

UMW (SELL ↓, EPS ↔)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

 29 August 2017
 Price Target: RM4.75 (↓)
 Share price: RM5.75

Further deterioration of earnings
Results

- **Within Expectation** - Reported core net loss of RM70.8m (including UMWOG loss of RM28.4m, but excluding demerger loss of RM126.9m) in 2Q17, dragging down 1H17 to a net loss of RM75.0m as compared to HLIB's forecasted earnings of RM138.9m for FY17 (but below consensus of RM261.8m). We deem the numbers to be in line as we expect stronger 2H17 earnings mainly driven by seasonally stronger automotive sales, deconsolidation of UMWOG and commencement of Rolls Royce aerospace plant.

Deviations

- None.

Dividends

- None.

Highlights

- **YoY:** Excluding demerger loss of RM126.9m, UMW reported core loss from profit of RM64.8m, dragged by worsened margin across all segments: Automotive (RM depreciation); Equipment (competitive market); Manufacturing (start-up costs for Rolls Royce plant); O&G unlisted (lower market demand); and Other division.
- **QoQ:** Core loss expanded (from RM4.2m) on lower contribution from Equipment, larger losses from Manufacturing, O&G (unlisted) and Other division.
- **YTD:** Similarly, core loss of RM75m (including UMWOG loss of RM86.4m) was dragged by weaker margins of the overall group, affected by weaker RM (automotive), competitive market (across all segment), start-up costs (manufacturing) and low demand (O&G and other division).
- **Outlook:** Automotive and Equipment segments are expected to continue face competitive market, while Manufacturing segment is expected to be sustainable with Rolls-Royce plant commencing operation in 4Q17. UMW remains committed to exit O&G segment by end 2017. UMW's shares in UMWOG have been fully distributed (in-specie) to shareholders in early July, avoiding further drag from UMWOG.

Risks

- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting car sales.
- Global automotive supply chain disruption.
- Appreciation of US\$.
- Plunge in crude oil price and slowdown in O&G market.

Forecasts

- Unchanged.

Rating
SELL (↓)

- UMW group continues to be dragged by weakened consumer sentiment, depreciating RM (against US\$), and slowdown in oil & gas activity. Furthermore, sustainability of dividend payout is a concern given consecutive losses and increased capex commitment.

Valuation

- Downgrade to Sell (from Hold) with lower TP RM4.75, after removing UMWOG valuation from SoP. We believe share price has run ahead of UMW fundamentals due to distributional of UMWOG shares.

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KLCI	1769
Expected share price return	-17.4%
Expected dividend return	0.9%
Expected total return	-16.5%

Share Price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	6,718
3-mth avg. volume ('000)	435
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-1.2	2.9	2.9
Relative	-1.3	3.0	-2.2

Major Shareholders

PNB	57.5%
EPF	11.7%
KWAP	8.3%

Summary Earnings Table

FYE Dec (RM m)	FY16A	FY17E	FY18F	FY19F
Turnover	10,904	11,337	11,990	13,353
EBITDA	564	562	832	1,066
Pre-tax Profit	-2,130	253	568	801
Rpt. net profit	-1,667	139	318	485
Norm. net profit	184	139	318	485
Norm. EPS (sen)	15.7	11.9	27.2	41.6
P/E (x)	38.5	50.9	22.2	14.6
Book Value (RM)	4.0	3.6	3.8	4.1
P/B (x)	1.5	1.7	1.6	1.5
Net Dvd Yield (%)	11.9	0.8	0.8	1.7
Net Gearing	89.5	47.6	62.1	56.6
ROE (%)	3.3	3.1	7.4	10.5
ROA (%)	1.1	1.0	2.6	3.8

Consensus:

EPS (sen)	21.9	34.6	38.8
% Diff	-45.7	-21.3	7.1

HLIB

Figure #1: Quarterly result comparison

FYE Dec (RMm)	2Q16	1Q17	2Q17	QoQ (%)	YoY (%)	Comment
Revenue	2,716.8	2,729.3	2,785.7	2.1	2.5	YoY & QoQ: Slight improvement in revenue driven by higher revenue contribution from automotive division on higher sales volume and better sales mix. (Excluded UMWOG from income statement-Continued Operation and lumped the division under Discontinued Operation).
EBITDA	78.3	164.7	30.9	-81.3	-60.5	
EBITDA Margin (%)	2.9	6.0	1.1	-81.6	-61.5	YoY & QoQ: EBITDA margin declined on higher operational costs for automotive segment, further dragged by higher start-up cost for Rolls Royce plant (Manufacturing) and cessation of Oman rigs (O&G unlisted) and higher costs for Other division in the quarter.
EBIT	13.5	119.8	-18.4	-115.3	-235.6	
EBIT Margin (%)	0.5	4.4	-0.7	-5.0	-1.2	Filtered through lower EBITDA margin YoY and QoQ.
Net Finance Expense	-8.1	-16.1	-9.3	-42.3	14.7	
Associates	26.4	40.0	28.0	-29.9	6.0	
Els	76.9	-24.4	-11.6			Related to derivatives, forex, impairments and provisions.
Reported PBT	108.8	119.3	-11.2	-109.4	-110.3	
Tax	-47.5	-24.9	-35.2	41.3	-25.7	
Reported Operational Net Profit	61.3	94.4	-46.4	-149.2	-175.7	On-Going operations registered loss, dragged by Manufacturing, O&G unlisted and Other division.
Discontinued Operation	-65.1	-104.9	-178.5	70.1	174.2	Related to UMWOG (to be distribute out to shareholders of UMW), which incurred loss of RM51.5m and also loss on demerger exercise of RM126.9m in 2Q17.
Reported Net Profit	-3.7	-10.6	-224.9	2029.4	5935.7	
Reported PATAMI	-12.1	20.2	-209.3	-1138.0	1625.9	
Core PATAMI	64.8	-4.2	-70.8	1579.1	-209.3	Core loss excluded demerger loss of RM126.9m in 2Q17.
Reported EPS (Sen)	-1.0	1.7	-17.9	-1138.0	1625.9	
Core EPS (Sen)	5.5	-0.4	-6.1	1579.1	-209.3	

Company, HLIB

Figure #2: Cumulative result comparison

FYE Dec (RMm)	1H16	1H17	YoY (%)	Comment
Revenue	4,828.3	5,515.0	14.2	Revenue improved on higher car sales for Toyota and Lexus.
EBITDA	218.2	195.6	-10.4	
EBITDA Margin (%)	4.5	3.5	-1.0	EBITDA margin declined on higher operational costs across all segments especially on automotive (affected by weakened RM against US\$) and Manufacturing (start-up costs for Rolls Royce plant).
EBIT	89.2	101.4	13.6	
EBIT Margin (%)	1.8	1.8	0.0	EBIT margin maintained flat on lower depreciation charges.
Net Finance Expense	-11.3	-25.4	124.6	
Associates	48.4	68.0	40.5	
Els	71.9	-36.0		Related to derivatives, forex, impairments and provisions.
Reported PBT	198.3	108.1	-45.5	
Tax	-73.4	-60.2	-18.0	
Reported Operational Net Profit	124.9	47.9	-61.6	On-Going Operations was lower, affected by Els. Adjusting for Els, UMW would register a growth of +58.3% YoY.
Discontinued Operation	-133.6	-283.4	112.1	Related to UMWOG (to be distribute out to shareholders of UMW), which incurred loss of RM155.4m and also loss on demerger exercise of RM126.9m in 1H17.
Reported Net Profit	-8.7	-235.5	2619.2	
Reported PATAMI	138.1	94.2	-31.7	
Core PATAMI	66.1	-75.0	-213.5	Core losses (included UMWOG core loss of RM86.4m) was relatively in line with HLIB's expectation, as we expect strong 2H17, on improve consumer sentiment, deconsolidation of UMWOG and commencement of Rolls Royce plant.
Reported EPS (Sen)	0.4	-16.2	-4347.4	
Core EPS (Sen)	6.5	-6.4	-198.2	

Company, HLIB

Figure #3: UMW Group automotive sales statistics

Unit Sales	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Toyota (51% ownership)	16,241	22,555	23,301	31,663	10,216	17,033	17,271	19,237	16,503	17,220
Lexus (51% ownership)	362	532	472	735	272	359	334	388	191	219
Perodua (38% ownership)	57,153	51,349	49,025	55,780	47,181	50,189	53,519	56,211	50,265	49,410
Total	73,756	74,436	72,798	88,178	57,669	67,581	71,124	75,836	66,959	66,849
Growth YoY (%)	7.43	-4.27	4.42	6.13	-21.81	-9.21	-2.30	-14.00	16.11	-1.08

Company, HLIB

Figure #4: UMW earnings breakdown

	2Q16	1Q17	2Q17	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,177.1	2,190.9	2,260.3	3.2	3.8	Related to sales volume of Toyota and Lexus, which declined improved YoY and QoQ.
Equipment	351.2	342.4	351.4	2.6	0.1	Stable YoY and QoQ.
Manufacturing & Engineering	157.0	165.9	153.9	-7.2	-2.0	Affected by competitive market.
Oil & Gas Unlisted	42.3	36.3	31.7	-12.6	-25.0	Affected by low industry demand.
Others	15.4	13.2	18.0	37.2	16.9	
Intersegment	(26.2)	(19.3)	(29.6)	53.6	13.2	
Total	2,716.8	2,729.3	2,785.7	2.1	2.5	

Reported PATAMI

Automotive	69.5	56.0	57.0	1.8	-18.0	Lower YoY margins due to higher input cost (unfavorable forex movement) and operational cost – sales and distributional cost.
Equipment	32.8	31.1	24.8	-20.3	-24.4	Affected by competitive environment.
Manufacturing & Engineering	3.4	(2.4)	(14.1)	479.1	-512.0	Affected by competitive environment and start-up cost related to new Rolls Royce plant.
Oil & Gas Unlisted	(80.3)	(10.7)	(52.0)	N.M.	N.M.	Continued loss due to low demand in the sector.
Others	0.0	4.3	(69.6)	N.M.	N.M.	Other divisions incurred costs in 2Q17.
UMWOG	(37.5)	(58.0)	(28.4)	N.M.	N.M.	Discontinued Operations: Improved margins due to high rigs utilization and cost cutting measures.
Total	(12.1)	20.2	(82.4)	-508.6	579.4	Affected by derivatives losses, forex movements and impairments.
Core PATAMI	64.8	(4.2)	(70.8)	1,579.1	-209.3	

Company, HLIB

Figure #5: UMW SOP

Division	Stakes (%)	FY17 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	405.8	3,060.9	2.62	FY18 PE 10x
Equipment	Various	154.6	1,193.7	1.02	FY18 PE 8x
Manufacturing & Engineering	Various	5.2	1,298.1	1.11	FY19 PE 10x
Others	Various	(230.5)	0.0	0.00	
Target Price (RM)			5,552.7	4.75	

No of Shares

1,163.8

As at end FY16

Company, HLIB

Figure #6: HLIB forecast versus consensus

	FY17E		Difference (%)	FY18F		Difference (%)	FY18F		Difference (%)
	HLIB	Consensus		HLIB	Consensus		HLIB	Consensus	
Revenue (RMm)	11,336.5	10,923.0	3.8%	11,990.2	11,086.0	8.2%	13,353.2	11,957.0	11.7%
EBITDA (RMm)	562.1	775.3	-27.5%	832.3	972.8	-14.5%	1,066.2	1,185.0	-10.0%
Core Profit (RMm)	138.9	261.8	-46.9%	318.2	408.5	-22.1%	485.5	458.7	5.8%
EPS (Sen)	11.9	21.9	-45.7%	27.2	34.6	-21.3%	41.6	38.8	7.1%

Bloomberg, HLIB

Financial Projections

Income Statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Revenue	14,442	10,910	11,337	11,990	13,353
Operating cost	-12,872	-10,345	-10,774	-11,158	-12,287
EBITDA	1,569	564	562	832	1,066
Depreciation	-765	-555	-413	-343	-342
EBIT	804	9	149	490	725
Interest income	126	81	68	55	48
Interest expense	-127	-186	-111	-118	-123
Associates	134	155	147	141	152
Exceptionals	-668	-2,189	0	0	0
Pretax profit	270	-2,130	253	568	801
Taxation	-267	-141	-118	-143	-177
Minorities	-39	604	4	-107	-139
Net profit	-37	-1,667	139	318	485
Core PATAMI	256	40	139	318	485
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	11.9	27.2	41.6
Core EPS (sen)	21.9	3.4	11.9	27.2	41.6

Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Fixed assets	8,106	7,642	3,426	4,303	4,382
Other assets	4,038	3,709	4,046	4,081	4,119
Working capital	1,968	1,778	1,862	1,989	2,227
Receivables	1,458	754	794	839	935
Payables	-1,380	-898	-916	-948	-1,044
Inventory	1,890	1,922	1,984	2,098	2,337
Net cash	-3,281	-4,226	-1,981	-2,746	-2,710
Cash	2,734	2,179	1,722	1,434	1,305
ST debt	-3,725	-2,617	-1,117	-1,117	-1,117
LT debt	-2,290	-3,789	-2,587	-3,063	-2,899
Equity	6,584	4,722	4,161	4,420	4,789
Share capital	584	584	584	584	584
Reserves	6,000	4,138	3,576	3,836	4,205
Minorities	2,799	2,187	1,198	1,214	1,234
Other liabilities	1,447	1,994	1,994	1,994	1,994

Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
GDP Growth (%)	6.0%	4.2%	5.4%	4.5%	4.5%
TIV ('000)	666.5	572.0	600.6	618.6	637.2
Growth (%)	1.6%	-14.2%	5.0%	3.0%	3.0%
Unit Sale (Unit)	309.2	272.2	276.0	289.5	300.7
Toyota ('000)	93.8	63.8	68.7	72.1	75.0
Lexus ('000)	2.1	1.4	1.3	1.4	1.4
Perodua ('000)	213.3	207.1	206.0	216.0	224.2
Average Price					
UMW (RM '000)	107.9	123.1	116.9	113.4	114.6
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
EBITDA	1,569	564	562	832	1,066
Net interest	-1	-106	-43	-63	-75
WCap changes	69	190	-83	-128	-238
Taxation	-283	-136	-118	-143	-177
Others	-279	-583	0	0	0
Opex cashflow	1,075	-70	318	499	576
Capex & acq.	-2,388	-925	-1,998	-1,220	-420
Free cashflow	-1,313	-995	-1,679	-721	156
Other inv cashflow	502	248	110	106	114
Net borrowings	1,323	433	1,098	476	-164
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	15	-91	-118
Net cashflow	-274	-526	-457	-288	-129
Forex translation	65	25	0	0	0
Beginning cash	3,277	2,655	2,155	1,698	1,410
Ending cash	3,067	2,155	1,698	1,410	1,281

Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Rep. EPS (sen)	-3.2	-142.7	11.9	27.2	41.6
Core EPS (sen)	21.9	3.4	11.9	27.2	41.6
PER (x)	-180.7	-4.0	48.4	21.1	13.8
Core PER (x)	26.2	167.9	48.4	21.1	13.8
Net DPS (sen)	20.0	72.0	5.0	5.0	10.0
Net DY (%)	3.5	12.5	0.9	0.9	1.7
BV/ share (RM)	5.6	4.0	3.6	3.8	4.1
P/BV (x)	1.0	1.4	1.6	1.5	1.4
FCF/share (sen)	-112.4	-85.2	-143.8	-61.7	13.4
Market Cap	6,718	6,718	6,718	6,718	6,718
Net cash	-3,281	-4,226	-1,981	-2,746	-2,710
Enterprise value	9,998	10,944	8,699	9,463	9,428
EV/EBITDA (x)	6.4	19.4	15.5	11.4	8.8
ROE (%)	3.9	0.7	3.1	7.4	10.5
ROA (%)	1.5	0.2	1.0	2.6	3.8

Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Growth (%)					
Sales	-3.3	-24.5	3.9	5.8	11.4
EBITDA	-19.5	-64.0	-0.4	48.1	28.1
EBIT	-48.8	-98.8	N.M.	229.2	48.0
PBT	-83.4	-890.0	-111.9	124.7	41.1
Core PATAMI	-67.4	-84.4	247.0	129.1	52.5
Margins (%)					
EBITDA	10.9	5.2	5.0	6.9	8.0
EBIT	5.6	0.1	1.3	4.1	5.4
PBT	1.9	-19.5	2.2	4.7	6.0
Core PATAMI	1.8	0.4	1.2	2.7	3.6
Net Gearing (%)	49.8	89.5	47.6	62.1	56.6

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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