.2
Minority Interest	2,852.6	2,799.4	2,726.8	2,661.8	2,664.8
Total shareholder equity	9,433.1	9,383.9	9,102.4	9,076.0	9,207.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	16,519.7	18,225.3	17,261.5	17,227.8	17,491.7
CASH FLOW (MYR m)					
Pretax profit	1,621.5	269.7	(155.1)	100.6	257.6
Depreciation & amortisation	378.7	510.7	729.4	758.3	784.5
Adj net interest (income)/exp	(94.1)	(121.4)	(120.9)	(120.4)	(119.8)
Change in working capital	(136.4)	67.9	(401.2)	(44.1)	(158.3)
Cash taxes paid	(418.3)	(273.8)	(126.3)	(127.1)	(126.6)
Other operating cash flow	26.2	496.0	(82.6)	(71.3)	(91.0)
Cash flow from operations	1,377.7	949.1	(156.7)	496.1	546.4
Capex	(2,185.5)	(2,280.4)	(1,050.0)	(1,050.0)	(1,050.0)
Free cash flow	(807.8)	(1,331.2)	(1,206.7)	(553.9)	(503.6)
Dividends paid	(947.2)	(805.2)	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,150.7	1,322.6	(26.7)	(26.7)	(26.7)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	1,726.6	414.0	100.2	100.2	100.2
Effect of exch rate changes	6.4	64.6	0.0	0.0	0.0
Net cash flow	1,128.8	(335.4)	(1,133.2)	(480.4)	(430.1)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.0	(3.3)	(31.4)	4.4	10.4
EBITDA growth	11.7	(64.3)	(23.9)	60.2	20.8
EBIT growth	10.5	(90.5)	nm	nm	467.4
Pretax growth	12.9	(83.4)	nm	nm	155.9
Reported net profit growth	(0.1)	nm	nm	nm	232.5
Core net profit growth	13.0	(50.0)	nm	nm	232.5
Profitability ratios (%)					
EBITDA margin	12.1	4.5	5.0	7.6	8.3
EBIT margin	9.6	0.9	nm	0.3	1.5
Pretax profit margin	10.9	1.9	nm	1.0	2.3
Payout ratio	73.5	nm	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	4.4	nm	nm	0.4	1.1
Revenue/Assets (x)	0.9	0.8	0.6	0.6	0.7
Assets/Equity (x)	2.5	2.8	2.7	2.7	2.7
ROAE (%)	10.1	(0.5)	(3.2)	0.6	2.0
ROAA (%)	5.5	2.4	(1.2)	0.2	0.7
Liquidity & Efficiency					
Cash conversion cycle	35.7	36.7	63.5	76.4	73.0
Days receivable outstanding	47.4	48.8	54.9	42.1	40.0
Days inventory outstanding	59.9	60.6	103.7	112.7	108.3
Days payables outstanding	71.6	72.6	95.2	78.4	75.3
Dividend cover (x)	1.4	(0.1)	nm	nm	nm
Current ratio (x)	1.7	1.2	1.1	1.0	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	8.7	35.0	47.3	51.9	55.1
Net gearing (%) (excl. perps)	8.7	35.0	47.3	51.9	55.1
Net interest cover (x)	na	nm	na	0.4	2.0
Debt/EBITDA (x)	2.3	9.3	12.2	7.6	6.2
Capex/revenue (%)	14.6	15.8	10.6	10.2	9.2
Net debt/ (net cash)	819.1	3,280.6	4,305.1	4,708.3	5,074.0

Source: Company; Maybank

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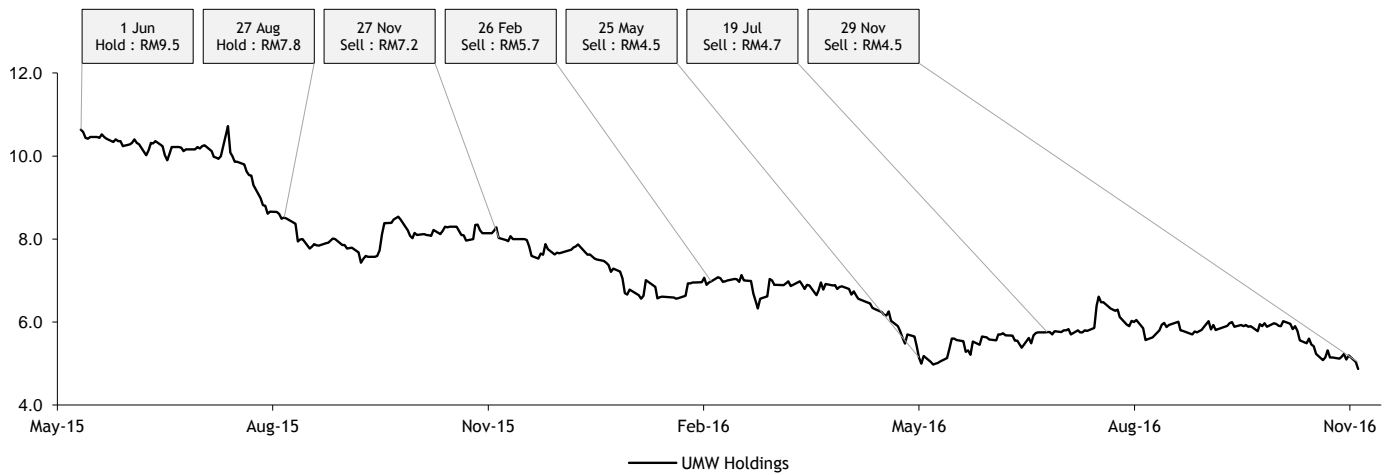
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