

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

24 May 2017

UMW Holdings (UMWH MK) : HOLD

Mkt. Cap: US\$1,608m | 3m Avg. Daily Val: US\$1.6m

Last Traded Price (23 May 2017): RM5.91

Price Target 12-mth: RM5.40 (9% downside) (Prev RM5.30)

Shariah Complaint: Yes

Analyst

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Rough start

- 1QFY17 recorded net loss of RM4.5m
- Revenue up 27.5% y-o-y; PBT declined as oil and gas continued to record losses
- Maintain HOLD with higher TP of RM5.40

Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	10,959	10,920	10,686	10,752
EBITDA	(325)	912	1,106	1,100
Pre-tax Profit	(2,130)	426	680	697
Net Profit	(1,658)	236	351	360
Net Pft (Pre Ex.)	(369)	236	351	360
Net Pft Gth (Pre-ex) (%)	nm	nm	48.8	2.5
EPS (sen)	(142)	20.2	30.0	30.8
EPS Pre Ex. (sen)	(31.6)	20.2	30.0	30.8
EPS Gth Pre Ex (%)	(1,978)	(164)	49	2
Diluted EPS (sen)	(31.6)	20.2	30.0	30.8
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	404	424	454	485
PE (X)	nm	29.3	19.7	19.2
PE Pre Ex. (X)	nm	29.3	19.7	19.2
P/Cash Flow (X)	23.7	10.0	7.3	8.2
EV/EBITDA (X)	nm	16.2	13.6	14.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.5	1.4	1.3	1.2
Net Debt/Equity (X)	0.8	0.8	0.7	0.7
ROAE (%)	(29.3)	4.9	6.8	6.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Core earnings in line

- UMW recorded a core net loss of RM4.5m in 1Q17. With the exit from the oil and gas business by mid-17 and new car model launches slated for 2H17, we believe its earnings could improve in 2H17. Thus, we maintain our earnings forecast for now.

Business still tough

- Auto segment's pretax profit came in at RM87.1m (-39.4% q-o-q; +5.2% y-o-y). The lower q-o-q numbers were due to the lower sales volume despite adding new variants to the Toyota Hilux model in January and reduction in price for Toyota Fortuner arising from its EEV status. Toyota and Lexus sales volume slid by 14.9% q-o-q to 16,694 units.
- The oil and gas (listed) segment recorded a pre-tax loss of RM104.9m in 1Q17. This was due to the lower operating days in the quarter as most of the rigs were still idle without contracts.
- As for the oil and gas (unlisted) segment, losses came in at RM15.0m in 1Q17 as the performance of the sub-segment was affected by the volatility in oil prices and weak demand from oil and gas players.
- The equipment segment recorded lower revenue (-4.3% y-o-y to RM342.4m) due to a competitive environment and weak consumer demand. However, profit before tax managed to improve to RM39.5m (+0.8% y-o-y).

Outlook

Earnings lift from oil and gas exit

- YTD Apr 17 industry numbers for auto sales were up y-o-y with a total industry vehicle (TIV) of 183,585 units (+5.8% y-o-y). This is partly due to the lack of car price hikes by major players, except Mazda, as well as key launches in

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4Q16 whose momentum spilled over to 1Q17. The volume for auto sales is expected to remain muted in the near term given the weak consumer sentiment and tough economic conditions. The Malaysian Automotive Association expects the TIV for FY17 to improve by a mere 1.7% to 590,000 units.

- The new launches in 4Q16 such as the 2016 Toyota Vios, Toyota Innova, Toyota Corolla Altis facelift and Toyota Camry facelift may spill over into 1H17 and help sustain sales volume.
- As for the oil and gas segment, the group has proposed to exit completely from the oil and gas business and this would entail a major lift in its earnings and improve its net gearing. The large amount of impairments made for the unlisted and listed oil and gas assets in FY16 will also give the group a clean slate for FY17.

Demerger to complete by end-July 2017

The demerger of the oil and gas business is on track despite the unravelling of the three-party merger between UMW O&G with Icon Offshore and Orkim. The demerger exercise will result in the distribution of its entire stake of 1.2m shares in UMWOG on the basis of 1.03 UMWOG shares for every one UMW share held on ex-date to be announced at a later date.

Valuation

We are maintaining our HOLD call with a higher SOP-based TP of RM5.40, as we roll forward our base year to FY18. We believe the recovery of its auto business is a key re-rating catalyst.

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2016	4Q2016	1Q2017	% chg yoy	% chg qoq
Revenue	2,199	3,062	2,804	27.5	(8.4)
Cost of Goods Sold	(2,203)	(5,230)	(2,807)	27.4	(46.3)
Gross Profit	(3.5)	(2,167)	(3.0)	13.6	99.9
Other Oper. (Exp)/Inc	(6.5)	1,325	(1.9)	(70.1)	(100.1)
Operating Profit	(10.0)	(842)	(5.0)	(50.3)	(99.4)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	22.1	65.3	40.1	81.6	(38.6)
Net Interest (Exp)/Inc	(18.1)	(38.4)	(45.4)	(150.3)	(18.4)
Exceptional Gain/(Loss)	27.1	(1,283)	24.7	(9.1)	(101.9)
Pre-tax Profit	21.1	(2,098)	14.4	(31.7)	nm
Tax	(26.0)	(24.9)	(25.0)	(4.1)	0.1
Minority Interest	21.5	557	30.7	42.8	(94.5)
Net Profit	16.6	(1,566)	20.2	21.6	(101.3)
Net profit bef Except.	(10.5)	(283)	(4.5)	57.4	(98.4)
EBITDA	(10.0)	(842)	(5.0)	50.3	99.4
Margins (%)					
Gross Margins	(0.2)	(70.8)	(0.1)		
Opg Profit Margins	(0.5)	(27.5)	(0.2)		
Net Profit Margins	0.8	(51.1)	0.7		

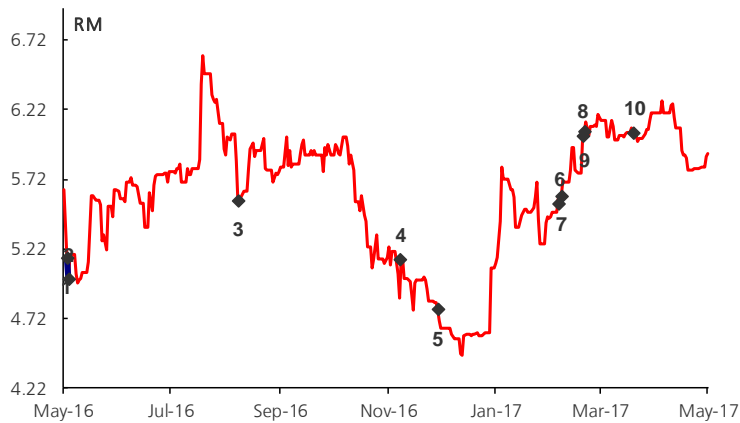
Source of all data: Company, AllianceDBS

SOP valuation

Division	Stake	Valuation	Value (RM m)	Per share
Automotive				
Toyota	51.0%	PE 13x	1,731.39	1.49
Perodua	38.0%	PE 13x	2,239.81	1.92
Oil & Gas	55.7%	0.6x book value	712.4	0.61
Equipment	100.0%	PE 10x	1,197.59	1.03
Manufacturing & engineering	100.0%	PE 10x	243.14	0.21
Others	100.0%	0.5x book value	149.30	0.14
Total			6,273.66	5.40

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 May 16	5.15	5.60	HOLD
2:	26 May 16	5.00	5.60	HOLD
3:	30 Aug 16	5.57	5.75	HOLD
4:	30 Nov 16	5.14	5.30	HOLD
5:	21 Dec 16	4.78	5.30	HOLD
6:	28 Feb 17	5.54	5.30	HOLD
7:	01 Mar 17	5.60	5.30	HOLD
8:	13 Mar 17	6.03	5.30	HOLD
9:	14 Mar 17	6.06	5.30	HOLD
10:	11 Apr 17	6.05	5.30	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Siti Ruzanna MOHD FARUK

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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