

Outthink. Outperform.

Carving a better future

All in all, none of UMW business segment reported a better year yoy which saw FY16 revenue declined by 24% to RM10.9bn. Nonetheless, with the recent announcement of UMW exiting its O&G business, earnings are expected to gradually recover as UMW no longer has to bear the losses from UMWOG. We upgraded the stock to HOLD with higher TP of RM5.05 (from RM4.23) based on SOP valuation.

Kitchen sinking exercise on O&G business

We stripped off a series of one offs which consist of (1) RM1,219.8m impairment provision made on listed and non-listed O&G PPE, inventories and goodwill, (2) RM98m impairment on receivables, (3) RM6.2m inventories written down, (4) RM5.3m loss on PPE disposal, (5) RM66.6m forex gain, and lastly (6) RM20m of derivative losses in 4Q16. This led us in deriving our 4Q16 core net losses at RM283.7m, which brought full year core net losses to RM400.5m versus our forecast of RM166.8m in losses.

Automotive sales to remain challenging...

Revenue increased 7.2% yoy to RM3,062m mainly contributed by automotive segment as a result of the ongoing year end promotions. Automotive sales are likely to remain challenging moving into 2017 on the back of weak consumer sentiment, intensified competition and depreciation of Ringgit.

...outlook to improve from hereon for O&G divestment

Our drastic upgrade in FY17-18E earnings mainly reflect the elimination of the huge losses we were previously expecting from the non-listed O&G business. In addition to that, we also excluded half yearly of UMWOG revenue and net losses contribution in our FY17 forecasts and the potential finance cost savings moving forward following the exit of UMWOG.

Upgrade Hold with higher TP of RM5.05

As UMW is divesting its listed O&G asset, it will no longer be a drag to earnings. We foresee UMW to progressively exit from its non-listed O&G business over the next 2 years. Post earnings upgrade, we raised UMW TP to RM5.05 (from RM4.23) which is valued using SOP approach (13x PE on automotive business, 12x P/E on rest of the core business – equipment and M&E). We upgrade our stock call to **HOLD** (from SELL).

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	14,518	10,965	10,554	10,615	10,969
EBITDA (RMm)	1,160.0	(358.0)	1,117.3	1,394.8	1,528.4
Pretax profit (RMm)	269.7	(2,153.8)	572.8	898.9	984.2
Net profit (RMm)	(37.2)	(1,690.6)	296.7	448.4	492.6
EPS (sen)	(3.2)	(144.7)	25.4	38.4	42.2
PER (x)	(175.4)	(3.9)	22.0	14.5	13.2
Core net profit (RMm)	476.5	(400.5)	296.7	448.4	492.6
Core EPS (sen)	40.8	(34.3)	25.4	38.4	42.2
Core EPS growth (%)	(29.2)	(184.0)	174.1	51.1	9.9
Core PER (x)	13.7	(16.3)	22.0	14.5	13.2
Net DPS (sen)	20.0	-	10.0	10.0	45.0
Dividend Yield (%)	3.6	-	1.8	1.8	8.1
EV/EBITDA (x)	8.4	-	10.2	5.5	4.3
Chg in EPS (%)			95.3	102.1	-
Affin/Consensus (x)			1.3	1.4	-

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

UMW Holdings

UMW MK
Sector: Auto & Autoparts

RM5.58 @ 27 February 2017

HOLD (upgrade)

Upside -9%

Price Target: RM5.05

Previous Target: RM4.23



Price Performance

	1M	3M	12M
Absolute	-2.4%	7.3%	-20.1%
Rel to KLCI	-2.9%	3.1%	-21.5%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	6519.1/1468.1
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	4.43-7.37
Est free float	24.5%
BV per share (RM)	5.35
P/BV (x)	1.04
Net cash/ (debt) (RMm) (4Q16)	(4,226)
ROE (FY17E)	6.1%
Shariah Compliant	Yes

Key Shareholders

ASB	42.1%
EPF	13.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	4Q16	QoQ % chg	YoY % chg	FY16	YoY % chg	Comment	
Revenue	3,062.3	7.2	(26.4)	10,965.1	(24.0)	All of UMW business segment posted a yoy decline which led to FY16 dropping by 24% to RM10.97bn.	
Op costs	(6,469.8)	113.6	33.3	(14,458.0)	(1.7)		
EBIT	(3,407.5)	1876.0	(391.4)	(3,492.9)	(26.2)		
EBIT margin (%)	(111.3)	(105.2)	(94.6)	(0.3)	-2.1ppts		
Int expense	(60.6)	47.7	44.8	(186.3)	47.1		
Int and other income	22.3	52.5	(29.3)	80.5	(36.7)		
Associates	65.3	59.9	82.7	154.8	57.3		
Exceptional item	1,282.5	3421.7	284.2	1,290.1	180.2		<u>Exceptional items excluded in 4Q16</u> 1. RM1,219.8m impairments made on listed and unlisted O&G business, inventories and goodwill 2. RM98m impairment on receivables 3. RM6m inventories written down 4. RM5.3m disposal loss on PPE 5. RM66.6m forex gain 6. RM20m derivative losses
Pretax profit	(2,098.0)	1625.0	(527.7)	(2,153.8)	(910.8)		
Tax	(24.9)	(39.6)	(56.5)	(140.7)	(45.9)		
Tax rate (%)	(1.2)	32.7	16.0	(6.5)	-104ppts		
MI	556.8	n.m	427.6	603.9	n.m		
Net profit	(1,566.2)	1115.7	(447.5)	(1,690.6)	n.m		
EPS (sen)	(134.1)	1115.7	(447.5)	(1.4)	n.m		
Core net profit	(283.7)	(207.0)	(693.8)	(400.5)	(195.0)	FY16 reported larger core net losses of RM400.5m against our FY16 forecast of RM166.8m in losses	

Source: Affin Hwang, Company data

UMW: SOTP-based 12-month TP

Segments	Valuation Method	Equity Value (RMm)	Equity value/share (RM)
Automotive	13x P/E	3,267.7	2.80
Oil and Gas	0.5x P/BV	755.9	0.65
Equipment	12x P/E	1,620.2	1.40
Manufacturing and engineering (M&E)	12x P/E	246.0	0.21
Equity value / Price Target		5,889.8	5.05

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not mendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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