

Company Result

24 May 2017

UMW Holdings Berhad

**HOLD
Maintained**

Swings into the black

Share Price	RM5.91
Target Price	RM5.20

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

- **UMW reported a net profit of RM20.2m in 1Q17, turnaround from a net loss of RM1.6b in 4Q16 and widened from a net profit of RM16.6m a year ago.** Meanwhile, revenue stood at RM2.8b, which was down 8.5% q-o-q but up 27.5% y-o-y.
- **Below expectations** – 1Q17 net profit was below our expectation and market consensus. The weaker-than-expected net profit was mainly due to further weakness in the oil and gas and automotive segments.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6904.62
52-week price Range	RM4.43– 7.00
Beta (against KLCI)	1.25
3-m Average Daily Volume	1.14m
3-m Average Daily Value [^]	RM6.84m

Comment

Share Performance

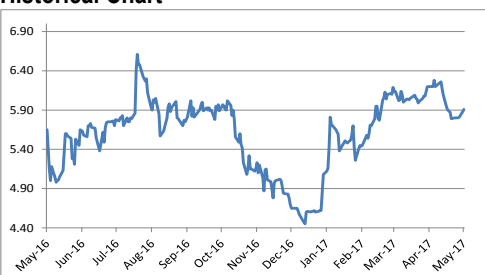
	1m	3m	12m
Absolute (%)	-4.7	-1.5	-4.6
Relative (%-pts)	-5.3	4.6	-3.2

- **Toyota sales spike up y-o-y.** Auto division's 1Q17 PBT recorded an increase of 5.2% y-o-y, aided by strengthening in Ringgit coupled with lower base in 1Q16. Toyota sales jumped significantly by 61.5% y-o-y with 16,503 units sold as compared to 10,216 units sold in 1Q2016. Besides that, the Toyota also regained its market share of 11.7% in 1Q17 against 7.8% in 1Q16. However, on qoq comparison, Auto's PBT dropped 39.4% q-o-q, eroded by higher promotional and marketing activities in the last quarter. The Group is expected to roll up a new Toyota CH-R model in 2H17 as well as will bring up a new EEV model that will boost up the company's margin.
- **Marginal hike in Perodua sales.** Perodua maintained its leading position with 35.7% market share, recording an increase of 6.5% y-o-y in 1Q17 thanks to the launch of Axia facelift and updated version of Bezza which boosted the growth in 1Q17. Nonetheless, on q-o-q basis, Perodua sales dropped by 10.6%, caused by poor consumer sentiment towards the big ticket items. Notably, Perodua is expected to release the new Myvi by mid-2017, possibly beating its 202k sales target in 2017.
- **Equipment division still weak.** Equipment division posted a y-o-y growth of -4.3% in its topline but managed to eke out a marginal growth of +0.8% y-o-y in its bottomline for this quarter. The lacklustre revenue and PBT were caused by the competitive local operating environment as well as weak demand for its heavy and industrial equipment. However, as compared to last quarter, both revenue and PBT showed an encouraging growth of 3.5% q-o-q and 29.3% q-o-q respectively due to continued slower activities in the jade mining, affecting the demand for heavy equipment, we believe.
- **Less severe impact from O&G segment** – Oil and Gas segment (O&G) minimized its losses by showing a pre-tax loss of RM104.91m as compared to the last quarter of RM918.08m as its jack-up utilization rate improved slightly

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	42.11
EMPLOYEES PROVIDENT FUND	12.65
KUMPULAN WANG PERSARAAN	7.14
YAYASAN PELABURAN BUMIPUTRA	5.72

Historical Chart



Source: Bloomberg

Team Coverage

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as UMW NAGA 7 was income-generating at the end of March 2017. However, this segment still whittled the Group's margin. To recap, UMW decided to demerge with UMW Oil & Gas Corporation Berhad and the exercise is expected to be completed by July 2017. For the non-listed assets, the Group has already disposed its 10 non-listed O&G, while the remaining 16 non-listed assets are expected to be fully divested next year.

- **Poor showing in M&E division.** Manufacturing & Engineering's PBT showed a drop of 53% y-o-y and 23.4% q-o-q, dented by pre-operating expenses incurred by aerospace business. To recap, UMW signed a 25+5 year contract with Rolls Royce to manufacture fan cases for Trent 1000 & 7000 engines, which used in Boeing 787 Dreamliner and Airbus A330neo. Rolls Royce plant in Serendah has been completed and is targeted to deliver first fan case in October 2017. This aerospace business is expected to incur losses in early commencement and will drag the earnings of manufacturing and engineering division. However, meaningful contribution from aerospace business to M&E division will only be felt from 2019 onwards.

Earnings Outlook/Revision

- **We maintain our net earnings forecast for 2017F and 2018F** as we expect the Group's earnings to perform better in 2H17 with disposal of listed O&G and mild recovery of auto business on the back of launching of new models.
- **We expect transformation plans implemented by the Group will resume its positive growth momentum over a longer term.** 1) Auto division is expected to register modest growth with the launch of new model during the 2H17; 2) Equipment division is expected to move forward into high value added manufacturing; 3) New plant in Bukit Raja (initial 50K capacity p.a.) to be fully completed and operational in 2019; and 4) Exit of O&G segment that will help to improve the Group's overall profitability.
- **However, we reckon that this year is still full of challenges for the Group** especially for its core business, auto division, as impacted by weaker consumer sentiment towards big ticket items and volatility in foreign exchange. Also, continuous bleeding from its O&G segment for 1H17 and uninspiring Equipment and M&E divisions continue to weigh on the Group.

Valuation & Recommendation

- **Maintain HOLD call on UMW with an unchanged target price of RM5.20.** Our valuation for UMW is pegged at 20x FY2018F PE based on EPS of 26 sen.

Figure 1: Quarterly Figures

Year to 31 Dec	1Q17 (RMm)	4Q16 (RMm)	1Q16 (RMm)	QoQ % chg	YoY % chg
Revenue	2803.60	3062.31	2199.16	-8.45%	27.48%
Operating Profit	19.70	-2125.00	17.15	N/A	14.92%
Pre-tax Profit	14.39	-2098.03	21.07	N/A	-31.72%
Profit After Tax	-10.56	-2122.97	-4.93	N/A	N/A
Net Profit	20.17	-1566.20	16.58	N/A	21.62%
Operating Margin (%)	0.7%	-69.4%	0.8%	N/A	-0.1%
PBT Margin (%)	0.5%	-68.5%	1.0%	N/A	-0.4%

Figure 2: Segmental Breakdown

2017	1Q17 (RMm)	4Q16 (RMm)	1Q16 (RMm)	Q-O-Q (%)	Y-O-Y (%)
Segmental Revenue					
Automotive	2190.86	2462.35	1555.99	-11.03%	40.80%
Equipment	342.43	330.85	357.97	3.50%	-4.34%
Oil & Gas	74.28	53.47	87.68	38.93%	-15.28%
M & E	165.88	152.64	145.45	8.67%	14.05%
Others	13.16	-12.70	62.77	N/A	-79.04%
Elimination	-19.28	8.66	-10.69	N/A	N/A
Total Revenue	2767.33	2995.27	2199.164	-7.61%	25.84%
Segmental PBT					
Automotive	87.07	143.59	82.73	-39.36%	5.24%
Equipment	39.55	30.59	39.25	29.30%	0.77%
Oil & Gas	-104.91	-918.08	-68.42	N/A	N/A
M & E	3.10	4.04	6.59	-23.39%	-53.00%
Total PBT	24.81	-739.87	60.146	-103.35%	-1330.12%
Segmental Margin					
Automotive	3.97%	5.83%	5.32%	-1.86%	-1.34%
Equipment	11.55%	9.24%	10.96%	2.30%	0.59%
Oil & Gas	-141.24%	-1717.13%	-78.04%	N/A	N/A
M & E	1.87%	2.65%	4.53%	-0.78%	-2.66%

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017F	2018F
Revenue	13,951.46	14,958.91	14,419.75	10,965.07	9,048.22	9252.69
Operating profit	1,296.46	1,426.78	166.64	-2,202.81	305.83	383.06
PBT	1,435.67	1,620.83	265.36	-2,153.78	482.41	684.92
Net profit	679.61	650.70	-38.93	-1,690.58	202.61	297.94
Core net profit	960.40	836.80	338.00	-401.80	202.61	297.94
EPS (sen)	0.58	0.56	-0.03	-1.45	0.17	0.26
P/BV (x)	0.77	0.73	0.75	1.00	0.90	0.82
DPS (sen)	0.44	0.41	0.20	0.00	0.10	0.10
Dividend yield (%)	7.45%	6.94%	3.38%	0.00%	1.69%	1.69%
Operating margin (%)	9.29%	9.54%	1.16%	-20.09%	3.38%	4.14%
PBT margin (%)	10.29%	10.84%	1.84%	-19.64%	5.33%	7.40%
Net profit margin (%)	4.87%	4.35%	-0.27%	-15.42%	2.24%	3.22%
Net Gearing Ratio(x)	0.37	0.38	0.66	1.03	1.04	1.10
ROE (%)	7.57%	6.89%	-0.42%	-24.47%	2.65%	3.52%
ROA (%)	4.59%	3.96%	-0.22%	-10.43%	1.19%	1.64%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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