

1Q17 results announced on 23 May were slightly below expectations

24 May 2017

Consumer Cyclical | Auto & Autoparts

## UMW Holdings

**Neutral** (Maintained)

A Better Tomorrow

Target Price: MYR5.56  
 Price: MYR5.91  
 Market Cap: USD1,608m  
 Bloomberg Ticker: UMWH MK

**UMW's 1Q17 results were slightly below expectations, dragged by higher-than-expected losses at UMWOG. Its core businesses performed within expectations although there were still some residual losses at its non-core oil & gas businesses – this is despite having taken impairments in 2016. Pending approvals from the High Court, we expect the distribution of UMWOG shares to be completed by July. We tweak our SOP-derived TP to MYR5.56 (from MYR5.48, 6% downside) and reiterate our NEUTRAL call on the stock. UMW looks close to being fairly valued, with the core business trading slightly above the peer average.**

### Share Data

Avg Daily Turnover (MYR/USD) 6.52m/1.48m  
 52-wk Price low/high (MYR) 4.45 - 6.61  
 Free Float (%) 25  
 Shares outstanding (m) 1,168  
 Estimated Return -6%

### Shareholders (%)

PNB Funds 57.6  
 Employees Provident Fund 16.5

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	29.3	(4.7)	8.4	13.0	4.6
Relative	21.7	(5.3)	4.7	4.6	(3.5)

Source: Bloomberg

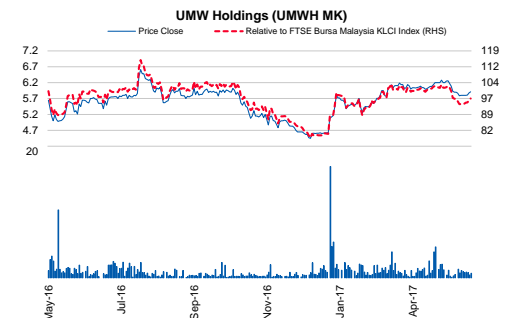
**UMWOG still a drag.** 1Q17 earnings were dragged lower by losses at UMW Oil & Gas (UMWOG) (UMWOG MK, NR), which saw low utilisation rates as only *Naga 2* (partial), 6 and 8 were chartered out. Utilisation rates should gradually rise as more rigs are chartered out albeit on short contract tenures. We expect the deconsolidation exercise of UMWOG to be completed by July. Residual losses from its non-core oil & gas businesses could be trimmed going forward, if divestment plans are realised.

**Auto margins shrank.** As expected, automotive segment profits were flat YoY despite the rebound in sales volumes, reflecting the margin compression seen across the industry arising from the weak MYR and competitive marketplace. Although its main competitor, Honda continues to gain market share (1Q17: 19.4% vs 2016: 15.8%), Toyota has managed to clawback some lost ground. 1Q17 Toyota sales rose 59.2% YoY to 16,694 units, helped by the recent introduction of the *Corolla Altis* facelift, all-new *Innova*, and updated *Camry* last December. We raised our Toyota sales forecast to 70,000 units (from 67,000 units) for 2017. UMW-Toyota is not expected to see the benefits of the recent MYR strength until 3Q17. Perodua sales showed steady improvement despite financing bottlenecks that capped the conversion of bookings into vehicle deliveries.

**Other divisions in line.** The equipment and manufacturing & engineering (M&E) businesses performed in line with expectations, although the company reported some pre-operating expenses incurred at its nascent aerospace component business that is scheduled to make maiden deliveries in 4Q17. UMW Holdings (UMW) reported some positive signs of improved demand for heavy equipment from the coal, iron ore and gold mining sectors.

**Forecasts and key risks.** After adjusting our model, we trim 2017 estimates by 12.1% but raise our forecasts for 2018 and 2019 by 3.8% and 12.8% respectively. Key risks to our recommendation and TP include a persistently weak MYR, slower economic growth, and a longer-than-expected gestation period for its aerospace component venture.

**Still NEUTRAL.** Our SOP estimate is tweaked higher to MYR5.56 on our forecast changes – valuing UMWOG at market price, with the auto and other divisions valued at 13x and 12x forward earnings respectively (all unchanged). The stock is close to being fully valued, trading at its traditional premium to peer valuations. Maintain NEUTRAL.



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	14,442	10,965	11,465	11,753	12,649
Reported net profit (MYRm)	299	222	226	447	455
Recurring net profit (MYRm)	150	(213)	226	447	455
Recurring net profit growth (%)	(81.2)	(241.9)	0.0	97.6	2.0
Recurring EPS (MYR)	0.13	(0.18)	0.19	0.38	0.39
DPS (MYR)	0.20	na	0.12	0.15	0.15
Recurring P/E (x)	45.9	na	30.5	15.5	15.2
P/B (x)	1.08	1.46	2.35	2.23	2.12
P/CF (x)	11.8	na	7.1	14.3	12.3
Dividend Yield (%)	3.4	na	2.0	2.5	2.5
EV/EBITDA (x)	12.0	38.9	6.3	6.7	6.5
Return on average equity (%)	4.6	4.0	5.9	14.8	14.3
Net debt to equity (%)	34.8	61.2	10.6	23.8	31.3
Our vs consensus EPS (adjusted) (%)			(10.6)	18.3	1.2

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on : 2017-05-23.

Asia		<b>Financial summary</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Malaysia		Recurring EPS (MYR)	0.13	(0.18)	0.19	0.38	0.39
Consumer Cyclical		EPS (MYR)	0.26	0.19	0.19	0.38	0.39
<b>UMW Holdings</b>		DPS (MYR)	0.20	0.00	0.12	0.15	0.15
Bloomberg	UMWH MK	BVPS (MYR)	5.48	4.04	2.51	2.65	2.78
<b>Neutral</b>		Weighted avg adjusted shares (m)	1,168	1,168	1,168	1,168	1,168
<b>Valuation basis</b>		<b>Valuation metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Sum-of-parts valuation		Recurring P/E (x)	45.9	na	30.5	15.5	15.2
<b>Key drivers</b>		P/E (x)	23.1	31.2	30.5	15.5	15.2
i. Introduction of attractive new car models;		P/B (x)	1.08	1.46	2.35	2.23	2.12
ii. Turnaround at various legacy non-core oil and gas businesses;		FCF Yield (%)	(22.3)	(15.6)	(0.4)	(7.5)	(3.5)
iii. Long term growth potential from the aerospace business.		Dividend Yield (%)	3.4	0.0	2.0	2.5	2.5
<b>Key risks</b>		EV/EBITDA (x)	12.0	38.9	6.3	6.7	6.5
i. Weaker MYR;		EV/EBIT (x)	22.9	na	15.4	8.6	8.1
ii. Weaker-than-expected economic growth;		<b>Income statement (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
iii. Higher start-up losses at the aerospace venture		Total turnover	14,442	10,965	11,465	11,753	12,649
<b>Company Profile</b>		Gross profit	3,971	3,015	3,153	3,232	3,479
UMW is the largest company in the automotive sector. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes <i>Toyota</i> and <i>Lexus</i> vehicles in Malaysia. UMW owns a 55% stake in listed UMW Oil & Gas.		EBITDA	900	264	700	777	893
		Depreciation and amortisation	(428)	(555)	(414)	(175)	(178)
		Operating profit	472	(291)	286	602	716
		Net interest	(0)	(106)	(120)	(15)	(36)
		Income from associates & JVs	134	155	146	158	156
		Pre-tax profit	606	(242)	312	744	836
		Taxation	(267)	(141)	(97)	(186)	(209)
		Minority interests	(39)	604	11	(112)	(172)
		Recurring net profit	150	(213)	226	447	455
		<b>Cash flow (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
		Change in working capital	241	775	547	(35)	(50)
		Cash flow from operations	584	(151)	970	481	561
		Capex	(2,125)	(925)	(1,000)	(1,000)	(800)
		Cash flow from investing activities	(1,904)	(596)	(436)	(941)	(761)
		Dividends paid	(479)	(234)	0	(140)	(175)
		Cash flow from financing activities	414	(36)	(4,093)	(422)	(478)
		Cash at beginning of period	3,376	2,728	2,179	1,981	1,240
		Net change in cash	(906)	(783)	(3,559)	(882)	(679)
		Ending balance cash	2,728	2,179	1,981	1,240	736
		<b>Balance sheet (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
		Total cash and equivalents	2,728	2,179	1,981	1,240	736
		Tangible fixed assets	8,133	7,639	3,064	3,889	4,511
		Intangible assets	38	0	0	0	0
		Total investments	1,975	2,081	2,224	2,381	2,538
		Total other assets	365	350	348	348	348
		Total assets	18,081	16,206	10,328	10,891	11,358
		Short-term debt	3,159	2,617	1,112	1,112	1,112
		Total long-term debt	2,783	3,789	1,413	1,413	1,413
		Other liabilities	279	803	803	803	803
		Total liabilities	8,857	9,297	5,217	5,502	5,645
		Shareholders' equity	6,397	4,722	2,936	3,101	3,253
		Minority interests	2,827	2,187	2,176	2,288	2,460
		Total equity	9,224	6,909	5,112	5,389	5,713
		Net debt	3,213	4,226	544	1,285	1,788
		Total liabilities & equity	18,081	16,206	10,328	10,891	11,358
		<b>Key metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
		Revenue growth (%)	(3.5)	(24.1)	4.6	2.5	7.6
		Recurrent EPS growth (%)	(81.2)	(241.9)	0.0	97.6	2.0
		Gross margin (%)	27.5	27.5	27.5	27.5	27.5
		Operating EBITDA margin (%)	6.2	2.4	6.1	6.6	7.1
		Net profit margin (%)	2.1	2.0	2.0	3.8	3.6
		Dividend payout ratio (%)	78.1	0.0	62.0	39.2	38.5
		Capex/sales (%)	14.7	8.4	8.7	8.5	6.3
		Interest cover (x)	3.72	(1.56)	1.57	8.11	9.64

Source: Company data, RHB

## A Better Tomorrow

Figure 1: Earnings review

FYE Dec (MYRm)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>2,199.2</b>	<b>3,062.3</b>	<b>2,803.6</b>	<b>(8.4)</b>	<b>27.5</b>	Higher YoY helped by improved Toyota sales volumes
<b>EBIT</b>	<b>17.1</b>	<b>(2,125.0)</b>	<b>19.7</b>	<b>nm</b>	<b>14.9</b>	Earnings for the quarter dragged by higher losses at UMWOG
<i>EBIT margin (%)</i>	<i>0.8</i>	<i>(69.4)</i>	<i>0.7</i>			
Finance costs	(43.3)	(60.6)	(67.6)	11.4	56.0	
Associates	22.1	65.3	40.1	(38.6)	81.6	Lower QoQ on softer Perodua sales due to seasonal factors. YoY improvement was due to the success of new models.
Investment income	25.2	22.3	22.2	(0.5)	(11.9)	
<b>Pretax Profit</b>	<b>21.1</b>	<b>(2,098.0)</b>	<b>14.4</b>	<b>nm</b>	<b>(31.7)</b>	
<i>Pretax margin (%)</i>	<i>1.0</i>	<i>(68.5)</i>	<i>0.5</i>			
Tax	(26.0)	(24.9)	(24.9)	0.1	(4.1)	
<i>Eff tax rate (%)</i>	<i>(123.4)</i>	<i>1.2</i>	<i>(173.4)</i>			
MI	21.5	556.8	30.7	(94.5)	42.8	
<b>Net Profit</b>	<b>16.6</b>	<b>(1,566.2)</b>	<b>20.2</b>	<b>nm</b>	<b>21.6</b>	
<i>Net Margin (%)</i>	<i>0.8</i>	<i>(51.1)</i>	<i>0.7</i>			

Source: Company data, RHB

Figure 2: Earnings review – segmental breakdown

FYE Dec (MYRm)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comments
Automotive	1,556.0	2,462.3	2,190.9	(11.0)	40.8	Strong YoY recovery in sales due to a low base in 1Q16 and recent introduction of new Toyota models Lower utilisation rates and weak daily charter rates at UMWOG
Oil & Gas	87.7	53.5	74.3	38.9	(15.3)	
Equipment	358.0	330.8	342.4	3.5	(4.3)	
M&E	145.4	152.6	165.9	8.7	14.1	
Others - O&G	53.6	67.0	36.3	(45.9)	(32.3)	
Others	(1.5)	(4.0)	(6.1)	51.6	318.5	
<b>Revenue</b>	<b>2,199.2</b>	<b>3,062.3</b>	<b>2,803.6</b>	<b>(8.4)</b>	<b>27.5</b>	
Automotive	82.7	143.6	87.1	(39.4)	5.2	Weak margins despite YoY volume recovery due to softer MYR
Oil & Gas	(68.4)	(918.1)	(104.9)	88.6	53.3	As above
Equipment	39.2	30.6	39.5	29.3	0.8	
M&E	6.6	4.0	3.1	(23.4)	(53.0)	Dragged by aerospace-related pre-operating expenses
Others - O&G	(35.6)	(625.6)	(15.0)	(97.6)	(57.7)	Residual losses at its non-core O&G businesses despite impairments recognised in 2016
Others	(3.5)	(732.6)	4.6	100.6	231.0	
<b>PBT</b>	<b>21.1</b>	<b>(2,098.0)</b>	<b>14.4</b>	<b>nm</b>	<b>(31.7)</b>	
<b>PBT Margins</b>						
Automotive	5.3	5.8	4.0			
Oil & Gas	(78.0)	(1,717.1)	(141.2)			
Equipment	11.0	9.2	11.5			
M&E	4.5	2.6	1.9			
Others - O&G	(66.4)	(933.1)	(41.5)			
Others	240.5	18,138.0	(75.3)			
	<b>1.0</b>	<b>(68.5)</b>	<b>0.5</b>			
Automotive	55.5	98.8	56.0	(43.3)	0.9	
Oil & Gas	(36.2)	(511.8)	(58.0)	(88.7)	60.3	
Equipment	30.2	27.4	31.1	13.8	3.1	
M&E	1.1	(3.6)	(2.4)	(32.8)	(313.5)	
Others - O&G	(34.0)	(442.1)	(10.7)	(97.6)	(68.4)	
Others	0.0	(734.8)	4.3	(100.6)	nm	
<b>NP</b>	<b>16.6</b>	<b>(1,566.2)</b>	<b>20.2</b>	<b>nm</b>	<b>21.6</b>	
<b>NP Margins</b>						
Automotive	3.6	4.0	2.6			
Oil & Gas	(41.3)	(957.2)	(78.1)			
Equipment	8.4	8.3	9.1			
M&E	0.8	(2.4)	(1.5)			
Others - O&G	(63.5)	(659.4)	(29.6)			
Others	0.0	18,192.2	(70.2)			
	<b>0.8</b>	<b>(51.1)</b>	<b>0.7</b>			

Source: Company data, RHB

Figure 3: UMW's vehicle sales summary

FYE Dec (units)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)
<b>Toyota</b>	<b>10,488</b>	<b>19,625</b>	<b>16,694</b>	<b>(14.9)</b>	<b>59.2</b>
- Passenger	7,042	14,454	12,297	(14.9)	74.6
- Commercial	3,446	5,171	4,397	(15.0)	27.6
<b>Perodua</b>	<b>47,181</b>	<b>56,221</b>	<b>50,265</b>	<b>(10.6)</b>	<b>6.5</b>
- Passenger	47,181	56,221	50,265	(10.6)	6.5
- Commercial	0	0	0	0.0	0.0
<b>Total</b>	<b>57,669</b>	<b>75,846</b>	<b>66,959</b>	<b>(11.7)</b>	<b>16.1</b>

Source: Malaysian Automotive Association (MAA)

Figure 4: Forecast assumptions

FYE Dec	2016	2017F	2018F	2019F
Toyota / Lexus (units)	65,110	70,000	73,000	78,000
Perodua (units)	207,110	205,000	210,000	212,000
Forex (JPY/MYR)*	3.82	3.80	3.80	3.80
Forex (USD/MYR)*	4.14	4.43	4.30	4.20

Note: \* average rate  
Source: RHB

Figure 5: SOP valuation

	P/E (x)	Valuation (MYR)	Stake (%)	Discount (%)	Per UMW share (MYR)
UMWOG		0.61	55.73	0	0.62
Auto	13				4.51
Other	12				0.43
<b>Total</b>					<b>5.56</b>

Source: RHB

Figure 6: USD/MYR trend



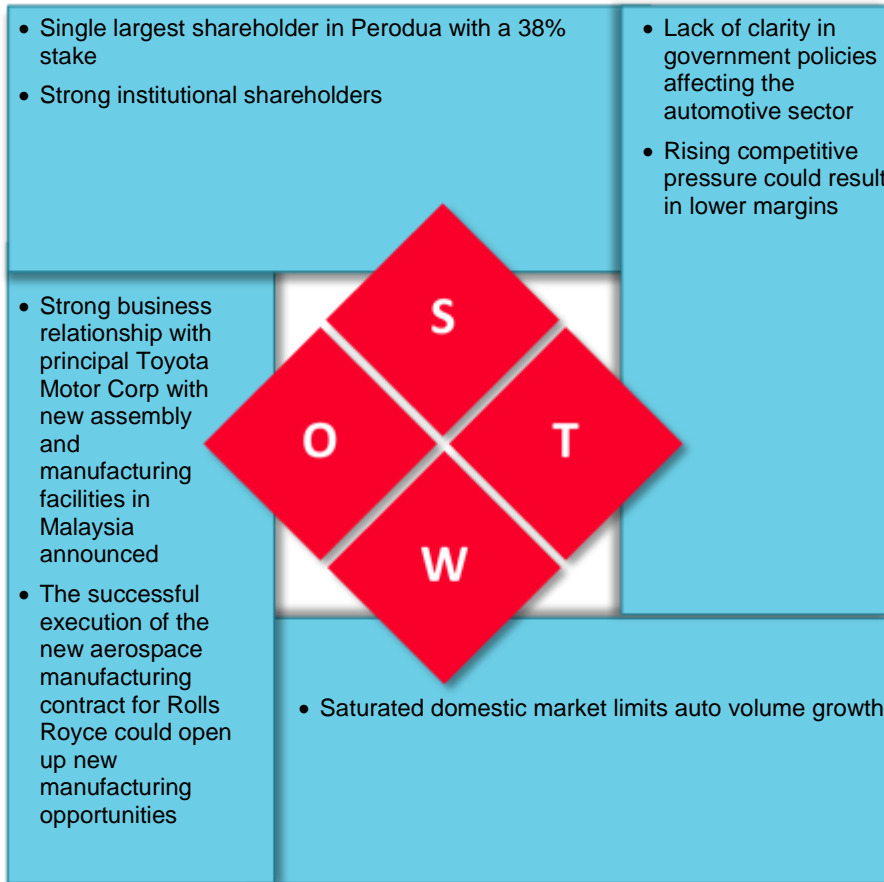
Source: RHB, Bloomberg

Figure 7: JPY/MYR trend



Source: RHB, Bloomberg

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-02-28	Neutral	5.5	5.5
2017-02-16	Neutral	5.4	5.4
2016-11-03	Sell	4.1	5.8
2016-08-30	Sell	4.3	5.6
2016-05-25	Sell	4.0	5.2
2016-02-26	Sell	5.0	7.0
2016-01-17	Sell	5.0	7.3
2015-11-27	Sell	5.0	8.0
2015-10-06	Sell	5.0	7.6
2015-08-27	Sell	5.4	8.5

Source: RHB, Bloomberg

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