

30 November 2016

Consumer Cyclical | Auto & Autoparts

UMW Holdings

Sell (Maintained)

No Visible Re-Rating Catalyst in Sight

UMW's earnings continue to be dragged down by a weak operating environment for its various businesses, while forex volatility and competitive new model launches from both national and non-national automakers have not been kind to the bottomline of its automotive segment. UMWOG continues its losing streak as most of its jack-up rigs were idle during 3Q16, with the subsidiary guiding for an impairment charge to hit its books in 4Q16. With no visible re-rating catalyst in sight, we maintain **SELL** on UMW with an unchanged TP of MYR4.09 (16% downside). Our earnings estimates are under review.

Another impairment charge from UMWOG expected. UMW Oil & Gas Corp (UMWOG) (UMWOG, NR) suffered its worst results in 3Q16, as all seven of its jack-up rigs were unemployed and its semi-submersible rig underutilized. The outlook is for a slight improvement as *Naga 6* began its two-year charter contract with Petronas Carigali in October. UMWOG also recently won an 18-month contract with Hess for *Naga 8* and *Naga 2* will begin its drilling contract for Ophir Production in Apr 2017 onwards. UMWOG is guiding for an exceptional impairment against its assets for the full financial year of 2016.

Yet to regain ground from peers. Despite the recent launches of the Toyota *Innova*, *Camry* and *Corolla Altis*, UMW is unlikely to be able to meet its previous 70,000 units volume sales target for 2016. The industry has been hurt by strict credit standards of banks and soft consumer sentiment, while a consistent stream of attractive new models by UMW's competitors have resulted in market share loss. Our estimates impute a conservative 62,500 TIV for FY16.

3Q16 earnings – below expectations

(MYRm)	3Q16	2Q16	QoQ (%)	3Q15	YoY (%)	Comments
Revenue	2,857	2,847	0.4	3,533	(19.1)	Mainly due to lower Toyota sales volumes.
EBIT	-136	41	(431.2)	67	(303.6)	Margins were impacted by provisions, lower revenue and unfavourable forex trends.
EBIT (%)	-4.8%	1.4%		1.9%		
NI	-129	-12	962.3	14	(1,052.7)	Below our and consensus estimates. Expect an impairment charge to be recognised in 4Q16.
NI (%)	-4.5%	-0.4%		0.4%		

Source: Company data, RHB

Other businesses. One bright spot is UMW's exclusive contract with Rolls Royce to manufacture aero engine fan cases, which would commence in FY17 with maiden deliveries expected in October. While we are positive on this development as it would contribute to a sustainable profit contribution to its bottomline, we see the possibility of start-up losses dragging earnings next year.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	14,959	14,420	9,998	10,431	11,387
Reported net profit (MYRm)	658	(39)	8	261	313
Recurring net profit (MYRm)	802	147	8	261	313
Recurring net profit growth (%)	(6.0)	(81.7)	(94.8)	3341.4	20.1
Recurring EPS (MYR)	0.69	0.13	0.01	0.22	0.27
DPS (MYR)	0.41	0.20	0.10	0.11	0.13
Recurring P/E (x)	7	39	751	22	18
P/B (x)	0.86	0.89	0.92	0.93	0.93
P/CF (x)	5.37	9.62	7.49	8.60	8.80
Dividend Yield (%)	8.4	4.1	2.1	2.3	2.7
EV/EBITDA (x)	4.0	17.1	15.0	14.0	12.1
Return on average equity (%)	10.2	(0.6)	0.1	4.2	5.1
Net debt to equity (%)	7.6	34.8	31.6	39.3	49.0
Our vs consensus EPS (adjusted) (%)			(96.5)	(23.0)	(16.5)

Source: Company data, RHB

Target Price:	MYR4.09
Price:	MYR4.87
Market Cap:	USD1,274m
Bloomberg Ticker:	UMWH MK

Share Data

Avg Daily Turnover (MYR/USD)	2.60m/0.62m
52-wk Price low/high (MYR)	4.87 - 8.07
Free Float (%)	25
Shares outstanding (m)	1,168
Estimated Return	-16%

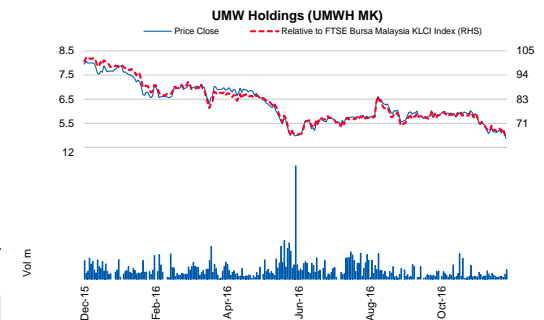
Shareholders (%)

PNB Funds	57.6
Employees Provident Fund	16.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(38.1)	(19.1)	(16.8)	(6.0)	(39.4)
Relative	(34.2)	(16.5)	(13.5)	(5.4)	(36.1)

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2016-11-02.

Asia	Financial summary	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Malaysia	Recurring EPS (MYR)	0.69	0.13	0.01	0.22	0.27
Consumer Cyclical	EPS (MYR)	0.56	(0.03)	0.01	0.22	0.27
UMW Holdings	DPS (MYR)	0.41	0.20	0.10	0.11	0.13
Bloomberg UMW MK	BVPS (MYR)	5.64	5.48	5.28	5.25	5.24
Sell	Weighted avg adjusted shares (m)	1,168	1,168	1,168	1,168	1,168
Valuation basis	Valuation metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Sum of parts valuation.	Recurring P/E (x)	7	39	751	22	18
Key drivers	P/E (x)	9	na	751	22	18
i. Introduction of attractive new car models;	P/B (x)	0.86	0.89	0.92	0.93	0.93
ii. Turnaround at various legacy non-core oil and gas businesses;	FCF Yield (%)	(17.9)	(27.0)	(7.7)	(9.5)	(9.7)
iii. Long-term growth potential from aerospace business.	Dividend Yield (%)	8.4	4.1	2.1	2.3	2.7
	EV/EBITDA (x)	4.0	17.1	15.0	14.0	12.1
	EV/EBIT (x)	5.1	71.2	82.6	49.6	27.1
Key risks	Income statement (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
i. Stronger MYR;	Total turnover	14,959	14,420	9,998	10,431	11,387
ii. Better-than-expected economic growth;	Gross profit	4,114	3,965	2,749	2,869	3,131
iii. Recovery in crude oil prices.	EBITDA	1,806	563	603	671	833
	Depreciation and amortisation	(379)	(428)	(494)	(481)	(462)
	Operating profit	1,427	135	109	190	371
	Net interest	55	1	(77)	(83)	(108)
	Income from associates & JVs	140	130	111	126	123
	Pre-tax profit	1,621	266	143	233	385
	Taxation	(409)	(260)	(140)	(70)	(116)
	Minority interests	(554)	(45)	4	98	43
	Recurring net profit	802	147	8	261	313
Company Profile	Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
UMW is the largest company in the automotive sector by market capitalisation. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. UMW owns a 55% stake in listed UMW Oil & Gas.	Change in working capital	(205)	241	464	219	87
	Cash flow from operations	1,059	591	759	661	646
	Capex	(2,080)	(2,125)	(1,200)	(1,200)	(1,200)
	Cash flow from investing activities	(723)	(1,904)	(151)	(1,010)	(1,150)
	Dividends paid	(514)	(479)	(234)	(117)	(129)
	Cash flow from financing activities	(354)	407	(1,062)	(409)	(458)
	Cash at beginning of period	2,544	3,376	2,728	2,509	1,868
	Net change in cash	(19)	(906)	(453)	(757)	(962)
	Ending balance cash	3,376	2,728	2,509	1,868	1,035
	Balance sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
	Total cash and equivalents	3,376	2,728	2,509	1,868	1,035
	Tangible fixed assets	5,646	8,133	8,839	9,557	10,295
	Intangible assets	38	38	38	38	38
	Total investments	1,878	1,975	2,087	2,213	2,335
	Total other assets	344	365	365	365	365
	Total assets	16,439	18,081	16,435	16,471	16,645
	Short-term debt	2,177	3,159	2,250	2,250	2,250
	Total long-term debt	1,914	2,783	3,100	3,100	3,100
	Other liabilities	122	279	279	279	279
	Total liabilities	6,997	8,857	7,445	7,609	7,844
	Shareholders' equity	6,590	6,397	6,168	6,136	6,119
	Minority interests	2,853	2,827	2,823	2,725	2,682
	Total equity	9,443	9,224	8,990	8,861	8,801
	Net debt	715	3,213	2,841	3,482	4,315
	Total liabilities & equity	16,439	18,081	16,435	16,471	16,645
	Key metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
	Revenue growth (%)	7.2	(3.6)	(30.7)	4.3	9.2
	Recurrent EPS growth (%)	(6.0)	(81.7)	(94.8)	3341.4	20.1
	Gross margin (%)	27.5	27.5	27.5	27.5	27.5
	Operating EBITDA margin (%)	12.1	3.9	6.0	6.4	7.3
	Net profit margin (%)	4.4	(0.3)	0.1	2.5	2.7
	Dividend payout ratio (%)	72.8	(600.3)	1543.1	49.3	48.6
	Capex/sales (%)	13.9	14.7	12.0	11.5	10.5
	Interest cover (x)	17.4	1.1	0.7	1.2	2.3

Source: Company data, RHB

No Visible Re-Rating Catalyst in Sight

Figure 1: UMW's 3Q16 results

FYE Dec (MYRm)	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9M15	9M16	YoY (%)	Comments
Revenue	3,533.2	2,846.8	2,856.8	0.4	(19.1)	14,419.8	7,902.8	(45.2)	Mainly due to lower Toyota sales volumes.
EBIT	66.8	41.1	(136.0)	431.2	(303.6)	166.6	(77.8)	(146.7)	Margins were impacted by provisions, lower revenue and unfavourable forex trends.
EBIT margin (%)	1.9	1.4	(4.8)			1.2	(1.0)		
Finance costs	(24.8)	(41.3)	(41.1)	(0.5)	65.9	(126.6)	(125.6)	(0.8)	
Associates	(0.3)	26.5	40.8	54.0	(12,746.1)	98.4	89.4	(9.1)	
Investment income	30.5	18.5	14.6	(20.8)	(52.1)	127.2	58.2	(54.2)	
Pretax Profit	72.2	44.8	(121.6)	371.4	(268.4)	265.6	(55.7)	(121.0)	
Pretax margin (%)	2.0	1.6	(4.3)			1.8	(0.7)		
Tax	(44.3)	(48.5)	(41.3)	(15.0)	(6.9)	(259.9)	(115.8)	(55.5)	
Eff tax rate (%)	(61.4)	(108.3)	33.9			(97.9)	207.7		
MI	(14.4)	(8.4)	34.0	(505.3)	(336.6)	(44.6)	47.2	(205.7)	
Net Profit	13.5	(12.1)	(128.8)	(962.3)	(1,052.7)	(38.9)	(124.4)	219.5	Below our and consensus estimates. Expect an impairment charge to be recognised in 4Q16.
Net Margin (%)	0.4	(0.4)	(4.5)			(0.3)	(1.6)		

Source: Company data, RHB estimates

Figure 2: UMW's vehicle sales summary

FYE Dec (units)	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9M15	9M16	YoY (%)
Toyota	23,773	17,392	17,605	1.2	(25.9)	63,463	45,485	(28.3)
- Passenger	16,553	12,746	12,000	(5.9)	(27.5)	43,894	32,062	(27.0)
- Commercial	7,220	4,646	5,605	20.6	(22.4)	19,569	13,423	(31.4)
Perodua	49,025	50,189	53,519	6.6	9.2	157,527	150,889	(4.2)
- Passenger	49,025	50,189	53,519	6.6	9.2	157,527	150,889	(4.2)
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	72,798	67,581	71,124	5.2	(2.3)	220,990	196,374	(11.1)

Source: Malaysian Automotive Association (MAA)

Figure 3: UMW's SOP valuation

	FY17F P/E (x)	Valuation (MYR)	Stake (%)	Discount (%)	Per UMW share (MYR)
UMWOG		MYR 0.80	55.15	10	0.73
Other businesses	12				3.36
					4.09

Source: RHB

Figure 4: Forecast assumptions

FYE Dec	2014	2015	2016F	2017F	2018F
Toyota / Lexus (units)	103,636	95,861	62,500	65,000	70,000
Perodua (units)	195,579	213,307	216,000	218,000	218,000
Forex (JPY/MYR)*	3.15	3.25	3.90	3.90	3.90
Forex (USD/MYR)*	3.25	3.90	4.00	4.15	4.15

*average rate

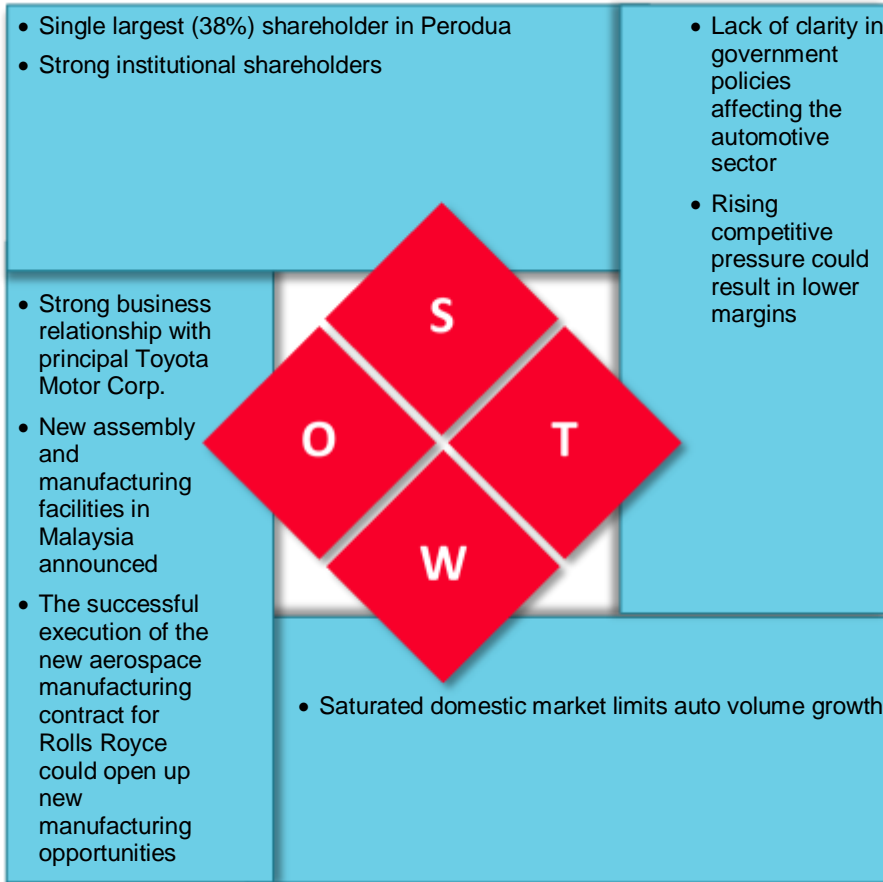
Source: RHB

Figure 5: UMW jack-up drilling rigs status

Naga	Customer	Status
1	PETRONAS Carigali	Contract would expire on 2016, but has received two years extension until Aug 2018
2	Ophir Production	Contract to start in Apr 2017
3	-	Idle
4	-	Idle
5	-	Idle
6	-	Idle
7	PETRONAS Carigali	2-year contract with an option to extend by 1 year
8	Hess	1,5-year contract with an option to extend by 1 year

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-11-03	Sell	4.1	5.8
2016-08-30	Sell	4.3	5.6
2016-05-25	Sell	4.0	5.2
2016-02-26	Sell	5.0	7.0
2016-01-17	Sell	5.0	7.3
2015-11-27	Sell	5.0	8.0
2015-10-06	Sell	5.0	7.6
2015-08-27	Sell	5.4	8.5
2015-05-26	Sell	8.7	10.7
2015-02-27	Sell	9.7	11.1

Source: RHB, Bloomberg

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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