



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

28 Feb 2017

Coming out of a difficult year

HOLD

(Maintained)

Al Zaquan

al-zaquan@ambankgroup.com

03-2036 2304

Rationale for report: Company results

Price	RM5.58
Fair Value	RM5.20
52-week High/Low	RM7.37/RM4.43

Key Changes

Fair value	↔
EPS	↓

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	10,965.1	10,928.8	11,170.5	11,939.6
Core net profit (RM mil)	(401.8)	272.7	398.4	448.1
FD Core EPS (sen)	(34.4)	23.3	34.1	38.4
FD Core EPS growth (%)	(293.3)	(167.9)	46.1	12.5
Consensus Net Profit (RM mil)	-	(68.2)	223.5	309.7
DPS (sen)	10.0	7.0	10.2	11.5
PE (x)	nm	23.9	16.4	14.5
EV/EBITDA (x)	nm	12.4	10.2	9.7
Div yield (%)	1.8	1.3	1.8	2.1
ROE (%)	(29.9)	5.7	7.9	8.4
Net Gearing (%)	90.0	105.6	103.2	101.3

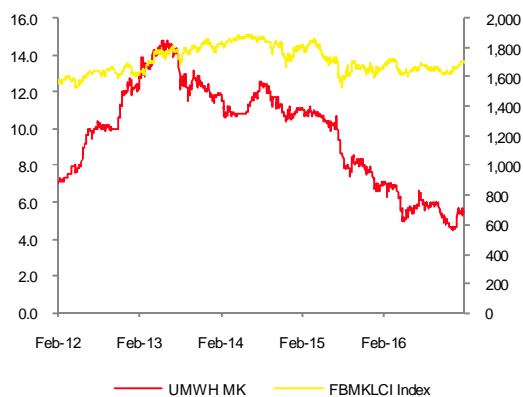
Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,519.1
Book Value (RM/share)	4.04
P/BV (x)	1.4
ROE (%)	(29.9)
Net Gearing (%)	90.0

Major Shareholders	Skim ASB(42.1%) EPF(13.7%) Yayasan Pelaburan Bumiputera(5.7%)
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Free Float	32.6
Avg Daily Value (RMmil)	6.5

Price performance	3mth	6mth	12mth
Absolute (%)	7.3	(7.8)	(20.1)
Relative (%)	3.1	(8.4)	(21.5)



Investment Highlights

- We retain a HOLD call and SOP-based fair value of RM5.20 for UMW Holdings (UMW). Our earnings projections remain largely unchanged. UMW's saw a core net loss for FY16 of RM401mil vs. our projection of -RM150mil and consensus' -RM59mil, the variance owing to lumpy losses in the final quarter.
- In 4QFY16, UMW made a significant asset impairment of RM1.2bil on its listed and unlisted O&G entities. Core net loss in 4Q of RM283mil (accounting for 70% of the year's loss) was due to a leap in losses from its O&G related businesses: UMWOG net loss expanded 6x QoQ to RM512mil, and the unlisted O&G assets saw a net loss of RM442mil (from a profit of RM15mil in 3Q). Meanwhile, the auto segment saw improved revenue (Toyota sales +11% in 4Q) and slightly better margins (recovering from 3% in the 6M to the 4% seen in 1Q).
- For FY16 UMW saw a core net loss of RM401mil vs. a profit of RM206mil in the previous year, as things deteriorated across the board. The auto segment saw lower topline (-21%YoY) and bottomline (-30%YoY) due to the drop in Toyota sales (-32%YoY; double TIV's -13%) and flat margins (4% in FY16). The (listed) O&G segment saw lower topline (-62%YoY) and net loss grew 20% to RM541mil on the sector's slowdown in exploration activities.
- The trend was similar for its other two segments which collectively accounted for 18% of its revenue. Equipment saw topline drop of 27%YoY in FY16 on a slowdown in the mining sector and intense competition; while Manufacturing & Engineering saw revenue drop of 15%YoY. On a positive note, UMW's associate and JV earnings rose 56%YoY in FY16 on the entry of the Perodua Bezza.
- UMW declared no dividend, as expected. Prior to the downturn first seen in 2015, it had paid 73-79% of its annual net profit in FY13-14.
- FY16 saw UMW weathering a slump in its two key sectors. While prospects for its auto segment remain hazy, the upcoming demerger from UMWOG is a bright spot. Recall the main positives from the latter are: (1) removal of UMWOG losses from the P&L; (2) A reduction in net gearing and interest costs as debt of RM3.8bil (as at end-2016) is removed after the deconsolidation of UMWOG; (3) Relief for cash flow on reduced capex.
- UMW has set a target of 70K for Toyota and Lexus sales from 65K in FY16, indicating a 7.5% growth. We currently project a 5% growth for Toyota coming off its low base in FY16, and expect it to lean on the various models which had entered late last year especially the Vios and Innova.
- On the demerger from UMWOG: UMW said it will no longer undertake the bonus issue/redemption and has opted for a distribution exercise via the share capital reduction (by RM705mil, its cost of investment for UMWOG). While the ratio (of 1.03 UMWOG shares for every UMW share) and balance sheet impact remain unchanged, the timeline has been extended to end-3Q (from end-2Q) due to approvals needed from the High Court, and UMW shareholders in an EGM soon.

EXHIBIT 1: EARNINGS SUMMARY

	4Q16			FY16	YoY
	4Q16	4Q16 QOQ	YOY		
Revenue	3,062.3	7%	-26%	10,965.1	-24%
Operating Expenses	(5,229.8)	73%	15%	(13,281.2)	-9%
Other Operating Income	42.5	55%	69%	113.3	-61%
Operating Profit	(2,125.0)	1462%	491%	(2,202.8)	-1422%
Operating margin:	-69%			-20%	-1838%
Finance Costs	(60.6)	48%	45%	(186.3)	47%
Share of Profits of Associates & JV	65.3	60%	83%	154.8	57%
Investment Income	22.3	52%	-29%	80.5	-37%
Profit before tax	(2,098.0)	1625%	528%	(2,153.8)	-911%
Tax	(24.9)	-40%	-57%	(140.7)	-46%
Profit after tax	(2,123.0)	1203%	442%	(2,294.5)	-39977%
Minority interest	(556.8)	1535%	428%	(603.9)	-1453%
Net Profit	(1,566.2)	1116%	448%	(1,690.6)	4248%
Net profit margin:	-51%	1034%	644%	-15%	5618%
Shares outstanding	1,168.3			1,168.3	
EBITDA	(1,983.8)	-13368%	-4608%	(1,648.2)	-277%
Depreciation	141.2	-6%	-65%	554.6	-28%
EBITDA margin:	-65%	-12478%	-6225%	-15%	-333%
Earnings per share (sen)	(134.1)	1116%	448%	(144.7)	4248%
Core Net Profit	(283.2)			(401.8)	
Exceptional items	1,283.0			1,288.8	
Margins					
EBITDA margin	-65%			-15%	
EBIT margin	-69%			-20%	
PBT Margin	-69%			-20%	
Net profit margin	-51%			-15%	
Tax rate	-1%			-7%	
Toyota					
Sales volume	19,237.0	11%	-39%	63,757	-32%
Revenue per car (RM)	128,000.6	-2%	20%	132,673	16%
Net profit per car (RM)	5,134.0	15%	31%	4,720	3%
Perodua					
Sales volume	56,221.0	5%	1%	207,110	-3%
Segmental Breakdown					
Revenue					
Automotive	2,462.3	9%	-27%	8,458.8	-21%
Equipment	330.8	-4%	-18%	1,382.8	-27%
Manufacturing & Engineering	152.6	6%	-16%	599.6	-15%
O&G (listed)	53.5	8%	-59%	320.8	-62%
O&G (Unlisted)	(67.0)	-215%	-171%	111.8	-69%
Elimination	130.1	-6353%	-601%	91.1	-214%
Total	3,062.3			10,965.1	
Net Profit					
Automotive	98.8	28%	-21%	301.0	-30%
Equipment	27.4	9%	4%	115.3	-37%
Manufacturing & Engineering	(3.6)	25%	-143%	(2.0)	-119%
O&G (listed)	(511.8)	578%	125%	(661.0)	218%
O&G (Unlisted)	(442.1)	-3027%	103%	(541.3)	19%
Elimination	(734.8)			(902.6)	
Total	(1,566.2)			(1,690.6)	
Net Profit margin					
Automotive	4%			4%	
Equipment	8%			8%	
Manufacturing & Engineering	-2%			0%	
O&G (listed)	-957%			-206%	
O&G (Unlisted)	659%			-484%	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: SUM-OF-PARTS BREAKDOWN

Pegged to FY17F							
Segment	PBT	PAT	Ownership	PE Multiple	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	560.5	424.3	51%	10	2,164.0	1.85	1,168.3
Equipment	227.3	172.1		10	1,634.9	1.40	
Manu & Eng	12.1	9.2		10	87.1	0.07	
O&G						0.45	
Others		(50.0)			(50.0)	(0.04)	
Share of Associates & JV		213.8		11	2,329.9	1.99	
Net Debt (Company level)					(611.8)	(0.52)	
Fair Value:						<u><u>5.20</u></u>	

Source: AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

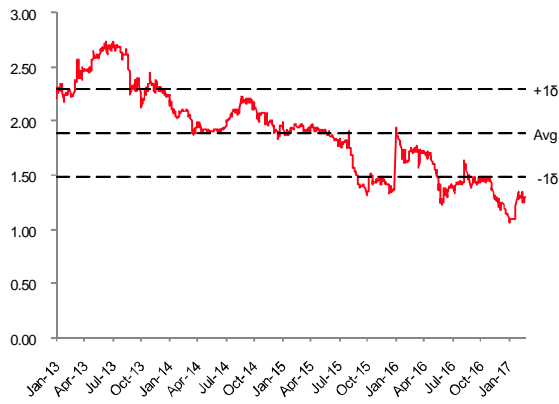


EXHIBIT 4: PE BAND CHART

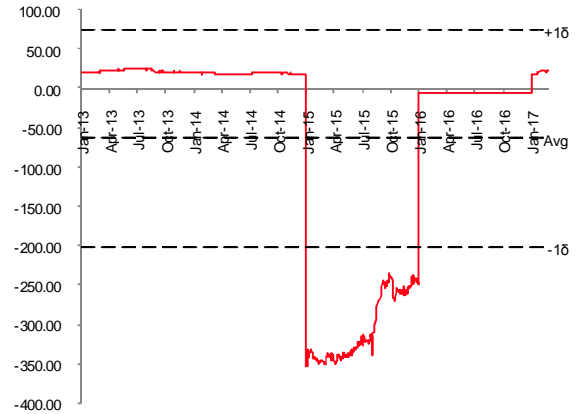


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	14,441.6	10,965.1	10,928.8	11,170.5	11,939.6
EBITDA	646.3	(1,648.2)	945.6	1,159.2	1,244.8
Depreciation/Amortisation	(510.7)	(554.6)	(563.0)	(613.8)	(666.9)
Operating income (EBIT)	135.6	(2,202.8)	382.7	545.4	577.9
Other income & associates	134.4	154.8	213.8	230.3	248.1
Net interest	(0.4)	(105.7)	(31.7)	(60.5)	(50.8)
Exceptional items	-	-	-	-	-
Pretax profit	269.7	(2,153.8)	564.7	715.2	775.1
Taxation	(267.5)	(140.7)	(91.2)	(126.1)	(137.0)
Minorities/pref dividends	(39.4)	603.9	(200.8)	(190.8)	(190.0)
Net profit	(37.2)	(1,690.6)	272.7	398.4	448.1
Core net profit	207.8	(401.8)	272.7	398.4	448.1
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	8,102.8	7,639.0	8,222.2	8,786.2	9,379.5
Intangible assets	25.2	-	-	-	-
Other long-term assets	2,429.9	2,431.1	2,491.6	2,546.5	2,614.4
Total non-current assets	10,557.9	10,070.2	10,713.8	11,332.7	11,993.9
Cash & equivalent	2,734.1	2,179.0	1,845.4	2,280.9	2,664.3
Stock	1,890.0	1,922.4	1,367.6	1,397.8	1,474.4
Trade debtors	1,833.4	1,022.4	1,308.5	1,337.4	1,429.5
Other current assets	1,209.9	1,012.3	1,012.3	1,012.3	1,012.3
Total current assets	7,667.4	6,136.0	5,533.7	6,028.4	6,580.4
Trade creditors	2,241.2	1,781.2	1,673.0	1,710.0	1,808.1
Short-term borrowings	3,725.0	2,640.6	3,810.1	4,367.1	4,924.1
Other current liabilities	371.8	197.4	134.4	135.0	136.8
Total current liabilities	6,338.0	4,619.2	5,617.5	6,212.1	6,869.0
Long-term borrowings	2,289.8	3,788.6	3,223.8	3,271.5	3,319.2
Other long-term liabilities	213.7	889.5	105.7	107.4	112.3
Total long-term liabilities	2,503.4	4,678.1	3,329.5	3,378.9	3,431.5
Shareholders' funds	6,584.5	4,721.7	4,912.6	5,191.5	5,505.2
Minority interests	2,799.4	2,187.1	2,387.9	2,578.7	2,768.6
BV/share (RM)	5.64	4.04	4.20	4.44	4.71
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	269.7	(2,153.8)	564.7	715.2	775.1
Depreciation/Amortisation	510.7	554.6	563.0	613.8	666.9
Net change in working capital	67.9	774.8	(701.2)	(20.3)	(64.9)
Others	100.8	637.7	(414.0)	(448.7)	(499.2)
Cash flow from operations	949.1	(186.7)	12.5	860.1	878.0
Capital expenditure	(2,280.4)	(966.3)	(1,092.9)	(1,117.0)	(1,194.0)
Net investments & sale of fixed assets	12.0	18.6	-	-	-
Others	528.0	159.4	223.9	207.3	229.0
Cash flow from investing	(1,740.3)	(788.2)	(868.9)	(909.8)	(964.9)
Debt raised/(repaid)	1,322.6	-	604.7	604.7	604.7
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(805.2)	(212.7)	(81.8)	(119.5)	(134.4)
Others	-	-	-	-	-
Cash flow from financing	517.3	(212.7)	522.9	485.2	470.2
Net cash flow	(273.9)	(1,187.5)	(333.5)	435.5	383.3
Net cash/(debt) b/f	2,830.4	2,655.4	2,179.0	1,845.4	2,280.9
Net cash/(debt) c/f	2,621.1	1,493.2	1,845.4	2,280.9	2,664.3
Key Ratios (YE31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	(3.3)	(24.1)	(0.3)	2.2	6.9
EBITDA growth (%)	(64.3)	(355.0)	(157.4)	22.6	7.4
Pretax margin (%)	1.9	(19.6)	5.2	6.4	6.5
Net profit margin (%)	(0.3)	(15.4)	2.5	3.6	3.8
Interest cover (x)	336.5	(2,083.3%)	12.1	9.0	11.4
Effective tax rate (%)	99.2	6.5	16.2	17.6	17.7
Dividend payout (%)	nm	nm	22.5	22.5	22.5
Debtors turnover (days)	49	48	39	43	42
Stock turnover (days)	47	63	55	45	44
Creditors turnover (days)	56	67	58	55	54

Source: Company, AmInvestment Bank Bhd estimates

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