

UMW (BUY ↑, EPS ↔)

INDUSTRY: UNDERWEIGHT

NEWSBREAK

20 January 2017

Price Target: RM5.60 (↑)

Share price: RM4.62

Positive Surprise in Distribution of UMW-OG
**Highlights/
Comments**

- UMW has proposed to distribute its shareholding in 55.73% owned subsidiary UMW-OG to UMW shareholders, which is expected to complete by April 2017.
- UMW will undertake a bonus issue of 1,204.8m redeemable preference shares (RPS) of RM0.01 each to UMW shareholders on the basis of approximately 1.03 RPS to 1 existing ordinary share of UMW. The redemption of all the RPS will be satisfied in the form of UMW-OG shares via the distribution of 1,204.8bn UMW-OG shares (currently held by UMW) to UMW shareholders.
- The issuance and redemption of the RPS pursuant to the Proposed Bonus Issue and Proposed Redemption will be wholly capitalized from UMW's share premium and retained earnings (reducing UMW's book value).
- The exercise is in line with UMW's plan to exit O&G industry, including its interests in other investments in the sector. UMW will be fully focused on managing its growth and risks related solely to its automotive (new automotive manufacturing plant), equipment, manufacturing and engineering businesses (new Rolls-Royce fan cowl plant).
- We believe the exercise is attractive and value accretive to existing shareholder of UMW:
 1. Option to realize one off cash dividend of up to 67sen/share (based on HLIB UMWOG target share price of 65sen), equivalent to 14.5% dividend yield.
 2. Invest in UMW, without exposure towards UMW-OG.
 3. Deconsolidation of UMWOG (loss making and high gearing), which will improve earnings and balance sheet of UMW.
- We understand that UMW is subject to further impairments related to UMWOG assets and UMW's investment in other O&G assets (value segment) in upcoming 4Q16 result.

Risks

- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting car sales.
- Global automotive supply chain disruption.
- Appreciation of US\$.
- Plunge in crude oil price and slowdown in O&G exploration.

Forecasts

- Unchanged, pending completion of the exercise.

Rating
BUY (↑)

- With the potential realizable dividend yield of up to 14.5% (dependent on share price movement of UMWOG), we believe UMW presents attractive valuation for investors, despite the drags from ongoing subdued consumer sentiment, RM depreciation and slowdown in O&G activities affecting all its business segments.

Valuation

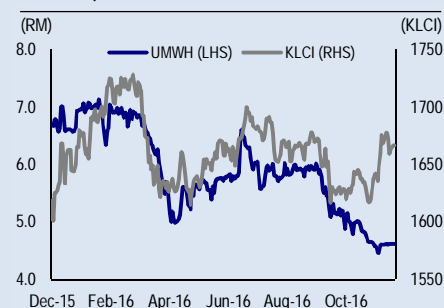
- Upgrade to **BUY** with higher Target Price of RM5.60 (from RM4.00) **based on targeted dividend yield of 12%**. We understand that share price will not be adjusted post bonus issue of RPS. However, we note that share price may consolidate post completion of exercise by April 2017.

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KLCI	1667
Expected share price return	21.2%
Expected dividend return	1.1%
Expected total return	22.3%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	5,398
3-mth avg. volume ('000)	569
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.3	-21.7	-34.5
Relative	-6.2	-21.6	-35.9

Major shareholders

PNB	56.1%
EPF	15.4%
KWAP	2.9%

Summary Earnings Table

FYE Dec (RM m)	FY15A	FY16E	FY17F	FY18F
Turnover	14,442	10,823	11,432	13,121
EBITDA	1,569	423	713	1,277
Pre-tax Profit	270	-111	159	701
Rpt. net profit	-37	-168	4	361
Norm. net profit	256	-168	4	361
Norm. EPS (sen)	21.9	-14.4	0.3	30.9
P/E (x)	21.1	-32.1	1480.1	14.9
Book Value (RM)	5.6	5.4	5.3	5.6
P/B (x)	0.8	0.9	0.9	0.8
Net Dvd Yield (%)	4.3	1.1	1.1	2.2
Net Gearing	49.8	53.8	74.5	82.9
ROE (%)	3.9	-2.6	0.1	5.7
ROA (%)	1.5	-0.9	0.0	1.9

Consensus

EPS (sen)	-3.3	14.8	20.8
% Diff	336.6	-97.9	48.6

HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17F	FY18F
Revenue	14,932	14,442	10,823	11,432	13,121
Operating cost	-12,983	-12,872	-10,400	-10,719	-11,844
EBITDA	1,949	1,569	423	713	1,277
Depreciation	-379	-765	-602	-604	-623
EBIT	1,570	804	-179	108	654
Interest income	131	126	106	98	88
Interest expense	-85	-127	-159	-170	-187
Associates	140	134	121	122	146
Exceptionals	-134	-668	0	0	0
Pretax profit	1,621	270	-111	159	701
Taxation	-408	-267	-135	-150	-189
Minorities	-561	-39	78	-6	-150
Net profit	652	-37	-168	4	361
Core PATAMI	786	256	-168	4	361
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	55.8	-3.2	-14.4	0.3	30.9
Core EPS (sen)	67.3	21.9	-14.4	0.3	30.9

Balance sheet

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17F	FY18F
Fixed assets	5,674	8,106	8,624	9,690	10,367
Other assets	4,027	4,038	4,068	4,104	4,155
Working capital	2,037	1,968	1,397	1,504	1,774
Receivables	1,618	1,458	1,082	1,143	1,312
Payables	-1,411	-1,380	-1,092	-1,126	-1,244
Inventory	1,830	1,890	1,407	1,486	1,706
Net cash	-819	-3,281	-3,388	-4,650	-5,382
Cash	3,371	2,734	3,023	2,596	2,405
ST debt	-2,387	-3,725	-3,725	-3,725	-3,725
LT debt	-1,803	-2,290	-2,686	-3,522	-4,062
Equity	6,580	6,584	6,299	6,245	6,489
Share capital	584	584	584	584	584
Reserves	5,996	6,000	5,715	5,660	5,905
Minorities	2,853	2,799	2,955	2,956	2,979
Other liabilities	1,486	1,447	1,447	1,447	1,447

Assumption Metrics

FYE 31 Dec	FY14A	FY15A	FY16E	FY17F	FY18F
GDP Growth (%)	6.0%	5.0%	4.2%	4.5%	4.5%
TIV ('000)	666.5	666.7	572.0	600.6	618.6
Growth (%)	1.6%	0.0%	-14.2%	5.0%	3.0%
Unit Sale (Unit)	299.2	309.2	266.6	269.1	279.8
Toyota ('000)	102.0	93.8	63.8	68.2	70.9
Lexus ('000)	1.6	2.1	1.3	1.3	1.3
Perodua ('000)	195.6	213.3	201.6	199.6	207.5
Average Price					
UMW (RM '000)	100.5	97.0	116.4	107.1	107.1
Perodua (RM '000)	40.2	38.5	38.9	39.2	39.6

Cashflow

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17F	FY18F
EBITDA	1,949	1,569	423	713	1,277
Net interest	46	-1	-53	-71	-99
WCap changes	-136	69	571	-107	-270
Taxation	-418	-283	-135	-150	-189
Others	68	-279	0	0	0
Opex cashflow	1,509	1,075	805	385	718
Capex & acq.	-2,204	-2,388	-1,120	-1,670	-1,300
Free cashflow	-695	-1,313	-315	-1,285	-582
Other inv cashflow	1,745	502	91	85	95
Net borrowings	1,151	1,323	396	836	540
Share issuance	0	0	0	0	0
Dividends paid	-514	-479	-117	-58	-117
Other fin cashflow	-433	-307	234	-5	-128
Net cashflow	1,254	-274	289	-427	-192
Forex translation	12	65	0	0	0
Beginning cash	1,565	2,830	2,621	2,910	2,483
Ending cash	2,830	2,621	2,910	2,483	2,292

Valuation ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17F	FY18F
Rep. EPS (sen)	55.8	-3.2	-14.4	0.3	30.9
Core EPS (sen)	67.3	21.9	-14.4	0.3	30.9
PER (x)	8.3	-145.2	-32.1	N.M.	14.9
Core PER (x)	6.9	21.1	-32.1	N.M.	14.9
Net DPS (sen)	41.0	20.0	5.0	5.0	10.0
Net DY (%)	8.9	4.3	1.1	1.1	2.2
BV/ share (RM)	5.6	5.6	5.4	5.3	5.6
P/BV (x)	0.8	0.8	0.9	0.9	0.8
FCF/share (sen)	-59.5	-112.4	-26.9	-110.0	-49.8
Market Cap	5,398	5,398	5,398	5,398	5,398
Net cash	-819	-3,281	-3,388	-4,650	-5,382
Enterprise value	6,217	8,678	8,785	10,048	10,780
EV/EBITDA (x)	3.2	5.5	20.8	14.1	8.4
ROE (%)	12.2	3.9	-2.6	0.1	5.7
ROA (%)	5.1	1.5	-0.9	0.0	1.9

Other Ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17F	FY18F
Growth (%)					
Sales	7.0	-3.3	-25.1	5.6	14.8
EBITDA	8.1	-19.5	-73.1	68.5	79.2
EBIT	5.5	-48.8	-122.3	-160.5	503.2
PBT	8.4	-46.6	-111.9	-242.7	341.0
Core PATAMI	-6.0	-67.4	-165.7	-102.2	9804.5
Margins (%)					
EBITDA	13.1	10.9	3.9	6.2	9.7
EBIT	10.5	5.6	-1.7	0.9	5.0
PBT	10.9	1.9	-1.0	1.4	5.3
Core PATAMI	5.3	1.8	-1.6	0.0	2.8
Net Gearing (%)	12.4	49.8	53.8	74.5	82.9

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.