

Outthink. Outperform.

End of O&G path

UMW Holdings (UMWH) announced a proposal to distribute out its entire 55.7% shareholding in UMW Oil & Gas (UMWOG) as a means to diversify out of oil and gas business yesterday. We maintain our earnings forecasts and keep our SELL call and TP unchanged at RM4.23 at this juncture.

Proposal details

UMWH has proposed to distribute its current 55.73% stake in UMWOG which represent 1,204.8m shares to its current shareholders (PNB, EPF and other shareholders). The proposed distribution is expected to complete by 2Q17. By diversifying out of UMWOG, this will allow the Group to refocus on its core businesses in automotive, equipment and manufacturing and engineering (M&E). UMWH will also progressively exit from its non-listed oil and gas (O&G) business which consists of manufacturing, land rig and trading business. From shareholders' point of view, this will allow the current shareholders to have the autonomy to directly manage their investment in UMWH and UMWOG. (refer to figure below for the pre and post-exercise shareholding structure)

Financial impact

By separating its core businesses from its O&G-related business, we expect balance sheet to be leaner as gross gearing will fall from 0.91x (as at 31 December 2015) to 0.43x. There could be negative earnings impact from future impairments of its non-listed O&G business prior to disposal. Assuming the distribution of UMWOG by end-2017, we estimate UMWH's FY18E EPS will increase by 46% to 27.8sen (FY18 PER of 16.6x) as it will no longer consolidate UMWOG's projected loss.

Our view

We are positive on this corporate exercise as it will allow UMWH to refocus on its core businesses. However, we remain unexcited with automotive industry for the time being due to the current weak consumer sentiment and challenging operating environment.

Maintain SELL with unchanged TP of RM4.23

We maintain our SELL rating with SOTP-based 12-month TP of RM4.23 (pending review). Key upside risks to our SELL call include the faster-than-expected recovery in consumer spending.

Earnings & Valuation Summary

| FYE 31 Dec | 2014 | 2015 | 2016E | 2017E | 2018E |
|-----------------------|----------|----------|----------|----------|----------|
| Revenue (RMm) | 14,932.5 | 14,518.3 | 10,112.8 | 10,859.2 | 11,512.4 |
| EBITDA (RMm) | 1,821.4 | 537.2 | 469.7 | 776.9 | 908.4 |
| Pretax profit (RMm) | 1,621.5 | 269.7 | (21.4) | 270.1 | 319.3 |
| Net profit (RMm) | 658.3 | (37.2) | (166.8) | 151.9 | 221.8 |
| EPS (sen) | 56.3 | (3.2) | (14.3) | 13.0 | 19.0 |
| PER (x) | 8.2 | (145.2) | (32.4) | 35.5 | 24.3 |
| Core net profit (RMm) | 672.6 | (37.2) | (166.8) | 151.9 | 221.8 |
| Core EPS (sen) | 57.6 | (3.2) | (14.3) | 13.0 | 19.0 |
| Core EPS growth (%) | (21.1) | (105.5) | (348.8) | 191.1 | 46.0 |
| Core PER (x) | 8.0 | (145.2) | (32.4) | 35.5 | 24.3 |
| Net DPS (sen) | 41.0 | 20.0 | - | 10.0 | 10.0 |
| Dividend Yield (%) | 8.9 | 4.3 | - | 2.2 | 2.2 |
| EV/EBITDA (x) | 3.4 | 16.2 | 20.1 | 13.4 | 12.5 |

| | | | |
|---------------------|-----|-----|-----|
| Chg in EPS (%) | - | - | - |
| Affin/Consensus (x) | 4.4 | 0.8 | 0.9 |

Source: Company, Bloomberg

Company Update

UMW Holdings

UMW MK
Sector: Auto & Autoparts

RM4.62 @ 19 January 2017

SELL (maintain)

Downside: 8.4%

Price Target: RM4.23

Previous Target: RM4.23



Price Performance

| | 1M | 3M | 12M |
|-------------|-------|--------|--------|
| Absolute | -4.3% | -21.7% | -34.5% |
| Rel to KLCI | -6.0% | -21.5% | -35.8% |

Stock Data

| | |
|-------------------------------|-----------------|
| Issued shares (m) | 1,168.3 |
| Mkt cap (RMm)/(US\$m) | 5,397.5/1,212.5 |
| Avg daily vol - 6mth (m) | 0.7 |
| 52-wk range (RM) | 4.43-7.37 |
| Est free float | 25.1% |
| BV per share (RM) | 5.35 |
| P/BV (x) | 0.86 |
| Net cash/ (debt) (RMm) (3Q16) | (3,209.1) |
| ROE (2017E) | (2.6%) |
| Derivatives | Nil |
| Shariah Compliant | Yes |

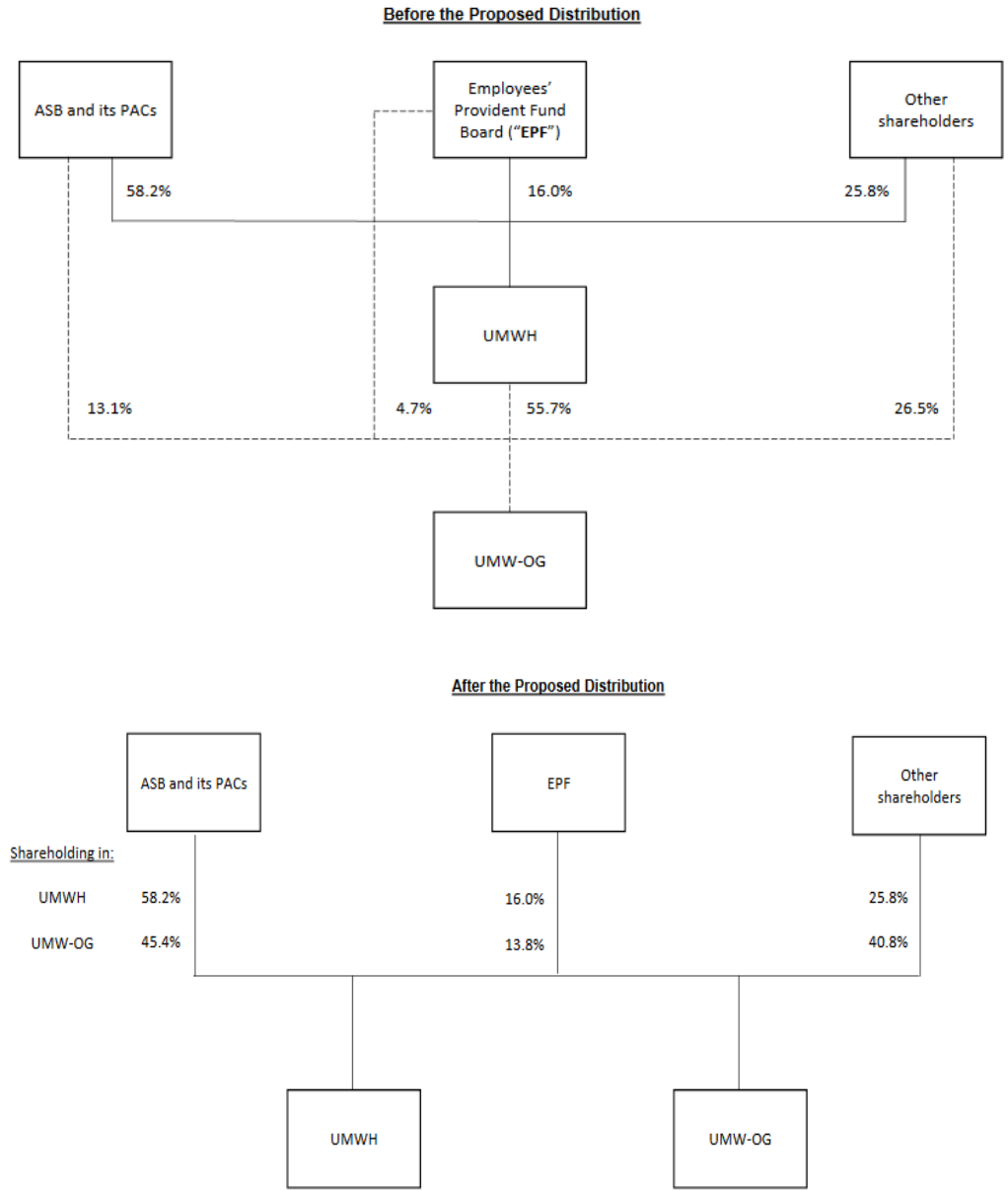
Key Shareholders

| | |
|------------------------------|-------|
| Skim Amanah Saham Bumiputera | 42.1% |
| EPF | 15.5% |
| Permodalan Nasional Bhd | 5.7% |

Source: Affin Hwang, Bloomberg

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Figure 1: Shareholder structure changes



Source: Bursa announcement

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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