



Company Note

I Malaysia

REDUCE (previously HOLD)

Consensus ratings*: Buy 1 Hold 8 Sell 7

Current price:	RM5.91
Target price:	RM5.30
Previous target:	RM5.50
Up/downside:	-10.3%
CIMB / Consensus:	1.5%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,608m RM6,905m
Average daily turnover:	US\$1.48m RM6.52m
Current shares o/s:	1,168m
Free float:	34.2%

*Source: Bloomberg

Key changes in this note

► FY17-18F EPS decreased by 6-16%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.7	8.4	4.6
Relative (%)	-5.3	4.7	-3.5

Major shareholders	% held
Permodalan Nasional Bhd	50.1
EPF	15.7

Analyst(s)



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UMW Holdings

1Q17 dragged down by oil and gas

- UMW's 1Q17 results were below our and consensus expectations due to higher-than-expected losses from UMW Oil and Gas (UMW-OG).
- UMW posted a smaller core net loss in 1Q17 (vs 1Q16) due to higher net profit from automotive and equipment segments and lower losses from non-listed oil and gas.
- We cut FY17-18F EPS forecasts by 6-16% to account for higher finance cost, wider losses from UMW-OG and higher opex from the aerospace division.
- Hence, we downgrade from Hold to Reduce with a lower SOP-based RM5.30 target price to account for lower valuations for UMW-OG.
- We prefer Bermaz for exposure in the auto sector due to its higher dividend yield and potential for a stronger earnings recovery in FY18.

1Q17 results below expectation

Revenue in 1Q17 surged 27.5% yoy due to higher contribution from the automotive segment (+40.8% yoy). Oil and gas revenue fell by 15.4% yoy due to lower utilisation. Overall, UMW posted a narrower core net loss of RM4.4m in 1Q17 vs. RM10.5m in 1Q16 due to higher net profit from automotive and equipment and lower losses from non-listed oil and gas. As expected, there was no dividend declared in 1Q17.

Strong recovery in Toyota sales volume

Toyota sales volume surged 61.5% yoy in 1Q17 on the back of price reduction for its Toyota Fortuner model following its inclusion as an energy efficient vehicle and new model launches such as the Altis, Innova and Hilux. UMW is targeting 70k sales volume in 2017 or 7.5% growth yoy compared to 65,110 units sold in 2016. Meanwhile, its associate, Perusahaan Otomobil Kedua (Perodua) also posted an encouraging 6.5% volume growth in 1Q17, driven by its latest two new models, Axia and Bezza.

Wider losses from UMW-OG

Meanwhile, UMW-OG posted a wider net loss of RM58m in 1Q17 compared to RM36.2m in 1Q16 due to lower rig utilisation given that most of its rigs remain idle. Moreover, we estimate that jack-up rigs average charter rates also fell by 16.7% yoy in 1Q17 due to the expiry of earlier higher-priced contracts.

De-merger of UMW-OG still on track

In addition, the group highlighted that its strategic plan to exit the oil and gas sector remains on track as it expects to complete the de-merger exercise with UMW-OG in Jul 2017. The group aims to progressively exit non-listed oil and gas assets which should be concluded by 2018. Moreover, the group highlighted that the manufacturing of its new airplane engine fan case is progressing well and on track to start shipments in 4Q17.

We cut our FY17-18F EPS by 6-16%

We cut FY17-18F EPS by 6-16% to account for higher losses for UMW-OG in 1H17 and higher opex for the aerospace division. Meanwhile, UMW's share price has risen by 28% since the company announced its plan to exit the oil and gas sector in Jan 2017. Hence, we think the earnings uplift from the de-merger exercise is reflected in its share price.

Downgrade from Hold to Reduce, with lower target price of RM5.30

Following the earnings revision, we downgrade the stock from Hold to Reduce with a lower SOP-based target price of RM5.30 to account for a lower valuation for UMW-OG and the surge in UMW's share price YTD. We see further downside to its share price if earnings from its non-listed oil and gas assets continue to drag over the next few quarters and there are higher start-up costs for its aerospace division. Switch to Bermaz.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	14,442	10,965	10,276	10,727	11,152
Operating EBITDA (RMm)	1,054	(359)	912	1,352	1,555
Net Profit (RMm)	370.5	(401.8)	200.0	421.2	415.7
Core EPS (RM)	0.32	(0.34)	0.17	0.36	0.36
Core EPS Growth	(52%)	(208%)		111%	(1%)
FD Core P/E (x)	18.40	NA	34.08	16.18	16.40
DPS (RM)	0.20	0.00	0.20	0.20	0.20
Dividend Yield	3.38%	0.00%	3.38%	3.38%	3.38%
EV/EBITDA (x)	12.32	NA	12.71	8.41	7.52
P/FCFE (x)	7.24	NA	10.62	10.39	11.22
Net Gearing	35.0%	61.5%	47.7%	35.2%	33.1%
P/BV (x)	1.05	1.46	2.66	2.48	2.33
ROE	5.6%	(7.1%)	5.5%	15.7%	14.5%
% Change In Core EPS Estimates			(15.5%)	(5.7%)	0.0%
CIMB/consensus EPS (x)			0.86	1.15	0.93

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	1Q17	1Q16	yoy % chg	4Q16	qoq % chg	Prev. FY17F	Comments
Revenue	2,803.6	2,199.2	27.5	3,062.3	(8.4)	10,276.0	Higher due to stronger contribution from Automotive
Operating costs	(2,696.3)	(2,076.5)	29.8	(3,763.1)	(28.3)	(9,345)	
EBITDA	107.3	122.6	(12.5)	(700.8)	n.m.	930.5	
<i>EBITDA margin (%)</i>	3.8	5.6		(22.9)		9.1	Higher margin following its decision to exit oil and gas business
Depn & amort.	(112.2)	(132.6)	(15.4)	(141.2)	(20.6)	(550.4)	In line
EBIT	(4.9)	(10.0)	(51.0)	(842.0)	n.m.	531.3	
Interest expense	(67.6)	(43.3)	56.0	(60.6)	11.4	(102.5)	Above expectation
Interest & invt inc	22.2	25.2	(11.9)	22.3	(0.5)	87.2	In line
Associates' contrib	40.1	22.1	81.6	65.3	(38.6)		Stronger contribution from Perodua
Exceptionals	24.6	27.1	(9.3)	(1,283.0)	>(100)	0.0	Derivatives and forex gain
Pretax profit	14.4	21.1	(31.7)	(2,098.0)	n.m.	515.9	Below expectations
Tax	(24.9)	(26.0)	(4.1)	(24.9)	0.1	(123.8)	Higher tax rate due to expenses that were not allowable for tax purposes and losses in subs
Tax rate (%)	173.4	123.4		(1.2)		24.0	
Minority interests	(30.7)	(21.5)	42.8	(556.2)	n.m.	(155.3)	In line
Net profit	20.2	16.6	21.6	(1,566.8)	>100	236.8	
Core net profit	(4.4)	(10.5)	(58.0)	(283.8)	>100	236.8	Below expectation
EPS (sen)	1.7	1.4	21.6	(134.1)	>100	20.3	
Core EPS (sen)	(0.4)	(0.9)	(58.0)	(24.3)	>100	20.3	
DPS (sen)	0.0	0.0	n.m.	0.0	n.m.	20.0	

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Revenue, pretax profit and profit after tax breakdown

Revenue Segmental	1Q17	1Q16	yoy % chg	4Q16	qoq % chg	
Automotive	2,190.9	1,556.0	40.8	2,462.3	(11.0)	Toyota and Lexus sales volume surged 59% yoy
Equipment	342.4	358.0	(4.3)	330.8	3.5	Stiff competition in construction sector
Oil & Gas (listed)	74.3	87.7	(15.3)	53.5	38.9	Lower utilisation from oil rigs
Manufacturing & Engineering	165.9	145.4	14.1	152.6	8.7	Higher due to stronger demand for shock absorber from OEM and REM markets
Oil & Gas (unlisted)	36.3	53.6	(32.3)	67.0	(45.9)	Lower due to weak demand in exploration sub-segment
Others	(6.1)	(1.5)	318.5	(4.0)	51.6	
Total	2,803.6	2,199.2	27.5	3,062.3	(8.4)	
PBT	1Q17	1Q16	yoy % chg	4Q16	qoq % chg	
Automotive	87.1	82.7	5.2	143.6	(39.4)	Affected by volatility in currency
Equipment	39.5	39.2	0.8	30.6	29.3	
Oil & Gas (listed)	(104.9)	(68.4)	53.3	(915.8)	(88.5)	Lower charter day rates
Manufacturing & Engineering	3.1	6.6	(53.0)	4.0	(23.4)	Higher opex related to aerospace business
Oil & Gas (unlisted)	(15.0)	(35.6)	(57.7)	(625.6)	(97.6)	
Others	4.6	(3.5)	(231.0)	(734.9)	(100.6)	
Total	14.4	21.1	(31.7)	(2,098.0)	nm	
PAT	1Q17	1Q16	yoy % chg	4Q16	qoq % chg	
Automotive	56.0	55.5	0.9	98.8	(43.3)	
Equipment	31.1	30.2	3.1	27.4	13.8	
Oil & Gas (listed)	(58.0)	(36.2)	60.3	(412.6)	(85.9)	
Manufacturing & Engineering	(2.4)	1.1	(313.5)	(3.6)	(32.8)	
Oil & Gas (unlisted)	(10.7)	(34.0)	(68.4)	(1,276.1)	(99.2)	
Others	4.3	-	nm	(0.6)	nm	
Total	20.2	16.6	21.6	(1,566.8)	nm	

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Earnings revision

	Previous			Revised			Changes		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Revenue	10,276	10,727	11,152	10,276	10,727	11,152	0%	0%	0%
EBITDA	931	1,378	1,540	912	1,352	1,555	-2%	-2%	1%
Pretax Profit	516	925	981	458	881	988	-11%	-5%	1%
Net Profit	237	447	416	200	421	416	-16%	-6%	0%
EPS	20	38	36	17	36	36	-16%	-6%	0%

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 4: UMW Holdings's historical share price YTD

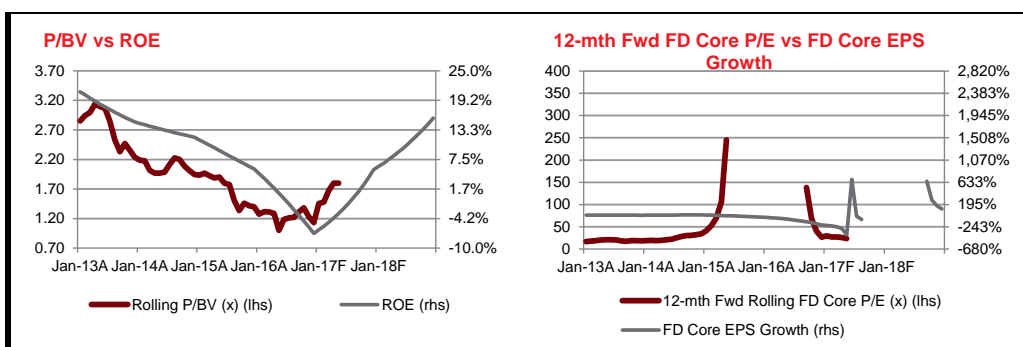
SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 5: Sector comparison

Company	Recom.	Price	Target Price	Mkr Cap (US\$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		(RM)	(RM)		CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18
Bermaz Auto Berhad	Add	2.05	2.20	550	13.8	11.5	4.5	4.3	33.5%	38.6%	8.2	7.1	7.2%	8.0%
DRB-Hicom	Add	1.68	2.25	756	na	28.1	0.5	0.5	-2.7%	1.7%	2.1	1.1	1.1%	1.0%
Tan Chong Motor Holdings	Reduce	1.87	1.56	284	na	126.0	0.4	0.4	-2.4%	0.3%	21.2	11.3	0.5%	1.1%
UMW Holdings	Reduce	5.91	5.30	1,608	34.5	16.4	2.7	2.5	5.3%	15.7%	13.0	8.4	3.4%	3.4%
Sector average					117.5	18.3	1.1	1.1	0.8%	5.9%	9.8	6.1	3.2%	3.4%

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	14,442	10,965	10,276	10,727	11,152
Gross Profit	3,391	1,645	1,644	1,877	1,673
Operating EBITDA	1,054	(359)	912	1,352	1,555
Depreciation And Amortisation	(511)	(555)	(550)	(569)	(669)
Operating EBIT	543	(914)	361	783	886
Financial Income/(Expense)	(0)	(106)	(54)	(107)	(61)
Pretax Income/(Loss) from Assoc.	134	155	151	204	164
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	677	(865)	458	881	988
Exceptional Items					
Pre-tax Profit	677	(865)	458	881	988
Taxation	(267)	(141)	(103)	(198)	(297)
Exceptional Income - post-tax					
Profit After Tax	410	(1,006)	355	682	692
Minority Interests	(39)	604	(155)	(261)	(276)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	371	(402)	200	421	416
Recurring Net Profit	371	(402)	200	421	416
Fully Diluted Recurring Net Profit	371	(402)	200	421	416

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	1,054	(359)	912	1,352	1,555
Cash Flow from Inv. & Assoc.					
Change In Working Capital	68	775	142	(182)	(413)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	511	528	550	569	669
Net Interest (Paid)/Received	1	106	54	107	61
Tax Paid	(274)	(207)	(103)	(198)	(297)
Cashflow From Operations	1,360	842	1,555	1,648	1,575
Capex	(2,280)	(966)	(1,000)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	44	0	0	0	0
Acq. Of Subsidiaries/investments			0	0	
Other Investing Cashflow	126	81	87	9	32
Cash Flow From Investing	(2,111)	(886)	(913)	(991)	(968)
Debt Raised/(repaid)	1,692	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(479)	0	(234)	(234)	(234)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	1,213	0	(234)	(234)	(234)
Total Cash Generated	462	(44)	408	423	374
Free Cashflow To Equity	941	(44)	642	656	607
Free Cashflow To Firm	(878)	(230)	501	541	514

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	2,734	2,179	213	806	1,086
Total Debtors	1,833	1,022	1,101	1,154	1,405
Inventories	1,890	1,922	1,382	1,578	1,833
Total Other Current Assets	1,252	1,012	962	962	962
Total Current Assets	7,710	6,136	3,658	4,499	5,286
Fixed Assets	8,103	7,639	3,952	4,089	4,420
Total Investments	3	2	0	0	0
Intangible Assets	25	0	0	0	0
Total Other Non-Current Assets	2,384	2,429	2,426	2,083	1,833
Total Non-current Assets	10,515	10,070	6,378	6,172	6,253
Short-term Debt	3,725	2,641	1,558	909	709
Current Portion of Long-Term Debt					
Total Creditors	2,241	1,781	1,462	1,529	1,623
Other Current Liabilities	372	197	192	192	192
Total Current Liabilities	6,338	4,619	3,213	2,630	2,523
Total Long-term Debt	2,290	3,789	1,005	1,787	2,303
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	889	888	888	888
Total Non-current Liabilities	2,503	4,678	1,893	2,675	3,191
Total Provisions	0	0	0	0	0
Total Liabilities	8,841	9,297	5,105	5,305	5,714
Shareholders' Equity	6,584	4,722	2,596	2,783	2,965
Minority Interests	2,797	2,187	2,335	2,584	2,860
Total Equity	9,381	6,909	4,931	5,367	5,825

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(3.3%)	(24.1%)	(6.3%)	4.4%	4.0%
Operating EBITDA Growth	(46%)	(134%)	N/A	48%	15%
Operating EBITDA Margin	7.3%	(3.3%)	8.9%	12.6%	13.9%
Net Cash Per Share (RM)	(2.81)	(3.64)	(2.01)	(1.62)	(1.65)
BVPS (RM)	5.64	4.04	2.22	2.38	2.54
Gross Interest Cover	4.29	(4.91)	2.56	6.81	9.49
Effective Tax Rate	39.5%	0.0%	22.5%	22.5%	30.0%
Net Dividend Payout Ratio	36.6%	NA	77.1%	37.7%	32.8%
Accounts Receivables Days	49.44	47.66	37.72	38.37	41.88
Inventory Days	61.44	74.85	69.87	61.05	65.68
Accounts Payables Days	73.63	78.98	68.57	61.68	60.67
ROIC (%)	3.89%	(5.32%)	2.25%	7.19%	8.16%
ROCE (%)	4.6%	(5.8%)	4.3%	10.2%	10.9%
Return On Average Assets	3.90%	(4.56%)	3.80%	9.28%	9.31%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	0.0%	2.0%	0.0%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-5.7%	-9.1%	6.4%	6.2%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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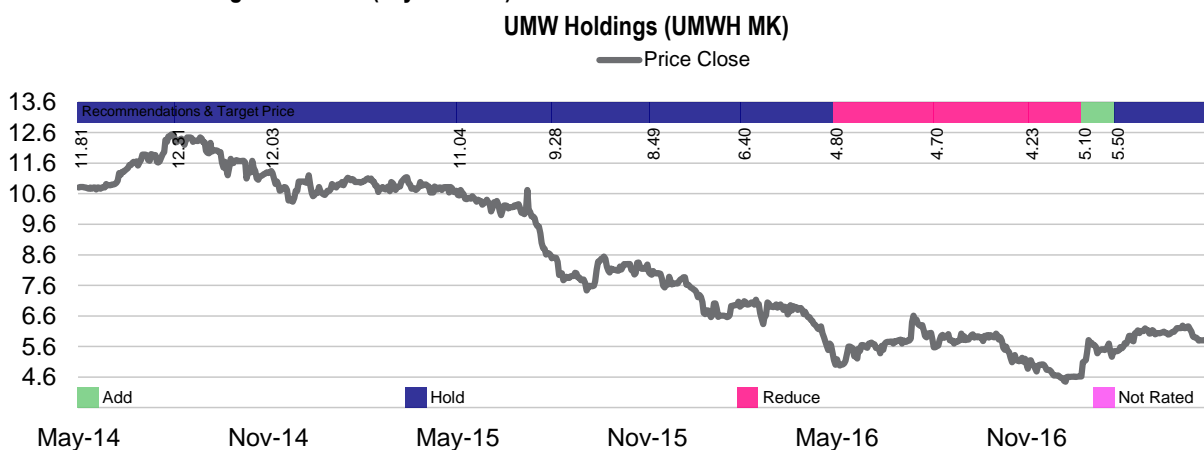
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1244 companies under coverage for quarter ended on 31 March 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared,

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- Companies certified by CAC

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
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The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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