



AmInvestment Bank

## Company report

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

01 Mar 2017

All eyes on auto, for better or worse

## HOLD

(Maintained)

AI Zaquan

al-zaquan@ambankgroup.com

03-2036 2304

Rationale for report: Company update

Price	RM5.54
Fair Value	RM5.20
52-week High/Low	RM7.37/RM4.43

### Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY16	FY17F	FY18F	FY19F
<a href="#">Click here to enter text.</a>				
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)	-	236.7	350.8	449.8
DPS (sen)	10.0	7.0	10.2	11.5
PE (x)	nm	23.7	16.2	14.4
EV/EBITDA (x)	nm	13.0	10.6	10.0
Div yield (%)	1.8	1.3	1.8	2.1
ROE (%)	(29.9)	5.7	7.9	8.4
Net Gearing (%)	90.0	100.2	93.0	86.9

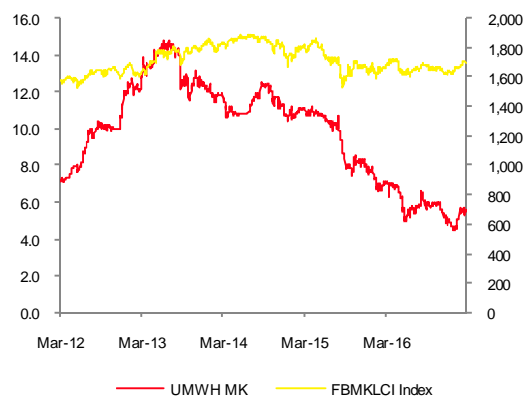
### Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,472.4
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%)
--------------------	--

Free Float	32.6
Avg Daily Value (RMmil)	6.6

Price performance	3mth	6mth	12mth
Absolute (%)	7.8	(0.5)	(21.8)
Relative (%)	3.0	(1.5)	(23.6)



### Investment Highlights

- We maintain HOLD on UMW Holdings (UMW) with an SOP-based fair value of RM5.20. The key points from the analyst briefing with management yesterday are:

- (1) Projections for auto sales: The FY17 target of 70K for Toyota and Lexus (a 7.5%YoY growth from 65K units in FY16) will rely on the full-year impact of models that entered late last year (namely the Vios and Innova) and at least 1-2 additions in the 2H.

(2) Clarity on the "Others" segment: these assets, comprising of investment holdings and small companies in the group, registered a remarkable net loss of RM903mil in FY16 (52% of the group's net loss pre-exceptional items). UMW made a provision of RM899mil for Others, and the bulk of this (RM750mil) was for financial guarantees on certain contracts of its JV entity India-based USTPL (United Seamless Tubular Private Ltd; a manufacturer of seamless steel pipes). UMW had provided financial guarantees for the borrowings of this JV, which it owns a majority stake (58%). Management highlighted that there will be no further provisions on this going forward.

(3) Dividends going forward: UMW will likely not be able to return to its pre-2015 payouts of 70-80% immediately after the UMWOG demerger, as its remaining segments are still recovering.

(4) Lighter capex ahead: Management guided a lower capex of RM756mil for this year (with priorities on auto and equipment, which will take up 85% of the amount). This would be the lowest capex spent in the least five years, reflecting a relief on its cash flows after its exit from oil & gas business with the demerger of UMWOG. The major investment is the RM2bil for the second Toyota plant aimed to start operations by 2019; UMW guided that the cost has been spread across FY16-FY18 with a bigger percentage spent in the final year.

(5) The UMWOG demerger is still targeted for completion by end-2Q. This is despite UMW indicating in its announcement to Bursa a deadline of end-3Q, after the switch to a share capital reduction to facilitate the distribution of its UMWOG shares to UMW shareholders.

- We are positive on the impact of the demerger on UMW's earnings and balance sheet. The remaining core businesses still face dim prospects. We anticipate a minor recovery for Toyota following a disastrous 2016 while Perodua sales are expected to decline slightly on lower Myvi sales this year. Margins and market demand remain compressed on market-wide factors.

## EXHIBIT 1: 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 2: PB BAND CHART [CLICK HERE TO ENTER TEXT.](#)

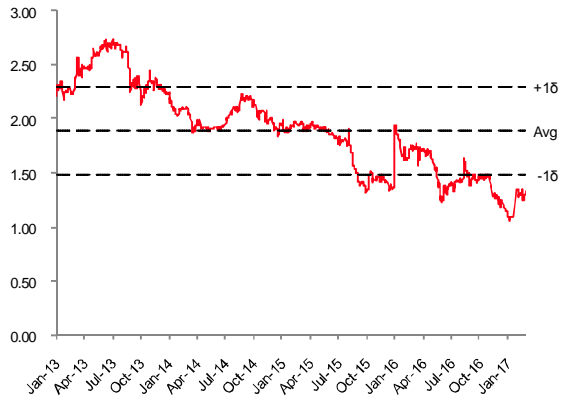
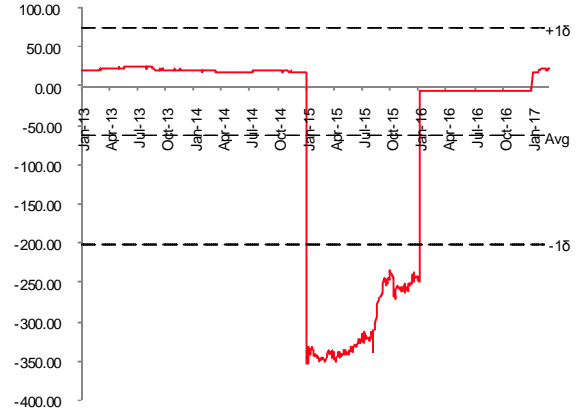


EXHIBIT 3: PE BAND CHART [CLICK HERE TO ENTER TEXT.](#)



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Click here to enter text.					
Revenue	14,441.6	10,965.1	10,928.8	11,170.5	11,939.6
EBITDA	646.3	(1,648.2)	873.3	1,062.6	1,123.7
Depreciation/Amortisation	(510.7)	(554.6)	(556.7)	(594.8)	(634.7)
Operating income (EBIT)	135.6	(2,202.8)	316.6	467.8	489.0
Other income & associates	134.4	154.8	213.8	230.3	248.1
Net interest	(0.4)	(105.7)	34.4	17.1	38.0
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>269.7</b>	<b>(2,153.8)</b>	<b>564.7</b>	<b>715.2</b>	<b>775.1</b>
Taxation	(267.5)	(140.7)	(91.2)	(126.1)	(137.0)
Minorities/pref dividends	(39.4)	603.9	(200.8)	(190.8)	(190.0)
<b>Net profit</b>	<b>(37.2)</b>	<b>(1,690.6)</b>	<b>272.7</b>	<b>398.4</b>	<b>448.1</b>
Core net profit	207.8	(401.8)	272.7	398.4	448.1
<b>Balance Sheet (RMmil, YE 31 Dec)</b>					
Click here to enter text.					
Fixed assets	8,102.8	7,639.0	7,967.8	8,282.3	8,618.6
Intangible assets	25.2	-	-	-	-
Other long-term assets	2,429.9	2,431.1	2,479.1	2,523.2	2,581.9
<b>Total non-current assets</b>	<b>10,557.9</b>	<b>10,070.2</b>	<b>10,446.9</b>	<b>10,805.5</b>	<b>11,200.5</b>
Cash & equivalent	2,734.1	2,179.0	2,112.4	2,808.1	3,457.7
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
<b>Total current assets</b>	<b>7,667.4</b>	<b>6,136.0</b>	<b>5,800.7</b>	<b>6,555.6</b>	<b>7,373.8</b>
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
<b>Total current liabilities</b>	<b>6,338.0</b>	<b>4,619.2</b>	<b>5,617.5</b>	<b>6,212.1</b>	<b>6,869.0</b>
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
<b>Total long-term liabilities</b>	<b>2,503.4</b>	<b>4,678.1</b>	<b>3,329.5</b>	<b>3,378.9</b>	<b>3,431.5</b>
<b>Shareholders' funds</b>	<b>6,584.5</b>	<b>4,721.7</b>	<b>4,912.6</b>	<b>5,191.5</b>	<b>5,505.2</b>
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
<b>Cash Flow (RMmil, YE 31 Dec)</b>					
Click here to enter text.					
Pretax profit	269.7	(2,153.8)	564.7	715.2	775.1
Depreciation/Amortisation	510.7	554.6	556.7	594.8	634.7
Net change in working capital	67.9	774.8	(701.2)	(20.3)	(64.9)
Others	100.8	637.7	(414.0)	(462.0)	(525.5)
<b>Cash flow from operations</b>	<b>949.1</b>	<b>(186.7)</b>	<b>6.2</b>	<b>827.8</b>	<b>819.4</b>
Capital expenditure	(2,280.4)	(966.3)	(819.7)	(837.8)	(895.5)
Net investments & sale of fixed assets	12.0	18.6	-	-	-
Others	528.0	159.4	223.9	220.6	255.4
<b>Cash flow from investing</b>	<b>(1,740.3)</b>	<b>(788.2)</b>	<b>(595.7)</b>	<b>(617.2)</b>	<b>(640.1)</b>
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	-	-	-	-	-
<b>Cash flow from financing</b>	<b>517.3</b>	<b>(212.7)</b>	<b>522.9</b>	<b>485.2</b>	<b>470.2</b>
<b>Net cash flow</b>	<b>(273.9)</b>	<b>(1,187.5)</b>	<b>(66.6)</b>	<b>695.8</b>	<b>649.5</b>
<b>Net cash/(debt) b/f</b>	<b>2,830.4</b>	<b>2,655.4</b>	<b>2,179.0</b>	<b>2,112.4</b>	<b>2,808.1</b>
<b>Net cash/(debt) c/f</b>	<b>2,621.1</b>	<b>1,493.2</b>	<b>2,112.4</b>	<b>2,808.1</b>	<b>3,457.7</b>
<b>Key Ratios (YE31 Dec)</b>					
Click here to enter text.					
Revenue growth (%)	(3.3)	(24.1)	(0.3)	2.2	6.9
EBITDA growth (%)	(64.3)	(355.0)	(153.0)	21.7	5.7
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%)	nm	nm	nm
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

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.