



AmInvestment Bank

## Company report

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

16 Feb 2017

*Better times are coming***HOLD**

(Maintained)

Al Zaquan

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*Rationale for report: Company update*

Price	RM5.70
Fair Value	RM5.20
52-week High/Low	RM7.37/RM4.43

**Key Changes**

Fair value	<a href="#">↑</a>
EPS	<a href="#">↑</a>

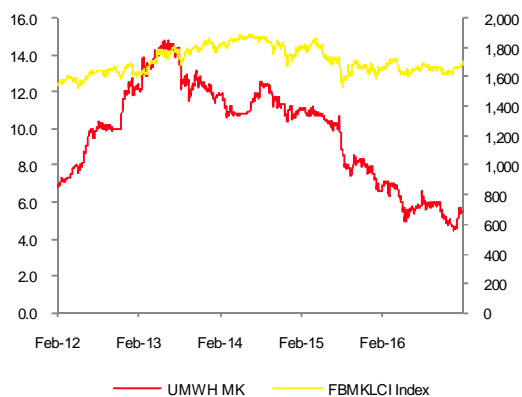
YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	14,441.6	10,835.3	11,770.1	12,164.1
Core net profit (RM mil)	(37.2)	(149.3)	209.6	399.4
FD Core EPS (sen)	(3.2)	(12.8)	17.9	34.2
FD Core EPS growth (%)	(105.7)	301.6	(240.4)	90.6
Consensus Net Profit (RM mil)	-	(58.5)	208.3	275.7
DPS (sen)	41.0	(3.8)	5.4	10.3
PE (x)	nm	nm	31.2	16.4
EV/EBITDA (x)	15.2	30.3	12.3	9.0
Div yield (%)	7.3	(0.7)	1.0	1.8
ROE (%)	(0.6)	(2.3)	3.2	5.9
Net Gearing (%)	49.8	51.3	60.4	60.9

**Stock and Financial Data**

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,530.8
Book Value (RM/share)	5.64
P/BV (x)	1.0
ROE (%)	(0.6)
Net Gearing (%)	49.8

Major Shareholders	Skim ASB (42.1%) EPF (13.6%) Yayasan Pelaburan Bumiputera (5.7%)
Free Float	32.6
Avg Daily Value (RMmil)	5.9

Price performance	3mth	6mth	12mth
Absolute (%)	10.0	(13.7)	(15.0)
Relative (%)	4.1	(15.0)	(18.3)

**Investment Highlights**

- We retain a HOLD call but raise our SOP-based fair value for UMW Holdings (UMW) to RM5.20 from RM4.90 following an analyst meeting with the management.

- We maintain our loss projection for FY16 but raise our FY17F-FY18F EPS by 2.5x to 3.8x to factor in: (1) lower losses projected from the unlisted O&G assets following a major impairment; (2) removal of UMWOG losses from the second half of 2017; (3) lower capex assumptions (10% of revenue annually vs. ~15% historically) following the UMWOG demerger.

- Our key takeaways from the meeting are:

(1) UMW plans to exit from unlisted O&G assets by end-2018. The group will make a major and one-off impairment to these assets in FY16 and the operational losses (historically to the tune of RM350mil-RM500mil in FY13-FY15) going forward are expected to reduce on lowered depreciation costs.

(2) We still do not see a major catalyst for the Auto segment. UMW gave a preliminary guidance of flat sales for Toyota this year (following a massive 32% drop in sales in 2016).

Toyota will depend on a slew of new launches in the second half and a bigger push for EEV. It said margins for the auto segment could decline further on the weak Ringgit. Net profit margin for Auto hit a low of 4% in early 2016 but gradually recovered to 9% in 3QFY16, it still below the historical 11% seen in FY13-FY14.

At this stage, it also looks to be a mellow year for Perodua as sales for the Bezza moderate. Perodua projects a 2% YoY drop in sales this year.

(3) UMW intends to establish the Manufacturing & Engineering (M&E) segment as a major earnings contributor in the long-term. It will seek more high-margin business like the Rolls Royce contract which will see its first delivery in 4Q17 and contribute to earnings from 2019.

- UMW is still on track to de-merge from the UMWOG by end-2Q. Recall that the main positives are: (1) removal of O&G losses from its P&L; (2) A reduction in net gearing to about 10% from 51% previously, as total borrowings last amounting to RM1.8bil in UMWOG is deconsolidated; (3) Relief for cash flow on reduced capex requirement.

- We raise our EPS projections from FY17F to reflect the anticipated earnings impact from the UMWOG demerger and lower operational losses from the unlisted O&G assets. We retain a HOLD call given the soft prospects for the Auto segment.

## KEY TAKEAWAYS FROM MEETING

### □ Exit from unlisted O&G assets by end-2018

UMW plans to exit from unlisted O&G assets by end-2018. The group will make a major and one-off impairment to these assets in FY16 and the operational losses (to the tune of RM350mil-RM500mil in FY13-FY15) going forward are expected to reduce on lowered depreciation costs.

These assets are not consolidated on UMW's balance sheet as they own minority stakes for the most part, and the group did not disclose their carrying values.

The gain from the sale of these assets will be minimal as pricing in the current climate of the O&G sector will not be superb.

Recall that these assets make up the Others segment and comprise O&G assets that were not included into the UMWOG IPO in 2013. These assets are located in India, Oman, Malaysia, China and Australia. UMW has been trying to dispose these assets since then, but the collapse in oil prices made it difficult.

### □ No visible catalyst for Auto segment

We still do not see a major catalyst for the Auto segment. UMW gave a preliminary guidance of flat sales for Toyota this year (following a massive 32% drop in sales in 2016).

Toyota will depend on a slew of new launches in the second half and a bigger push for EEV cars (which receive incentives from the government that are used to offset production costs; UMW can use this to obtain better margins, or pass the benefit to consumers in the form of cost savings).

It said margins for the auto segment could decline further on the weak Ringgit; net profit margin for Auto hit a low of 4% in early 2016 but gradually recovered to 9% in 3QFY16, still below the historical 11%.

At this stage, it also looks to be a mellow year for Perodua as sales for the Bezza moderate. Perodua targets 202K units this year which would be a 2% YoY drop. The recent EEV version of Axia should boost sales for the now more than two-year old hatchback.

The second local Toyota plant will increase localisation and the resulting cost savings would be positive for margins and allow the company to price cars more competitively. The plant is only expected to start operations in early 2019.

### □ Big but long-term plans for M&E

UMW intends to establish the Manufacturing & Engineering (M&E) segment as a major earnings contributor in the long-term.

It will seek for more high-margin business like the Rolls Royce contract which will see its first delivery in 4Q17 and contribute to earnings from 2019.

The 25-year contract will see UMW being the sole Tier-1 supplier to manufacture fan cases for the engines in the Trent 1000 (Boeing 787 Dreamliner) and Trent 7000 (Airbus A330neo).

Any further expansion into a similar business would require major capex and have a long gestation period, so any benefit would only be visible in the long-term.

### □ UMWOG demerger on track for end-2Q

UMW is still on track to de-merge from the listed O&G side by end-2Q. Recall that the main benefits are: (1) removal of O&G losses from its P&L; (2) A reduction in net gearing to about 10% from 51% previously, as total borrowings last amounting to RM1.8bil in UMWOG is deconsolidated; (3) Relief for cash flow on reduced capex requirement. UMWOG with a 55.7% stake.

UMW is going to distribute this stake in UMWOG to existing shareholders of UMW in specie. UMWOG will no longer be a unit of UMW, and the existing stakes of UMW shareholders in UMWOG will be enlarged: PNB & funds will hold 45.4% of UMWOG from 13.1% before, EPF 13.8% from 4.7%, and others 38.1% from 25.7%.

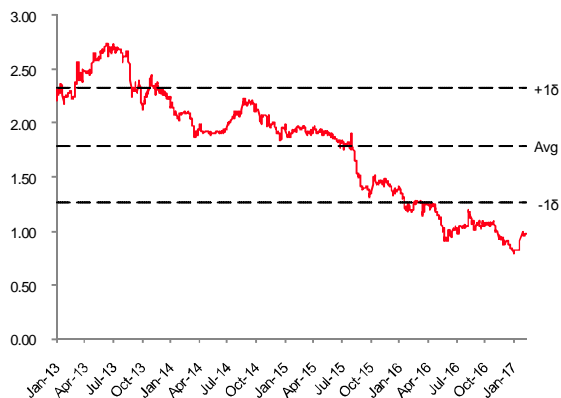
UMW will undertake a bonus issue of 1.2bil redeemable preference shares (RPS) on the basis of 1.03 RPS for every existing UMW share. These shares will be redeemed with the 1.2bil UMWOG shares currently held by UMW. This exercise will rely on UMW's share premium account rather than its retained earnings.

## EXHIBIT 1: FINANCIAL DATA

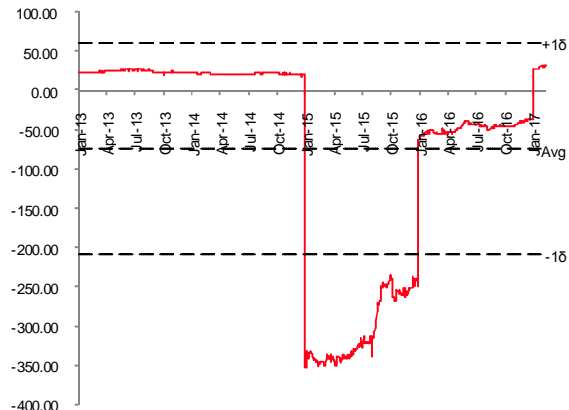
Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	14,932.5	14,441.6	10,835.3	11,770.1	12,164.1
EBITDA	1,811.7	646.3	325.2	858.4	1,186.9
Depreciation/Amortisation	(378.7)	(510.7)	(561.8)	(613.8)	(668.9)
Operating income (EBIT)	1,432.9	135.6	(236.7)	244.5	518.1
Other income & associates	139.6	134.4	197.6	213.8	230.3
Net interest	48.9	(0.4)	1.9	21.3	9.3
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>1,621.5</b>	<b>269.7</b>	<b>(37.2)</b>	<b>479.6</b>	<b>757.7</b>
Taxation	(408.5)	(267.5)	61.0	(69.1)	(137.1)
Minorities/pref dividends	(561.0)	(39.4)	(173.1)	(200.9)	(221.2)
<b>Net profit</b>	<b>652.0</b>	<b>(37.2)</b>	<b>(149.3)</b>	<b>209.6</b>	<b>399.4</b>
Core net profit	652.0	(37.2)	(149.3)	209.6	399.4
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>	<b>FY18F</b>
Fixed assets	5,669.7	8,102.8	8,680.8	9,304.7	9,920.6
Intangible assets	25.6	25.2	25.2	25.2	25.2
Other long-term assets	2,353.3	2,429.9	2,428.5	2,467.9	2,515.4
<b>Total non-current assets</b>	<b>8,048.5</b>	<b>10,557.9</b>	<b>11,134.6</b>	<b>11,797.8</b>	<b>12,461.2</b>
Cash & equivalent	3,370.7	2,734.1	3,414.3	3,464.9	3,989.5
Stock	1,830.4	1,890.0	1,426.7	1,489.8	1,539.7
Trade debtors	2,078.5	1,833.4	1,454.6	1,580.1	1,633.0
Other current assets	1,191.5	1,209.9	1,209.9	1,209.9	1,209.9
<b>Total current assets</b>	<b>8,471.1</b>	<b>7,667.4</b>	<b>7,505.5</b>	<b>7,744.7</b>	<b>8,372.0</b>
Trade creditors	2,217.0	2,241.2	1,927.8	1,770.7	1,829.9
Short-term borrowings	2,386.7	3,725.0	4,217.8	4,774.8	5,331.8
Other current liabilities	465.8	371.8	321.0	314.7	315.6
<b>Total current liabilities</b>	<b>5,069.6</b>	<b>6,338.0</b>	<b>6,466.6</b>	<b>6,860.2</b>	<b>7,477.4</b>
Long-term borrowings	1,803.0	2,289.8	2,523.7	2,693.7	2,863.7
Other long-term liabilities	214.0	213.7	197.3	188.5	191.2
<b>Total long-term liabilities</b>	<b>2,017.0</b>	<b>2,503.4</b>	<b>2,720.9</b>	<b>2,882.2</b>	<b>3,054.9</b>
<b>Shareholders' funds</b>	<b>6,580.5</b>	<b>6,584.5</b>	<b>6,480.0</b>	<b>6,626.7</b>	<b>6,906.3</b>
Minority interests	2,852.6	2,799.4	2,972.5	3,173.4	3,394.6
BV/share (RM)	5.63	5.64	5.55	5.67	5.91
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>	<b>FY18F</b>
Pretax profit	1,621.5	269.7	(37.2)	479.6	757.7
Depreciation/Amortisation	378.7	510.7	561.8	613.8	668.9
Net change in working capital	(136.4)	67.9	489.1	(362.1)	(40.4)
Others	(486.1)	100.8	(273.3)	(453.6)	(540.7)
<b>Cash flow from operations</b>	<b>1,377.7</b>	<b>949.1</b>	<b>740.5</b>	<b>277.7</b>	<b>845.5</b>
Capital expenditure	(2,185.5)	(2,280.4)	(1,083.5)	(1,177.0)	(1,216.4)
Net investments & sale of fixed assets	1,146.5	12.0	-	-	-
Others	711.3	528.0	251.7	285.7	288.2
<b>Cash flow from investing</b>	<b>(327.8)</b>	<b>(1,740.3)</b>	<b>(831.8)</b>	<b>(891.3)</b>	<b>(928.2)</b>
Debt raised/(repaid)	1,150.7	1,322.6	726.8	727.0	727.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(947.2)	(805.2)	44.8	(62.9)	(119.8)
Others	-	-	-	-	-
<b>Cash flow from financing</b>	<b>203.6</b>	<b>517.3</b>	<b>771.5</b>	<b>664.1</b>	<b>607.2</b>
<b>Net cash flow</b>	<b>1,253.5</b>	<b>(273.9)</b>	<b>680.2</b>	<b>50.6</b>	<b>524.6</b>
<b>Net cash/(debt) b/f</b>	<b>1,565.1</b>	<b>2,830.4</b>	<b>2,734.1</b>	<b>3,414.3</b>	<b>3,464.9</b>
<b>Net cash/(debt) c/f</b>	<b>2,830.4</b>	<b>2,621.1</b>	<b>3,414.3</b>	<b>3,464.9</b>	<b>3,989.5</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>	<b>FY18F</b>
Revenue growth (%)	7.0	(3.3)	(25.0)	8.6	3.3
EBITDA growth (%)	11.7	(64.3)	(49.7)	164.0	38.3
Pretax margin (%)	10.9	1.9	(0.3)	4.1	6.2
Net profit margin (%)	4.4	(0.3)	(1.4)	1.8	3.3
Interest cover (x)	nm	336.5	nm	nm	nm
Effective tax rate (%)	25.2	99.2	164.2	14.4	18.1
Dividend payout (%)	59.1	nm	nm	22.5	22.5
Debtors turnover (days)	48	49	55	47	48
Stock turnover (days)	44	47	56	45	45
Creditors turnover (days)	52	56	70	57	54

Source: Company, AmInvestment Bank Bhd estimates

**EXHIBIT 2: PB BAND CHART**



**EXHIBIT 3: PE BAND CHART**



**EXHIBIT 4: SUM-OF-PARTS BREAKDOWN**

Pegged to FY17F						
Segment	PBT	PAT	PE Multiple	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	560.8	424.5	9	3,969.1	3.40	1,168.3
Equipment	239.7	181.4	9	1,632.9	1.40	
Manu & Eng	14.4	10.9	9	98.3	0.08	
O&G					0.45	
Others	(150.0)			(150.0)	(0.13)	
Associates & JV		213.8	10	2,137.5	1.83	
Net Debt (Company level)				(611.8)	(0.52)	
					6.50	
Fair Value after holding company discount of:			20%		5.20	

Source: AmInvestment Bank Bhd

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