

24 May 2017 | 1Q17 Result Review

UMW Holdings

Shifting into gear

- Returned to the black after a year of losses
- Though small, earnings were within expectations
- FY17F will be backloaded, prime beneficiary of Ringgit strength
- Reaffirm BUY at unchanged TP of RM6.50/share.

Back to the black. After almost a year of consecutive core net losses, UMW finally turned in a core net profit of RM20m in 1Q17, despite still consolidating the loss making O&G units. While small relative to our FY17F, the earnings were within expectations. From 2Q17, earnings should improve quite significantly from the absence of UMWOG losses in 2H and further improvement in auto earnings against the seasonally weak and peak USD in 1Q.

Auto earnings improved. Autos registered a 5%yoy earnings growth driven by improved Toyota and Perodua TIV. Earnings would have been much stronger if not for the strong USD in 1Q17. Auto revenue actually grew by some 40%yoy in 1Q17 but bottomline was dragged by a 10%yoy strengthening of the USD to RM4.45 – every 1% change impacts earnings by 6.5% on annualised basis, on our estimate. This was however partly mitigated by duty savings from newly qualified EEV models e.g. the Vios, Innova and Fortuner. We expect forex pressure to ease quite significantly in 2Q17 judging by spot trends. Secondly, 1Q is typically the weakest quarter for autos (post 4Q campaigns and being a short quarter) and typically accounts for just 16% of full year TIV and 16%-18% of full year earnings. We also suspect tax rate was inflated (>30%) for UMW Toyota in 1Q17.

Non-listed O&G losses shrunk. Losses from non-listed O&G units shrunk by more than two thirds year-on-year as a result of lower depreciation (post-impairments in 4Q16), lower operating losses as operations were scaled down and improvements in China operations (pipe manufacturing). The group targets to totally exit its O&G businesses by FY18F and may involve piecemeal asset sale. For the listed O&G units, losses could narrow as jack up rig utilisation should more than double in 2Q17 as new contracts come into play.

FY17F earnings to be backloaded. As we had highlighted before, FY17F earnings will be back loaded given: (1) Absence of UMWOG losses in 2H17 (2) Peak USD in 1Q17 (3) Seasonally stronger volumes in 2H, especially 4Q which historically accounts for 30%-35% of full year TIV (4) New launches in 2H17. Our earnings forecasts are unchanged.

Maintain BUY
Unchanged Target Price (TP):RM6.50

RETURN STATS

Price (23 May 2017)	RM5.91
Target Price	RM6.50
Expected Share Price Return	+10.0%
Expected Dividend Yield	+10.2%
Expected Total Return	+20.2%

STOCK INFO

KLCI	1,767.17
Bursa / Bloomberg	4588 / UMWH MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	6,904.62
Price over NA	1.46
52-wk price Range	RM4.43 – RM7.00
Beta (against KLCI)	1.25
3-mth Avg Daily Vol	1.14m
3-mth Avg Daily Value	RM6.92m
Major Shareholders (%)	
SKIM ASB	42.1%
EPF	12.7%
KWAP	7.1%

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	14,932.5	14,419.8	10,965.1	11,208.8	11,322.3
EBIT (RM'm)	1,432.9	134.9	(2,202.8)	755.1	1,173.3
Pre-tax Profit (RM'm)	1,621.5	265.6	(2,153.8)	663.3	1,108.5
Core net profit (RM'm)	836.8	338.0	(401.8)	370.2	568.1
FD EPS (sen)	71.6	28.9	(34.4)	31.7	48.6
EPS growth (%)	(12.9)	(59.6)	NA	192.1	53.4
PER (x)	8.3	20.4	NA	18.6	12.2
Net Dividend (sen)	41.0	20.0	0.0	0.0	0.0
Net Dividend Yield (%)	6.9	3.4	0.0	0.0	0.0

Source: Company, MIDFR

Reaffirm contrarian BUY at unchanged TP of RM6.50/share. (1) Demerger of O&G units will deleverage balance sheet, drive earnings turnaround and allow better focus on core divisions (2) Reversal of prior years' market share loss given UMW Toyota's renewed focus on EEV models which will drive structural cost reduction and price advantage (3) More than quadrupling of M&E division earnings once its aerospace division reaches full scale production (4) UMW is underowned and at just 12x FY18F earnings, trades below its historical average PER of 13.5x. (5) An attractive 11% dividend yield if investors were to realise the value of UMWOG shares to be redistributed to UMW's shareholders by Jul17 (6) Improved balance sheet post UMWOG demerger positions UMW well for acquisitive growth.

EXHIBIT 1: UMW NET PROFIT BREAKDOWN

	FY16	FY17F	FY18F
Automotive	301.0	394.1	487.4
Equipment	115.3	145.5	142.0
Manuf & Eng	(2.0)	(26.1)	15.0
Oil & Gas (Listed)	(661.0)	(113.2)	-
Oil & Gas (Unlisted)	(541.3)	(28.7)	-
Others	(902.6)	(1.4)	(76.7)
Net profit	(1,690.6)	370.2	568.1
Net profit ex-O&G	414.4	513.5	644.3

Source: Company, MIDFR

EXHIBIT 2: UMW SUM-OF-PARTS VALUATION

Segments	FY18F net profit attributable to UMW (RMm)	PE (x)	Value (RMm)	Comments
Auto related	487	12	5,849	
Equipment	142	12	1,704	
O&G	0	NA		<i>Excluded from valuations given planned exit</i>
M&E / Others	(62)	NA		<i>We attribute no value to this unit given lack of indication on segmental book value</i>
Total value	568		7,552	
No of shares (m)			1,168	
Fair value (RM)			6.50	

Source: Company, MIDFR

EXHIBIT 3: UMW 1Q17 RESULTS

31 Dec (RMm)	1Q16	4Q16	1Q17	YoY	QoQ
Revenue	2,199.2	3,062.3	2,803.6	27.5%	-8.4%
Operating Profit	17.1	(2,125.0)	19.7	14.9%	NA
Finance Cost	(43.3)	(60.6)	(67.6)	56.0%	11.4%
Associates	22.1	65.3	40.1	81.6%	-38.6%
Investment Income	25.2	22.3	22.2	-11.9%	-0.5%
Pretax Profit	21.1	(2,098.0)	14.4	-31.7%	NA
Taxation	(26.0)	(24.9)	(24.9)		
Minorities	(21.5)	(556.8)	(30.7)	NA	NA
Net Profit	16.6	(1,566.2)	20.2	NA	NA
Core net profit	(194.3)	(283.2)	20.2	NA	NA
Core net profit (ex-O&G)	86.8	122.5	88.9	2.5%	-27.4%
EPS (FD, sen)	-16.6	-24.2	1.7		
DPS (sen)	0.0	0.0	0.0		
Margins (%):					
Operating	0.8%	-69.4%	0.7%		
Pretax Profit	1.0%	-68.5%	0.5%		
Core Net Profit	-8.8%	-9.2%	0.7%		
Tax Rate	123.4%	-1.2%	173.4%		

Source: Company, MIDFR

EXHIBIT 4: UMW 1Q17 RESULTS BREAKDOWN

Segmental Breakdown	1Q16	4Q16	1Q17	YoY	QoQ
Automotive	1,556.0	2,462.3	2,190.9	40.8%	-11.0%
Equipment	358.0	330.8	342.4	-4.3%	3.5%
Manuf & Eng	145.4	152.6	165.9	14.1%	8.7%
Oil & Gas (Listed)	87.7	53.5	74.3	-15.3%	38.9%
Oil & Gas (Unlisted)	53.6	67.0	36.3	-32.3%	-45.9%
Revenue (RMm)	2,200.6	3,066.4	2,809.7	27.7%	-8.4%
Automotive	82.7	143.6	87.1	5.2%	-39.4%
Equipment	39.2	30.6	39.5	0.8%	29.3%
Manuf & Eng	6.6	4.0	3.1	-53.0%	-23.4%
Oil & Gas (Listed)	(68.4)	(918.1)	(104.9)	53.3%	-88.6%
Oil & Gas (Unlisted)	(39.1)	(625.6)	(15.0)	-61.5%	-97.6%
Pretax profit (RMm)	21.1	(1,365.4)	9.8	NA	NA
Pretax margins					
Automotive	5.3%	5.8%	4.0%		
Equipment	11.0%	9.2%	11.5%		
Manuf & Eng	4.5%	2.6%	1.9%		
Oil & Gas (Listed)	-78.0%	-1717.1%	-141.2%		
Oil & Gas (Unlisted)	-73.0%	-933.1%	-41.5%		
Toyota TIV (units)	10,216	19,237	16,503	61.5%	-14.2%
Average revenue/car (RM)	152,309	128,001	132,755	-12.8%	3.7%
USD:RM (Spot)	4.05	4.32	4.45	9.9%	3.0%
Net profit (RMm)					
Automotive	55.5	98.8	56.0	0.9%	-43.3%
Equipment	30.2	27.4	31.1	3.1%	13.8%
Manuf & Eng	1.1	(3.6)	(2.4)	-313.5%	-32.8%
Oil & Gas (Listed)	(36.2)	(511.8)	(58.0)	60.3%	-88.7%
Oil & Gas (Unlisted)	(34.0)	(442.1)	(10.7)	-68.4%	-97.6%
Others	-	(734.8)	4.3	#DIV/0!	-100.6%
Net profit ex-O&G	86.8	122.5	88.9	2.5%	-27.4%

Source: Company, MIDFR

Income Statement	FY13	FY14	FY15	FY16	FY17F	FY18F
Revenue	13,951.5	14,932.5	14,419.8	10,965.1	11,208.8	11,322.3
Operating expenses	(12,655.0)	(13,499.6)	(14,157.6)	(13,167.9)	(10,453.7)	(10,148.9)
EBIT	1,296.5	1,567.0	262.1	(2,202.8)	755.1	1,173.3
Net interest expense	(18.3)	(85.1)	(126.6)	(105.7)	(176.0)	(194.7)
Associates	157.5	139.6	130.1	154.8	84.2	129.9
PBT	1,501.6	1,621.5	265.6	(2,153.8)	663.3	1,108.5
Taxation	(351.5)	(408.5)	(259.9)	(140.7)	(86.9)	(195.7)
Minority Interest	(431.3)	(561.0)	44.6	(603.9)	(206.2)	(344.7)
Net profit	718.9	652.0	(38.9)	(1,690.6)	370.2	568.1
Core net profit	960.4	836.8	338.0	(401.8)	370.2	568.1
Core net profit (ex-O&G)	NA	NA	NA	414.4	436.4	568.1
Consensus net profit	960.4	836.8	338.0	103.9	271.7	414.2
Balance Sheet	FY13	FY14	FY15	FY16	FY17F	FY17F
Non-current assets	6,075.2	7,923.4	10,511.7	10,070.2	11,921.1	12,593.6
PPE	3,893.3	5,669.7	8,132.7	7,639.0	9,323.9	9,866.5
Investments in associate	1,776.2	1,797.5	1,894.5	1,996.7	2,112.7	2,242.6
Others	405.7	456.3	484.6	434.4	484.6	484.6
Current assets	8,731.4	8,596.2	7,568.9	6,136.0	8,136.9	9,381.0
Inventories	1,754.2	1,830.4	1,891.6	1,517.9	1,681.3	1,698.3
Receivables	1,855.1	1,238.3	1,273.3	1,416.7	1,681.3	1,698.3
Others	2,578.4	2,156.8	1,675.7	278.0	1,210.1	1,210.1
Cash & equivalent	2,543.8	3,370.7	2,728.3	2,923.5	3,564.1	4,774.2
TOTAL ASSETS	14,806.7	16,519.7	18,080.6	16,206.1	20,058.0	21,974.6
Share capital	584.1	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,613.9	2,852.6	2,827.1	3,082.3	3,288.5	3,633.3
Reserves	5,778.6	5,996.3	5,812.7	5,860.9	6,231.1	6,799.2
TOTAL EQUITY	8,976.6	9,433.1	9,223.9	9,527.4	10,103.8	11,016.6
Non-current liabilities	1,774.7	2,017.0	3,165.1	4,678.1	5,065.1	6,015.1
Long-term borrowings	1,602.2	1,803.0	2,782.5	3,732.5	4,682.5	5,632.5
Deferred tax liabilities	34.2	27.4	34.1	34.1	34.1	34.1
Others	138.3	186.6	348.5	911.5	348.5	348.5
Current liabilities	4,055.4	5,069.6	5,691.6	4,619.2	4,889.1	4,942.9
Short-term borrowings	1,464.3	2,292.6	3,159.1	2,859.1	2,859.1	2,859.1
Payables	2,070.1	2,217.0	2,230.3	1,623.5	1,798.3	1,816.5
Others	520.9	560.0	302.2	136.6	231.7	267.3
TOTAL LIABILITIES	5,830.0	7,086.6	8,856.7	9,297.3	9,954.2	10,958.0

Cash Flow Statement	FY13	FY14	FY15	FY16	FY17F	FY18F
Operating activities						
PBT	1,501.6	1,621.5	265.6	302.7	663.3	1,108.5
Depreciation & Amortization	325.3	378.7	765.5	488.0	524.8	559.4
Chgs in working capital	(423.7)	(149.1)	(134.2)	69.3	(224.4)	19.8
Interest expense	18.3	(48.9)	(120.8)	(155.8)	(176.0)	(194.7)
Tax paid	(374.4)	(418.3)	(275.5)	-	(86.9)	(195.7)
Others	(152.5)	(18.9)	(125.3)	(855.0)	91.8	64.8
CF from Operations	894.6	1,364.9	375.3	(150.9)	792.6	1,362.1
Investing activities						
Capex	(999.9)	(2,185.5)	(2,168.8)	(966.3)	(1,250.0)	(1,250.0)
Others	888.7	1,870.6	264.6	370.7	148.0	148.0
CF from Investments	(111.2)	(315.0)	(1,904.2)	(595.6)	(1,102.0)	(1,102.0)
Financing activities						
Dividends paid	(1,050.3)	(947.2)	(806.1)	-	-	-
Net proceeds in borrowings	240.7	1,150.7	1,692.3	650.0	950.0	950.0
Others	66.9	-	-	(429.2)	-	-
CF from Financing	(742.7)	203.6	886.3	220.8	950.0	950.0
Net changes in cash	40.7	1,253.5	(642.6)	(525.7)	640.6	1,210.1
Beginning cash	1,547.7	1,492.3	3,276.6	2,649.5	2,923.5	3,564.1
Overdrafts & Deposits	2,432.4	1,565.1	15.6	31.2	-	-
Ending cash	4,020.7	4,310.9	2,649.5	2,154.9	3,564.1	4,774.2
Ratios	FY13	FY14	FY15	FY16	FY17F	FY17F
Revenue growth	0.6%	7.0%	-3.4%	-29.8%	10.8%	1.0%
EBIT growth	-32.0%	10.5%	-90.6%	>100%	132.7%	55.4%
Core net profit growth	-24.5%	-12.9%	-59.6%	-218.9%	-192.1%	53.4%
PBT margin	10.8%	10.9%	1.8%	3.0%	5.9%	9.8%
Core net profit margin	5.2%	5.6%	2.3%	-3.7%	3.3%	5.0%
ROE	12.9%	10.1%	-0.6%	0.7%	5.6%	8.0%
ROA	9.7%	9.1%	0.8%	1.8%	3.9%	5.6%
Net gearing (%)	5.8%	7.7%	34.8%	38.5%	39.4%	33.7%
Book value/share (RM)	5.45	5.63	5.48	5.52	5.83	6.32
PBV (x)	1.05	1.02	1.05	1.04	0.98	0.91
EV/EBITDA (x)	4.3	4.0	10.8	12.5	8.2	5.9

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.