

**UMW (HOLD ↔, EPS ↑)**

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

24 May 2017

Price Target: RM5.50(↑)

Share price: RM5.91

**Lower loss from unlisted O&G**

Results	<ul style="list-style-type: none"> <li>▪ <b>Above Expectation</b> - Reported core net loss of RM4.3m in 1Q17 as compared to HLIB's expected FY17 profit of RM9m. However the result was below consensus forecast of RM227m profit for FY17.</li> </ul>
Deviations	<ul style="list-style-type: none"> <li>▪ We deem the result above expectation as 1Q17 result was dragged by UMWOG loss of RM58m. By 2H17, we expect UMW to return to profit (from current breakeven level) post de-consolidate UMWOG.</li> </ul>
Dividends	<ul style="list-style-type: none"> <li>▪ UMW had proposed to distribute its stake in UMWOG to its shareholders by 2H17, entailing dividend yield up to 12.7%.</li> </ul>
Highlights	<ul style="list-style-type: none"> <li>▪ <b>YoY:</b> Revenue increased by 27.5% on overall stronger sales from Automotive and M&amp;E segments, which was partially offset by lower contribution from O&amp;G (including UMWOG) and Equipment segments. However, core result turned into red due to lower net contribution from UMWOG, M&amp;E and others. Note that net contribution from Automotive was flat YoY due to lower margins (dragged by weakened RM).</li> <li>▪ <b>QoQ:</b> Similarly, core profit (excluding impairments due to kitchen sinking) in 4Q16 turned to core loss in 1Q17 on lower net contribution from Automotive segment.</li> <li>▪ <b>Outlook:</b> 2017 will remain a tough year for UMW operation across all the segments. We remain caution on automotive segment on on-going subdued consumer sentiment, weakened RM and tough competitive market environment.</li> <li>▪ The equipment segment is expected to remain affected by the weak demand from mining and plantation sectors (weak prices of resources and commodities) while construction sector remains competitive.</li> <li>▪ M&amp;E segment is expected to be stable, but being dragged by start-up cost of Rolls-Royce manufacturing plant in 2017. The plant is only expected to contribute positively in 2018.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>▪ Prolonged tightening of banks' HP rules.</li> <li>▪ Slowdown in the Malaysian economy affecting car sales.</li> <li>▪ Global automotive supply chain disruption.</li> <li>▪ Depreciation of RM.</li> <li>▪ Plunge in crude oil price and slowdown in O&amp;G exploration.</li> </ul>
Forecasts	<ul style="list-style-type: none"> <li>▪ Raise FY17, FY18 and FY19 earnings forecasts to RM138.9m (from RM3.6m), RM318.2m (from RM253.9m) and RM485.5m (from RM457.5m) respectively, mainly on lower losses from O&amp;G (unlisted) segment.</li> </ul>
Rating	<b>HOLD (↔)</b> <ul style="list-style-type: none"> <li>▪ Potential realizable dividend yield of up to 12.7% (dependent on share price movement of UMWOG). However, concerns remain on management commitment in exiting Oil &amp; Gas (unlisted) segment by end 2017.</li> </ul>
Valuation	<ul style="list-style-type: none"> <li>▪ We maintain HOLD recommendation with higher TP of RM5.50 (from RM5.35) based on SOP, post adjustment on earnings. Our SOP valuation assigns zero value for its O&amp;G (unlisted) segment, as UMW had virtually fully impaired these assets and investments.</li> </ul>

Daniel Wong

[kwong@hlib.hongleong.com.my](mailto:kwong@hlib.hongleong.com.my)

(603) 2168 1077

KLCI	1767
Expected share price return	-6.9%
Expected dividend return	0.8%
Expected total return	-6.1%

**Share Price**

**Information**

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	6,905
3-mth avg. volume ('000)	1,138
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.7	7.8	9.4
Relative	-5.3	4.0	1.3

**Major Shareholders**

PNB	56.1%
EPF	12.7%
KWAP	7.1%

**Summary Earnings Table**

FYE Dec (RM m)	FY16A	FY17E	FY18F	FY19F
Turnover	10,904	11,337	11,990	13,353
EBITDA	564	562	832	1,066
Pre-tax Profit	-2,130	253	568	801
Rpt. net profit	-1,667	139	318	485
Norm. net profit	184	139	318	485
Norm. EPS (sen)	15.7	11.9	27.2	41.6
P/E (x)	37.6	49.7	21.7	14.2
Book Value (RM)	4.0	3.6	3.8	4.1
P/B (x)	1.5	1.7	1.6	1.4
Net Dvd Yield (%)	12.2	0.8	0.8	1.7
Net Gearing	89.5	47.6	62.1	56.6
ROE (%)	3.3	3.1	7.4	10.5
ROA (%)	1.1	1.0	2.6	3.8

**Consensus:**

EPS (sen)	19.9	31.3	38.2
% Diff	-40.3	-13.0	8.8
HLIB			

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comment
Revenue	2,199.2	3,062.3	2,803.6	-8.4	27.5	<b>YoY:</b> Revenue increased due to; 1) Higher Automotive sales for Toyota and Perodua; and 2) higher Manufacturing sales for shock absorber; which was partially offset by: 1) lower O&G contribution on lower utilization and charter rate of rigs (UMWOG) as well as O&G manufacturing (O&G unlisted); and 2) slowdown in the mining and construction sectors (Equipment). <b>QoQ:</b> Lower mainly due to weaker automotive sales for Toyota and Perodua.
EBITDA	132.6	-30.8	107.2	-448.3	-19.2	
EBITDA Margin (%)	6.0	-1.0	3.8	-480.4	-36.6	<b>YoY:</b> EBITDA margin was dragged by 1) higher COGS (affected by RM depreciation against US\$) and sales and distributional cost in Automotive segment; 2) higher COGS for manufacturing of lubricants and start-up cost for aerospace in M&E segment; and 3) higher losses in UMWOG. <b>QoQ:</b> EBITDA margin improved from Equipment and lower losses from oil & gas segment (both UMWOG and unlisted entities).
EBIT	0.0	-172.0	-4.9	-97.1	-14240.0	
EBIT Margin (%)	0.0	-5.6	-0.2	5.4	-0.2	
Net Finance Expense	-18.1	-38.4	-45.4	18.4	150.3	
Associates	22.1	65.3	40.1	-38.6	81.6	
Eis	17.1	-1,953.0	24.7			Related to derivatives, forex, impairments and provisions. The huge loss in 4Q16 was due to UMW decision for kitchen sinking exercise during year end.
Reported PBT	21.1	-2,098.0	14.4	-100.7	-31.7	
Tax	-26.0	-24.9	-24.9	0.1	-4.1	
Reported Net Profit	-4.9	-2,123.0	-10.6	-99.5	114.1	
Reported PATAMI	16.6	-1,566.2	20.2	-101.3	21.6	
Core PATAMI	11.6	36.7	-4.3	-111.7	-137.0	<b>YoY:</b> Loss in 1Q17 from profit in 1Q16 due to weakened overall margins for Automotive, M&E and O&G segments. <b>QoQ:</b> Performance deteriorated mainly due to lower net contribution from Automotive (post Minority Interest) and lower contribution from associates QoQ.
Reported EPS (Sen)	1.4	-134.1	1.7	-101.3	21.6	
Core EPS (Sen)	1.0	3.1	-0.4	-111.7	-137.0	

Company, HLIB

Figure #2: UMW Group Automotive Sales Statistics

Unit Sales	1Q16	2Q16	3Q16	4Q16	1Q17
Toyota (51% ownership)	10,318	17,033	17,271	19,237	16,503
Lexus (51% ownership)	272	359	334	388	191
Perodua (38% ownership)	47,181	50,189	53,519	56,211	50,265
<b>Total</b>	<b>57,771</b>	<b>67,581</b>	<b>71,124</b>	<b>75,836</b>	<b>66,959</b>
<b>Growth YoY (%)</b>	<b>-21.67</b>	<b>-9.21</b>	<b>-2.30</b>	<b>-14.00</b>	<b>16.11</b>
<b>Growth QoQ (%)</b>	<b>-34.5</b>	<b>17.0</b>	<b>5.2</b>	<b>6.6</b>	<b>-11.7</b>

Company, HLIB

Figure #3: UMW Earnings Breakdown

	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comment
<b>Reported Revenue</b>						
Automotive	1,556.0	2,462.3	2,190.9	-11.0	40.8	Related to sales volume of Toyota and Lexus, which improved YoY but declined QoQ (attributed to aggressive year-end sales in 2016).
Equipment	358.0	330.8	342.4	3.5	-4.3	Dropped YoY on slowdown in the mining sector and stiff competition in the construction sector, but stable QoQ.
Manufacturing & Engineering	145.4	152.6	165.9	8.7	14.1	Higher YoY and QoQ on stronger demand for shock absorber business.
Oil & Gas	87.7	53.5	74.3	38.9	-15.3	Lower YoY on lower utilization rate, but improved QoQ attributed to commencement of Naga 7 contract in March.
Oil & Gas Unlisted	53.6	67.0	36.3	-45.9	-32.3	Affected by on-going weak oil prices.
Others	9.2	(12.7)	13.2	-203.6	42.6	
Intersegment	(10.7)	8.7	(19.3)	-322.6	80.4	
<b>Total</b>	<b>2,199.2</b>	<b>3,062.3</b>	<b>2,803.6</b>	<b>-8.4</b>	<b>27.5</b>	
<b>Reported PATAMI</b>						
Automotive	55.5	98.8	56.0	-43.3	0.9	Stable YoY, but lower QoQ on lower sales volumes for Toyota and Perodua. Margins for this segment is expected to remain weak due to subdued consumer sentiments and weakened RM.
Equipment	30.2	27.4	31.1	13.8	3.1	Stable profits contribution. Earning is expected to be sustainable in 2017 with stronger demand coming from construction sector.
Manufacturing & Engineering	1.1	(3.6)	(2.4)	-32.8	-313.5	Affected by start-up cost of Aerospace business, which is only expected to commence in 4Q17.
Oil & Gas	(36.2)	(511.8)	(58.0)	N.M.	N.M.	Remained operational losses in 1Q17 due to low utilization and charter rate. UMW is expected to complete share distribution of UMWOG to shareholders (deconsolidation) by July 2017.
Oil & Gas Unlisted	(34.0)	(442.1)	(10.7)	-97.6	-68.4	Remained losses on weak demand for O&G manufacturing sub-segment. UMW is committed to dispose all the assets and investment within this segment by 2018.
Others	0.0	(734.8)	4.3	-100.6	#DIV/0!	Positive contribution in 1Q17 due to disposal gain as compared to 4Q16, which was affected by derivatives loss, forex gain and impairments during year-end.
<b>Total</b>	<b>16.6</b>	<b>(1,566.2)</b>	<b>20.2</b>	<b>-101.3</b>	<b>21.6</b>	
<b>Core PATAMI</b>	<b>11.6</b>	<b>36.7</b>	<b>(4.3)</b>	<b>-111.7</b>	<b>-137.0</b>	

Company, HLIB

Figure #4: UMW SOP

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
Automotive	Various	3,060.9	2.62	FY18 PE 10x
Equipment	Various	1,193.7	1.02	FY18 PE 8x
Oil & Gas	55.73	867.5	0.74	Assuming realisable share price at RM0.72
Manufacturing & Engineering	Various	1,298.1	1.11	FY19 PE 10x
Others	Various	0.0	0.00	
<b>Target Price (RM)</b>		<b>6,420.2</b>	<b>5.50</b>	FY18 PE 20.2x

Company, HLIB

Figure #5: HLIB Forecast versus Consensus

	FY17E		Difference (%)	FY18F		Difference (%)	FY19F		Difference (%)
	HLIB	Consensus		HLIB	Consensus		HLIB	Consensus	
Revenue (RMm)	11,336.5	10,804.0	4.9%	11,990.2	11,067.0	8.3%	13,353.2	11,786.0	13.3%
EBITDA (RMm)	562.1	755.9	-25.6%	832.3	979.8	-15.1%	1,066.2	1,203.0	-11.4%
Core Profit (RMm)	138.9	227.0	-38.8%	318.2	377.9	-15.8%	485.5	445.6	8.9%
EPS (Sen)	11.9	19.9	-40.3%	27.2	31.3	-13.0%	41.6	38.2	8.8%

Bloomberg, HLIB

## Financial Projections

## Income statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
<b>Revenue</b>	<b>14,442</b>	<b>10,904</b>	<b>11,337</b>	<b>11,990</b>	<b>13,353</b>
Operating cost	-12,872	-10,340	-10,774	-11,158	-12,287
<b>EBITDA</b>	<b>1,569</b>	<b>564</b>	<b>562</b>	<b>832</b>	<b>1,066</b>
Depreciation	-765	-555	-413	-343	-342
<b>EBIT</b>	<b>804</b>	<b>9</b>	<b>149</b>	<b>490</b>	<b>725</b>
Interest income	126	81	68	55	48
Interest expense	-127	-186	-111	-118	-123
Associates	134	155	147	141	152
Exceptionals	-668	-2,189	0	0	0
<b>Pretax profit</b>	<b>270</b>	<b>-2,130</b>	<b>253</b>	<b>568</b>	<b>801</b>
Taxation	-267	-141	-118	-143	-177
Minorities	-39	604	4	-107	-139
<b>Net profit</b>	<b>-37</b>	<b>-1,667</b>	<b>139</b>	<b>318</b>	<b>485</b>
<b>Core PATAMI</b>	<b>256</b>	<b>184</b>	<b>139</b>	<b>318</b>	<b>485</b>
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	11.9	27.2	41.6
<b>Core EPS (sen)</b>	<b>21.9</b>	<b>15.7</b>	<b>11.9</b>	<b>27.2</b>	<b>41.6</b>

## Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Fixed assets	8,106	7,642	3,426	4,303	4,382
Other assets	4,038	3,709	4,046	4,081	4,119
<b>Working capital</b>	<b>1,968</b>	<b>1,778</b>	<b>1,862</b>	<b>1,989</b>	<b>2,227</b>
Receivables	1,458	754	794	839	935
Payables	-1,380	-898	-916	-948	-1,044
Inventory	1,890	1,922	1,984	2,098	2,337
<b>Net cash</b>	<b>-3,281</b>	<b>-4,226</b>	<b>-1,981</b>	<b>-2,746</b>	<b>-2,710</b>
Cash	2,734	2,179	1,722	1,434	1,305
ST debt	-3,725	-2,617	-1,117	-1,117	-1,117
LT debt	-2,290	-3,789	-2,587	-3,063	-2,899
<b>Equity</b>	<b>6,584</b>	<b>4,722</b>	<b>4,161</b>	<b>4,420</b>	<b>4,789</b>
Share capital	584	584	584	584	584
Reserves	6,000	4,138	3,576	3,836	4,205
Minorities	2,799	2,187	1,198	1,214	1,234
Other liabilities	1,447	1,994	1,994	1,994	1,994

## Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
GDP Growth (%)	6.0%	4.2%	4.5%	4.5%	4.5%
TIV ('000)	666.5	572.0	600.6	618.6	637.2
Growth (%)	1.6%	-14.2%	5.0%	3.0%	3.0%
Unit Sale (Unit)	498.8	401.1	414.7	435.1	452.1
Toyota ('000)	309.2	272.2	276.0	289.5	300.7
Lexus ('000)	95.9	65.1	70.0	73.5	76.4
Perodua ('000)	93.8	63.8	68.7	72.1	75.0
Average Price					
UMW (RM '000)	107.9	123.1	116.9	113.4	114.6
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

## Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
EBITDA	1,569	564	562	832	1,066
Net interest	-1	-106	-43	-63	-75
WCap changes	69	190	-83	-128	-238
Taxation	-283	-136	-118	-143	-177
Others	-279	-583	0	0	0
<b>Opex cashflow</b>	<b>1,075</b>	<b>-70</b>	<b>318</b>	<b>499</b>	<b>576</b>
Capex & acq.	-2,388	-925	-1,998	-1,220	-420
<b>Free cashflow</b>	<b>-1,313</b>	<b>-995</b>	<b>-1,679</b>	<b>-721</b>	<b>156</b>
Other inv cashflow	502	248	110	106	114
Net borrowings	1,323	433	1,098	476	-164
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	15	-91	-118
<b>Net cashflow</b>	<b>-274</b>	<b>-526</b>	<b>-457</b>	<b>-288</b>	<b>-129</b>
Forex translation	65	25	0	0	0
<b>Beginning cash</b>	<b>3,277</b>	<b>2,655</b>	<b>2,155</b>	<b>1,698</b>	<b>1,410</b>
<b>Ending cash</b>	<b>3,067</b>	<b>2,155</b>	<b>1,698</b>	<b>1,410</b>	<b>1,281</b>

## Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Rep. EPS (sen)	-3.2	-142.7	11.9	27.2	41.6
<b>Core EPS (sen)</b>	<b>21.9</b>	<b>15.7</b>	<b>11.9</b>	<b>27.2</b>	<b>41.6</b>
PER (x)	-185.8	-4.1	49.7	21.7	14.2
<b>Core PER (x)</b>	<b>27.0</b>	<b>37.6</b>	<b>49.7</b>	<b>21.7</b>	<b>14.2</b>
Net DPS (sen)	20.0	72.0	5.0	5.0	10.0
Net DY (%)	3.4	12.2	0.8	0.8	1.7
<b>BV/ share (RM)</b>	<b>5.6</b>	<b>4.0</b>	<b>3.6</b>	<b>3.8</b>	<b>4.1</b>
P/BV (x)	1.0	1.5	1.7	1.6	1.4
FCF/share (sen)	-112.4	-85.2	-143.8	-61.7	13.4
<b>Market Cap</b>	<b>6,905</b>	<b>6,905</b>	<b>6,905</b>	<b>6,905</b>	<b>6,905</b>
Net cash	-3,281	-4,226	-1,981	-2,746	-2,710
Enterprise value	10,185	11,131	8,886	9,650	9,615
EV/EBITDA (x)	6.5	19.7	15.8	11.6	9.0
<b>ROE (%)</b>	<b>3.9</b>	<b>3.3</b>	<b>3.1</b>	<b>7.4</b>	<b>10.5</b>
<b>ROA (%)</b>	<b>1.5</b>	<b>1.1</b>	<b>1.0</b>	<b>2.6</b>	<b>3.8</b>

## Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
<b>Growth (%)</b>					
Sales	-3.3	-24.5	4.0	5.8	11.4
EBITDA	-19.5	-64.0	-0.4	48.1	28.1
EBIT	-48.8	-98.8	N.A.	229.2	48.0
PBT	-83.4	-890.0	-111.9	124.7	41.1
Core PATAMI	-67.4	-28.2	-24.4	129.1	52.5
<b>Margins (%)</b>					
EBITDA	10.9	5.2	5.0	6.9	8.0
EBIT	5.6	0.1	1.3	4.1	5.4
PBT	1.9	-19.5	2.2	4.7	6.0
Core PATAMI	1.8	1.7	1.2	2.7	3.6
<b>Net Gearing (%)</b>	<b>49.8</b>	<b>89.5</b>	<b>47.6</b>	<b>62.1</b>	<b>56.6</b>

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**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.