

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

28 Feb 2017

UMW Holdings (UMWH MK) : HOLD

Mkt. Cap: US\$1,468m | 3m Avg. Daily Val: US\$1.5m

Last Traded Price (27 Feb 2017): RM5.58

Price Target 12-mth: RM5.30 (5% downside) (Prev RM5.30)

Shariah Compliant: Yes

Analyst

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Ripping off a band-aid

- 4Q16 net profit was below expectations
- Impacted by provisions and asset impairments for the oil and gas business
- Maintain HOLD with TP of RM5.30

Forecasts and Valuation

FY Dec (RMm)	2015A	2016A	2017F	2018F
Revenue	14,442	10,965	10,842	11,533
EBITDA	703	(359)	809	946
Pre-tax Profit	270	(2,154)	330	557
Net Profit	(37.2)	(1,691)	188	290
Net Pft (Pre Ex.)	19.7	(402)	188	290
Net Pft Gth (Pre-ex) (%)	(94.0)	nm	nm	54.5
EPS (sen)	(3.2)	(145)	16.1	24.8
EPS Pre Ex. (sen)	1.68	(34.4)	16.1	24.8
EPS Gth Pre Ex (%)	(94)	nm	nm	54
Diluted EPS (sen)	1.68	(34.4)	16.1	24.8
Net DPS (sen)	20.0	0.0	8.04	12.4
BV Per Share (sen)	564	404	412	425
PE (X)	nm	nm	34.7	22.5
PE Pre Ex. (X)	331.5	nm	34.7	22.5
P/Cash Flow (X)	6.9	nm	4.7	8.5
EV/EBITDA (X)	18.1	nm	16.6	14.7
Net Div Yield (%)	3.6	0.0	1.4	2.2
P/Book Value (X)	1.0	1.4	1.4	1.3
Net Debt/Equity (X)	0.4	0.7	0.7	0.7
ROAE (%)	(0.6)	(29.9)	3.9	5.9

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's new

Core earnings below expectations

- UMW recorded a net loss of RM1.6bn in 4Q16. Stripping off provisions and impairments (RM1.3bn), the group recorded a core net loss of RM283.2m in 4Q16. This brings FY16 core net loss to RM402m, which is below ours and consensus expectations.

Impacted by provisions

- Auto pretax profit came in at RM143.5m (+7.6% q-o-q; -42.1% y-o-y). The better q-o-q numbers were backed by the year-end promotions and new launches (2016 Toyota Vios and all-new Toyota Innova) by Toyota. Toyota and Lexus sales volume increased by 11.5% q-o-q to 19,625 units. As for the lower y-o-y numbers, this was due to the intense competition and higher operating costs from the weakening ringgit.
- The oil and gas (listed) segment recorded a pre-tax loss that widened to RM918.1m in 4Q16 from RM133.0m in 3Q16, largely due to an asset impairment of RM780.2m. Excluding impairments, losses are at RM137.9m. Despite new tendering activities, the positive effects were only partially felt in 4Q16 as it takes time to translate tender activities into rig utilisation.
- As for the oil and gas (unlisted) segment, losses came in at RM625.6m in 4Q16 which includes an impairment of RM381.9m.
- The equipment segment recorded lower revenue (-17.9% y-o-y to RM330.8m) due to the slowdown in the construction and mining sectors and the restriction imposed on the importation of heavy equipment into the country by the government in Myanmar. However, profit before tax managed to improve to RM30.6m (+5.2% y-o-y).

Outlook

Earnings lift from oil and gas exit

- Jan 17 numbers for auto sales were slightly higher than last year's, with a total industry vehicle (TIV) of 44,667 units (+0.2% y-o-y). The volume for auto sales is expected to remain muted in the near term given the weak consumer sentiment and tough economic conditions. The Malaysian Automotive Association expects the TIV for FY17 to improve by 1.7% to 590,000 units.
- The new launches in 4Q16 such as the 2016 Toyota Vios, Toyota Innova, Toyota Corolla Altis facelift and Toyota Camry facelift may spill over into 1H17 and help sustain sales volume.
- As for the oil and gas segment, the group has proposed to exit completely from the oil and gas business and this will see a major lift in its earnings and improve its net gearing. The large amount of impairments made for the

unlisted and listed oil and gas assets will also give the group a clean slate for FY17.

Proposed distribution via capital reduction instead

UMW has announced that they will be undertaking a capital reduction of about RM704.8m instead of its earlier planned bonus issue and redemption for a proposed distribution. The proposed distribution is expected to be completed by 3Q17.

Valuation

We maintain our HOLD rating for UMW with a TP of RM5.30 for now, pending its upcoming analyst briefing. There is a potential earnings revision of c.10% as we could bump up our earnings forecasts to factor in the removal of the oil and gas business.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	4,183	2,857	3,062	(26.8)	7.2
Cost of Goods Sold	(4,628)	(3,020)	(5,230)	13.0	73.2
Gross Profit	(446)	(163)	(2,167)	(386.4)	(1,226.7)
Other Oper. (Exp)/Inc	(26.9)	63.4	1,325	(5,032.2)	1,990.2
Operating Profit	(473)	(100.0)	(842)	(78.2)	(742.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	71.8	40.9	65.3	(9.0)	59.9
Net Interest (Exp)/Inc	(11.3)	(26.5)	(38.4)	(238.7)	(45.0)
Exceptional Gain/(Loss)	81.8	(36.1)	(1,283)	nm	(3,457.5)
Pre-tax Profit	(330)	(122)	(2,098)	(535.3)	(1,625.0)
Tax	(64.9)	(41.3)	(24.9)	(61.6)	(39.6)
Minority Interest	111	34.1	557	402.5	1,535.2
Net Profit	(284)	(129)	(1,566)	(450.9)	(1,115.7)
Net profit bef Except.	(366)	(92.8)	(283)	22.6	(205.3)
EBITDA	(473)	(100.0)	(842)	(78.2)	(742.4)
Margins (%)					
Gross Margins	(10.7)	(5.7)	(70.8)		
Opg Profit Margins	(11.3)	(3.5)	(27.5)		
Net Profit Margins	(6.8)	(4.5)	(51.1)		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Feb 16	6.98	6.40	HOLD
2:	25 May 16	5.15	5.60	HOLD
3:	26 May 16	5.00	5.60	HOLD
4:	30 Aug 16	5.57	5.75	HOLD
5:	30 Nov 16	5.14	5.30	HOLD
6:	21 Dec 16	4.78	5.30	HOLD

Source: AllianceDBS

Analyst: Siti Ruzanna MOHD FARUK

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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