


Company Note

Malaysia

REDUCE (no change)


Consensus ratings*: Buy 1 Hold 7 Sell 8

Current price: RM5.84
 Target price:  RM4.83
 Previous target: RM5.30
 Up/downside: -17.3%
 CIMB / Consensus: -0.6%

Reuters: UMW.S.KL
 Bloomberg: UMW.H.MK
 Market cap: US\$1,587m
 RM6,823m
 Average daily turnover: US\$1.15m
 RM4.98m
 Current shares o/s: 1,168m
 Free float: 37.8%

*Source: Bloomberg

Key changes in this note

 No change.


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.3	4.6	11.3
Relative (%)	5.8	3.3	3.9

Major shareholders	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)



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UMW Holdings

Distribution of UMW-OG; share price goes ex

- UMW Holdings' share price goes ex with the distribution of 1.2bn shares in UMW-OG.
- The group aims to progressively dispose of its non-listed oil & gas assets by 2018.
- UMW Holdings is exiting the oil & gas sector to refocus on its remaining three core businesses, namely automotive, equipment and manufacturing.
- Post de-merger, our UMW Holdings target price falls from RM5.30 to RM4.83, after stripping out our previous valuation of RM0.47/share in UMW-OG. Maintain Reduce.

Goes ex with distribution of 1.2bn shares in UMW Oil & Gas

UMW Holdings (UMWH)'s share price goes ex following the distribution of 1,204.8m shares in UMW Oil & Gas (UMW-OG) to UMWH's shareholders. The share distribution is on the basis of 1.0312 shares in UMW-OG for each existing share in UMWH. Post de-merger, our target price for UMWH falls from RM5.30 to RM4.83 (based on 13x CY18 P/E), after stripping out our previous valuation of RM0.47 per share in UMW-OG.

Exiting the oil & gas sector

To recap, UMWH had announced on Jan 17 that the group was exiting the oil and gas sector with the disposal of its entire stake in the listed UMW-OG and non-listed oil & gas assets. The non-listed oil & gas assets remain loss-making; however, they posted a narrower RM10.7m loss after tax in 1Q17 vs. a RM34m loss after tax in 1Q16.

New capacity will not contribute immediately to earnings

UMWH is constructing a new RM1.8bn automotive plant in Bukit Raja, Selangor with a production capacity of 50k units/year. This will raise its production capacity by 75%. The group expects the plant to be completed by end-2018 and production to begin in 2019. We do not expect significant earnings contributions for the next 24 months.

Intense competition in automotive sector to continue

We expect to see intense competition in the automotive segment as dealers continue to offer significant discounts in the near term to drive down inventory levels. Also, we see significant margin erosion from currency volatility which has led to higher import costs for complete built-up (CBU) models and CKD kit components.

Meaningful aerospace earnings will potentially materialise in 2019F

UMWH is moving into the high-value manufacturing business with its engine fan case project. It was awarded a 25-year contract from Rolls-Royce to manufacture fan cases for Trent 1000 and 7000 engines, which are used in Boeing 787 and Airbus A330neo. Although we are excited about the new venture, we do not expect significant earnings contributions from the new division until 2019F when it starts to ramp up production.

Earnings recovery potential is reflected in share price

We see limited upside to UMWH's share price given that the stock is up 38% YTD as the potential earnings recovery from the oil & gas assets disposal is reflected in its share price. Also, we project a 111% EPS growth in FY18F mainly from narrowing losses from the oil & gas division. The stock is trading at 16.4x CY18 P/E, which is higher than its 5-year (2009-2014) historical mean of 13x, prior to its loss-making 2015.

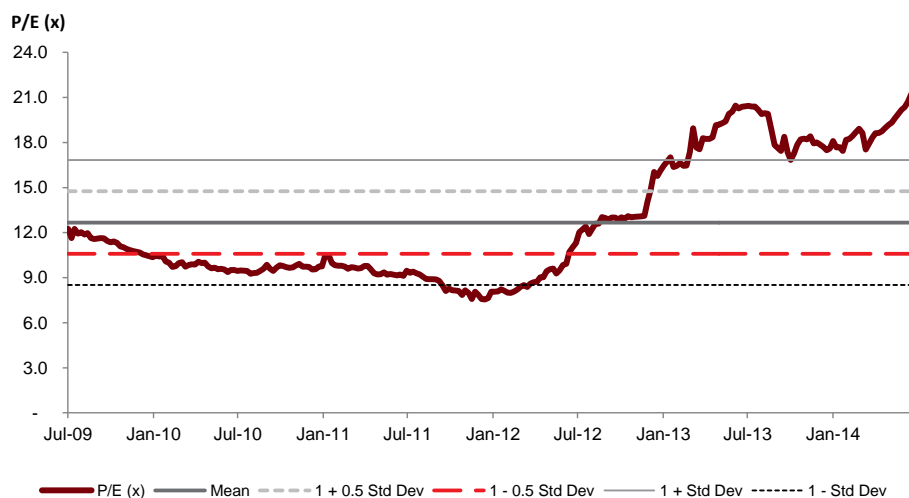
Maintain Reduce with a lower RM4.83 target price

Maintain Reduce rating with a lower RM4.83 target price, based on 13x CY18 P/E. We see downside risks to UMW's share price due to potential delays in the non-listed oil & gas assets disposal, deteriorating earnings from the auto division due to currency volatility and higher-than-expected start-up costs from its aerospace division. Key upside risks are accelerated disposal of non-listed oil and gas assets, and stronger earnings contribution from automotive. Switch to Bermaz for exposure in the auto sector.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	14,442	10,965	10,276	10,727	11,152
Operating EBITDA (RMm)	1,054	(359)	912	1,352	1,555
Net Profit (RMm)	370.5	(401.8)	200.0	421.2	415.7
Core EPS (RM)	0.32	(0.34)	0.17	0.36	0.36
Core EPS Growth	(52%)	(208%)		111%	(1%)
FD Core P/E (x)	18.18	NA	33.67	15.99	16.20
DPS (RM)	0.20	0.00	0.20	0.20	0.20
Dividend Yield	3.42%	0.00%	3.42%	3.42%	3.42%
EV/EBITDA (x)	12.24	NA	12.63	8.35	7.47
P/FCFE (x)	7.16	NA	10.50	10.26	11.09
Net Gearing	35.0%	61.5%	47.7%	35.2%	33.1%
P/BV (x)	1.04	1.44	2.63	2.45	2.30
ROE	5.6%	(7.1%)	5.5%	15.7%	14.5%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.79	1.06	0.94

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: UMW Holdings' historical 1-year forward P/E chart

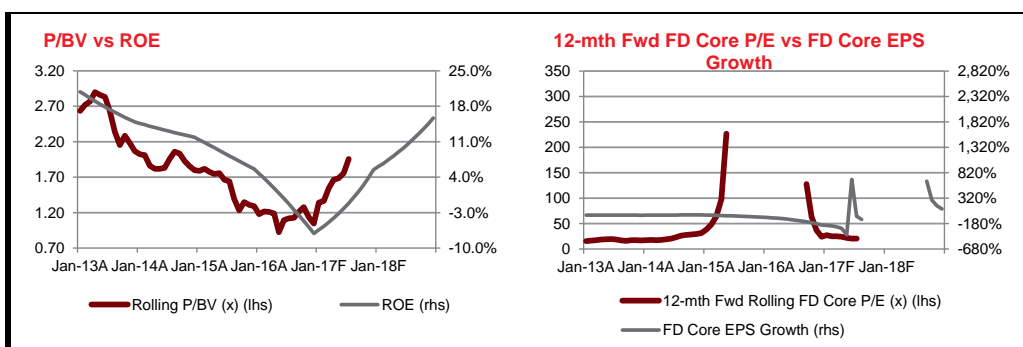
SOURCE: BLOOMBERG, CIMB RESEARCH, COMPANY

Figure 2: Sector comparison

Company	Recom.	Price (RM)	Target Price (RM)	Mkr Cap (US\$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18
Bermaz Auto Berhad	Add	2.01	2.15	539	15.1	12.0	5.4	5.4	33.9%	44.8%	9.6	7.8	6.9%	8.1%
DRB-Hicom	Add	1.80	2.35	809	na	56.2	0.6	0.6	-4.8%	1.0%	17.5	10.8	0.0%	0.0%
Tan Chong Motor Holdings	Reduce	1.81	1.56	275	na	122.0	0.4	0.4	-2.4%	0.3%	20.8	11.1	0.6%	1.1%
UMW Holdings	Reduce	5.84	4.83	1,587	34.1	16.2	2.6	2.5	5.3%	15.7%	12.9	8.3	3.4%	3.4%
Sector average					na	20.1	1.2	1.2	0.0%	5.8%	14.6	9.4	2.9%	3.2%

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	14,442	10,965	10,276	10,727	11,152
Gross Profit	3,391	1,645	1,644	1,877	1,673
Operating EBITDA	1,054	(359)	912	1,352	1,555
Depreciation And Amortisation	(511)	(555)	(550)	(569)	(669)
Operating EBIT	543	(914)	361	783	886
Financial Income/(Expense)	(0)	(106)	(54)	(107)	(61)
Pretax Income/(Loss) from Assoc.	134	155	151	204	164
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	677	(865)	458	881	988
Exceptional Items					
Pre-tax Profit	677	(865)	458	881	988
Taxation	(267)	(141)	(103)	(198)	(297)
Exceptional Income - post-tax					
Profit After Tax	410	(1,006)	355	682	692
Minority Interests	(39)	604	(155)	(261)	(276)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	371	(402)	200	421	416
Recurring Net Profit	371	(402)	200	421	416
Fully Diluted Recurring Net Profit	371	(402)	200	421	416

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	1,054	(359)	912	1,352	1,555
Cash Flow from Inv. & Assoc.					
Change In Working Capital	68	775	142	(182)	(413)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	511	528	550	569	669
Net Interest (Paid)/Received	1	106	54	107	61
Tax Paid	(274)	(207)	(103)	(198)	(297)
Cashflow From Operations	1,360	842	1,555	1,648	1,575
Capex	(2,280)	(966)	(1,000)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries	44	0	0	0	0
Acq. Of Subsidiaries/investments			0	0	
Other Investing Cashflow	126	81	87	9	32
Cash Flow From Investing	(2,111)	(886)	(913)	(991)	(968)
Debt Raised/(repaid)	1,692	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(479)	0	(234)	(234)	(234)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	1,213	0	(234)	(234)	(234)
Total Cash Generated	462	(44)	408	423	374
Free Cashflow To Equity	941	(44)	642	656	607
Free Cashflow To Firm	(878)	(230)	501	541	514

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	2,734	2,179	213	806	1,086
Total Debtors	1,833	1,022	1,101	1,154	1,405
Inventories	1,890	1,922	1,382	1,578	1,833
Total Other Current Assets	1,252	1,012	962	962	962
Total Current Assets	7,710	6,136	3,658	4,499	5,286
Fixed Assets	8,103	7,639	3,952	4,089	4,420
Total Investments	3	2	0	0	0
Intangible Assets	25	0	0	0	0
Total Other Non-Current Assets	2,384	2,429	2,426	2,083	1,833
Total Non-current Assets	10,515	10,070	6,378	6,172	6,253
Short-term Debt	3,725	2,641	1,558	909	709
Current Portion of Long-Term Debt					
Total Creditors	2,241	1,781	1,462	1,529	1,623
Other Current Liabilities	372	197	192	192	192
Total Current Liabilities	6,338	4,619	3,213	2,630	2,523
Total Long-term Debt	2,290	3,789	1,005	1,787	2,303
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	889	888	888	888
Total Non-current Liabilities	2,503	4,678	1,893	2,675	3,191
Total Provisions	0	0	0	0	0
Total Liabilities	8,841	9,297	5,105	5,305	5,714
Shareholders' Equity	6,584	4,722	2,596	2,783	2,965
Minority Interests	2,797	2,187	2,335	2,584	2,860
Total Equity	9,381	6,909	4,931	5,367	5,825

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(3.3%)	(24.1%)	(6.3%)	4.4%	4.0%
Operating EBITDA Growth	(46%)	(134%)	N/A	48%	15%
Operating EBITDA Margin	7.3%	(3.3%)	8.9%	12.6%	13.9%
Net Cash Per Share (RM)	(2.81)	(3.64)	(2.01)	(1.62)	(1.65)
BVPS (RM)	5.64	4.04	2.22	2.38	2.54
Gross Interest Cover	4.29	(4.91)	2.56	6.81	9.49
Effective Tax Rate	39.5%	0.0%	22.5%	22.5%	30.0%
Net Dividend Payout Ratio	36.6%	NA	77.1%	37.7%	32.8%
Accounts Receivables Days	49.44	47.66	37.72	38.37	41.88
Inventory Days	61.44	74.85	69.87	61.05	65.68
Accounts Payables Days	73.63	78.98	68.57	61.68	60.67
ROIC (%)	3.89%	(5.32%)	2.25%	7.19%	8.16%
ROCE (%)	4.6%	(5.8%)	4.3%	10.2%	10.9%
Return On Average Assets	3.90%	(4.56%)	3.80%	9.28%	9.31%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	0.0%	2.0%	0.0%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-5.7%	-9.1%	6.4%	6.2%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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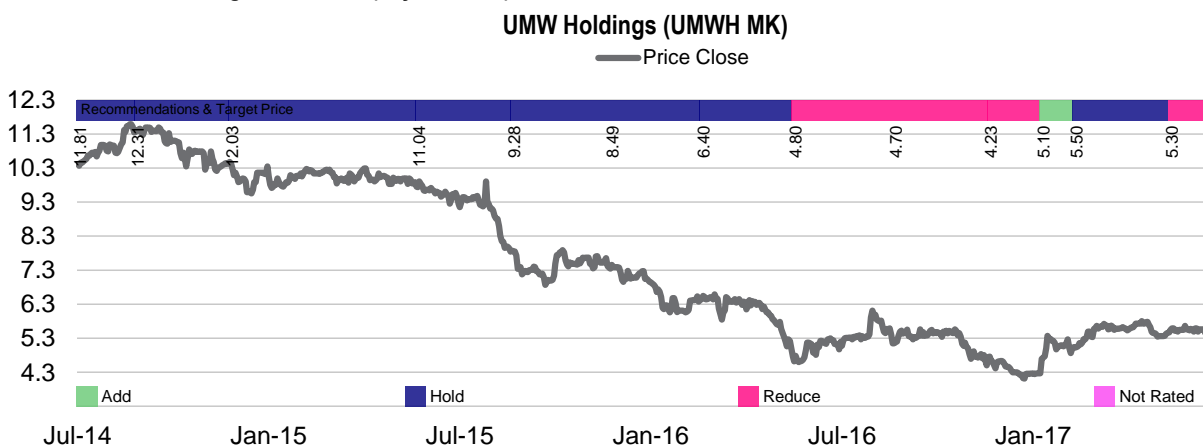
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2017		
1244 companies under coverage for quarter ended on 31 March 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BJCHI** – Good, Declared, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PLAT** – Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPA** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TNR** – not available, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **TVO** – Very Good, Declared **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.