



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

24 May 2017

*No relief for auto***HOLD**

(Maintained)

Al Zaquan

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Rationale for report: Company results

Price	RM5.91
Fair Value	RM5.20
52-week High/Low	RM7.00/RM4.43

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY16	FY17F	FY18F	FY19F
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)	-	250.7	377.9	445.6
DPS (sen)	10.0	7.0	10.2	11.5
PE (x)	nm	25.3	17.3	15.4
EV/EBITDA (x)	nm	13.5	11.0	10.4
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

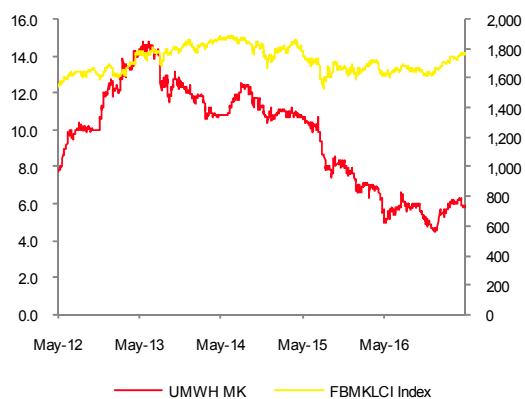
Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,904.6
Book Value (RM/share)	4.04
P/BV (x)	1.5
ROE (%)	(29.9)
Net Gearing (%)	90.0

Major Shareholders	Skim ASB(42.1%) EPF(13.7%) Yayasan Pelaburan Bumiputera(5.7%)
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Free Float	32.6
Avg Daily Value (RMmil)	6.8

Price performance	3mth	6mth	12mth
Absolute (%)	8.4	13.0	4.6
Relative (%)	4.6	4.3	(3.2)

**Investment Highlights**

- We maintain **HOLD** on UMW Holdings (UMW) with an unchanged SOP-based fair value of RM5.20. UMW reported a core net loss of RM4.5mil in 1Q17 after factoring out EIs namely gains on derivatives and disposal of assets.

- 1Q17 saw a significant top-line gain (+27% YoY; on much better auto sales: Toyota sold 62% more units YoY, coming off the low base of 1Q16) but PBT fell 32% YoY. We identified three main factors for the decline in group PBT:

(1) higher losses from O&G-related segments, the total pre-tax losses here was up +12% YoY. Recall that UMW is on track to demerge from its listed O&G business by July and exit from its unlisted O&G assets by end-2018.

(2) much higher interest costs (in 1Q17 UMW still carried the total borrowings of UMWOG amounting to RM3.7bil in its books, which comprised 60% of the group's total debts);

(3) declining profitability for auto on high USD-related costs and competition. While the auto segment saw revenue improved by 41% YoY, net profit only rose 1% YoY. It sold more cars but the net profit was impacted by lower margin. Auto PBT margin slid to 4% in 1Q vs. 5-6% in 2016 and 8-14% in the years prior.

- First quarter is usually the weakest for auto. The segment's achievement of a net profit equal to 1Q16 was disappointing as it had recorded much higher sales (spurred by the addition of 5 models alone in the 2H of last year) in 1Q17.

- On the group level, higher interest costs (+56% YoY) and lower investment income (-12% YoY) negated the benefit of higher associates/JV earnings (+82% YoY), owing to a stronger showing by Perodua.

- We reiterate that we are positive on the immediate impact of the demerger from UMWOG on the group's earnings and balance sheet. However, the outlook for its remaining core segments is still not convincing.

- Toyota has averaged 5.6K units/month in the 4 months to April (4M17: 16.5K units), a slight improvement from the monthly average of 5.3K units seen in 2016 but still below the 7.6K-8.5K units/month seen in its better years.

- With regards to the other two key segments after auto: equipment division recorded a stable revenue and sturdy margins of 8-10%, while manufacturing & engineering is expected to stay in the red as it needs to incur set-up costs for the aerospace business which will see the first production at the end of 2017. The manufacturing & engineering segment is only expected to breakeven in 2019.

EXHIBIT 1: EARNINGS SUMMARY

	1Q17	1Q17 QOQ	YOY
Revenue	2,803.6	-8%	27%
Operating Expenses	(2,806.6)	-46%	27%
Other Operating Income	22.7	-46%	10%
Operating Profit	19.7	-101%	15%
<i>Operating margin:</i>	1%		
Finance Costs	(67.6)	11%	56%
Share of Profits of Associates & JV	40.1	-39%	82%
Investment Income	22.2	-1%	-12%
Profit before tax	14.4	-101%	-32%
Tax	(24.9)	0%	-4%
Profit after tax	(10.6)	-100%	114%
Minority interest	(30.7)	-94%	43%
Net Profit	20.2	-101%	22%
<i>Net profit margin:</i>	1%		
Shares outstanding	1,168.3		
EBITDA	131.9	-107%	-12%
Depreciation	112.2		
<i>EBITDA margin:</i>	0.0		
Earnings per share (sen)	1.7		
Core Net Profit	(4.5)	-98%	-57%
Exceptional items	(24.7)		
<u>Margins</u>			
EBITDA margin	5%		
EBIT margin	1%		
PBT Margin	1%		
Net profit margin	1%		
Tax rate	>100%		
Toyota			
Sales volume	16,503	-14%	62%
Revenue per car (RM)	132,755	4%	-13%
Net profit per car (RM)	3,391	-34%	-38%
Perodua			
Sales volume	50,265	-11%	7%
<u>Segmental Breakdown</u>			
Revenue			
Automotive	2,190.9	-11%	41%
Equipment	342.4	4%	-4%
Manufacturing & Engineering	165.9	9%	14%
O&G (listed)	74.3	39%	-15%
O&G (Unlisted)	36.3	-154%	-42%
Others	13.2		
Elimination	(19.3)		
Total	2,803.6		
Net Profit			
Automotive	56.0	-43%	1%
Equipment	31.1	14%	3%
Manufacturing & Engineering	(2.4)	-33%	-313%
O&G (listed)	(58.0)	-89%	60%
O&G (Unlisted)	(10.7)	-98%	-68%
Elimination	4.3		
Total	20.2		
Net Profit margin			
Automotive	3%		
Equipment	9%		
Manufacturing & Engineering	-1%		
O&G (listed)	-78%		
O&G (Unlisted)	-30%		

EXHIBIT 2: 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:						5.20	

Source: AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART

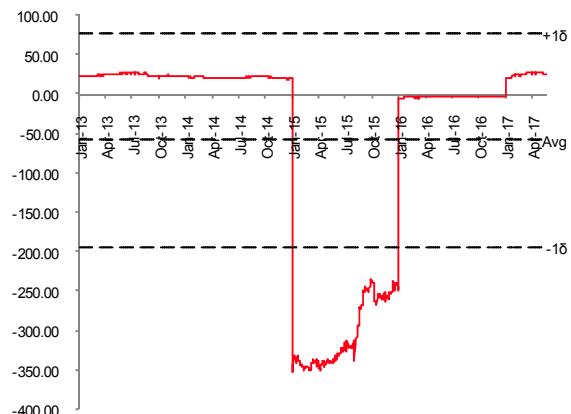


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
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	-	-	-	-	-
Pretax profit	269.7	(2,153.8)	564.7	715.2	775.1
Taxation	(267.5)	(140.7)	(91.2)	(126.1)	(137.0)
Minorities/pref dividends	(39.4)	603.9	(200.8)	(190.8)	(190.0)
Net profit	(37.2)	(1,690.6)	272.7	398.4	448.1
Core net profit	207.8	(401.8)	272.7	398.4	448.1
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
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
Total non-current assets	10,557.9	10,070.2	10,446.9	10,805.5	11,200.5
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
Total current assets	7,667.4	6,136.0	5,800.7	6,555.6	7,373.8
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
Total current liabilities	6,338.0	4,619.2	5,617.5	6,212.1	6,869.0
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
Total long-term liabilities	2,503.4	4,678.1	3,329.5	3,378.9	3,431.5
Shareholders' funds	6,584.5	4,721.7	4,912.6	5,191.5	5,505.2
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
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
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)
Cash flow from operations	949.1	(186.7)	6.2	827.8	819.4
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
Cash flow from investing	(1,740.3)	(788.2)	(595.7)	(617.2)	(640.1)
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	-	-	-	-	-
Cash flow from financing	517.3	(212.7)	522.9	485.2	470.2
Net cash flow	(273.9)	(1,187.5)	(66.6)	695.8	649.5
Net cash/(debt) b/f	2,830.4	2,655.4	2,179.0	2,112.4	2,808.1
Net cash/(debt) c/f	2,621.1	1,493.2	2,112.4	2,808.1	3,457.7
Key Ratios (YE31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
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, AmlInvestment Bank Bhd estimates

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