

24 May 2017

UMW Holdings

Hold

Price
RM5.91

Target price
RM5.80

Market data

Bloomberg code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	6,659.3
52-week high/low (RM)	7.13 / 4.45
Avg daily turnover (RMm)	6.2
KLCI (pts)	1,708.38

Source: Bloomberg

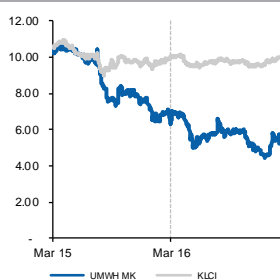
Valuation

Target price (RM)	5.80
Methodology	SOP
Implied CY17 PER (x)	18
Implied CY17 PBV (x)	1.3
Implied CY17 Yield (%)	4

Source: KAF

Performance

	1M	3M	12M
Absolute (%)	1	10	(17)
Rel market (%)	(2)	5	(18)



Source: Bloomberg

Analyst

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Narrowing O&G losses in 1Q

Following kitchen activities done in 4Q16, UMW reported lower core net losses of RM4m in 1Q17. The rebound in Toyota sales supported topline growth but margin eroded due to the weak MYR. We maintain our view that FY17F is a recovery year with the demerger to be done in July. We maintain HOLD; we deem the residual auto division to be fairly priced in at 14x PE currently (vs. peer average of 16x).

Financial Highlights

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	14,442	10,959	11,802	12,038	12,513
Normalised net profit	322	(369)	377	401	431
Normalised EPS	28	(32)	32	34	37
EPS growth (%)	(59)	(215)	(202)	6	8
Net DPS (sen)	20.0	0.0	20.0	20.0	20.0
PE (x)	(75)	(3)	18	17	16
ROE (%)	(1)	(29)	8	8	8
Net yield (%)	8	0	3	3	3
Net gearing (%)	50	88	76	72	63
PBV (x)	0.4	1.1	1.4	1.3	1.2

Source: Company, KAF

Narrowing core losses in 1Q. UMW Holdings Bhd (UMW) reported 22% earnings growth for 1Q17 on the back of 27% topline expansion. However, stripping off exceptional items (derivatives gain, forex gain, PPE disposal gains etc.), UMW would have reported a core net loss of RM4m (vs. RM11m loss a year earlier).

Auto sales up 41%. The topline growth was mainly supported by the auto segment, where revenue grew 41% to RM2.2b (from RM1.6b a year earlier). The higher revenue was on the back of higher Toyota vehicle sales (+62% to 16.5k units) despite a 30% decline in Lexus sales to 191 units (from 272 a year earlier). Toyota models introduced during the quarter include the Hilux 2.4AG AT with lower prices for the Fortuner and other Hilux variants.

Margin erosion from forex. While sales had been encouraging, its PATAMI margin had declined to 2.6% (vs. 3.6% a year earlier) due to the weaker MYR. On our estimate, 40% of Toyota's (7203 JP, Hold, covered by Jefferies analyst Takaki Nakanishi) cost of sales are denominated in USD. The MYR had traded at an average of 4.45 against the USD compared to 4.2 in 1Q16. However, we expect margins to improve in 2Q as MYR had strengthened to 4.29 currently.

Continued losses from O&G. Following the significant impairment and provisions done in 4Q16, the O&G segment reported a lower net loss of RM69m from the preceding quarters. We expect the division to continue to report losses in 2Q as the demerger exercise is only expected to be completed in July. On a positive note, the unlisted O&G unit reported a net loss of only RM11m (compare to 3Q16's RM99m and 4Q16's RM442m); management targets to dispose these units by 2018.

Maintain Hold. We maintain our view that FY17F is a year of recovery with the demerger only expected to be completed in July. For the 4M period, Toyota sales grew 56% to 22k (from a low base of 14k a year earlier). Annualised, sales make up 98% of management's forecast of 68k and 100% of our forecast of 66k (+4% yoy). Our view remains that the auto recovery is fairly reflected at the current price – the residual auto division currently trades at 14x PE (vs. peer average of 16x).

Produced by KAF-Seagroatt & Campbell Securities Sdn Bhd
Important disclosures can be found in the Disclosure Appendix

Table 1 : Results summary

FYE 31 Dec	1Q16	2Q16	3Q16	4Q16	1Q17	QoQ	YoY
Revenue	2199	2847	2857	3062	2804	-8%	27%
Operating cost	(2097)	(2702)	(2833)	(3806)	(2719)		
Other operating income	21	23	27	42	23		
EBITDA	123	168	51	(701)	107	-115%	-13%
Depreciation	(133)	(130)	(151)	(141)	(112)		
Operating profit	(10)	38	(100)	(842)	(5)	-99%	-51%
Investment income	25	18	15	22	22		
Finance cost	(43)	(41)	(41)	(61)	(68)		
Exceptional items	27	3	(36)	(1283)	25		
JV & Associates	22	27	41	65	40		
Pretax profit	21	45	(122)	(2098)	14	-101%	-32%
Tax	(26)	(49)	(41)	(25)	(25)		
Profit after tax	(5)	(4)	(163)	(2123)	(11)	-100%	114%
MI	22	(8)	34	557	(31)		
Net profit	17	(12)	(129)	(1566)	20	-101%	22%
Core net profit	(11)	(15)	(93)	(283)	(4)	-98%	-58%
EPS (sen)	1	(1)	(11)	(134)	2		
Core EPS (sen)	(1)	(1)	(8)	(24)	(0)		
Net DPS (sen)	0	0	0	0	0		
BV (RM)	5.43	5.46	5.35	4.04	4.07		
EBITDA margin (%)	6%	6%	2%	-23%	4%		
EBIT margin (%)	0%	1%	-3%	-27%	0%		
PBT margin (%)	1%	2%	-4%	-69%	1%		
PAT margin (%)	0%	0%	-6%	-69%	0%		
Net margin (%)	1%	0%	-5%	-51%	1%		
Core net margin (%)	0%	-1%	-3%	-9%	0%		
Effective tax rate (%)	123%	108%	-34%	-1%	173%		

Source: Company, KAF

Table 2 : Segmental breakdown

Segmental	1Q16	2Q16	3Q16	4Q16	1Q17	QoQ	YoY
Automotive	1556	2177	2263	2462	2191	-11%	41%
Equipment	358	351	343	331	342	4%	-4%
O&G	88	130	204	121	111	-8%	26%
Manufacturing	145	157	145	153	166	9%	14%
Total Revenue (RM mil)	2199	2847	2857	3062	2804	-8%	27%
Automotive	83	133	133	144	87	-39%	5%
Equipment	39	43	34	31	40	29%	1%
O&G	(68)	(64)	(250)	(1544)	(120)	-92%	75%
Manufacturing	7	11	2	4	3	-23%	-53%
Others	(39)	(79)	(41)	(733)	5		
Total PBT (RM mil)	21	45	(122)	(2098)	14	-101%	-32%
Automotive PBT margin (%)	5%	6%	6%	6%	4%		
Equipment PBT margin (%)	11%	12%	10%	9%	12%		
O&G PBT margin (%)	-78%	-49%	-123%	-1281%	-109%		
Manufacturing PBT (%)	5%	7%	2%	3%	2%		
Total PBT margin (%)	1%	2%	-4%	-69%	1%		
Automotive	55	69	77	99	56	-43%	1%
Equipment	30	33	25	27	31	14%	3%
O&G	(36)	(38)	(175)	(954)	(69)	-93%	90%
Manufacturing	1	3	(3)	(4)	(2)	-33%	-313%
Others	(34)	(80)	(54)	(735)	4		
Total PATAMI (RM mil)	17	(12)	(129)	(1566)	20	-101%	22%
Automotive margin (%)	4%	3%	3%	4%	3%		
Equipment margin (%)	8%	9%	7%	8%	9%		
O&G margin (%)	-41%	-29%	-86%	-792%	-62%		
Manufacturing margin (%)	1%	2%	-2%	-2%	-1%		
Total PATAMI margin (%)	1%	0%	-5%	-51%	1%		

Source: Company, KAF

Table 3 : Sum-of-parts value

Division	RM m	RM/share	%	Remarks
UMWOG	705	0.60	10%	UWM's cost of investment
Non-listed O&G BV, investment and JV	214.7	0.18	3%	FY16A UMW O&G division
Equipment division	1210	1.04	18%	10x FY17F PE
M&E division	436	0.37	6%	1x 2016A book value
Auto division	5,494	4.70	81%	13x FY17F PE
Company net cash/(debt)	(1286)	-1.10	-19%	FY16A
	6774		100%	
UMWH share base	1168			
Fair value	5.80			

Source: Company, KAF

Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Turnover	14,442	10,959	11,802	12,038	12,513
Operating costs	(11,050)	(8,545)	(8,614)	(8,571)	(8,699)
EBITDA	646	(1,612)	689	899	959
Depreciation	(511)	(570)	(446)	(470)	(495)
EBIT	136	(2,182)	243	428	464
Net interest	(0)	(105)	(94)	(79)	(85)
Exceptionals	0	0	0	0	0
Share of results of associates	134	156	149	151	152
Pretax profit	270	(2,130)	298	500	531
Taxation	(267)	(140)	(71)	(71)	(71)
Minority interest	(39)	612	150	(28)	(28)
Net profit	(37)	(1,658)	377	401	431
Normalised net profit	322	(369)	377	401	431

Source: Company, KAF

Cash flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cashflow from operations (CFO)					
Pretax profit	270	(2,130)	298	500	531
Depreciation & amortisation	511	570	446	470	495
Others	233	1,620	(54)	(72)	(67)
Changes in WC	210	441	1,015	195	595
Tax paid	(274)	(210)	(71)	(71)	(71)
CFO	949	291	1,633	1,022	1,483
Cashflow from investing (CFI)					
Capital expenditures	(2,280)	(1,182)	(756)	(700)	(700)
Interests received	126	76	76	76	76
Others	362	286	(1,252)	(184)	(319)
CFI	(1,740)	(772)	(1,933)	(809)	(943)
Cashflow from financing (CFF)					
Dividends paid	(479)	(117)	0	(234)	(234)
Share issue	0	0	0	0	0
Changes in debts	1,323	380	207	86	302
Others	(326)	(654)	(96)	(96)	(96)
CFF	517	(391)	111	(243)	(27)
Net change in cash and cash equivalents	(274)	(873)	(189)	(30)	512
Forex effect	65	(141)	0	0	0
Ending cash	2,621	1,607	1,419	1,389	1,901

Source: Company, KAF

Balance Sheet

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Property, plant and equipment	8,103	7,679	7,989	8,219	8,424
Associates	1,923	1,953	1,953	1,953	1,953
Deferred tax	75	93	93	93	93
Goodwill	42	48	48	48	48
Others	415	705	705	705	705
Total non-current assets	7,926	10,558	10,478	10,788	11,018
Inventories	1,890	1,931	1,416	1,409	1,192
Trade and other receivables	1,833	988	829	825	836
Cash and cash equivalents	2,734	2,194	1,419	1,389	1,901
Others	1,210	672	672	892	1,531
Total current assets	7,667	5,785	4,335	4,515	5,460
Total Assets	18,225	16,263	15,123	15,533	16,683
Trade and other payables	2,241	1,879	2,219	2,403	2,792
Borrowings	3,725	2,639	3,824	3,713	3,667
Others	372	234	234	234	234
Total current liabilities	6,338	4,752	6,277	6,350	6,693
Borrowings	2,290	3,716	1,443	1,640	1,988
Other long term liabilities	214	931	313	23	23
Total non-current liabilities	2,503	4,647	1,756	1,663	2,011
Share capital	584	584	584	584	584
Reserves	1,240	1,236	1,236	1,236	1,236
Shareholders' funds	6,584	4,719	5,095	5,496	5,928
Minority interest	2,799	2,146	1,995	2,023	2,051
Total Liabilities & Shareholders' Funds	18,225	16,263	15,123	15,533	16,683

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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