

COMPANY UPDATE

UMW Holdings (UMWH MK)

Exiting Its Loss-making Listed O&G Business

UMWH has announced the demerger of UMW O&G Corp (55.7%-owned) via distribution – in-specie of the entire stake. Separately, UMW O&G Corp announced a series of M&As with ICON and ORKIM along with a rights issue with free warrants. We are neutral on the development as UMW O&G makes up only 13% of our SOTP target price for UMWH and its other core businesses - notably the auto arm - are operating in challenging environments. Maintain SELL. Target price is RM4.00.

WHAT'S NEW

- Exiting UMW O&G...** The demerger of UMW Oil and Gas Corp (UMW O&G) will be done via distribution-in-specie of UMW Holdings' (UMWH) entire 55.7% stake in UMW O&G. UMWH will undertake a bonus issue of redeemable preference shares (RPS) on the basis of 1.03 RPS for each UMWH share and a proposed subsequent redemption of all RPS at a premium which will be satisfied in the form of UMW O&G shares. Upon expected completion of the exercise by 2Q17, UMWH's shareholders will own shares in the two listed companies.
- ...in line with UMWH's plan to exit O&G industry.** The demerger of UMW O&G is in line with UMWH's plan to exit its investments in the O&G industry. Hence, we expect UMWH to impair other non-listed O&G assets in the subsequent quarters. UMWH's exit from the O&G industry will enable the company to focus on its core businesses and enable more efficient allocation of resources and investments which in turn will strengthen its financial position.
- Neutral impact on valuation from latest development.** UMW O&G makes up only 13% of our SOTP target price for UMWH and its other core businesses notably the auto arm, are operating in challenging environments. The exercise merely allows shareholders direct exposure to two separate listed companies. After stripping out the loss-making UMW O&G, UMWH's valuations are still expensive at 26.5x 2018F PE and 1x P/B. However, we note that long term benefits may be reaped from UMWH's exit from the O&G business as the company can now focus on its other businesses.

KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	14,932	14,420	10,313	10,653	11,026
EBITDA	1,812	563	618	917	1,192
Operating profit	1,433	135	70	335	597
Net profit (rep./act.)	652	(39)	(172)	(7)	203
Net profit (adj.)	766	340	(172)	(7)	203
EPS (sen)	65.7	29.1	(14.8)	(0.6)	17.4
PE (x)	7.0	15.9	n.m.	n.m.	26.5
P/B (x)	0.8	0.8	0.9	1.0	1.0
EV/EBITDA (x)	4.5	14.4	13.2	8.9	6.8
Dividend yield (%)	9.5	5.4	0.0	0.0	0.0
Net margin (%)	4.4	(0.3)	(1.7)	(0.1)	1.8
Net debt/(cash) to equity (%)	11.0	50.2	46.7	(9.8)	(10.5)
Interest cover (x)	n.a.	n.a.	10.8	13.5	n.a.
ROE (%)	10.1	n.a.	n.a.	n.a.	3.7
Consensus net profit	-	-	(38)	195	245
UOBKH/Consensus (x)	-	-	4.53	n.m.	0.83

Source: UMW Holdings Berhad, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	RM4.62
Target Price	RM4.00
Upside	-13.4%

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):	5,397.5
Market cap (US\$m):	1,213.2
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

52-week high/low	RM7.13/RM4.45			
1mth	3mth	6mth	1yr	YTD
(4.3)	(21.7)	(19.8)	(34.5)	1.1

Major Shareholders

PNB	58.2
EPF	16.0

FY17 NAV/Share (RM)	4.64
FY17 Net Cash/Share (RM)	0.45

PRICE CHART



Source: Bloomberg

ANALYST

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- UMW O&G's exercise is expected to be received negatively.** We estimate the enlarged shares to be worth 50 sen/share in a bullish case scenario after a series of proposed exercises: a) the acquisition and mandatory general offer for Icon Offshore (ICON) via the issuance of new UMW O&G shares at an issue price of 80 sen; b) acquisition of a 95.5% stake in ORKIM at a cash consideration of RM472.7m; and c) rights issue with free UMW O&G warrants (at an issue price of not more than 50 sen per rights share), coupled with enlarged debt of RM4.2b post-exercise. Our fair value of 50 sen implies its blue-sky 16x EV/EBITDA on historical trading range and 44% discount to its BV. Rooms for downside risk would include the high acquisition multiples on Icon Offshore (9x EV/ FY15 EBITDA, 0.6x P/B) and Orkim (12x EV/FY15 EBITDA, 3.5x P/B), the combined enlarged borrowing base, and lack of clarity on plans to enhance cost/business synergies in the enlarged entity may lead to concerns on value destruction.

VALUATION PARAMETERS

	UMW O&G	ICON	ORKIM
Offer Price (RM)	0.80	0.50	n/a
BV/share (RM)	1.36	0.61	n/a
Implied multiples - based on offer price			
P/NA	0.6x	0.8x	3.6x
P/2015 adjusted PATMI	n/a	32.9x	15.3x
EV/2015 adjusted EBITDA	15.8x	9.3x	11.8x

Source: Companies

STOCK IMPACT

- Yet another challenging year.** We believe 2017 will be yet another challenging year for UMW. We do not foresee 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.
- A glimmer of hope in its 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 for 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

- We adjust our earnings forecasts accordingly by: a) stripping off the financial impact from UMW O&G for 2018, and b) assuming a half-year financial contribution from UMW O&G for 2017 (assuming exercise to be completed by 2Q17). We note that earnings will be back to black by 2018 following UMW's exit from the loss-making UMW O&G.

VALUATION/RECOMMENDATION

- Maintain SELL and SOTP target price of RM4.00**, implying 1x 2018F P/B. Given that the proposed exercise involves only its 55.7%-owned UMW O&G, we make no changes to earnings and valuations of its other businesses. Our fair value of 50 sen for UMW O&G implies an unchanged 16x EV/EBITDA based on its historical trading range and at a 44% discount to total net asset value. We do not see any re-rating catalysts in the near- to mid- term as all of its major divisions are operating in extremely challenging environments.

SHARE PRICE CATALYST

- Significant strengthening of the ringgit against major currencies.
- Strong recovery in consumer sentiment.

SOTP FAIR VALUE OF RM4.00/SHARE

Segment	Stake (%)	Equity value (RMm)	Remarks
Toyota	51.0	1,833	11x 2017 PE
UMW O&G	55.7	602 (previously 669)	16x EV/EBITDA post-exercise
Equipment	100.0	1,080	10x 2017 PE
Manufacturing	100.0	97	10x 2017 PE
Perodua	38.0	940	11x 2017 PE
Total		4,553	
TP (RM)		4.00	

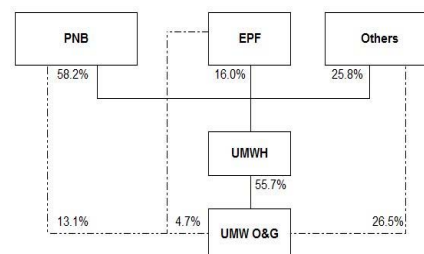
Source: UOB Kay Hian

SEGMENTAL SALES AND EBIT FORECASTS

FY Dec (RMm)	2016F	2017F	2018F
Revenue			
Auto	7,836	8,190	8,674
Equipment	1,353	1,421	1,492
Manufacturing	554	582	611
Oil & Gas (listed)	320	210	0
Others	250	250	250
Total	10,313	10,653	11,026
EBIT			
Auto	372	430	494
Equipment	135	142	149
Manufacturing	12	13	53
Oil & Gas (listed)	(300)	(150)	0
Others	(150)	(100)	(100)
Total	70	335	597

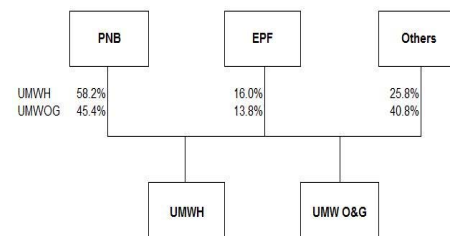
Source: UOB Kay Hian

BEFORE THE PROPOSED DISTRIBUTION



Source: UMWH

AFTER THE PROPOSED DISTRIBUTION



Source: UMWH

PROFIT & LOSS

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Net turnover	14,420	10,313	10,653	11,026
EBITDA	563	618	917	1,192
Deprec. & amort.	428	548	582	595
EBIT	135	70	335	597
Associate contributions	130	120	138	159
Net interest income/(expense)	1	(57)	(68)	42
Pre-tax profit	266	132	405	798
Tax	(260)	(119)	(162)	(279)
Minorities	(45)	(186)	(250)	(315)
Net profit	(39)	(172)	(7)	203
Net profit (adj.)	340	(172)	(7)	203

BALANCE SHEET

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Fixed assets	8,139	8,591	2,556	2,756
Other LT assets	2,373	2,493	2,631	2,789
Cash/ST investment	2,728	1,921	2,622	2,522
Other current assets	4,841	3,918	4,294	4,392
Total assets	18,081	16,922	12,103	12,460
ST debt	3,159	2,483	1,050	1,088
Other current liabilities	2,532	2,477	1,185	1,185
LT debt	2,783	2,343	1,043	843
Other LT liabilities	383	383	139	139
Shareholders' equity	6,397	6,225	5,423	5,627
Minority interest	2,827	3,013	3,262	3,578
Total liabilities & equity	18,081	16,922	12,103	12,460

CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Operating	375	183	46	752
Pre-tax profit	266	132	405	798
Tax	(260)	(119)	(162)	(279)
Deprec. & amort.	428	548	582	595
Associates	(130)	(120)	(138)	(159)
Working capital changes	(134)	(149)	(564)	(98)
Non-cash items	333	0	0	0
Other operating cashflows	(127)	(109)	(77)	(105)
Investing	(1,904)	(891)	(73)	(45)
Capex (maintenance)	(2,169)	(1,000)	(150)	(150)
Investments	(4)	0	0	0
Proceeds from sale of assets	0	0	0	1
Others	268	109	77	105
Financing	965	(21)	1,824	(808)
Dividend payments	(806)	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	1,692	(1,116)	0	0
Others/interest paid	79	1,095	1,824	(808)
Net cash inflow (outflow)	(564)	(729)	1,796	(101)
Beginning cash & cash equivalent	3,277	2,649	826	2,623
Changes due to forex impact	16	0	0	0
Ending cash & cash equivalent	2,728	1,921	2,622	2,522

KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
Profitability				
EBITDA margin	3.9	6.0	8.6	10.8
Pre-tax margin	1.8	1.3	3.8	7.2
Net margin	(0.3)	(1.7)	(0.1)	1.8
ROA	n.a.	n.a.	n.a.	1.7
ROE	n.a.	n.a.	n.a.	3.7
Growth				
Turnover	(3.4)	(28.5)	3.3	3.5
EBITDA	(69.0)	9.8	48.4	30.1
Pre-tax profit	(83.6)	(50.1)	205.7	97.0
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.
Leverage				
Debt to total capital	39.2	34.3	19.4	17.3
Debt to equity	92.9	77.5	38.6	34.3
Net debt/(cash) to equity	50.2	46.7	(9.8)	(10.5)
Interest cover (x)	n.a.	10.8	13.5	n.a.

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