Results Note

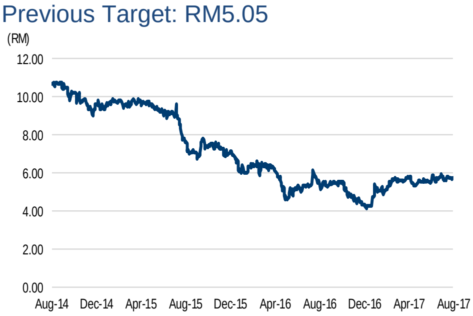
UMW Holdings

UMW MK
Sector: Auto & Autoparts

RM5.75 @ 28 August 2017

SELL (maintain)
Downside: 16.1%

Price Target: RM4.82
Previous Target: RM5.05



2Q17: Completed demerger exercise

UMW recorded a 2Q17 headline net loss of RM54m. On a cumulative basis, automotive as well as manufacturing and engineering (M&E) segments registered a yoy growth, while equipment and listed/unlisted O&G segments recorded declines. We cut our FY17 earnings forecast by 50% to reflect only the continuing operation of the business. We also trim our FY18-19E earnings by 6-11% to factor in weaker margins. We reiterate our SELL rating with a lower target price of RM4.82 as we roll forward our valuation to FY18.

1H17 results missed estimates

UMW reported a headline loss of RM54m in 2Q17. After adjusting for one-offs which consists of: (1) RM6.1m impairment loss on receivables, (2) RM4.4m inventory write-down, (3) RM4.6m PPE disposal gain, (4) RM0.5m provision made on PPE and inventories, (5) RM83.7m forex losses, and (6) RM77m derivatives gain, core net loss narrowed to RM40.6m. We did not include the loss on demerger of subsidiary as the loss is recognised under ''discontinued operation', which is not the focus of the report. To sum up the 1H17 results, UMW's cumulative core net profit of RM13m achieved only 5% of our and consensus full-year estimates. The variance against our forecast is due to weaker operating margins and higher-than-expected effective tax rate.

YoY – improved revenue and faced with margin pressure

The automotive segment reported a 3.8% yoy increase in revenue to RM2.3bn in 2Q17 driven by higher demand for Innova and Fortuner models. M&E segment revenue was lower by 2% yoy as it faced intense competition while equipment segment was relatively flat yoy. The automotive and equipment segments both saw a 26% yoy decline in profit as a result of strengthening in the US$ which increase cost of imports for automotive and hence negatively impacted margins amidst a competitive operating environment for the equipment segment.

Maintain SELL

We affirm our **SELL** rating on UMW and cut our target price to RM4.82 (from RM5.05) as we roll forward our valuation to 2018, removed UMWOG from our valuation and assume zero value for its non-listed O&G business. With the demerger exercise completed, the O&G units will no longer be a drag to earnings. However, a recovery of the automotive segment seems too optimistic for the time being. Key upside risks: a strong rebound in auto sales and improved consumer spending.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	14,442	10,959	10,595	10,615	10,970
EBITDA (RMm)	1,329.8	652.6	891.8	1,432.3	1,423.2
Pretax profit (RMm)	269.7	(2,130.2)	325.3	841.6	828.7
Net profit (RMm)	(37.2)	(1,658.0)	146.9	421.5	428.3
EPS (sen)	(3.2)	(141.9)	12.6	36.1	36.7
PER (x)	n.m	n.m	45.7	15.9	15.7
Core net profit (RMm)	646.3	621.5	146.9	421.5	428.3
Core EPS (sen)	55.3	53.2	12.6	36.1	36.7
Core EPS growth (%)	(3.9)	(3.8)	(76.4)	187.0	1.6
Core PER (x)	10.4	10.8	45.7	15.9	15.7
Net DPS (sen)	20.0	20.0	20.0	20.0	20.0
Dividend Yield (%)	3.5	3.5	3.5	3.5	3.5
EV/EBITDA (x)	7.5	17.2	13.3	8.4	4.7
Chg in EPS (%)			(50.3)	(6.2)	(11.1)
Affin/Consensus (x)			0.6	1.0	0.9

Source: Company, Affin Hwang forecasts, Bloomberg

Price Performance

	1M	3M	12M
Absolute	-1.2%	2.9%	2.9%
Rel to KLCI	-1.3%	3.0%	-2.2%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	6717.7/1574.2
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	4.09-5.98
Est free float	22.2%
BV per share (RM)	4.07
P/BV (x)	1.41
Net cash/ (debt) (RMm) (2Q17)	(1,565.7)
ROE (FY18E)	3.0%
Shariah Compliant	Yes

Key Shareholders

ASB	42.1%
EPF	11.7%
KWAP	8.3%

Source: Affin Hwang, Bloomberg

Tan Jianyuan, ACCA
(603) 2146 7538
jianyuan.tan@affinhwang.com

Fig 1: Results Comparison

FYE 31 Dec (RMm) Continuing operations	2Q17	QoQ % chg	YoY % chg	1H17*	YoY % chg	Comment
Revenue	2,785.7	(0.6)	(2.1)	5,515.0	14.2	Stronger revenue was mainly driven by better automotive segment which increased 14.2% yoy as a result of new models and sales promotion activities.
Op costs	(2,834.4)	2.7	1.0	(5,449.0)	17.1	
EBIT	(48.7)	(209.7)	(217.5)	66.0	(62.3)	
EBIT margin (%)	(1.7)	-3.3ppt	-3.2ppt	1.2	-2.4ppt	
Int expense	(24.0)	(64.4)	(41.8)	(52.9)	58.6	
Int and other income	20.1	(9.5)	8.6	38.2	6.6	
Associates	28.0	(30.1)	5.7	68.0	40.5	
Exceptional item	13.4	n.m	n.m	(11.3)	n.m	Exceptional items in 2Q17:- (1) RM6.1m impairment loss on receivables, (2) RM4.4m inventory write-down, (3) RM4.6m PPE disposal gain, (4) RM0.5m provision made on PPE and inventories, (5) RM83.7m forex losses, (6) RM77m derivatives gain We did not include the demerger losses in our EI as those are recognized under ''discontinued operation''
Pretax profit/(loss)	**(11.2)**	(177.8)	(125.0)	**108.1**	(45.5)	
Tax	(35.2)	41.2	(27.4)	(60.2)	(18.0)	
Tax rate (%)	(314.7)	n.m	n.m	55.7	18.7ppt	High effective tax was due to certain expenses not allowable for tax purposes and some subsidiaries in loss position
MI	(7.5)	n.m	n.m	(23.7)	n.m	
Net profit/(loss)	**(54.0)**	(367.7)	345.1	**24.2**	(69.0)	
EPS (sen)	(4.6)	(367.7)	345.1	2.1	(69.0)	
Core net profit/(loss)	**(40.6)**	n.m	(225.3)	**13.0**	(74.5)	Missed expectations, accounted for only 5% of our and consensus estimates.
Discontinued operation (Total PBT) (RMm)	**(178.3)**	n.m	178.6	**(283.2)**	113.9	
Oil and Gas (listed)	(51.4)	n.m	(19.7)	(156.3)	18.0	
Loss on demerger	(126.9)	n.m	n.m	(126.9)	n.m	

Source: Affin Hwang, Company data
**restated figures based on 2Q17 Bursa pack*

Fig 2: UMW SOTP-based 12-month TP

Segments	Valuation Method	Equity Value (RMm)	Equity value/share (RM)
Automotive	13x P/E	3,693.9	3.16
Equipment	12x P/E	1,718.7	1.47
Manufacturing and engineering (M&E)	12x P/E	220.8	0.19
Equity value / Price Target		**5,633.4**	**4.82**

Source: Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com