



Company Note

Malaysia

ADD (previously *REDUCE*)

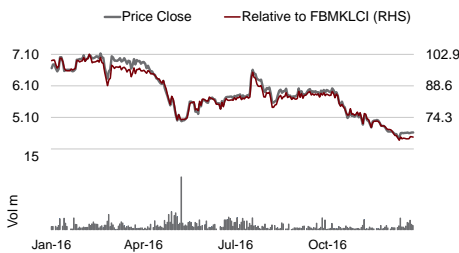
Consensus ratings*: Buy 0 Hold 4 Sell 13

Current price: RM4.62
 Target price: RM5.10
 Previous target: RM4.23
 Up/downside: 10.4%
 CIMB / Consensus: 11.6%

Reuters: UMWS.KL
 Bloomberg: UMWK MK
 Market cap: US\$1,213m
 RM5,398m
 Average daily turnover: US\$0.63m
 RM2.76m
 Current shares o/s: 1,168m
 Free float: 34.2%
 *Source: Bloomberg

Key changes in this note

- FY17-18F Revenue decreased by 4-5%.
- FY17-18F EBITDA increased by 36-48%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.6	-22.4	-36
Relative (%)	-6.4	-22.3	-38.7

Major shareholders	% held
Permodalan Nasional Bhd	50.1
EPF	15.7

Analyst(s)



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UMW Holdings

Accelerating earnings recovery in 2H17

- UMW Holdings (UMWH) is exiting the oil and gas sector with the proposed de-merger of UMW Oil & Gas (UMW OG), which is expected to be completed in 2Q17.
- This is positive for UMWH as it will remove the earnings drag from UMW-OG and better reflect growth prospects in automotive and manufacturing divisions.
- We project a stronger earnings recovery in FY17 and onwards after stripping out the losses impact from UMW-OG.
- Upgrade from Reduce to Add with a higher RM5.10 TP, based on 12x CY18 P/E, implying value of RM4.30 and RM0.80 for dividend-in-specie for UMW-OG.
- We switch our valuation methodology from sum-of-parts to P/E multiple in view of the stronger earnings recovery outlook following the de-merger.

Exiting the oil and gas sector with UMW-OG de-merger

UMW Holdings's management announced that it is exiting the oil and gas sector to refocus on its three core businesses – automotive, equipment and manufacturing and engineering. UMWH will propose a bonus issue of 1.2bn redeemable preference shares (RPS) to UMWH shareholders on the basis of 1.03 RPS for 1 existing share in UMWH. Then it will propose a redemption of all RPS at a premium that will be satisfied in the form of UMW-OG shares. Effectively, it will cease to be a shareholder of UMW-OG.

Followed by progressive exit from non-listed oil and gas assets

The exercise will be followed by a progressive exit from non-listed oil and gas assets held by UMWH. However, management indicated that it expected to impair such investments in the upcoming results announcement in Feb 2017. We are positively surprised by the proposed disposal as we think the exercise will remove the drag on UMWH's earnings and better reflect growth prospects from the other core businesses.

Accelerating earnings recovery in 2H17

The deal is expected to be completed in 2Q17. Therefore, we have stripped out 50% contribution from UMW-OG in 2017 and 100% contribution from UMW-OG in FY18 to reflect the timing of the deal completion. Hence, we project accelerating earnings recovery for UMWH starting in 2H17. The de-merger will also be positive for UMWH's financial position as management projects to improve gearing ratio from 91% to 43%.

Aerospace and auto divisions to drive earnings beyond 2017

We agree with management's decision to refocus on its core businesses as we see attractive growth prospects across these divisions. For example, UMW Toyota is in the midst of expansion, investing RM2bn into building a new factory in Bukit Raja with an initial production capacity of 50k units/year. UMW is also diversifying its exposure in the manufacturing division as it is projected to begin production of the Rolls-Royce engine fan cases in 4Q17 following the 25-year contract awarded in 2015.

Upgrade from Reduce to Add with a higher RM5.10 target price

Our higher target price of RM5.10 is now based on 12x CY18 P/E (RM4.30), similar to its 10-year historical mean of 12x and RM0.80 for dividend valuation on UMW-OG. We use P/E as it captures the stronger earnings recovery post de-merger. We see this exercise as a positive re-rating catalyst for the stock. Key downside risks are deteriorating TIV sales for Toyota and Perodua.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (RMm)	14,932	14,442	9,838	10,287	10,822
Operating EBITDA (RMm)	1,945	1,054	382	831	1,277
Net Profit (RMm)	700.7	243.8	(169.9)	221.2	408.7
Core EPS (RM)	0.65	0.26	(0.15)	0.19	0.35
Core EPS Growth	(8%)	(60%)	(155%)		85%
FD Core P/E (x)	6.97	17.25	NA	24.08	13.04
DPS (RM)	0.41	0.20	0.15	0.20	0.20
Dividend Yield	8.87%	4.33%	3.25%	4.33%	4.33%
EV/EBITDA (x)	4.66	10.89	31.63	11.72	7.78
P/FCFE (x)	6.49	5.66	15.78	14.27	8.37
Net Gearing	8.7%	35.0%	43.1%	22.6%	20.3%
P/BV (x)	0.82	0.82	0.88	1.63	1.54
ROE	11.9%	4.7%	(2.7%)	4.7%	12.0%
% Change In Core EPS Estimates			0%	114340%	246%
CIMB/consensus EPS (x)			4.41	1.28	1.68

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: UMW Holdings historical 1-yr forward P/E chart



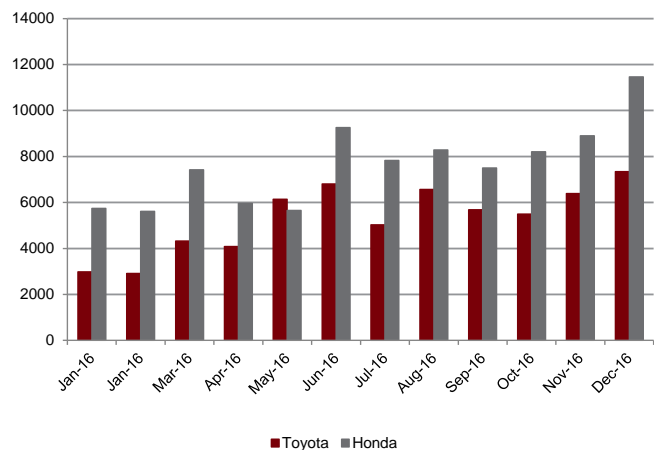
SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Earnings revisions

(RM m)	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Revenue	9,838	10,666	11,399	9,838	10,287	10,822	0%	-4%	-5%
EBITDA	382	611	861	382	831	1,277	0%	36%	48%
EBIT	(146)	36	240	(146)	281	708	0%	686%	195%
Pretax Profit	(80)	97	323	(80)	466	859	0%	380%	166%
Net Income	(170)	3	116	(170)	221	409	0%	na	254%

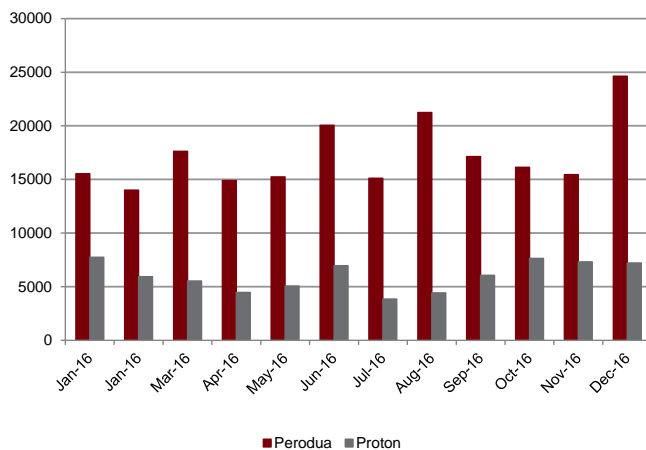
SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Honda vs. Toyota monthly TIV sales in 2016



SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Perodua vs. Proton monthly TIV sales in 2016



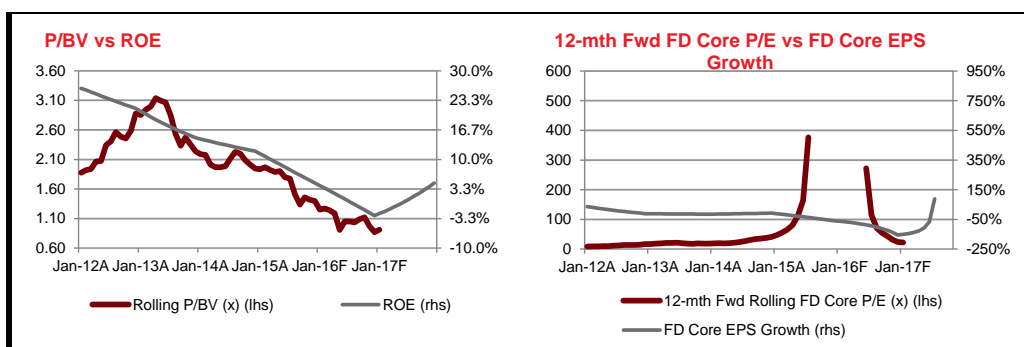
SOURCE: CIMB RESEARCH, COMPANY

Figure 5: Sector comparison

Company	Recom.	Price	Target Price	Mkt Cap (US\$)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		RM	RM		CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16	CY15	CY16
Bermaz Auto Berhad	Add	2.06	2.48	533	12.1	10.2	4.16	3.69	36.0%	38.2%	6.9	5.8	7.0%	7.0%
DRB-Hicom	Add	1.18	1.69	513	na	17.3	0.34	0.34	-1.6%	2.0%	0.2	0.2	0.9%	1.3%
Tan Chong Motor Holdings	Reduce	1.78	1.61	261	na	43.8	0.44	0.44	-1.1%	1.0%	10.5	8.6	4.5%	4.5%
UMW Holdings	Add	4.62	5.10	1,213	24.4	13.2	1.63	1.54	4.7%	12.0%	11.8	7.8	4.3%	4.3%
Sector average					39.7	14.0	0.85	0.83	1.9%	6.0%	7.1	5.0	4.2%	4.3%

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	14,932	14,442	9,838	10,287	10,822
Gross Profit	4,154	3,391	1,476	1,646	1,894
Operating EBITDA	1,945	1,054	382	831	1,277
Depreciation And Amortisation	(379)	(511)	(528)	(550)	(569)
Operating EBIT	1,567	543	(146)	281	708
Financial Income/(Expense)	49	(0)	(63)	34	(52)
Pretax Income/(Loss) from Assoc.	140	134	129	151	204
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	1,755	677	(80)	466	859
Exceptional Items	(85)	(127)			
Pre-tax Profit	1,670	551	(80)	466	859
Taxation	(408)	(267)	(80)	(112)	(193)
Exceptional Income - post-tax					
Profit After Tax	1,262	283	(160)	354	666
Minority Interests	(561)	(39)	(10)	(133)	(257)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	701	244	(170)	221	409
Recurring Net Profit	765	309	(170)	221	409
Fully Diluted Recurring Net Profit	765	309	(170)	221	409

Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	1,945	1,054	382	831	1,277
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(136)	68	321	41	(95)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	379	511	528	550	569
Net Interest (Paid)/Received	(46)	1	63	(34)	52
Tax Paid	(418)	(274)	(80)	(112)	(193)
Cashflow From Operations	1,724	1,360	1,215	1,277	1,609
Capex	(2,186)	(2,280)	(1,000)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	0	44	0	0	0
Acq. Of Subsidiaries/investments				0	0
Other Investing Cashflow	131	126	123	97	27
Cash Flow From Investing	(2,054)	(2,111)	(877)	(903)	(973)
Debt Raised/(repaid)	1,152	1,692	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(514)	(479)	(175)	(234)	(234)
Preferred Dividends					
Other Financing Cashflow	(388)				
Cash Flow From Financing	250	1,213	(175)	(234)	(234)
Total Cash Generated	(81)	462	162	140	403
Free Cashflow To Equity	821	941	338	374	636
Free Cashflow To Firm	(416)	(878)	151	311	557

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	3,371	2,734	2,148	601	1,200
Total Debtors	2,079	1,833	1,240	1,099	1,166
Inventories	1,830	1,890	1,617	1,505	1,594
Total Other Current Assets	1,314	1,210	1,210	1,203	1,203
Total Current Assets	8,594	7,667	6,214	4,408	5,163
Fixed Assets	5,670	8,103	8,538	3,481	4,089
Total Investments	4	3	3	3	3
Intangible Assets	26	25	25	25	25
Total Other Non-Current Assets	2,227	2,427	2,426	2,362	2,019
Total Non-current Assets	7,926	10,558	10,993	5,871	6,136
Short-term Debt	2,387	3,725	2,725	1,180	769
Current Portion of Long-Term Debt					
Total Creditors	2,217	2,241	1,696	1,485	1,545
Other Current Liabilities	466	372	372	368	368
Total Current Liabilities	5,070	6,338	4,793	3,032	2,682
Total Long-term Debt	1,803	2,290	3,290	836	1,787
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	214	160	160	160
Total Non-current Liabilities	2,017	2,503	3,450	996	1,947
Total Provisions	0	0	0	0	0
Total Liabilities	7,087	8,841	8,243	4,029	4,629
Shareholders' Equity	6,580	6,584	6,155	3,320	3,495
Minority Interests	2,853	2,797	2,809	2,930	3,175
Total Equity	9,433	9,381	8,964	6,251	6,670

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	7.0%	(3.3%)	(31.9%)	4.6%	5.2%
Operating EBITDA Growth	7%	(46%)	(64%)	118%	54%
Operating EBITDA Margin	13.0%	7.3%	3.9%	8.1%	11.8%
Net Cash Per Share (RM)	(0.70)	(2.81)	(3.31)	(1.21)	(1.16)
BVPS (RM)	5.63	5.64	5.27	2.84	2.99
Gross Interest Cover	18.40	4.29	(0.78)	4.50	8.93
Effective Tax Rate	24.5%	48.6%	0.0%	24.0%	22.5%
Net Dividend Payout Ratio	41.9%	36.6%	NA	95.6%	62.6%
Accounts Receivables Days	48.08	49.44	57.17	41.50	38.20
Inventory Days	60.69	61.44	76.75	65.94	63.35
Accounts Payables Days	72.59	73.63	86.16	67.17	61.93
ROIC (%)	12.4%	3.9%	(0.9%)	1.6%	6.8%
ROCE (%)	13.3%	4.6%	(0.2%)	3.2%	8.4%
Return On Average Assets	11.0%	3.9%	(0.2%)	3.2%	8.3%

Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
ASP (% chg, main prod./serv.)	0.0%	0.0%	2.0%	0.0%	1.5%
Unit sales grth (% , main prod./serv.)	6.4%	-5.7%	-9.1%	6.4%	-100.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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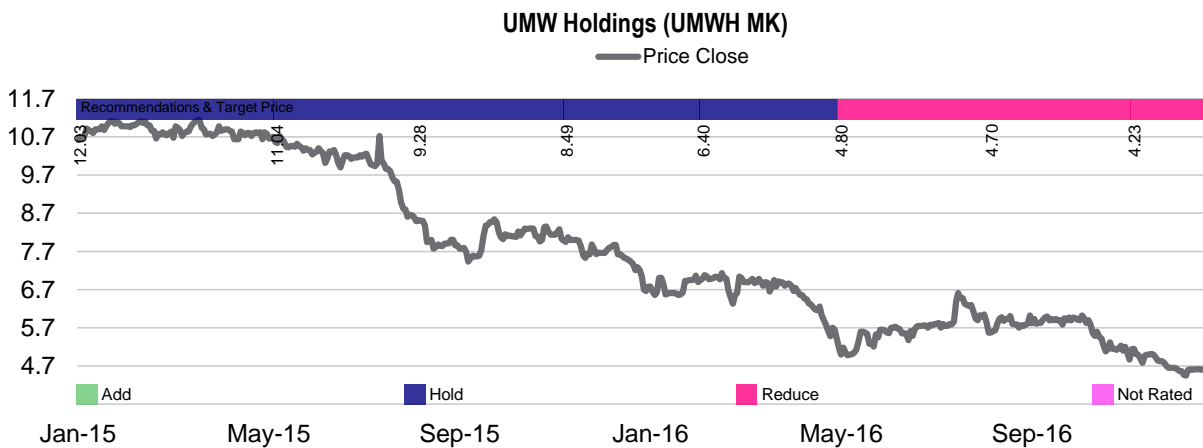
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** – Excellent, Certified, **ITD** – Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** – Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** – Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** – Excellent, Declared, **SIM** – Excellent, n/a, **SIRI** – Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** – Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.