

### COMPANY RESULTS

#### UMW Holdings (UMWH MK)

3Q16: Sinks Deeper Into The Red

UMW's 3Q16 core net loss of RM127.8m was worse than expectations. The underperformance largely stemmed from: a) a higher-than-expected 3Q16 loss before tax of RM133m from its 55.7%-owned UMW O&G, and b) loss before tax of RM121.9m from the others segment. The outlook for all of its core businesses, notably automobile and O&G, remains bleak and we see no improvement in sight. **Maintain SELL with a lower target price of RM4.00, implying 0.8x 2017F P/B.**

#### 3Q16 RESULTS

Year to 31 Dec	3Q16	qoq % chg	yoy % chg	9M16 (RMm)	yoy % chg
Revenue	2,856.8	0.4	(19.1)	7,902.8	(23.0)
-Auto	2,263.4	4.0	(12.8)	5,996.5	(18.2)
-Equipment	342.8	(2.4)	(27.8)	1,052.0	(29.0)
-Manufacturing & Engineering	144.6	(7.9)	(21.3)	447.0	(14.1)
-Oil & gas (listed)	49.7	(61.8)	(76.7)	267.3	(62.3)
-Oil & gas (unlisted)	58.4	38.3	(16.5)	154.2	(31.9)
EBIT	(136.0)	(431.2)	(303.6)	(77.8)	(114.8)
Associates	40.8	54.0	(12,746.1)	89.4	42.8
PBT	(121.6)	(371.4)	(268.4)	(55.7)	(109.3)
-Auto	133.5	0.1	17.7	349.5	(42.7)
-Equipment	33.6	(22.6)	(47.9)	116.1	(41.2)
-Manufacturing & Engineering	2.5	(77.5)	226.9	20.0	575.4
-Oil & gas (listed)	(133.0)	107.9	(1261.5)	(265.5)	(528.8)
-Oil & gas (unlisted)	(36.1)	(20.2)	(44.6)	(117.0)	(24.2)
-Others	(121.9)	na	na	(158.9)	na
Net profit	(128.8)	962.3	(1052.7)	(124.4)	(150.3)
Core Net profit	(127.8)	760.2	(216.5)	(125.8)	(141.0)
Toyota unit sales	17,271	1.4	(25.9)	44,520	(28.3)
Perodua unit sales	53,519	6.6	9.2	150,889	(4.2)

Source: UMW, UOB Kay Hian

#### RESULTS

- Posts 3Q16 core net loss of RM127.8m, missing our and consensus expectations with a 9M16 core net loss of RM125.8m which is way above our 2016 core net loss forecast of RM14m. UMW Holdings' 3Q16 underperformance stemmed from: a) a higher-than-expected 3Q16 loss before tax of RM133m from its 55.7%-owned UMW Oil & Gas (UMW O&G), and b) 3Q16 loss before tax of RM121.9m from its others segment. The others segment comprises of travel support services for UMW group, IT services, etc. No dividend was declared ytd (9M15: 10 sen).

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	14,932	14,420	10,313	10,863	11,546
EBITDA	1,812	563	618	767	992
Operating profit	1,433	135	70	185	397
Net profit (rep./act.)	652	(39)	(172)	(69)	37
Net profit (adj.)	766	340	(172)	(69)	37
EPS (sen)	65.7	29.1	(14.8)	(5.9)	3.1
PE (x)	7.4	16.7	n.m.	n.m.	155.4
P/B (x)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x)	6.4	20.6	18.8	15.1	11.7
Dividend yield (%)	9.0	5.1	0.0	0.0	0.0
Net margin (%)	4.4	(0.3)	(1.7)	(0.6)	0.3
Net debt/(cash) to equity (%)	11.0	50.2	46.7	52.0	54.4
Interest cover (x)	n.a.	n.a.	10.8	11.3	12.1
ROE (%)	10.1	n.a.	n.a.	n.a.	0.6
Consensus net profit	-	-	104	270	327
UOBKH/Consensus (x)	-	-	n.m.	n.m.	0.11

Source: UMW Holdings Berhad, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

### SELL

(Maintained)

Share Price	RM4.87
Target Price	RM4.00
Upside	-17.9%
(Previous TP)	RM4.70

#### COMPANY DESCRIPTION

Auto assembler, with operations in equipment, engineering and O&G activities

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	5,689.6
Market cap (US\$m):	1,274.0
3-mth avg daily t'over (US\$m):	0.6

#### Price Performance (%)

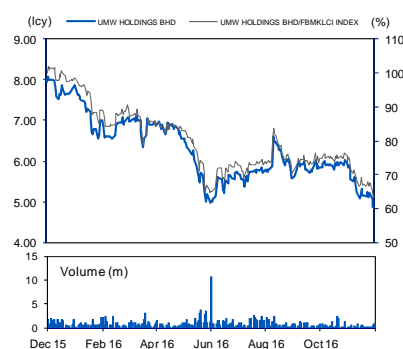
52-week high/low RM8.07/RM4.87

1mth	3mth	6mth	1yr	YTD
(19.1)	(16.8)	(6.0)	(39.4)	(38.1)

#### Major Shareholders

Major Shareholders	%
Skim Amanah Saham Bumiputra	42.1
EPF	16.0
Permodalan Nasional Berhad	5.7
FY16 NAV/Share (RM)	5.33
FY16 Net Debt/Share (RM)	2.49

#### PRICE CHART



Source: Bloomberg

#### ANALYST

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- Automobile arm the saving grace.** 3Q16 auto sales fell 12.8% yoy, in tandem with the lower sales volume of 17,271 units charted by Toyota (3Q15: 23,301 units). However, PBT was up 17.7% yoy mainly due to its 37%-owned associate Perodua which contributed RM40.8m during the quarter (3Q15: net loss of RM0.3m). The strong performance by its associate was driven by Perodua's first recently-launched sedan, Bezza. 3Q16 Perodua sales stood at 53,519 units (3Q15: 49,025 units).
- O&G segment looking bleak.** UMW O&G recorded a loss before tax of RM133m in 3Q16 (3Q15: RM11.4m PBT), attributed to lower charter rates and high operating expenses from its uncontracted rigs. We note that almost all rigs were idle during the period. However, we expect 4Q16 performance to recover slightly given that 3 out of its 8 rigs are contracted currently, although we note that they are on "pay per use" basis. Current net gearing for UMW O&G is high at 89% with net debt of RM2.6b. Meanwhile, its unlisted O&G segment which comprises of fabrication, onshore drilling, manufacturing of oil country tubular goods and line pipes etc (covering Malaysia, Oman, India, China and Australia) recorded a narrowed loss before tax of RM36.1m in 3Q16 (3Q15: RM65.2m loss before tax) due to lower opex from onshore drilling operations in Oman.

### STOCK IMPACT

- Under the strain of cash crunch.** We do not expect UMW to pay out any dividends for 2016-18 as we believe the company may be under the strain of a cash crunch given that it will take some time for its O&G segment to move back into the black. Meanwhile, the company had recently announced that it will be investing in a second RM2b auto manufacturing plant which will double its production to 100,000 units p.a. by 2019. Stripping off items from UMW O&G, UMW is in a net debt position of RM593m (as at end-Sep 16 with 60% of total borrowings comprise of short-term borrowings).
- Yet another challenging year in 2017.** We believe 2017 will be yet another challenging year for UMW. We do not see a strong recovery in auto sales volume amid the still-weak consumer sentiment and a saturated market. More aggressive promotions driven by stiff competition coupled with high input costs due to the prolonged ringgit weakness will continue to crimp margins. Meanwhile, outlook remains bleak for its 55.7%-owned UMW O&G due to the low charter rates and low utilisation rates of its jack-up rigs amid weak crude oil prices. Current charter rates stood at around US\$70,000/day (see RHS chart).
- A glimmer of hope from new aerospace component manufacturing business.** In Aug 15, UMW announced an agreement with Rolls Royce to manufacture and assemble aerospace products. The agreement will incorporate Malaysia within its supply chain in Southeast Asia. UMW will build a facility to produce, manufacture, assemble and supply fan cases for Rolls Royce's Trent 1000 engines. UMW is currently building a new manufacturing plant in Serendah with product deliveries expected to begin in 2H17.

### EARNINGS REVISION/RISK

- Given the disappointing 3Q16 results by UMW, we cut our 2016-18 earnings forecasts to -RM172m/-RM69m/+RM37m from -RM14m/+RM69m/+RM188m.

### VALUATION/RECOMMENDATION

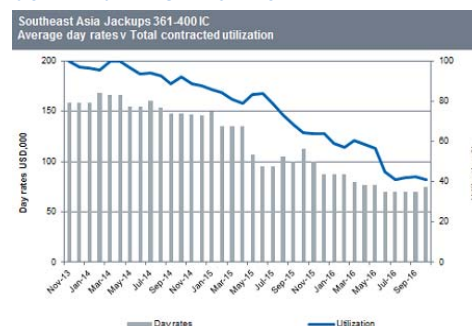
- Maintain SELL with a lower SOTP-target price of RM4.00 (from RM4.70),** implying 0.8x 2017F P/B. We do not see any re-rating catalysts in the near- to mid-term as all its major divisions are operating in extremely challenging environments. Based on our trough valuation of average P/B of 0.5x (whereby we use historical data during the Asian financial crisis from Oct 97 till end-98), we derive a trough fair value of RM2.60, based on 0.5x 2017F P/B.

### SOTP FAIR VALUE OF RM4.00/SHARE

Segment	Stake (%)	Equity value (RMm)	Remarks
Toyota/Lexus	51.0	1,833	11x 2017 PE
UMW O&G	55.7	669	0.5x BV
Equipment	100.0	1,080	10x 2017 PE
Manufacturing	100.0	97	10x 2017 PE
Perodua	38.0	940	11x 2017 PE
<b>Total</b>		<b>4,620</b>	
<b>Target price (RM)</b>		<b>4.00</b>	

Source: UOB Kay Hian

### AVERAGE DAY CHARTER RATES VS TOTAL CONTRACTED UTILISATION



Source: HIS Markit

### SEGMENTAL SALES AND EBIT FORECASTS

FY Dec (RMm)	2016F	2017F	2018F
<b>Revenue</b>			
Auto	7,836	8,190	8,674
Equipment	1,353	1,421	1,492
Manufacturing	554	582	611
Oil & Gas (listed)	320	420	520
Others	250	250	250
<b>Total</b>	<b>10,313</b>	<b>10,863</b>	<b>11,546</b>
<b>EBIT</b>			
Auto	372	430	494
Equipment	135	142	149
Manufacturing	12	13	53
Oil & Gas (listed)	(300)	(300)	(200)
Others	(150)	(100)	(100)
<b>Total</b>	<b>70</b>	<b>185</b>	<b>397</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
<b>Net turnover</b>	<b>14,420</b>	<b>10,313</b>	<b>10,863</b>	<b>11,546</b>
EBITDA	563	618	767	992
Deprec. & amort.	428	548	582	595
EBIT	135	70	185	397
Associate contributions	130	120	138	159
Net interest income/(expense)	1	(57)	(68)	(82)
<b>Pre-tax profit</b>	<b>266</b>	<b>132</b>	<b>255</b>	<b>474</b>
Tax	(260)	(119)	(102)	(166)
Minorities	(45)	(186)	(222)	(271)
<b>Net profit</b>	<b>(39)</b>	<b>(172)</b>	<b>(69)</b>	<b>37</b>
Net profit (adj.)	340	(172)	(69)	37

### CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
<b>Operating</b>	<b>375</b>	<b>183</b>	<b>428</b>	<b>573</b>
Pre-tax profit	266	132	255	474
Tax	(260)	(119)	(102)	(166)
Deprec. & amort.	428	548	582	595
Associates	(130)	(120)	(138)	(159)
Working capital changes	(134)	(149)	(92)	(115)
Non-cash items	333	0	0	0
Other operating cashflows	(127)	(109)	(77)	(57)
<b>Investing</b>	<b>(1,904)</b>	<b>(891)</b>	<b>(723)</b>	<b>(743)</b>
Capex (maintenance)	(2,169)	(1,000)	(800)	(800)
Investments	(4)	0	0	0
Proceeds from sale of assets	0	0	0	1
Others	268	109	77	57
<b>Financing</b>	<b>965</b>	<b>(683)</b>	<b>237</b>	<b>338</b>
Dividend payments	(806)	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	1,692	(1,116)	(196)	(95)
Others/interest paid	79	433	433	433
<b>Net cash inflow (outflow)</b>	<b>(564)</b>	<b>(1,391)</b>	<b>(58)</b>	<b>168</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>3,277</b>	<b>2,649</b>	<b>826</b>	<b>334</b>
Changes due to forex impact	16	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,728</b>	<b>1,259</b>	<b>767</b>	<b>503</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
<b>Fixed assets</b>	<b>8,139</b>	<b>8,591</b>	<b>8,809</b>	<b>9,014</b>
Other LT assets	2,373	2,493	2,631	2,789
Cash/ST investment	2,728	1,921	1,429	1,165
Other current assets	4,841	3,918	4,062	4,242
<b>Total assets</b>	<b>18,081</b>	<b>16,922</b>	<b>16,932</b>	<b>17,210</b>
ST debt	3,159	2,483	2,487	2,592
Other current liabilities	2,532	2,477	2,529	2,593
LT debt	2,783	2,343	2,143	1,943
Other LT liabilities	383	383	383	383
Shareholders' equity	6,397	6,225	6,156	6,193
Minority interest	2,827	3,013	3,234	3,506
<b>Total liabilities &amp; equity</b>	<b>18,081</b>	<b>16,922</b>	<b>16,932</b>	<b>17,210</b>

### KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
<b>Profitability</b>				
EBITDA margin	3.9	6.0	7.1	8.6
Pre-tax margin	1.8	1.3	2.3	4.1
Net margin	(0.3)	(1.7)	(0.6)	0.3
ROA	n.a.	n.a.	n.a.	0.2
ROE	n.a.	n.a.	n.a.	0.6
<b>Growth</b>				
Turnover	(3.4)	(28.5)	5.3	6.3
EBITDA	(69.0)	9.8	24.1	29.4
Pre-tax profit	(83.6)	(50.1)	92.4	85.9
Net profit	(106.0)	n.a.	n.a.	n.a.
Net profit (adj.)	(55.6)	(150.7)	n.a.	n.a.
EPS	(55.7)	(150.7)	n.a.	n.a.
<b>Leverage</b>				
Debt to total capital	39.2	34.3	33.0	31.9
Debt to equity	92.9	77.5	75.2	73.2
Net debt/(cash) to equity	50.2	46.7	52.0	54.4
Interest cover (x)	n.a.	10.8	11.3	12.1

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