Securities

AFFIN HWANG CAPITAL

Outthink. Outperform.

1Q17 supported by higher auto sales

UMW's 1Q17 results were in line with our expectations, with a reported headline profit of RM20.2m. The better yoy results were due to the positive TIV numbers recorded in 1Q17, which resulted in topline and associate line growth. UMW recorded free cash flow (FCF) of RM170.3m in 1Q17, which was a huge improvement compared to 1Q16's FCF of negative RM918.5m. 2H17 will likely see a better performance as the current loss-making oil and gas division will be demerged from the group. With the business outlook still gloomy in 2017, we downgrade UMW to a SELL rating with an unchanged SOTP-based 12-month TP of RM5.05.

Headline profit turned out to be core net loss…

Stripping off a series of one-offs as follows: (1) RM1.7m reversal of impairment loss on receivables, (2) RM3.8m inventory write-off, (3) RM5.2m disposal gain on PPE, (4) RM4.4m forex gain, (5) RM17.1m derivative gain and (6) RM0.1m PPE write-off, the headline net profit of RM20.2m became a core net loss of RM4.5m.

… but loss narrowed yoy on more positive TIV numbers

Overall revenue grew 27.5% yoy to RM2,803.6m in 1Q17, mainly due to better performance by the automotive and M&E (manufacturing and engineering) divisions. Automotive revenue increased 40.8% supported by the higher sales volume from Toyota (+59.2% yoy) of 16.7k units in 1Q17. Associate contributions soared 81.6% yoy partly due to a higher sales volume from Perodua (+6.5% yoy) of 50.3k units in 1Q17.

Losses of listed oil and gas division (UMWOG) widened

Loss before tax for its listed oil and gas business (UMWOG) widened 53.4% yoy to RM104.9m in 1Q17 on the back of weaker revenue (-15.3% yoy) mainly due to a weaker daily charter rate. Utilisation rate for 1Q17 was relatively flat yoy at 25% with NAGA 6 & 8 working in 1Q17 and NAGA 7 & 8 working in 1Q16.

Still bearing half-yearly losses of listed oil and gas arm

We adjust our EPS forecasts slightly post-housekeeping adjustments to take into account the release of annual report figures. With a 15% downside potential, we downgrade UMW to a **SELL** rating (from HOLD). Key upside risks: a strong rebound in auto sales and improved consumer spending.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	14,442	10,959	10,595	10,615	10,970
EBITDA (RMm)	1,329.8	652.6	1,115.5	1,417.6	1,496.6
Pretax profit (RMm)	269.7	(2,130.2)	570.4	876.4	935.8
Net profit (RMm)	(37.2)	(1,658.0)	295.7	449.3	481.8
EPS (sen)	(3.2)	(141.9)	25.3	38.5	41.2
PER (x)	(185.8)	(4.2)	23.4	15.4	14.3
Core net profit (RMm)	646.3	621.5	295.7	449.3	481.8
Core EPS (sen)	55.3	53.2	25.3	38.5	41.2
Core EPS growth (%)	(3.9)	(3.8)	(52.4)	52.0	7.2
Core PER (x)	10.7	11.1	23.4	15.4	14.3
Net DPS (sen)	20.0	20.0	20.0	20.0	20.0
Dividend Yield (%)	3.4	3.4	3.4	3.4	3.4
EV/EBITDA (x)	7.7	17.5	10.7	8.5	4.6
Chg in EPS (%)			(0.3)	0.2	(2.0)
Affin/Consensus (x)			1.3	1.2	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

UMW Holdings

UMW MK
Sector: Auto & Autoparts

RM5.91 @ 23 May 2017

SELL (downgrade)

Downside: 14.6%

Price Target: RM5.05

Previous Target: RM5.05

Price Performance

	1M	3M	12M
Absolute	-4.7%	8.4%	4.6%
Rel to KLCI	-5.3%	4.6%	-3.2%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	6,904.6/1,608.2
Avg daily vol - 6mth (m)	1.2
52-wk range (RM)	4.43-7
Est free float	23.8%
BV per share (RM)	4.04
P/BV (x)	1.46
Net cash/ (debt) (RMm) (1Q17)	(3,745)
ROE (FY17E)	6.2%
Shariah Compliant	Yes

Key Shareholders

ASB	42.1%
EPF	12.7%
KWAP	7.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q16	4Q16	1Q17	QoQ % chg	YoY % chg	Comment
Revenue	2,199.2	3,062.3	2,803.6	(8.4)	27.5	Revenue increased 27.5% yoy driven by higher contributions from automotive (**+40.8%**) and M&E (manufacturing and engineering) (**+14.1%**) divisions, while equipment (**-4.3%**) and O&G divisions continued to report lower revenue.
Op costs	(2,154.9)	(6,469.8)	(2,759.2)	(57.4)	28.0	
EBIT	**44.3**	**(3,407.5)**	**44.4**	**n.m**	**0.2**	EBIT rebounded from a loss to RM44m in the absence of impairments.
EBIT margin (%)	*2.0*	*(111.3)*	*1.6*	112.9	(0.4)	
Int expense	(43.3)	(60.6)	(67.6)	11.4	56.0	
Int and other income	25.2	22.3	22.2	(0.5)	(11.9)	
Associates	22.1	65.3	40.1	(38.6)	81.6	Higher associate contribution was driven by an increase in Perodua sales volume in 1Q17, which was higher 6.5% yoy at 50.3k units.
Exceptional item	(27.2)	1,282.4	(24.7)	(101.9)	(9.1)	Exceptional items excluded in 1Q17 1. RM1.7m reversal of impairment loss on receivables 2. RM3.8m provision for write-down of inventory 3. RM5.2m disposal gain on PPE 4. RM4.4m forex gain 5. RM17.1 derivative gain 6. RM0.1m PPE written off
Pretax profit	**21.1**	**(2,098.0)**	**14.4**	**n.m**	**(31.7)**	
Tax	(26.0)	(24.9)	(24.9)	0.1	(4.1)	
Tax rate (%)	*123.4*	*(1.2)*	*173.4*	174.6	50.0	
MI	21.5	556.7	30.7	(94.5)	42.8	
Net profit/(loss)	**16.6**	**(1,566.2)**	**20.2**	**n.m**	**21.6**	
EPS (sen)	1.4	(134.1)	1.7	n.m	21.6	
Core net loss	**(10.5)**	**(283.7)**	**(4.5)**	**98.4**	**57.4**	Deemed in line with our expectations as earnings momentum is expected to recover in 2H17 once its listed oil and gas arm (UMWOG) is demerged from the group.

Source: Affin Hwang, Company data

Fig 2: UMW SOTP-based 12-month TP

Segments	Valuation Method	Equity Value (RMm)	Equity value/share (RM)
Automotive	13x P/E	3,267.7	2.80
Oil and Gas	0.5x P/BV	755.9	0.65
Equipment	12x P/E	1,620.2	1.40
Manufacturing and engineering (M&E)	12x P/E	246.0	0.21
Equity value / Price Target		**5,889.8**	**5.05**

Source: Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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