



AmInvestment Bank

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

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## Company report

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## Margin crunch hits core segments

# HOLD

(Maintained)

**Rationale for report: Company result**

Price	RM5.75
Fair Value	RM5.00
52-week High/Low	RM5.98/RM4.09

### Key Changes

Fair value	↔
EPS	⬇️

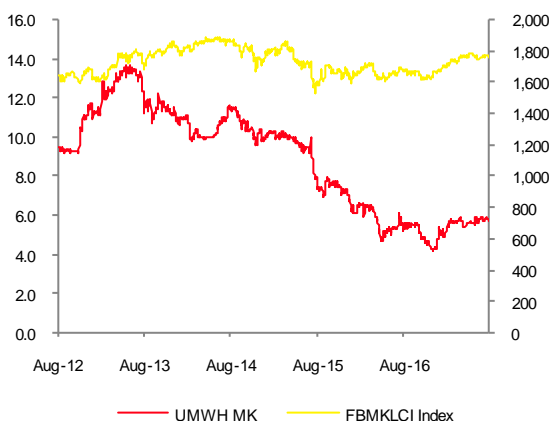
YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	10,958.5	10,710.4	10,953.7	11,724.0
Core net profit (RM mil)	(360.7)	24.7	218.8	475.5
FD Core EPS (sen)	(30.9)	2.1	18.7	40.7
FD Core EPS growth (%)	(273.6)	(106.8)	786.0	117.4
Consensus Net Profit (RM mil)	-	261.8	408.5	458.7
DPS (sen)	10.0	0.6	5.6	12.2
PE (x)	nm	272.1	30.7	14.1
EV/EBITDA (x)	nm	22.3	12.8	9.3
Div yield (%)	1.7	0.1	1.0	2.1
ROE (%)	(29.2)	0.5	4.5	9.4
Net Gearing (%)	95.3	112.5	107.6	97.5

### Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,717.7
Book Value (RM/share)	4.04
P/BV (x)	1.4
ROE (%)	(29.2)
Net Gearing (%)	95.3

Major Shareholders	Skim ASB (42.1%) EPF (13.7%) Yayasan Pelaburan Bumiputera (5.7%)
Free Float	32.6
Avg Daily Value (RMmil)	2.6

Price performance	3mth	6mth	12mth
Absolute (%)	2.9	12.3	2.9
Relative (%)	3.0	7.5	(2.2)



### Investment Highlights

- We maintain HOLD on UMW Holdings (UMW) with an unchanged SOP-based fair value of RM5. For 1H17, the group saw a net profit of RM24mil from its continuing operations (excluding losses from the listed O&G unit — which was demerged in July — and the accompanying costs of the exercise), down 31% YoY.
- Taking into account the discontinued operations (which would be carried in its books to July), the group made a net loss of RM62mil vs. a net profit of RM5mil 1H16. This was far below our projection of a RM270mil net profit for the full year and consensus RM262mil.
- For 1HFY17 revenue improved 14% YoY but PBT dropped 45% YoY (numbers provided by the group for these are for the continued operations only). We delineate the YTD performance for group's three remaining core businesses: automotive, equipment and manufacturing and engineering (M&E) which accounted for 80%, 12% and 6% of topline respectively:
  - 1) **Auto:** Revenue was higher by 19% YoY due to new launches and strong demand for the Innova and Fortuner (Toyota sales improved 24% YoY), but a stronger USD was blamed for a 2 ppts decline in PBT margin to 4%. While it sold much more cars, it was earning much less from each car. The spike in sales was largely due to the low base of 1Q16 (when sales dipped below 3K/month due to price hikes introduced from January); 1Q17 sales were up 62%YoY while 2Q17 was up 1%YoY.
  - 2) **Equipment:** Revenue held up commendably (slipping 2% YoY against the background of soft demand for industrial equipment), PBT fell 13% YoY due to the lower topline and smaller margins (declined 2 ppts to 10%).
  - 3) **M&E:** Revenue rose 6%YoY but the segment swung into a pre-tax loss of RM7mil from PBT of RM18mil a year ago. Ongoing operations made a PBT of RM18mil, but setup costs for the incoming aerospace manufacturing unit (to start producing in 4Q) had ballooned to RM24mil (from RM7mil in 1H16), dragging the M&E segment into the red. The aerospace unit is targeted for profit from 2019.
- Aside from this, losses from the remaining O&G assets are still substantial. The group targets to dispose these by end-2018. It saw a net loss of RM71mil (up 56% YoY) from these assets in 1H17. This follows the cessation of drilling operations in Oman, which led to a lower revenue contribution and some redundancy expenses.
- While margins may ease for the auto segment going forward, we believe it will be challenging to offset the declining performance of the equipment segment, the setup costs under M&E segment and the continuing losses from the unlisted O&G assets.

## EXHIBIT 1: SUM-OF-PARTS VALUATION

Pegged to FY18F							
Segment	PBT	PAT	Ownership	PE Multiple	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	574.7	435.1	51%	12	2,729.1	2.34	1,168.3
Equipment	238.7	180.7		10	1,879.2	1.61	
Manu & Eng	(9.2)	(7.0)		9	(62.7)	(0.05)	
O&G	0.0					0.00	
Others	(180.0)				(180.0)	(0.15)	
Associates & JV		215.1		14	3,011.1	2.58	
Net Debt (Company level)					(1,536.2)	(1.31)	
Fair Value:						<u>5.00</u>	

Source: AmlInvestment Bank Bhd

## EXHIBIT 2: EARNINGS SUMMARY

	2Q17	QOQ	YOY	1H16	1H17	%
<b>Revenue</b>	<b>2,785.7</b>	-1%	3%	<b>4,828.3</b>	<b>5,515.0</b>	14%
Operating Expenses	(2,838.8)			(4,691.0)	(5,500.3)	
Other Operating Income	17.8			10.1	40.0	
<b>Operating Profit</b>	<b>(35.3)</b>	-279%	-142%	<b>147.4</b>	<b>54.7</b>	-63%
Operating margin:	-1%			3%	1%	
Finance Costs	(24.0)	-64%	50%	(33.3)	(52.9)	59%
Share of Profits of Associates & JV	28.0	-30%	6%	48.4	68.0	41%
Investment Income	20.1	-10%	30%	35.8	38.2	7%
<b>Profit before tax</b>	<b>(11.2)</b>	-178%	-110%	<b>198.3</b>	<b>108.1</b>	-45%
Tax	(35.2)			(73.4)	(60.2)	
<b>Profit after tax</b>	<b>(46.4)</b>	340%	-176%	<b>124.9</b>	<b>47.9</b>	-62%
<b>Minority interest</b>						
Continuing operations	7.5			(73.7)	(213.3)	
Discontinued operations	(23.1)			(59.9)	(70.0)	
<b>Total</b>	<b>(15.6)</b>			<b>(133.6)</b>	<b>(283.4)</b>	
<b>Net profit</b>	0.0			78.2	24.2	
Continuing operations	(54.0)			46.8	23.7	
Discontinued operations	(155.3)			124.9	47.9	
<b>Total</b>	<b>(209.3)</b>			<b>0.0</b>	<b>0.0</b>	
Shares outstanding	1,168.3			1,168.3	1,168.3	
<b>EBITDA</b>	<b>76.1</b>			<b>362.6</b>	<b>207.9</b>	
Depreciation	111.3			262.4	223.5	
EBITDA margin:	3%			8%	4%	
Earnings per share (sen)	(4.62)			3.59	(2.89)	
<u>Margins</u>						
EBITDA margin	3%			8%	4%	
EBIT margin	-1%			3%	1%	
PBT Margin	0%			4%	2%	
Net profit margin	-2%			1%	5%	
Tax rate	-315%			37%	56%	
<b>Toyota</b>						
Sales volume	17,220	4%	1%	27,249.0	33,723.0	24%
Revenue per car (RM)	131,263	-1%	3%	280,127.3	264,017.7	-6%
Net profit per car (RM)	3,307	-2%	-19%	9,507.7	6,698.1	-30%
<b>Perodua</b>						
Sales volume	49,410	-2%	-2%	97,370.0	99,675.0	2%
Net profit per car (RM)	1,493	-29%	8%	2,617.6	3,591.9	37%
<u>Segmental Breakdown</u>						
<b>Revenue</b>						
Automotive	2,260.3	3%	4%	3,733.1	4,451.2	19%
Equipment	351.4	3%	0%	709.1	693.8	-2%
Manufacturing & Engineering	153.9	-7%	-2%	302.4	319.8	6%
O&G (listed)	0.0			87.7	0.0	-100%
O&G (Unlisted)	31.7	-13%	-25%	105.0	67.9	-35%
Others	(11.6)	-38%	8%	(10.7)	31.2	-391%
Elimination				(10.7)	0.0	-100%
<b>Total</b>	<b>2,785.7</b>			<b>4,916.0</b>	<b>5,563.9</b>	
<b>PBT</b>						
Automotive	99.0	14%	-26%	216.0	186.0	-14%
Equipment	32.2	-19%	-26%	82.6	71.7	-13%
Manufacturing & Engineering	(9.6)	-410%	-188%	17.5	(6.5)	-137%
O&G (listed)	0.0			0.0	0.0	
O&G (Unlisted)	(70.6)	370%	56%	(80.8)	(85.7)	6%
Others	(62.1)	-1448%	86%	(37.0)	(57.5)	56%
<b>Total</b>	<b>(11.2)</b>			<b>198.3</b>	<b>108.1</b>	
<b>PBT Margin</b>						
Automotive	4%			6%	4%	
Equipment	9%			12%	10%	
Manufacturing & Engineering	-6%			6%	-2%	

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	14,441.6	10,958.5	10,710.4	10,953.7	11,724.0
EBITDA	646.3	(1,612.0)	540.8	936.0	1,271.8
Depreciation/Amortisation	(510.7)	(569.5)	(603.6)	(641.0)	(680.1)
Operating income (EBIT)	135.6	(2,181.5)	(62.9)	295.0	591.7
Other income & associates	134.4	156.4	193.0	215.1	236.8
Net interest	(0.4)	(105.1)	21.0	(5.9)	12.2
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>269.7</b>	<b>(2,130.2)</b>	<b>151.1</b>	<b>504.2</b>	<b>840.8</b>
Taxation	(267.5)	(131.0)	10.5	(72.3)	(151.0)
Minorities/pref dividends	(39.4)	611.7	(136.9)	(213.2)	(214.3)
<b>Net profit</b>	<b>(37.2)</b>	<b>(1,649.5)</b>	<b>24.7</b>	<b>218.8</b>	<b>475.5</b>
Core net profit	207.8	(360.7)	24.7	218.8	475.5
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	8,102.8	7,678.5	7,947.3	8,202.5	8,480.2
Intangible assets	25.2	-	-	-	-
Other long-term assets	2,429.9	2,463.0	2,438.8	2,464.5	2,508.9
<b>Total non-current assets</b>	<b>10,557.9</b>	<b>10,141.5</b>	<b>10,386.1</b>	<b>10,667.0</b>	<b>10,989.1</b>
Cash & equivalent	2,734.1	1,857.4	1,570.4	2,182.6	2,895.6
Stock	1,890.0	1,931.2	1,390.5	1,440.1	1,522.0
Trade debtors	1,833.4	988.5	1,282.3	1,311.4	1,403.7
Other current assets	1,209.9	1,008.0	1,008.0	1,008.0	1,008.0
<b>Total current assets</b>	<b>7,667.4</b>	<b>5,785.1</b>	<b>5,251.1</b>	<b>5,942.1</b>	<b>6,829.3</b>
Trade creditors	2,241.2	1,878.6	1,795.4	1,854.2	1,965.3
Short-term borrowings	3,725.0	2,639.3	3,893.9	4,420.9	4,947.9
Other current liabilities	371.8	234.0	162.3	162.8	164.7
<b>Total current liabilities</b>	<b>6,338.0</b>	<b>4,752.0</b>	<b>5,851.6</b>	<b>6,438.0</b>	<b>7,077.9</b>
Long-term borrowings	2,289.8	3,715.8	3,003.0	3,020.0	3,037.1
Other long-term liabilities	213.7	931.0	100.6	102.8	108.0
<b>Total long-term liabilities</b>	<b>2,503.4</b>	<b>4,646.7</b>	<b>3,103.6</b>	<b>3,122.8</b>	<b>3,145.1</b>
<b>Shareholders' funds</b>	<b>6,584.5</b>	<b>4,718.6</b>	<b>4,735.8</b>	<b>4,889.0</b>	<b>5,221.8</b>
Minority interests	2,799.4	2,145.7	2,282.6	2,495.8	2,710.1
BV/share (RM)	5.64	4.04	4.05	4.18	4.47
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	269.7	(2,130.2)	151.1	504.2	840.8
Depreciation/Amortisation	510.7	569.5	603.6	641.0	680.1
Net change in working capital	67.9	200.7	(705.4)	(17.5)	(57.1)
Others	100.8	945.7	(275.4)	(365.9)	(497.0)
<b>Cash flow from operations</b>	<b>949.1</b>	<b>(414.3)</b>	<b>(226.0)</b>	<b>761.8</b>	<b>966.8</b>
Capital expenditure	(2,280.4)	(1,181.6)	(803.3)	(821.5)	(879.3)
Net investments & sale of fixed assets	12.0	225.3	-	-	-
Others	528.0	188.0	207.9	193.5	224.1
<b>Cash flow from investing</b>	<b>(1,740.3)</b>	<b>(768.2)</b>	<b>(595.4)</b>	<b>(628.0)</b>	<b>(655.2)</b>
Debt raised/(repaid)	1,322.6	380.1	541.8	544.0	544.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(805.2)	(212.7)	(7.4)	(65.6)	(142.6)
Others	-	-	-	-	-
<b>Cash flow from financing</b>	<b>517.3</b>	<b>167.4</b>	<b>534.4</b>	<b>478.4</b>	<b>401.4</b>
<b>Net cash flow</b>	<b>(273.9)</b>	<b>(1,015.1)</b>	<b>(287.0)</b>	<b>612.2</b>	<b>713.0</b>
<b>Net cash/(debt) b/f</b>	<b>2,830.4</b>	<b>2,621.1</b>	<b>1,857.4</b>	<b>1,570.4</b>	<b>2,182.6</b>
<b>Net cash/(debt) c/f</b>	<b>2,621.1</b>	<b>1,464.8</b>	<b>1,570.4</b>	<b>2,182.6</b>	<b>2,895.6</b>
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	(3.3)	(24.1)	(2.3)	2.3	7.0
EBITDA growth (%)	(64.3)	(349.4)	(133.5)	73.1	35.9
Pretax margin (%)	1.9	(19.4)	1.4	4.6	7.2
Net profit margin (%)	(0.3)	(15.1)	0.2	2.0	4.1
Interest cover (x)	336.5	(2,075.8%)	nm	50.4	nm
Effective tax rate (%)	99.2	6.1	6.9	14.3	18.0
Dividend payout (%)	nm	nm	22.5	22.5	22.5
Debtors turnover (days)	49	47	39	43	42
Stock turnover (days)	47	64	57	47	46
Creditors turnover (days)	56	69	63	61	59

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 4: PB BAND CHART

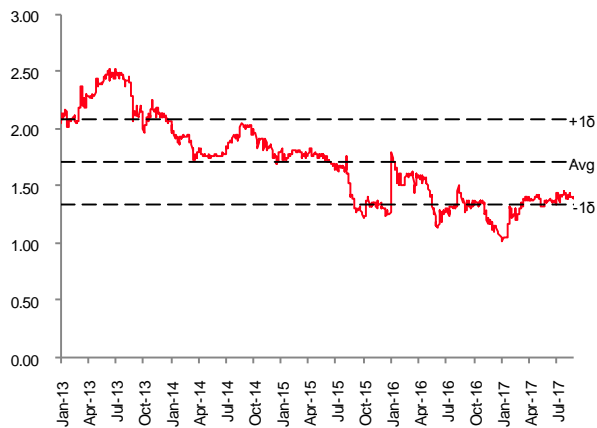
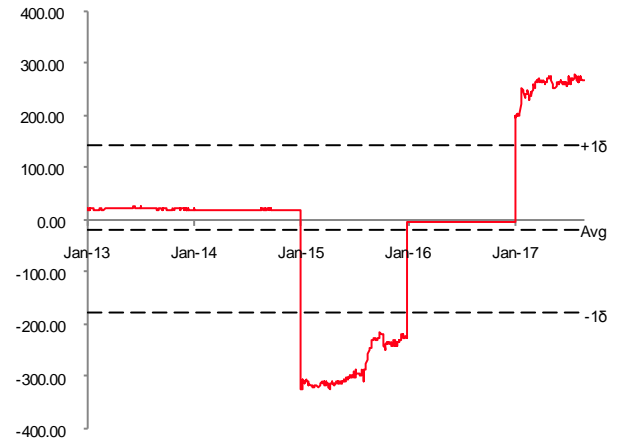


EXHIBIT 5: PE BAND CHART



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