

UMW Holdings

Within Expectation

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1Q17 core PATAMI of RM17.0m excluding impairment appear to be below our/consensus PATAMI estimates of RM455.7m/RM227.0m, however, we consider the results to be within expectation as we expect a much stronger 2H due to the elimination of losses in Oil & Gas segment following the demerger of UMW Oil & Gas. No dividend was declared as expected. No changes in earnings assumption. As such, we keep our TP unchanged at RM5.77. Upgrade to MARKET PERFORM (from UNDERPERFORM) as the share price has fallen within our target price range.

Within Expectation. The group reported a 1Q17 core PATAMI of RM17.0m excluding the impairment (at RM3.1m) appear to be below our/consensus PATAMI estimates of RM455.7m/RM227.0m, however, we consider the results to be within expectation as we expect a much stronger 2H due to the elimination of losses in Oil & Gas segment following the demerger of UMW Oil & Gas. No dividend was declared as expected.

YoY, 1Q17 revenue surged by 27.5% due to higher contribution from the Auto segment, as well as positive contribution from the other segments. The Auto segment (+40.8%), saw improvement in numbers of car sold by 16.1% to 66,959 units, from the spill-over of car deliveries sold in 4Q16. Additionally, the O&G segment (+26.1%), saw increased tendering activities as 3 of the 7 jack-up rigs were income generating. Meanwhile, the M&E segment (+14.1%), saw higher sales of shock absorbers. In terms of PBT, despite the higher sales, the Auto segment (+5.2%) was still hampered by the higher import costs from unfavourable forex rates, while the O&G segment (-75.3%) continued to be deeply affected by high overhead costs resulting from low operational efficiency from low rig utilisation. The underlying factors above led 1Q17 PBT to decline by 31.7%

QoQ. 1Q17 revenue declined by 8.4% due to higher sales base from the Auto segment and O&G segment in previous quarter. The Auto segment declined by 11.0%, following the aggressive year-end promotion in previous quarter, on top of higher deliveries for the new model launches (i.e. Alphard, Vellfire and face-lifted variants of the Camry, Innova, Corolla Altis and Vios). Meanwhile, revenue from the Oil & Gas segments declined by 8.3% due to softer charter rate, even with the assets utilization rate is improving. Nonetheless, PBT was higher at RM14.4m compared to 4Q16 LBT of RM2.123m which was dragged down by provisions for impairment of assets as well as forex losses resulting from weakness of MYR against USD.

Outlook. The outlook for 2H17 looks promising with the strategic exit from the O&G industry improving the group's profitability with more solid balance sheet. Furthermore, the anticipated new models (Toyota CH-R, Toyota Vios 2017 & Toyota Hilux 2.4G Limited Edition) for 2H17 should excite consumers' sentiment bringing in more sales volume to the group. Overall, we expect the group to make a comeback with its three core segments delivering positive results moving forward.

Recently, at the group EGM, shareholders have granted the approval to proceed with the demerger of UMW-OG. The demerger is expected to be finalized by July 2017.

No changes in earnings assumption as we expect a much stronger 2H due to the elimination of losses in Oil & Gas segment. As such, **we keep our TP unchanged at RM5.77** based on 13.0x PER to our FY18E EPS, where earnings are exclusive from O&G segment. We upgrade our call to **MARKET PERFORM** from **UNDERPERFORM** as the share price has fallen within the range of our target price.

MARKET PERFORM ↑

Price: RM5.91
Target Price: RM5.77 ↔

Share Price Performance



KLCI	1,767.17
YTD KLCI chg	7.6%
YTD stock price chg	29.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,904.6
Issued shares	1,168.3
52-week range (H)	7.00
52-week range (L)	4.43
3-mth avg daily vol:	1,140,261
Free Float	38%
Beta	1.3

Major Shareholders

Skim Amanah Bumiputera	42.1%
Employees Provident Fund	12.7%
Kumpulan Wang Persaraan	7.1%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	10,965.1	8,939.6	9,001.4
EBIT/ (LBIT)	(2,202.8)	341.1	435.7
PBT/ (LBT)	(2,153.8)	463.0	573.8
Net Profit/(NL)	(1,690.6)	455.7	518.6
Core NP/(NL)	(362.2)	455.7	518.6
Consensus NP	-	227.0	377.9
Earnings Revision	-	-	-
Core EPS (sen)	-31.0	39.0	44.4
Core EPS growth	-251.1%	-225.8%	13.8%
NDPS (sen)	-	10.0	15.0
BVPS (RM)	4.04	3.08	3.73
PER (x)	N.M	15.2	13.3
PBV (x)	1.5	1.9	1.6
Net Gearing (x)	1.3	0.5	0.4
Net Div. Yield (%)	-	1.7%	2.5%

24 May 2017

Result Highlight

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY17	FY16	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	2,803.6	3,062.3	-8.4%	2,199.2	27.5%	2,803.6	2,199.2	27.5%
EBIT	19.7	(2,125.0)	>100.0%	17.1	14.9%	19.7	17.1	14.9%
PBT/(LBT)	14.4	(2,123.0)	>100.0%	21.1	-31.7%	14.4	21.1	-31.7%
Taxation	(24.9)	(24.9)	-0.1%	(26.0)	4.1%	(24.9)	(26.0)	4.1%
PATAMI/(LATAMI)	20.2	(1,566.2)	>100.0%	16.6	21.6%	20.2	16.6	21.6%
Core PATAMI/(LATAMI)	17.0	(236.6)	>100.0%	17.3	-1.5%	17.0	17.3	-1.5%
Core EPS (sen)	1.5	(20.3)	107.2%	1.4	0.5%	1.5	1.4	0.5%
DPS (sen)	-	-	-	-	-	-	-	-

* Note that the 1Q17 core PATAMI of RM17.0m has been adjusted by excluding non-core items amounting to RM3.1m, which consists of: (i) reversal of impairment losses of receivables of Rm1.7m, (ii) provision for write down of inventories of RM3.8m, (iii) loss on disposal of quoted or unquoted investments of RM0.001m, (vi) Gain on disposal of property, plant and equipment of RM5.2m.

EBIT/(LBIT) margin	0.7%	-69.4%		0.8%		0.7%	0.8%	
PBT/(LBT) margin	0.5%	-69.3%		1.0%		0.5%	1.0%	
Core NP/ (NL) margin	0.6%	-7.7%		0.8%		0.6%	0.8%	
Effective tax rate	173.4%	1.2%		-123.4%		173.4%	-123.4%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY17	FY16	Chg	FY16	Chg	FY17	FY16	Chg
Revenue	2,803.6	3,062.3	-8.4%	2,199.2	27.5%	2,803.6	2,199.2	27.5%
Automotive	2,190.9	2,462.3	-11.0%	1,556.0	40.8%	2,190.9	1,556.0	40.8%
Equipment	342.4	330.8	3.5%	358.0	-4.3%	342.4	358.0	-4.3%
O&G	110.5	120.5	-8.3%	87.7	26.1%	110.5	87.7	26.1%
M&E	165.9	152.6	8.7%	145.4	14.1%	165.9	145.4	14.1%
Other segment	(6.1)	(4.0)	-51.6%	52.1	-111.8%	(6.1)	52.1	-111.8%
Segment PBT/(LBT)	14.4	(2,123.0)	>100.0%	21.1	-31.7%	14.4	21.1	-31.7%
Automotive	87.1	143.6	-39.4%	82.7	5.2%	87.1	82.7	5.2%
Equipment	39.5	30.6	29.3%	39.2	0.8%	39.5	39.2	0.8%
O&G	(119.9)	(1,543.7)	>100.0%	(68.4)	-75.3%	(119.9)	(68.4)	-75.3%
M&E	4.6	2.5	87.6%	6.6	-30.1%	4.6	6.6	-30.1%
Other segment	3.1	(755.9)	>100.0%	(39.1)	107.9%	3.1	(39.1)	107.9%
Segment PBT/(LBT) margin								
Automotive	4.0%	5.8%		5.3%		4.0%	5.3%	
Equipment	11.5%	9.2%		11.0%		11.5%	11.0%	
O&G	-108.5%	<100.0%		-78.0%		-108.5%	-78.0%	
M&E	2.8%	1.6%		4.5%		2.8%	4.5%	
Other segment	-50.6%	<100.0%		-75.0%		-50.6%	-75.0%	

Source: Company, Kenanga Research

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Malaysian Automotive Peers Comparison

NAME	Price @	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)		(RM m)	Actual	1 Yr Fwd			2 Yr Fwd	(%)	(%)				
BERMAZ AUTO BHD	2.05	2,348.1	12.0	16.8	12.0	7.3%	43.5%	197.6	141.3	197.3	-28.5%	39.6%	2.11	MP
DRB-HICOM BHD	1.68	3,247.8	N.M.	N.M.	N.M.	1.2%	6.3%	-991.9	-81.6	-82.0	-91.8%	0.5%	0.95	UP
MBM RESOURCES BERHAD	2.40	937.7	12.7	9.9	8.7	3.8%	5.0%	74.0	94.7	107.4	27.9%	13.4%	2.75	MP
TAN CHONG MOTOR HOLDINGS BHD	1.87	1,220.7	N.M.	N.M.	79.1	1.1%	2.0%	-46.1	-24.2	15.3	-47.5%	-163.2%	1.80	UP
UMW HOLDINGS BHD	5.91	6,904.7	N.M.	15.2	13.3	1.7%	4.0%	-362.2	455.7	518.6	-225.8%	13.8%	5.77	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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