

# UMW Holdings

## Demerger of UMW O&G

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**OUTPERFORM** ↑  
**Price: RM4.61**  
**Target Price: RM5.28** ↑

UMW will demerge its subsidiary, UMWOG, with a Proposed Distribution through the Proposed Bonus Issuance of 1,204m RPS. Subsequently, Proposed Redemption of all the RPS at a premium in a form of UMWOG shares. Thus, we increased our FY17E earnings estimate but leaving FY16 estimate unchanged for now as demerger will only commence on April 2017. Upgrade to OUTPERFORM with an increased TP of RM5.28 on PER of 12x on FY17E EPS.

**Demerger via Distribution in Specie.** The company will undertake the Proposed Distribution (scheduled on April 2016) through the Proposed Bonus Issuance of 1,204m redeemable preference shares (RPS) of RM0.01 each on the basis of c.1.03 RPS for each existing shareholding as of the entitlement date scheduled on March 2017. At this juncture, the redemption price of the RPS has yet to be determined and is not transferable.

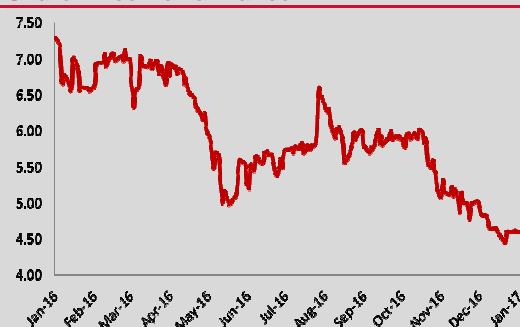
**The Rationale of the Distribution.** The proposed Demerger is in line with UMW' plan to exit the O&G industry, through its shareholding in the UMWOG Group as well as through assets held by UMW for onshore drilling services, manufacturing of oil country tubular goods (OCTG), anti-abrasion coating services for OCTG and several others practicalities. Management commented that these assets will be subjected to impairment, where the quantum of its impairment will be in accordance to results from the group's annual audit impairment testing exercise on a later date.

**We are positive towards this development** as we expect an uplift in earnings with the elimination of heavy weighted items, as part of the UMW group's O&G segment, such as depreciation incurred from the O&G segment and suppressed operating margins due to low rig utilisation. As O&G segment incurred high borrowings, following the demerger, UMW balance sheet is set to improve with net gearing of 0.5x in FY17 from 0.7x in FY16. Post demerger, we anticipate for a better profitability, hence we upgrade our FY17E earnings to RM513.6m (+c.200% revision). We make no revisions to our FY16E earnings as the proposed demerger shall only be implemented in April 2017.

Although shareholder sentiment is likely to improve with the proposed demerger, **the near-term outlook for the Automotive Segment remains soft**, evident from the weaker combined total sales from Perodua and Toyota at 251k units in FY16 as compared 278k in FY15. This is also attributed to the higher base in Dec 2015 where there were heavy pre-emptive purchases in view of price hikes implemented by most auto players in Jan 2016, further aggravated by tighter lending policies. Moving forward, dragged by higher operating costs from marketing and high import cost on unfavourable currency fluctuations, we estimate flattish growth on combined sales increase at 254k units in FY17 due to lacklustre demand as we continue to believe that margins will remain subdued.

**Upgrade to OUTPERFORM (from UNDERPERFORM) with an increase TP of RM5.28 (from RM4.27, previously).** We change our valuation methodology from SoP valuation to an applied 12.0x PER to our revised FY17E EPS of RM0.44, where earnings are exclusive from O&G segment earnings, which was valued at 0.5x PBV separately. We believe the re-rating of the stock presents a fair opportunity to shareholders, as the prevailing price weakness could be attributed primarily by the unfavourable O&G performance in prior years.

### Share Price Performance



KLCI	1,666.51
YTD KLCI chg	1.5%
YTD stock price chg	1.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	5,397.5
Issued shares	1,168.3
52-week range (H)	7.37
52-week range (L)	4.43
3-mth avg daily vol:	561,411
Free Float	37%
Beta	1.1

### Major Shareholders

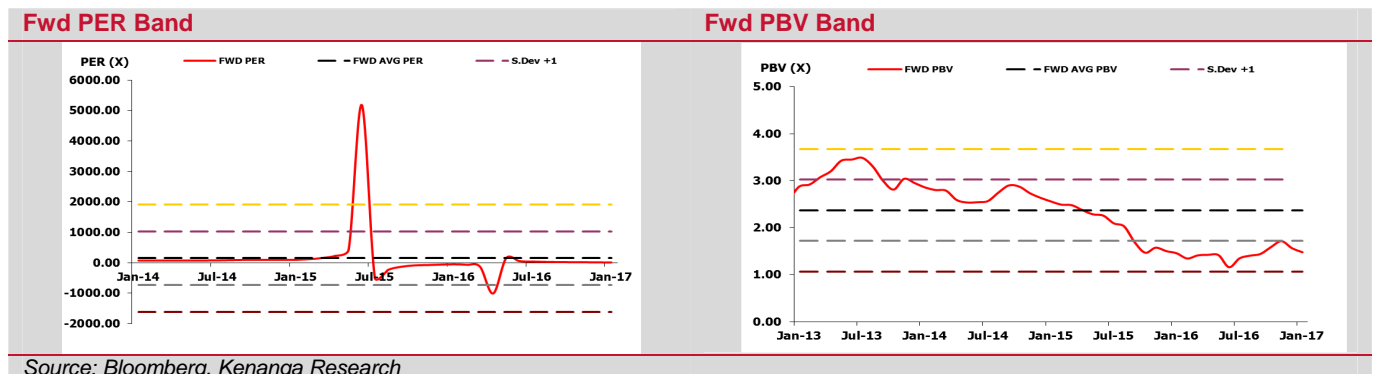
Skim Amanah Saham	42.1%
Employees Provident Fund	15.4%
Yayasan Pelaburan Bumiputra	5.7%

### Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	14,441.6	10,459.5	10,678.7
EBIT	135.6	-129.9	416.5
PBT	269.7	-95.6	630.9
<b>Net Profit</b>	<b>-37.2</b>	<b>-181.8</b>	<b>513.6</b>
<b>Core Net Profit</b>	<b>239.7</b>	<b>-181.8</b>	<b>513.6</b>
Consensus (NP)	-	-58.6	181.5
Earnings Revision	-	0%	202%
Core EPS (sen)	20.5	-15.6	44.0
Core EPS growth (%)	-69.5%	-175.9%	-382.5%
NDPS (sen)	20.0	8.0	20.0
BVPS (RM)	5.6	5.4	3.1
PER (x)	22.9	(30.2)	10.7
PBV (x)	0.8	0.9	1.5
Net Gearing (x)	0.8	0.7	0.5
Net Div. Yield (%)	4.3%	1.7%	4.3%

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	13,951	14,932	14,442	10,459	10,679	<b>Growth (%)</b>					
EBITDA	1,296	1,433	136	-130	416	Turnover	-11.8	7.0	-3.3	-27.6	2.1
Depreciation	-325	-379	-511	-561	-204	EBITDA	-11.8	7.0	-3.3	-27.6	2.1
Interest Inc/(Exp)	-99	-85	-127	-162	-54	Operating Profit	-31.7	10.5	-90.5	-195.8	158.3
Associate	158	140	134	119	187	PBT	-28.9	12.9	-83.4	-135.5	135.8
PBT	1,436	1,621	270	-96	631	Core Net Profit	-14.5	-7.8	-69.5	-175.9	198.3
Taxation	-350	-394	-262	-132	-157	<b>Profitability (%)</b>					
Minority Interest	-431	-561	-39	53	47	Operating Margin	9.3	9.6	0.9	-1.2	3.9
Core PATAMI	852	786	240	-182	514	PBT Margin	10.3	10.9	1.9	-0.9	5.9
<b>Balance Sheet</b>						Core Net Margin	6.1	5.3	1.7	-1.7	4.8
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	ROA	5.0	4.2	-0.3	-1.4	5.0
F. Assets	3,899	5,670	8,103	9,072	2,471	ROE	11.7	10.1	-0.8	-3.7	14.8
Int. Assets	38	26	25	25	25	<b>DuPont Analysis</b>					
Other F.Assets	2,142	2,353	2,430	2,430	4,403	Net Margin (%)	6.1	5.3	1.7	-1.7	4.8
Inventories	1,754	1,830	1,890	1,322	1,162	Assets Turnover (x)	1.0	0.9	0.8	0.6	1.0
Receivables	1,855	2,079	1,833	1,392	1,116	Leverage Factor (x)	2.3	2.5	2.8	2.7	2.9
Other C. Assets	2,349	1,191	1,210	1,210	1,114	ROE (%)	11.7	10.1	-0.8	-3.7	14.8
Cash	2,558	3,371	2,734	1,834	105	<b>Leverage</b>					
<b>Total Assets</b>	<b>14,595</b>	<b>16,520</b>	<b>18,225</b>	<b>17,285</b>	<b>10,396</b>	Debt/Asset (x)	0.2	0.3	0.3	0.3	0.2
Payables	2,070	2,217	2,241	1,576	1,335	Debt/Equity (x)	0.5	0.6	0.9	1.0	0.6
ST Borrowings	1,464	2,387	3,725	3,725	1,468	Net (Cash)/Debt	431	819	3,281	4,181	1,906
Other ST Liability	452	466	372	372	368	Net Debt/Equity (x)	0.1	0.1	0.5	0.7	0.5
LT Borrowings	1,524	1,803	2,290	2,290	543	<b>Valuations</b>					
Other LT Liability	152	214	214	214	213	Core EPS (sen)	73.0	67.3	20.5	-15.6	44.0
<b>Net Assets</b>	<b>8,933</b>	<b>9,433</b>	<b>9,384</b>	<b>9,109</b>	<b>6,470</b>	NDPS (sen)	44.0	41.0	20.0	8.0	20.0
S.holders' Equity	6,290	6,580	6,584	6,309	3,681	BV/sh (RM)	5.4	5.6	5.6	5.4	3.1
Minority Interests	2,642	2,853	2,799	2,799	2,789	PER (x)	6.4	7.0	22.9	-30.2	10.7
<b>Total Equity</b>	<b>8,933</b>	<b>9,433</b>	<b>9,384</b>	<b>9,109</b>	<b>6,470</b>	Div. Yield (%)	9.0	9.4	8.7	4.3	1.7
<b>Cashflow Statement</b>						PBV (x)	0.9	0.9	0.8	0.8	0.9
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	EV/EBITDA (x)	5.8	3.2	3.9	10.2	1.4
Operating CF	948	1,378	949	767	483						
Investing CF	-798	-328	-1,740	-1,411	-2,254						
Financing CF	-811	204	517	-256	-288						
Change In Cash	-661	1,254	-274	-900	-2,059						
Free CF	-52	-808	-1,331	-764	22						

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @ 19/01/17	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Hist. ROE (%)	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd			Actual	1 Yr Fwd	2 Yr Fwd				
BERMAZ AUTO BHD	2.04	2,336.7	11.9	15.1	10.7	7.4%	43.5%	197.6	156.7	219.4	-20.7%	40.0%	2.36	OP
DRB-HICOM BHD	1.20	2,319.8	N.M.	N.M.	N.M.	1.7%	6.3%	-991.9	-81.6	-82.0	-91.8%	0.5%	0.95	UP
MBM RESOURCES BERHAD	2.09	816.6	9.7	10.3	8.4	3.3%	5.0%	84.0	79.4	97.3	-5.5%	22.5%	2.49	UP
TAN CHONG MOTOR HOLDINGS BHD	1.78	1,162.0	20.2	N.M.	46.8	2.8%	2.0%	57.1	-70.0	24.7	-222.6%	-135.3%	1.66	UP
UMW HOLDINGS BHD	4.61	5,385.9	22.5	N.M.	10.5	1.7%	4.0%	239.7	-181.8	513.6	-175.8%	-382.5%	5.28	OP

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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