

UMW (HOLD ↓, EPS ↓)

INDUSTRY: UNDERWEIGHT

EARNINGS EVALUATION

28 February 2017

Price Target: RM5.35(↓)

Share price: RM5.58

Dragged by O&G in 2016; Improvement in 2017

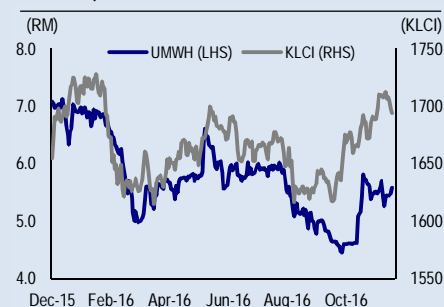
Results	<ul style="list-style-type: none"> ▪ Below Expectation - Reported core net loss of RM633.3m in 4Q16, expanding FY16 loss to RM739.5m as compared to HLIB forecasted loss of RM168.3m for FY16 and consensus of RM68.2m.
Deviations	<ul style="list-style-type: none"> ▪ Lower than expected sales and margins across all segments as well as kitchen sinking exercises on Oil&Gas segments (both listed and unlisted).
Dividends	<ul style="list-style-type: none"> ▪ Proposed distribution of its 55.73% shareholding in UMW-OG to UMW shareholders, which may fetch RM0.65/share (upon disposal) or 11.6% dividend yield.
Highlights	<ul style="list-style-type: none"> ▪ YoY: Revenue dropped by 26.8% on overall lower sales across all segments – Automotive, Equipment, O&G (including UMWOG), Manufacturing and Others. Combined with higher cost structures and kitchen sinking exercises, UMW's core net loss expanded to RM633.3m. ▪ QoQ: Similarly, core net loss expanded drastically, mainly on kitchen sinking exercises. ▪ YTD: FY16 reverted to net loss of RM739.5m (from RM263.6m profit), dragged by kitchen sinking exercises. ▪ Outlook: UMW is strategizing itself into 3 core business segments – Automotive, Equipment and Manufacturing. UMW will distribute out its stake in UMWOG to its shareholders by mid-2017 (demerger) and progressively dispose the remaining oil & gas (unlisted) assets by end 2017, in order to streamline its earnings and improve its balance sheet. UMW will still have to consolidate the expected loss from UMWOG for 1H17. ▪ 2017 will remain a tough year for UMW, given subdued consumer sentiments and weakened RM as well as slowdown in the demand for industrial and heavy equipment (mining and construction). Nevertheless, 2017 will still be an improvement in term of lower loss or break-even (vs. 2016). ▪ Earning growth will be more prominent in 2018-2019 with new contribution from Rolls-Royce manufacturing plant.
Risks	<ul style="list-style-type: none"> ▪ Prolonged tightening of banks' HP rules. ▪ Slowdown in the Malaysian economy affecting car sales. ▪ Global automotive supply chain disruption. ▪ Depreciation of RM. ▪ Plunge in crude oil price and slowdown in O&G exploration.
Forecasts	<ul style="list-style-type: none"> ▪ FY17 and FY18 earnings forecast adjusted to RM9.0m and RM253.9m from RM3.6m and RM361.2m respectively.
Rating	HOLD (↓) <ul style="list-style-type: none"> ▪ Potential realizable dividend yield of up to 11.6% (dependent on share price movement of UMWOG). However, concerns remain on management commitment in exiting Oil & Gas segment by end 2017.
Valuation	<ul style="list-style-type: none"> ▪ Given the recent surge in share price following HLIB previous upgrade, we downgrade our recommendation to HOLD with lower TP of RM5.35 (from RM5.60) based on SOP.

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KLCI	1694
Expected share price return	-4.1%
Expected dividend return	11.6%
Expected total return	7.5%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	6,519
3-mth avg. volume ('000)	1,269
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-2.4	7.3	-20.1
Relative	-2.9	3.1	-21.5

Major shareholders

PNB	56.1%
EPF	13.7%
KWAP	5.2%

Summary Earnings Table

FYE Dec (RM m)	FY16A	FY17E	FY18F	FY19F
Turnover	10,965	11,145	11,775	13,015
EBITDA	-359	516	783	1,051
Pre-tax Profit	493	484	571	659
Rpt. net profit	-1,691	9	254	457
Norm. net profit	-740	9	254	457
Norm. EPS (sen)	-63.3	0.8	21.7	39.2
P/E (x)	-8.8	720.9	25.7	14.3
Book Value (RM)	4.0	2.8	3.0	3.3
P/B (x)	1.4	2.0	1.9	1.7
Net Dvd Yield (%)	11.6	0.9	0.9	1.8
Net Gearing	89.5	71.4	93.0	85.6
ROE (%)	-13.1	0.2	7.5	12.6
ROA (%)	-4.3	0.1	2.3	3.9

Consensus:

EPS (sen)	17.9	25.7	N.A.
% Diff	-95.7	-15.4	N.A.
HLIB			

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	4Q15	3Q16	4Q16	QoQ (%)	YoY (%)	Comment
Revenue	4,182.7	2,856.8	3,062.3	7.2	-26.8	YoY: Revenue dropped due to; 1) lower Toyota and Lexus sales (Automotive) on weaker consumer sentiment; 2) lower O&G contribution on lower utilization and charter rate of rigs (UMWOG); 3) slowdown in the mining and construction sectors (Equipment); and 4) lower demand for automotive parts and components and lubricants (Manufacturing). QoQ: Stronger contribution on automotive segment, underpinned by higher year-end sales in 4Q16.
EBITDA	294.2	51.0	-700.8	-1473.7	-338.2	
EBITDA Margin (%)	7.0	1.8	-22.9	-1381.5	-425.3	YoY & QoQ: EBITDA margin declined drastically, being dragged by UMWOG as well as unlisted oil & gas segments.
EBIT	150.6	-100.0	-842.0	742.4	-659.2	
EBIT Margin (%)	3.6	-3.5	-27.5	-24.0	-31.1	Filtered through lower EBITDA margin.
Net Finance Expense	-10.5	-26.4	-38.4	45.0	264.5	
Associates	71.8	40.8	65.3	59.9	-9.0	
Els	-542.1	-36.1	-1,283.0			Related to derivatives, forex, impairments and provisions, as UMW decided for kitchen sinking exercise during year end.
Reported PBT	-330.2	-121.6	-2,098.0	1625.0	535.3	
Tax	-57.3	-41.3	-24.9	-39.6	-56.5	
Reported Net Profit	-387.5	-162.9	-2,123.0	1203.4	447.8	
Reported PATAMI	-276.7	-128.7	-1,566.2	1116.8	465.9	
Core PATAMI	-50.5	-92.7	-633.3	583.5	1154.9	Core net loss in 4Q16, mainly dragged by O&G segment (both listed and unlisted).
Reported EPS (Sen)	-23.7	-11.0	-134.1	1116.8	465.9	
Core EPS (Sen)	-4.3	-7.9	-54.2	583.5	1154.9	

Company, HLIB

Figure #2: Cumulative Result Comparison

FYE Dec (RMm)	FY15	FY16	YoY (%)	FY16E	Dif (%)	Comment
Revenue	14,441.6	10,965.1	-24.1	10,822.7	101.3	Revenue declined across all segments: 1) Automotive – lower car sales volume; 2) O&G – lower rigs utilization and charter rates; 3) Equipment – lower equipment demand; and 4) Manufacturing – lower demand from domestic market.
EBITDA	1,308.0	-359.4	-127.5	422.9	-85.0	
EBITDA Margin (%)	9.1	-3.3	-12.3	3.9	-7.2	EBITDA margin declined on lower group sales volume and asset utilization rates.
EBIT	802.6	-914.1	-213.9	-179.1	510.2	
EBIT Margin (%)	5.6	-8.3	-13.9	-1.7	-6.7	Filtered through lower EBITDA margin.
Net Finance Expense	0.4	-105.7	-26600.5	-53.5	197.7	
Associates	134.4	154.8	15.1	121.3	127.6	Higher contribution from associates, driven by Perodua.
Els	-667.7	-1,288.8		0.0		Related to derivatives, forex, impairments and provisions.
Reported PBT	269.7	-2,153.8	-898.7	-111.3	1934.6	
Tax	-259.9	-140.6	-45.9	-134.8	104.3	
Reported Net Profit	9.7	-2,294.4	-23678.3	-246.2	932.0	
Reported PATAMI	-29.6	-1,690.4	5604.5	-168.3	1004.3	
Core PATAMI	263.6	-739.5	-380.5	-168.3	439.4	Core PATAMI turned to loss, mainly dragged down by Automotive, O&G and Others segment, below HLIB expectation.
Reported EPS (Sen)	-2.5	-144.7	5604.5	-14.4	1004.3	
Core EPS (Sen)	22.6	-63.3	-380.5	-14.4	439.4	

Company, HLIB

Figure #3: UMW Group Automotive Sales Statistics

Unit Sales	1Q16	2Q16	3Q16	4Q16	FY14	FY15	FY16
Toyota (51% ownership)	10,318	17,033	17,271	19,237	102,035	93,760	63,859
Lexus (51% ownership)	272	359	334	388	1,601	2,101	1,353
Perodua (38% ownership)	47,181	50,189	53,519	56,211	195,579	213,307	207,100
Total	57,771	67,581	71,124	75,836	148,192	147,234	138,705
Growth YoY (%)	-21.67	-9.21	-2.30	-14.00		-0.6	-5.8
Growth QoQ (%)	-34.5	17.0	5.2	6.6			

Company, HLIB

Figure #4: UMW Earnings Breakdown

	4Q15	3Q16	4Q16	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	3,387.6	2,263.4	2,462.3	8.8	-27.3	Related to sales volume of Toyota and Lexus, which declined YoY but improved QoQ (attributed to aggressive year-end sales).
Equipment	401.2	342.8	330.8	-3.5	-17.5	Dropped YoY on slowdown in the mining sector and stiff competition in the construction sector, but stable QoQ.
Oil & Gas	131.3	49.7	53.5	7.7	-59.3	Dropped YoY mainly on lower charter rate and utilization rate, but stable QoQ.
Manufacturing & Engineering	187.2	144.6	152.6	5.6	-18.5	Lower YoY demand from domestic automotive manufacturing sector.
Oil & Gas Unlisted	98.1	58.4	67.0	14.8	-31.7	Affected by on-going weak oil prices.
Others	3.3	24.6	(12.7)	N.M.	N.M.	
Intersegment	(25.9)	(26.6)	8.7	N.M.	N.M.	
Total	4,182.7	2,856.8	3,062.3	7.2	-26.8	
Reported PATAMI						
Automotive	124.5	77.3	98.8	27.8	-20.7	Attributed to stronger contribution from Perodua associates, which was partially offset by weaker UMW Toyota.
Equipment	26.4	25.0	27.4	9.2	3.8	Stable profits contribution.
Oil & Gas	(228.0)	(75.5)	(511.8)	N.M.	N.M.	Affected by low utilization and impairments during year-end.
Manufacturing & Engineering	8.5	(2.9)	(3.6)	25.3	-142.8	Attributed to lower sales volume.
Oil & Gas Unlisted	(217.4)	15.1	(442.1)	N.M.	N.M.	Affected by impairments during year-end.
Others	0.0	(167.9)	(734.8)	N.M.	N.M.	Affected by derivatives, forex and impairments during year-end.
Total	(286.0)	(128.8)	(1,566.2)	1,115.7	447.5	
Core PATAMI	(50.5)	(92.7)	(633.3)	583.5	N.M.	

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Figure #5: UMW SOP

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	2,947.9	2.52	FY18 PE 9x
Equipment	Various	1,294.3	1.11	FY18 PE 8x
Oil & Gas	55.73	729.0	0.65	Assuming realizable share price at RM0.65
Manufacturing & Engineering	Various	1,244.3	1.07	FY19 PE 10x (when Rolls Royce plant commences full operation in FY19).
Others	Various	0.0	0.00	
Target Price (RM)		3,267.6	5.35	Implied FY17 P/E of 40.2x & P/B of 0.7x

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Figure #6: HLIB Forecast versus Consensus

	FY17E		Difference (%)	FY18F		Difference (%)	FY19F		Difference (%)
	HLIB	Consensus		HLIB	Consensus		HLIB	Consensus	
Revenue (RMm)	11,145.1	11,494.0	-3.0%	11,774.7	11,998.0	-1.9%	13,014.6	N.A.	N.A.
EBITDA (RMm)	544.5	814.3	-33.1%	809.2	1,063.0	-23.9%	1,074.4	N.A.	N.A.
Core Profit (RMm)	9.0	223.5	-96.0%	253.9	309.7	-18.0%	457.5	N.A.	N.A.
EPS (Sen)	0.8	17.9	-95.7%	21.7	25.7	-15.4%	39.2	N.A.	N.A.

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Revenue	14,442	10,965	11,145	11,775	13,015
Operating cost	-12,872	-11,324	-10,629	-10,991	-11,963
EBITDA	1,569	-359	516	783	1,051
Depreciation	-765	-555	-415	-320	-321
EBIT	804	-914	101	464	730
Interest income	-127	-186	-85	-92	-96
Interest expense	-1	-106	-47	-60	-74
Associates	134	155	116	140	159
Exceptionals	50	1,544	399	118	-59
Pretax profit	861	493	484	571	659
Taxation	-859	-2,788	-448	-193	-43
Minorities	-39	604	-27	-124	-159
Net profit	-37	-1,691	9	254	457
Core PATAMI	256	-740	9	254	457
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-144.7	0.8	21.7	39.2
Core EPS (sen)	21.9	-63.3	0.8	21.7	39.2

Balance sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Fixed assets	8,106	7,642	3,081	4,031	4,180
Other assets	4,038	3,709	4,038	4,080	4,136
Working capital	1,968	1,778	1,602	1,711	1,906
Receivables	1,458	754	780	824	911
Payables	-1,380	-898	-850	-879	-957
Inventory	1,890	1,922	1,672	1,766	1,952
Net cash	-3,281	-4,226	-2,337	-3,224	-3,259
Cash	2,734	2,179	1,093	721	562
ST debt	-3,725	-2,617	-1,117	-1,117	-1,117
LT debt	-2,290	-3,789	-2,313	-2,829	-2,705
Equity	6,584	4,722	3,271	3,467	3,808
Share capital	584	584	584	584	584
Reserves	6,000	4,138	2,687	2,883	3,223
Minorities	2,799	2,187	1,119	1,138	1,162
Other liabilities	1,447	1,994	1,994	1,994	1,994

Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
GDP Growth (%)	6.0%	5.0%	4.2%	4.5%	4.5%
TIV ('000)	666.5	666.7	572.0	600.6	618.6
Growth (%)	1.6%	0.0%	-14.2%	5.0%	3.0%
Unit Sale (Unit)	309.2	272.3	269.1	279.8	289.6
Toyota ('000)	93.8	63.9	68.2	70.9	74.5
Lexus ('000)	2.1	1.4	1.3	1.3	1.3
Perodua ('000)	213.3	207.1	199.6	207.5	213.8
Average Price					
UMW (RM '000)	107.9	123.8	113.9	110.5	110.5
Perodua (RM '000)	38.5	38.9	39.2	39.6	40.0

Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
EBITDA	1,569	-359	516	783	1,051
Net interest	-1	-106	-47	-60	-74
WCap changes	69	190	177	-110	-195
Taxation	-283	-136	-134	-166	-199
Others	-279	341	0	0	0
Opex cashflow	1,075	-70	512	448	583
Capex & acq.	-2,388	-925	-1,655	-1,270	-470
Free cashflow	-1,313	-995	-1,143	-822	113
Other inv cashflow	502	248	87	98	103
Net borrowings	1,323	433	824	516	-124
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	-759	-58	-117
Other fin cashflow	-307	-96	-95	-106	-135
Net cashflow	-274	-526	-1,086	-372	-159
Forex translation	65	25	0	0	0
Beginning cash	3,277	2,655	2,155	1,069	697
Ending cash	3,067	2,155	1,069	697	538

Valuation ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Rep. EPS (sen)	-3.2	-144.7	0.8	21.7	39.2
Core EPS (sen)	21.9	-63.3	0.8	21.7	39.2
PER (x)	-175.4	-3.9	720.9	25.7	14.3
Core PER (x)	25.5	-8.8	720.9	25.7	14.3
Net DPS (sen)	20.0	65.0	5.0	5.0	10.0
Net DY (%)	3.6	11.6	0.9	0.9	1.8
BV/ share (RM)	5.6	4.0	2.8	3.0	3.3
P/BV (x)	1.0	1.4	2.0	1.9	1.7
FCF/share (sen)	-112.4	-85.2	-97.9	-70.3	9.7
Market Cap	6,519	6,519	6,519	6,519	6,519
Net cash	-3,281	-4,226	-2,337	-3,224	-3,259
Enterprise value	9,800	10,745	8,856	9,743	9,778
EV/EBITDA (x)	6.2	-29.9	17.2	12.4	9.3
ROE (%)	3.9	-13.1	0.2	7.5	12.6
ROA (%)	1.5	-4.3	0.1	2.3	3.9

Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Growth (%)					
Sales	-3.3	-24.1	1.6	5.6	10.5
EBITDA	-19.5	-122.9	-243.6	51.8	34.2
EBIT	-48.8	-213.7	-111.1	359.0	57.4
PBT	-46.6	-192.3	-119.7	219.1	49.8
Core PATAMI	-105.7	4448.1	-100.5	2707.7	80.2
Margins (%)					
EBITDA	10.9	-3.3	4.6	6.7	8.1
EBIT	5.6	-8.3	0.9	3.9	5.6
PBT	6.0	4.5	4.3	4.8	5.1
Core PATAMI	1.8	-6.7	0.1	2.2	3.5
Net Gearing (%)	49.8	89.5	71.4	93.0	85.6

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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