

Company Result

28 February 2017

UMW Holdings

Better days ahead with divestment of O&G

**HOLD
Maintained**

Share Price	RM5.58
Target Price	RM5.20

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6519.08
52-week price Range	RM4.43– 7.37
Beta (against KLCI)	1.18
3-m Average Daily Volume	1.29m
3-m Average Daily Value [^]	RM6.62m

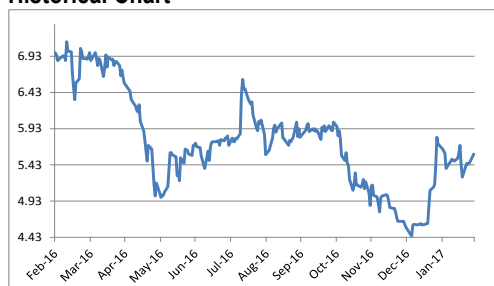
Share Performance

	1m	3m	12m
Absolute (%)	-1.2	22.1	-21.2
Relative (%-pts)	-2.5	3.8	-23.0

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	42.11
EMPLOYEES PROVIDENT FUND	13.73
YAYASAN PELABURAN BUMIPUTRA	5.72
KUMPULAN WANG PERSARAAN	5.22

Historical Chart



Source: Bloomberg

Team Coverage

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- **UMW reported a widened net loss of RM1566.2m for its 4Q16 against net losses of RM128.8m last quarter and RM286.04m a year ago.** Meanwhile, revenue stood at RM3062.31m, which was up 7.2% q-o-q but down 26.4% y-o-y.
- As for the full year of 2016, the Group also reported a widened net loss of RM1690.5m as compared to net loss of RM38.9m in 2015. Meantime, revenue declined by 24% y-o-y to RM10965.1m.
- **Below expectations** – The Group’s results were significantly below our expectation and consensus. The negative variance was mainly due to huge losses incurred for its oil & gas division.

Comment

- **Dismal automotive division.** Toyota sales dropped 32% y-o-y in 2016 to 65110 units due to rigid lending requirements and higher base in 2015 with the pre-emptive buying prior to implementation of GST. Furthermore, the intense competition among car makers and weak consumer sentiments coupled with Ringgit weakness also affected the segmental performance.
- **Perodua sales improved in 2H16.** Perodua sales increased 12.7% in 2H16 as compared to 1H16 thanks to the launch of first sedan model, Bezza in 3Q16. Overall, it commanded the largest market share of 35.7% in 2016. On q-o-q, Perodua sales also increased 5% against last quarter underpinned by massive promotion and discount during year end period.
- **Hike in Toyota sales during last quarter.** On q-o-q, Toyota sales jumped by 11.5% as we believe the models launched have been yielded positive results. Toyota came out with Energy Efficient Vehicle (EEV) incentive models in 4Q16 for its face-lift model, Toyota Vios and new Innova. Moreover, the demand also lifted by aggressive promotion and discount offered to customers during the end of the year.
- **Equipment division showed frail results in 2016.** Topline and bottomline for equipment division in 2016 showed negative yearly growth, dragged down by low commodities prices which resulted in the slowdown in foreign mining activities and hence causing lower equipment demand. As compared to last quarter, both PBT and revenue also declined by 3.5% and 8.8% respectively. At the same time, the strict regulation imposed by government of Myanmar on heavy equipment importation

also caused the weak performance for equipment division. To recap, 2015 experienced robust sales in equipment division due to higher volumes of forward purchase for its industrial equipment prior to GST implementation as well as large orders from Myanmar for heavy equipment pursuant to comprehensive jade mining activities.

- **Gloomy O&G segment** – UMW’s net loss widened in 2016 as oil and gas (O&G) division posted a pre-tax loss of RM1183.54m from a PBT of RM349.40m in 2015. The huge loss in this segment was due to slowdown in O&G exploration that contributed to decline in asset utilisation with lower charter rates. Moreover, a higher impairment of RM 780.2m was recorded in 2016 versus RM336.5m as recoverable amount in asset further deteriorated.
- **Improvement in M&E division.** Manufacturing & Engineering’s PBT showed an increase of 46.7% yoy for 2016 thanks to higher contribution from shock absorber business. This was also supported by the disposal of the loss-making automotive component companies in India started in November 2015 which was fully completed by 2H2016.

Earnings Outlook/Revision

- **We cut our net earnings forecast for FY17 by 14% to RM202.61m** (previously RM234.21m) as we lowered the earnings contributions from Automotive, Equipment and O&G segments amid challenging business outlook to persist in 1H17.
- **We also take this opportunity to introduce our earnings forecast for FY18F of RM297.9m**, which implies a net profit growth of 44% as we foresee meaningful recovery for the Group’s business segments especially with the divestment of its listed and non-listed O&G businesses.
- **Strategic plans in place to resume growth momentum.** Our sales forecast reflects better contribution from its auto division with the new launch of one Toyota model in addition to the new launch of Perodua Axia facelift as well as new Myvi in 1H2017. Over the longer run, the Group also expects to enjoy economies of scale with its new plant in Bukit Raja (initial 50K capacity p.a.) to be fully completed and operational in 2019. Meanwhile, equipment division is expected to move forward into high value added manufacturing. To recap, UMW signed a 25+5 year contract with Rolls Royce to manufacture fan cases for Trent 1000 & 7000 engines, which used in Boeing 787 Dreamliner and Airbus A330neo. Rolls Royce plant in Serendah has been completed and is targeted to deliver first fan case in October 2017 and shall render profit to the Group from 2019 onwards.

Valuation & Recommendation

- **Maintain HOLD call on UMW with a higher target price of RM5.20 (previous TP: RM4.00)** as we believe the worst is over especially with the kitchen-sinking exercises in 4Q16, and fully divest its listed O&G by 1H17

and non-listed O&G by this year. Our valuation for UMW is now pegged at 20x FY2018F PE based on revised EPS of 26 sen.

Figure 1: Quarterly Figures

Year to 31 Dec	4Q16 (RMm)	3Q16 (RMm)	4Q15 (RMm)	QoQ % chg	YoY % chg	12M16 (RMm)	12M15 (RMm)	YoY % chg
Revenue	3062.31	2856.79	4160.90	7.19%	-26.40%	10965.07	14419.75	-24.0%
Operating Profit	-2125.00	-136.02	-359.67	1462.23%	490.82%	-2202.81	166.64	-1421.9%
Pre-tax Profit	-2098.03	-121.62	-334.52	1625.02%	527.18%	-2153.78	265.36	-911.6%
Profit After Tax	-2122.97	-162.88	-391.57	N/A	442.17%	-2294.50	5.71	40290.9%
Net Profit	-1566.20	-128.83	-286.04	N/A	447.55%	-1690.58	-38.93	4243.2%
Operating Margin (%)	-69.4%	-4.8%	-8.6%	-64.6%	-60.7%	-20.1%	1.2%	-21.2%
PBT Margin (%)	-68.5%	-4.3%	-8.0%	-64.3%	-60.5%	-19.6%	1.8%	-21.5%

Figure 2: Segmental Breakdown

2016	4Q16 (RMm)	3Q16 (RMm)	4Q15 (RMm)	Q-O-Q (%)	Y-O-Y (%)	12M16 (RMm)	12M15 (RMm)	Y-O-Y (%)
Segmental Revenue								
Automotive	2462.35	2263.37	3375.86	8.79%	-27.06%	8458.84	10710.22	-21.02%
Equipment	330.85	342.85	402.88	-3.50%	-17.88%	1382.82	1884.30	-26.61%
Oil & Gas	53.47	49.65	130.96	7.68%	-59.17%	320.81	839.53	-61.79%
M & E	152.64	144.57	182.40	5.58%	-16.31%	599.63	702.67	-14.66%
Others	-12.70	-71.25	94.75	-82.18%	-113.40%	36.52	362.79	-89.93%
Elimination	8.66	-26.64	-25.94	-132.51%	-133.39%	-54.82	-79.75	-31.26%
Total Revenue	2995.27	2702.56	4160.905	10.83%	-28.01%	10743.796	14419.751	-25.49%
Segmental PBT								
Automotive	143.59	133.47	247.88	7.58%	-42.07%	493.08	858.17	-42.54%
Equipment	30.59	33.55	27.54	-8.84%	11.07%	146.72	224.90	-34.76%
Oil & Gas	-918.08	-133.04	-411.31	N/A	123.21%	-1183.54	-349.40	238.74%
M & E	4.04	2.46	13.39	64.52%	-69.79%	24.00	16.34	46.86%
Total PBT	-739.87	36.44	-122.497	2130.14%	-129.75%	-519.733	750.018	169.30%
Segmental Margin								
Automotive	5.83%	5.90%	7.34%	-0.07%	-1.51%	5.83%	8.01%	-2.18%
Equipment	9.24%	9.79%	6.84%	-0.54%	2.41%	10.61%	11.94%	-1.33%
Oil & Gas	1717.13%	267.94%	-314.07%	1449.19%	1403.06%	-368.92%	-41.62%	327.31%
M & E	2.65%	1.70%	7.34%	0.95%	-4.69%	4.00%	2.33%	1.68%

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017F	2018F
Revenue	13,951.46	14,958.91	14,419.75	10,965.07	9,048.25	9252.72
Operating profit	1,296.46	1,426.78	166.64	-2,202.81	273.26	397.87
PBT	1,435.67	1,620.83	265.36	-2,153.78	482.41	684.92
Net profit	679.61	650.70	-38.93	-1,690.58	202.61	297.94
Core net profit	679.61	650.70	214.35	-1,690.58	202.61	297.94
EPS (sen)	0.58	0.56	-0.03	-1.45	0.17	0.26
P/BV (x)	0.73	0.69	0.71	0.67	0.60	0.55
DPS (sen)	0.44	0.41	0.20	0.00	0.10	0.10
Dividend yield (%)	7.89%	7.35%	3.58%	0.00%	1.79%	1.79%
Operating margin (%)	9.29%	9.54%	1.16%	-20.09%	3.02%	4.30%
PBT margin (%)	10.29%	10.84%	1.84%	-19.64%	5.33%	7.40%
Net profit margin (%)	4.87%	4.35%	-0.27%	-15.42%	2.24%	3.22%
Net Gearing Ratio(x)	0.37	0.38	0.66	0.79	0.81	0.84
ROE (%)	7.57%	6.89%	-0.42%	-17.36%	1.88%	2.50%
ROA (%)	4.59%	3.96%	-0.22%	-7.72%	0.88%	1.22%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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