

Company Note

I Malaysia

HOLD (no change)

Consensus ratings*: Buy 3 Hold 5 Sell 8

Current price: RM5.58
 Target price: RM5.50
 Previous target: RM5.50
 Up/downside: -1.4%
 CIMB / Consensus: 13.5%

Reuters: UMWS.KL
 Bloomberg: UMWK MK
 Market cap: US\$1,469m
 RM6,519m

Average daily turnover: US\$1.36m
 RM6.03m

Current shares o/s: 1,168m
 Free float: 34.2%

*Source: Bloomberg

Key changes in this note

- FY17-18F Revenue decreased by 1-2%.
- FY17F EPS decreased by 2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.5	7.3	-20.1
Relative (%)	-2.9	3.2	-21.9

Major shareholders	% held
Permodalan Nasional Bhd	50.1
EPF	15.7

Analyst(s)



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UMW Holdings

4Q16: Kitchen sinking quarter

- FY16 core net loss was worse than our and Bloomberg consensus expectations due to weaker-than-expected contribution across all its operating divisions.
- Slipped into core net loss of RM401.8m in FY16 due to widening oil and gas losses, decline in automotive sales volume and weak demand from mining.
- Incurred major impairment of RM1.16bn in FY16 for its oil and gas assets, significantly higher than RM336m impairment charges in FY15.
- We expect gradual earnings recovery for UMW in FY17 in view of sluggish demand in automotive segment and potential earnings drag from oil and gas in 1H17.
- Maintain Hold and RM5.50 target price, based on 12x CY18F P/E (10-year mean).

Narrowing core net loss in 4Q16

UMW incurred a major impairment related to its oil and gas assets in 4Q16. This is in line with the group's strategy to exit the oil and gas business. Stripping out the one-off impairment charges, UMW posted a lower core net loss of RM283.8m in 4Q16 vs. RM354.1m in 4Q15 partly due to lower tax and depreciation charges. As expected, there was no dividend declared for the quarter.

Slipped into core net loss in FY16

FY16 revenue plunged 24% yoy on the back of lower sales contribution across all four core operations. The company slipped into core net loss of RM401.8m in FY16 from core net profit of RM370.5m in FY15, after adjusting for RM1.16bn impairment charges on oil and gas assets. We attributed the earnings decline to widening losses at its oil and gas division, and weak demand in the automotive and equipment divisions.

Total auto sales volume fell 12% yoy

Auto revenue fell 21.1% yoy in FY16 on the back of lower Toyota and Lexus sales (-32% yoy), reducing auto earnings by 30% yoy. Moreover, the RM depreciation against the US\$ resulted in higher import costs for CKD kits and CBU models, further compressing margins. Nevertheless, management is optimistic of stronger sales recovery in 2017, driven by new facelift models such as Corolla Altis, Camry and Innova. The group is projecting 70k unit sales for Toyota and Lexus (vs. 65k in 2016)

Widening losses from oil and gas division

UMW Oil and Gas (UMW-OG) reported a wider net loss of RM1.2bn in FY16 vs. RM348m in FY15 due to lower rig utilisation and charter rates. However, we expect the situation to improve in 2H17 following management's decision to exit the oil and gas division. To recap, UMW plans to complete the UMW-OG divestment in 2Q17.

Moving into high value manufacturing with aerospace venture

UMW is moving into high value manufacturing business with its engine fan case project. It was awarded a 25-year contract from Rolls-Royce to manufacture fan cases for Trent 1000 and 7000 engines, which are used in Boeing 787 and Airbus A330neo. We expect manufacturing contribution to revenue to grow from 5% in FY16 to 10% in FY18.

Maintain Hold and target price

Maintain Hold rating and RM5.50 target price, based on 12x CY18F P/E (10-year historical mean). Switch to Bermaz for better exposure to the auto sector. Key upside risk is stronger demand recovery in auto, while downside risks include delayed disposal of both listed and non-listed oil and gas assets.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	14,442	10,965	10,276	10,727	11,152
Operating EBITDA (RMm)	1,054	(359)	931	1,378	1,540
Net Profit (RMm)	243.8	(401.8)	236.8	446.5	415.5
Core EPS (RM)	0.26	(0.34)	0.20	0.38	0.36
Core EPS Growth	(60%)	(230%)		89%	(7%)
FD Core P/E (x)	20.83	NA	27.18	14.41	15.49
DPS (RM)	0.20	0.00	0.20	0.20	0.20
Dividend Yield	3.58%	0.00%	3.58%	3.58%	3.58%
EV/EBITDA (x)	11.95	NA	12.00	7.93	7.30
P/FCFE (x)	6.84	NA	10.70	9.85	10.88
Net Gearing	35.0%	61.5%	46.6%	33.4%	31.6%
P/BV (x)	0.99	1.38	2.48	2.29	2.15
ROE	4.7%	(7.1%)	6.4%	16.3%	14.2%
% Change In Core EPS Estimates			(2.04%)	0.03%	
CIMB/consensus EPS (x)			1.13	1.49	

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	4Q16	4Q15	yoy % chg	3Q16	qoq % chg	4Q16 cum	4Q15 cum	yoy % chg	Prev. FY16F	Comments
Revenue	3,062.3	4,182.7	(26.8)	2,856.8	7.2	10,965.1	14,441.6	(24.1)	9,837.7	Revenue dropped due to lower sales across all segments
Operating costs	(3,763.1)	(4,494.4)	(16.3)	(2,807.0)	34.1	(11,324.5)	(13,387.6)	(15.4)	(9,456)	
EBITDA	(700.8)	(311.6)	124.9	49.8	nm	(359.4)	1,054.0	(134.1)	381.7	
EBITDA margin (%)	(22.9)	(7.5)		1.7		(3.3)	7.3		3.9	Margin declines due to higher import cost for UMW
Depn & amort.	(141.2)	(148.9)	(5.1)	(151.0)	(6.4)	(554.6)	(510.7)	8.6	(527.9)	Toyota CKD kits and lower rig utilisation
EBIT	(842.0)	(460.5)	82.8	(101.2)	nm	(914.1)	543.3	(268.2)	(17.0)	
Interest expense	(60.6)	(42.1)	44.2	(41.1)	47.7	(186.3)	(126.8)	46.9	(186.5)	
Interest & invt inc	22.3	30.7	(27.5)	14.6	52.5	80.5	126.4	(36.3)	123.0	
Associates' contrib	65.3	71.8	(9.0)	40.8	59.9	154.8	134.4	15.1		Stronger contribution from Perodua
Exceptionals	(1,283.0)	69.8	n.m.	(34.9)	>(100)	(1,288.8)	(407.7)	216.1	0.0	RM1.16bn impairment in oil and gas assets in FY16
Pretax profit	(2,098.0)	(330.2)	535.3	(121.6)	nm	(2,153.8)	269.7	(898.7)	(80.4)	Below expectations
Tax	(24.9)	(64.9)	(61.6)	(41.3)	(39.6)	(140.7)	(267.5)	(47.4)	(79.6)	Higher tax rate due to expenses that were not allowable for tax purposes and losses in subs
Tax rate (%)	(1.2)	(19.6)		(33.9)		(6.5)	99.2		(99.0)	
Minority interests	556.2	110.8	402.0	34.0	nm	603.9	(39.4)	n.m.	(9.8)	
Net profit	(1,566.8)	(284.3)	451.1	(128.8)	>100	(1,690.6)	(37.2)	n.m.	(169.9)	
Core net profit	(283.8)	(354.1)	(19.9)	(94.0)	>100	(401.8)	370.5	(208.4)	(169.9)	Below expectations
EPS (sen)	(134.1)	(24.3)	451.1	(11.0)	>100	(144.7)	(3.2)	n.m.	(0.9)	
Core EPS (sen)	(24.3)	(30.3)	(19.9)	(8.0)	>100	(34.4)	31.7	(208.4)	(14.5)	
DPS (sen)	0.0	20.0	(100.0)	0.0	n.m.	-	20.0	(100.0)	0.0	

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Revenue breakdown

Revenue Segmental	4Q16	4Q15	yoy % chg	3Q16	qoq % chg	4Q16 cum	4Q15 cum	yoy % chg	Comments
Automotive	2,462.3	3,387.6	(27.3)	2,263.4	8.8	8,458.8	10,721.9	(21.1)	Combine Toyota and Lexus sales volume dropped 32% yoy in FY16
Equipment	330.8	401.2	(17.5)	342.8	(3.5)	1,382.8	1,882.6	(26.5)	Lower demand from construction and mining sectors
Oil & Gas (listed)	53.5	131.3	(59.3)	49.7	7.7	320.8	839.9	(61.8)	Lower utilisation from oil rigs
Manufacturing & Engineering	152.6	187.2	(18.5)	144.6	5.6	599.6	707.5	(15.2)	Declined due to lower demand from auto industry and
Oil & Gas (unlisted)	67.0	98.1	(31.7)	58.4	14.8	221.3	324.6	(31.8)	competition from other brands
Others	(4.0)	(22.7)	(82.2)	(2.1)	94.2	(18.3)	(34.9)	(47.6)	
Total	3,062.3	4,182.7	(26.8)	2,856.8	7.2	10,965.1	14,441.6	(24.1)	

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Earnings revision

	Previous			Revised			Changes		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Revenue	10,415	10,931	na	10,276	10,727	11,152	-1%	-2%	na
EBITDA	872	1,325	na	931	1,378	1,540	7%	4%	na
Pretax Profit	507	908	na	516	925	981	2%	2%	na
Net Profit	242	446	na	237	447	416	-2%	0%	na
EPS	21	38	na	20	38	36	-2%	0%	na

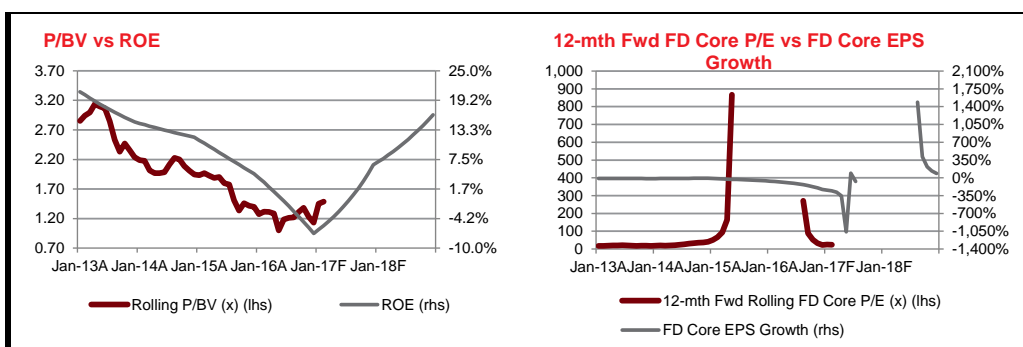
SOURCES: CIMB, COMPANY REPORTS

Figure 4: Sector comparison

Company	Recom.	Price (RM)	Target Price (RM)	Mkr Cap (US\$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18
Bermaz Auto Berhad	Add	2.01	2.48	521	11.8	10.0	4.06	3.60	36.0%	38.2%	6.7	5.7	7.1%	7.2%
DRB-Hicom	Add	1.41	1.69	614	na	20.7	0.41	0.41	-1.6%	2.0%	0.9	0.6	0.8%	1.1%
Tan Chong Motor Holdings	Reduce	1.67	1.61	246	na	41.1	0.41	0.41	-1.1%	1.0%	10.1	8.3	4.8%	4.8%
UMW Holdings	Hold	5.58	5.50	1,469	na	14.6	2.48	2.29	6.4%	16.3%	12.1	7.9	3.6%	3.6%
Sector average					na	15.1	1.01	0.99	2.2%	6.6%	7.6	5.3	3.7%	3.8%

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	14,442	10,965	10,276	10,727	11,152
Gross Profit	3,391	1,645	1,644	1,877	1,673
Operating EBITDA	1,054	(359)	931	1,378	1,540
Depreciation And Amortisation	(511)	(555)	(550)	(569)	(669)
Operating EBIT	543	(914)	380	809	871
Financial Income/(Expense)	(0)	(106)	(15)	(87)	(54)
Pretax Income/(Loss) from Assoc.	134	155	151	204	164
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	677	(865)	516	925	981
Exceptional Items	(127)				
Pre-tax Profit	551	(865)	516	925	981
Taxation	(267)	(141)	(124)	(208)	(294)
Exceptional Income - post-tax					
Profit After Tax	283	(1,006)	392	717	686
Minority Interests	(39)	604	(155)	(271)	(271)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	244	(402)	237	447	416
Recurring Net Profit	309	(402)	237	447	416
Fully Diluted Recurring Net Profit	309	(402)	237	447	416

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	1,054	(359)	931	1,378	1,540
Cash Flow from Inv. & Assoc.					
Change In Working Capital	68	775	142	(182)	(413)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	511	528	550	569	669
Net Interest (Paid)/Received	1	106	15	87	54
Tax Paid	(274)	(207)	(124)	(208)	(294)
Cashflow From Operations	1,360	842	1,514	1,644	1,556
Capex	(2,280)	(966)	(1,000)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	44	0	0	0	0
Acq. Of Subsidiaries/investments			0	0	
Other Investing Cashflow	126	81	87	10	35
Cash Flow From Investing	(2,111)	(886)	(913)	(990)	(965)
Debt Raised/(repaid)	1,692	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(479)	0	(234)	(234)	(234)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	1,213	0	(234)	(234)	(234)
Total Cash Generated	462	(44)	368	420	358
Free Cashflow To Equity	941	(44)	602	654	591
Free Cashflow To Firm	(878)	(230)	499	557	502

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	2,734	2,179	249	877	1,152
Total Debtors	1,833	1,022	1,101	1,154	1,405
Inventories	1,890	1,922	1,382	1,578	1,833
Total Other Current Assets	1,252	1,012	962	962	962
Total Current Assets	7,710	6,136	3,695	4,571	5,352
Fixed Assets	8,103	7,639	3,952	4,089	4,420
Total Investments	3	2	0	0	0
Intangible Assets	25	0	0	0	0
Total Other Non-Current Assets	2,384	2,429	2,426	2,083	1,833
Total Non-current Assets	10,515	10,070	6,378	6,172	6,253
Short-term Debt	3,725	2,641	1,558	909	709
Current Portion of Long-Term Debt					
Total Creditors	2,241	1,781	1,462	1,529	1,623
Other Current Liabilities	372	197	192	192	192
Total Current Liabilities	6,338	4,619	3,213	2,630	2,523
Total Long-term Debt	2,290	3,789	1,005	1,787	2,303
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	889	888	888	888
Total Non-current Liabilities	2,503	4,678	1,893	2,675	3,191
Total Provisions	0	0	0	0	0
Total Liabilities	8,841	9,297	5,105	5,305	5,714
Shareholders' Equity	6,584	4,722	2,632	2,845	3,027
Minority Interests	2,797	2,187	2,335	2,593	2,864
Total Equity	9,381	6,909	4,968	5,438	5,891

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(3.3%)	(24.1%)	(6.3%)	4.4%	4.0%
Operating EBITDA Growth	(46%)	(134%)	N/A	48%	12%
Operating EBITDA Margin	7.3%	(3.3%)	9.1%	12.8%	13.8%
Net Cash Per Share (RM)	(2.81)	(3.64)	(1.98)	(1.56)	(1.59)
BVPS (RM)	5.64	4.04	2.25	2.44	2.59
Gross Interest Cover	4.29	(4.91)	3.71	8.33	9.74
Effective Tax Rate	48.6%	0.0%	24.0%	22.5%	30.0%
Net Dividend Payout Ratio	36.6%	NA	64.8%	35.7%	32.9%
Accounts Receivables Days	49.44	47.66	37.72	38.37	41.88
Inventory Days	61.44	74.85	69.87	61.05	65.68
Accounts Payables Days	73.63	78.98	68.57	61.68	60.67
ROIC (%)	3.89%	(5.32%)	2.37%	7.42%	8.02%
ROCE (%)	4.6%	(5.8%)	4.5%	10.5%	10.6%
Return On Average Assets	3.90%	(4.56%)	4.01%	9.52%	9.14%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	0.0%	2.0%	0.0%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-5.7%	-9.1%	6.4%	6.2%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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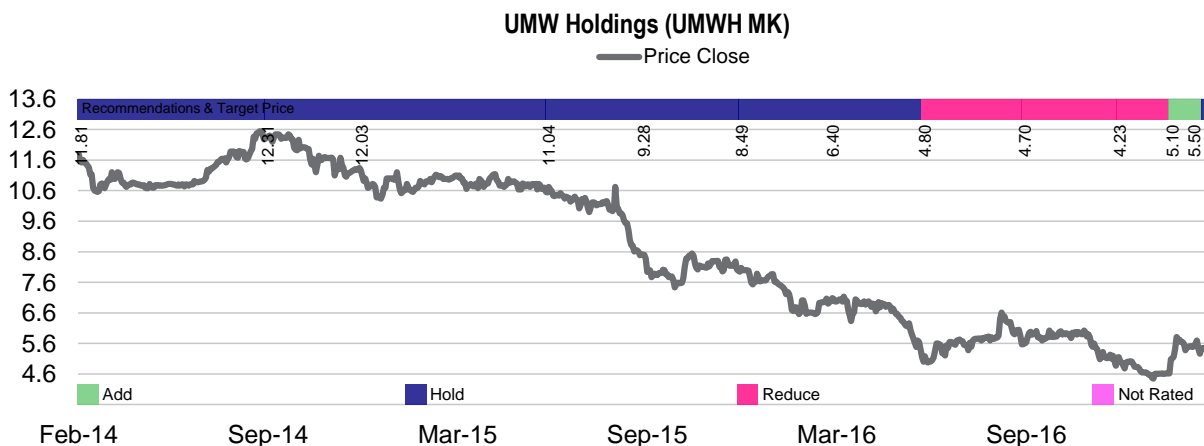
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	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared,

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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