

# UMW Holdings

## Widened O&G Losses

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FY16 core LATAMI of RM362.2m (-252.2% YoY) excluding the impairment came in below expectations at 50%/18% of our/consensus estimates. Negative deviation was largely in part due to greater losses in the O&G segment. No dividend declared, as expected. Downgrade to UNDERPERFORM with a lower TP of RM4.68 on an applied 12.0x PER to our FY17E EPS, where earnings are exclusive from O&G segment earnings. As per revised proposal, the proposed distribution of UMW O&G share will now be exercised via a reduction of UMW share capital (refer to overleaf).

FY16 results were below expectations, as the group reported a FY16 core LATAMI of RM362.2m (-252.2% YoY) excluding the impairment (valued at RM1,328.4m) at 50%/18% of our/consensus estimates. Negative deviations were mainly due to significantly higher losses arising from the oil & gas segment from lower rig utilisation rates as well as highly competitive charter rates alongside steep overhead costs.

YoY, FY16 revenue fell by 24.1% due to weakness across all segments. The auto segment saw a decline in total sales (-21.0%) as consumer demand for automobiles was undermined by poor sentiment from higher living costs. Sales in the equipment segment fell by 26.6% amidst slowing construction and mining activities in Myanmar due to state government restrictions. Meanwhile, the Oil & Gas segment (-53.6%) continued to slump as industry activity was dampened by the lower rig utilisation. In terms of PBT, the Auto segment (-42.5%) was dragged down further due to higher import costs from unfavourable forex rates. The Oil & Gas segment (-417.8%) continued to be deeply affected by high overhead costs resulting from low operational efficiency from low rig utilisation. The underlying factors above led FY16 LBT to record at RM2178.7m (-908.0%).

QoQ. 4Q16 revenue grew at 7.2% to RM3,062.3m with better sales across the segment. The Auto segment grew by 8.8% as recent model launches (i.e. Alphard, Vellfire and face-lifted variants of the Camry, Innova, Corolla Altis and Vios) have reinvigorated market demand. Revenue from the Oil & Gas segment (+142.7%) saw increased tendering activities in the upstream space as 2 of the 7 jack-up rigs were income generating. Ultimately, the LBT decreased by 1,645.5% to RM2,123.0m primarily as a result of the widening operating losses incurred by the Oil & Gas segment.

On the Auto Segment, management reduce their combined sales estimate for both Perodua and UMW to 272k units, broadly in line with our sales volume assumptions for FY17. We expect FY17 to only benefit from the spilling over of new launches from FY16 as there are less launches planned ahead. Furthermore, margins are expected to continue to be thin given the prevailing unfavourable forex. On the Oil & Gas segment, we continue to anticipate weakness in the short to medium term judging by the softness and uncertainty in oil prices seen recently. As such, the planned demerger of the Oil & Gas segment is expected to mark the end of widening losses incurred by the UMW.

Post-results, We reduce our FY17E earnings assumption by 11.3% to RM455.8m on expectation of lower auto sales volume and carry-over of O&G losses expected to incur in first half of the year as the major part of the planned demerger of Oil & Gas segment only starts on April 2017. In the meantime, we introduce FY18E earnings assumptions of RM518.6m

Downgrade to **UNDERPERFORM (from MARKET PERFORM)** with a lower TP of **RM4.68 (from RM5.28, previously)** on an applied 12.0x PER to our FY17E EPS, where earnings are exclusive from O&G segment earnings, which was valued at 0.5x PBV separately.

# UNDERPERFORM ↓

Price: **RM5.58**  
Target Price: **RM4.68** ↓

### Share Price Performance



KLCI	1,693.84
YTD KLCI chg	3.2%
YTD stock price chg	22.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,519.1
Issued shares	1,168.3
52-week range (H)	7.37
52-week range (L)	4.43
3-mth avg daily vol:	1,269,157
Free Float	38%
Beta	1.2

### Major Shareholders

Skim Amanah Bumiputera	42.1%
Employees Provident Fund	13.7%
Yayasan Pelaburan Bumiputra	5.7%

### Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	10,965.1	8,939.6	9,001.4
EBIT	-2,202.8	385.5	450.5
PBT	-2,153.8	539.0	583.8
<b>Net Profit</b>	<b>-1,690.6</b>	<b>455.8</b>	<b>518.6</b>
<b>Core Net Profit</b>	<b>-362.2</b>	<b>455.8</b>	<b>518.6</b>
Consensus (NP)	-	223.5	309.7
Earnings Revision	-	-11.3%	-
Core EPS (sen)	-31.0	39.0	44.4
Core EPS growth	-	-225.8%	13.8%
NDPS (sen)	-	20.0	25.0
BVPS (RM)	5.9	3.0	3.2
PER (x)	N.M	14.3	12.6
PBV (x)	0.9	1.9	1.8
Net Gearing (x)	0.6	0.5	0.8
Net Div. Yield (%)	0.0%	3.6%	4.5%

28 February 2017

Other salient points

**Changes in Proposed Distribution of UMW O&G.** UMWH will not be undertaking proposed distribution via the Proposed Bonus Issue and Proposed Redemption as announced previously. Now, the proposed distribution of UMW O&G share will be exercised via a reduction of UMWH share capital by approximately RM704.8m (cost of UMW O&G shares held by UMWH as per date of the revised proposal announcement). The change was due to the limitation in Companies Act 2016 (effective 31<sup>st</sup> January 2017). Other conditions remain unchanged as per "Initial Proposal Announcement" dated 19<sup>th</sup> January 2017 includes the entitlement ratio of 1.03 UMW-OG shares for each UMWH Shares held on the "Entitlement Date". The revised proposed distribution is expected to be completed by the 3Q17.

Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	3,062.3	2,856.8	7.2%	4,182.7	-26.8%	10,965.1	14,441.6	-24.1%
EBIT	(2,125.0)	(136.0)	-1462.2%	(390.7)	-443.9%	(2,202.8)	135.6	-1724.3%
PBT/(LBT)	(2,123.0)	(121.6)	-1645.5%	(330.2)	-542.9%	(2,178.7)	269.7	-908.0%
Taxation	(24.9)	(41.3)	39.6%	(64.9)	61.6%	(140.7)	(267.5)	47.4%
<b>PATAMI</b>	<b>(1,566.2)</b>	<b>(128.8)</b>	<b>-1115.7%</b>	<b>(284.3)</b>	<b>-450.9%</b>	<b>(1,690.6)</b>	<b>(37.2)</b>	<b>-4448.1%</b>
<b>Core PATAMI</b>	<b>(236.6)</b>	<b>(127.6)</b>	<b>-85.4%</b>	<b>(69.2)</b>	<b>-241.9%</b>	<b>(362.2)</b>	<b>237.9</b>	<b>-252.2%</b>
Core EPS (sen)	(20.3)	(10.9)	-85.4%	(5.9)	-241.9%	(31.0)	20.4	-252.2%
DPS (sen)	-	-		10.0		-	20.0	
* Note that the FY16 core LATAMI of RM362.2m has been adjusted by excluding non-core items amounting to RM1.3b, which consists of: (i) reversal of impairment losses of receivables of RM95.7m, (ii) provision for write down of inventories of RM9.3m, (iii) gain on disposal of quoted or unquoted investments of RM1.4m, (vi) loss on disposal of property, plant and equipment of RM5.9m, and (v) reversal for impairment losses of assets of RM1.2b.								
EBIT margin	-69.4%	-4.8%		-9.3%		-20.1%	0.9%	-69.4%
Pretax margin	-69.3%	-4.3%		-7.9%		-19.9%	1.9%	-69.3%
Core NP margin	-7.7%	-4.5%		-1.7%		-3.3%	1.6%	-7.7%
Effective tax rate	-1.2%	33.9%		19.6%		-6.5%	-99.2%	-1.2%

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
<b>Revenue</b>	<b>3,062.3</b>	<b>2,856.8</b>	<b>7.2%</b>	<b>4,182.7</b>	<b>-26.8%</b>	<b>10,965.1</b>	<b>14,441.6</b>	<b>-24.1%</b>
Automotive	2,462.3	2,263.4	8.8%	3,375.9	-27.1%	8,458.8	10,710.2	-21.0%
Equipment	330.8	342.8	-3.5%	402.9	-17.9%	1,382.8	1,884.3	-26.6%
O&G	120.5	49.7	142.7%	131.0	-8.0%	387.9	839.5	-53.8%
M&E	152.6	144.6	5.6%	182.4	-16.3%	599.6	702.7	-14.7%
Other segment	(4.0)	56.3	-107.2%	90.6	-104.5%	135.9	304.9	-55.4%
<b>Segment PBT</b>	<b>(2,123.0)</b>	<b>(121.6)</b>	<b>-1645.5%</b>	<b>(330.2)</b>	<b>-542.9%</b>	<b>(2,178.7)</b>	<b>269.7</b>	<b>-908.0%</b>
Automotive	143.6	133.5	7.6%	247.9	-42.1%	493.1	858.2	-42.5%
Equipment	30.6	33.6	-8.8%	27.5	11.1%	146.7	224.9	-34.8%
O&G	(1,543.7)	(133.0)	-1060.3%	(411.3)	-275.3%	(1,809.1)	(349.4)	-417.8%
M&E	2.5	2.5	0.0%	13.4	-81.6%	22.4	16.3	37.2%
Other segment	(755.9)	(158.1)	-378.2%	(207.7)	-263.9%	(1,031.8)	(480.4)	-114.8%
<b>Segment PBT margin</b>								
Automotive	5.8%	5.9%		7.3%		5.8%	8.0%	
Equipment	9.2%	9.8%		6.8%		10.6%	11.9%	
O&G	-1280.9%	-267.9%		-314.1%		-466.4%	-41.6%	
M&E	1.6%	1.7%		7.3%		3.7%	2.3%	
Other segment	18716.0%	-280.6%		-229.2%		-759.1%	-157.6%	

Source: Company, Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @ 27/02/17	Mkt Cap (RM m)	PER (x)			Est. Div. Yld. (%)	Hist. ROE (%)	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd			Actual	1 Yr Fwd	2 Yr Fwd				
BERMAZ AUTO BHD	2.01	2,302.3	11.8	14.9	10.6	7.5%	43.5%	197.6	156.7	219.4	-20.7%	40.0%	2.36	OP
DRB-HICOM BHD	1.41	2,725.8	N.M.	N.M.	N.M.	1.4%	6.3%	-991.9	-81.6	-82.0	-91.8%	0.5%	0.95	UP
MBM RESOURCES BERHAD	2.45	957.2	11.4	12.1	9.8	2.9%	5.0%	74.0	94.7	107.4	27.9%	13.4%	2.42	UP
TAN CHONG MOTOR HOLDINGS BHD	1.67	1,090.2	19.0	N.M.	43.9	3.0%	2.0%	57.1	-70.0	24.7	-222.6%	-135.3%	1.66	UP
UMW HOLDINGS BHD	5.58	6,519.1	N.M.	14.3	12.6	3.6%	4.0%	-362.2	455.8	518.6	-225.8%	13.8%	4.68	UP

Source: Bloomberg, Kenanga Research

28 February 2017

**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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