

Company Result

29 August 2017

UMW Holdings Berhad

HOLD

Dragged down by demerger costs

Maintained

Share Price	RM5.75
Target Price	RM5.20

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMWH MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6717.69
52-week price Range	RM4.09– 5.98
Beta (against KLCI)	1.31
3-m Average Daily Volume	0.43m
3-m Average Daily Value [^]	RM2.56m

Share Performance

	1m	3m	12m
Absolute (%)	-1.2	4.2	6.4
Relative (%-pts)	-1.3	2.6	1.1

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	42.11
EMPLOYEES PROVIDENT FUND	11.74
KUMPULAN WANG PERSARAAN	8.25
ESTIMATED FREE FLOAT	22.19

Historical Chart



Source: Bloomberg

Team Coverage

03-87361118, ext. 752

nursuhaiza@jfapex.com.my

- **UMW Holdings Berhad (UMW) failed to sustain its positive momentum by posting a net loss of RM 209.3m in 2Q17 as compared to net profit of RM20.2m in 1Q17, while widened from a net loss of RM12.1m a year ago.** For the core net profit, the Group broadened their losses with RM15m vs RM4m in previous quarter. Meanwhile, the Group's topline stood at RM2.7b, which was marginally down 0.6% q-o-q and 2.2% y-o-y
- **As for 1H17, the Group reported a net loss of RM189.1m as compared to a net profit of RM4.5m in 1H16.** Meanwhile, revenue plunged by 10.8% y-o-y to RM5b
- **Below expectations** – 1H17 net earnings were below our expectations and market consensus. The sluggish result was mainly due to its listed and unlisted Oil & Gas segments as well as demerger costs of UMW Oil & Gas Corporation Berhad (UMW O&G).

Comment

- **Silver lining for Auto division.** Auto division's 1H17 PBT recorded a decline of 13.9%, caused by higher USD against MYR, as well as intense industry competition. Even though USD softened against MYR in recent times, we believe the Group had implemented the currency hedging to avoid further losses from strong Dollar. Besides that, the intense competition from other car markers especially national brand led to drop in this segment by 25.8% y-o-y. However, on q-o-q comparison, Auto's PBT managed to record an increase of 13.7% q-o-q as it was aided by strong demand from Toyota Innova and Toyota Fortuner. Toyota sales jumped significantly by 4.4% q-o-q with 10.6% market share in 1H17. As to achieve their target sales of 70k, the Group is expected to release four new facelift in 2H17, i.e. Vios, Camry, Fortuner and Hilux, as well as most awaited new model, Toyota CH-R.
- **Perodua maintained its pole position.** Perodua maintained its leading position with 35.4% market share, recording an increase of 2.4% y-o-y in 2Q17. We believe this was aided by launch of Axia facelift as well as updated version of Bezza which took place in 1H17. In addition, new model of Myvi is expected to be launched in 2H17, further cementing the Perodua sales. However, on q-o-q basis, Perodua sales recorded a small drop of 1.75, dented by shorter working months for the quarter.
- **Equipment division still shaky.** The equipment division recorded a decline for both its 1H17 topline and bottomline by 2.2% y-o-y and 13.1% y-o-y, no thanks to sluggish

demand for heavy equipment amid competitive operating environment. Besides that, operation in Singapore also recorded a feeble growth as it was dented by reduced tax benefits under Productivity and Innovation Credit Scheme, beginning August 2016. Meanwhile, we understand that demand from Myanmar was in disruption as the government banned on equipment import for jade mining. The sales for the segment are currently underpinned by mega construction projects in Malaysia.

- **On a strategic exit from O&G sector** – Another contraction recorded by listed Oil & Gas segment in 1H17 after recording a pre-tax loss of RM156.3m from a PBT of RM132.4m in 1H16. The continued lackluster performance was due to lower charter rates from new drilling contracts secured coupled with soft demand for the oilfield services. Moreover, the reduction of operating and capital expenditure from oil majors remained a downside risk for its O&G division. During the quarter, we also witnessed the massive impact from demerger costs of UMW O&G. As a result, the Group recorded a net loss of RM126.9m thus leading to overall widening 1H17 PBT net loss of RM189.1m. For PBT losses stemming from the non-listed O&G, it was incurred by redundancy expenses on cessation of drilling operations in Oman. The Group has demerged with UMW O&G in July 2017 with the completion of the distribution and share capital reduction. Subsequently, the Group targets to dispose all of its non-listed O&G assets by end 2018 and exit totally from the O&G sector.
- **M&E division shrank to the red.** Manufacturing & Engineering's PBT posted a net loss of RM6.5m in 1H17 as compared to net profit of RM17.5m in last quarter. The dismal performance posted by this segment was due to the aerospace business which is still at set-up phase and yet to generate any revenue. The Group targets to deliver single digit unit in 2017, double digit units in 2018 and triple digit unit in 2019. The meaningful contribution from aerospace business to M&E division is expected to be felt from 2019 onwards.

Earnings Outlook/Revision

- **We slash our net earnings forecasts by 3.3% and 4.1% for FY17F and FY18F to account for lower margins for M&E division as well as losses from unlisted O&G.**
- **We expect the Group to re-focus on three core businesses which will resume positive growth momentum over a longer term** - 1) Auto division is expected to register modest growth with the launch of new models during the 2H17; 2) M&E division is expected to move forward into high value added manufacturing; 3) New plant in Bukit Raja (initial 50K capacity p.a.) to be fully completed and operational in 2019; and 4) Exit of O&G segment that will help to improve the Group's overall profitability.

- **However, we reckon that this year is still full of challenges for the Group** especially for its core business, auto division, as impacted by weaker consumer sentiment towards big-ticket items and volatility in foreign exchange. Also, the non-listed O&G assets will continue to weigh on the Group.
- **Maintain HOLD call on UMW with an unchanged target price of RM5.20.** Our valuation for UMW is pegged at 20x FY2018F PE based on revised EPS of 26 sen. Our target PE valuation is near mean PE of 22x.

En t Figure 1: Quarterly Figures

Year to 31 Dec	2Q17 (RMm)	1Q17 (RMm)	2Q16 (RMm)	QoQ % chg	YoY % chg	6M17 (RMm)	6M16 (RMm)	YoY % chg
Revenue	2785.68	2803.60	2846.81	-0.64%	-2.15%	5589.28	5045.97	10.8%
Operating Profit	-35.27	19.70	41.07	N/A	N/A	-15.57	58.21	N/A
Pre-tax Profit	-11.20	14.39	44.81	N/A	N/A	3.19	65.88	-95.2%
Profit After Tax	-224.89	-10.56	-3.73	N/A	N/A	-235.45	-8.66	N/A
Net Profit	-209.30	20.17	-12.13	N/A	N/A	-189.14	4.45	N/A
Operating Margin (%)	-1.3%	0.7%	1.4%	N/A	N/A	-0.3%	1.2%	N/A
PBT Margin (%)	-0.4%	0.5%	1.6%	N/A	N/A	0.1%	1.3%	-1.2%

Figure 2: Segmental Breakdown

2017	2Q17 (RMm)	1Q17 (RMm)	2Q16 (RMm)	Q-O-Q (%)	Y-O-Y (%)	6M17 (RMm)	6M16 (RMm)	Y-O-Y (%)
Segmental Revenue								
Automotive	2260.34	2190.86	2177.14	3.17%	3.82%	4451.20	3733.12	19.24%
Equipment	351.35	342.43	351.15	2.60%	0.06%	693.78	709.12	-2.16%
Oil & Gas	139.91	74.28	130.01	88.36%	7.61%	214.19	217.69	-1.61%
M & E	153.87	165.88	156.97	-7.24%	-1.97%	319.75	302.41	5.73%
Others	18.05	13.16	57.69	37.20%	-68.72%	31.20	120.47	-74.10%
Elimination	-29.62	-19.28	-26.15	N/A	N/A	-48.89	-36.84	N/A
Total Revenue	2893.91	2767.33	2846.806	4.57%	1.65%	5661.234	5045.97	12.19%
Segmental PBT								
Automotive	98.97	87.07	133.29	13.66%	-25.75%	186.04	216.02	-13.88%
Equipment	32.20	39.55	43.34	-18.59%	-25.71%	71.74	82.59	-13.13%
Oil & Gas	-51.38	-104.91	-64.00	N/A	N/A	-156.29	-132.42	N/A
M & E	-9.60	3.10	10.91	N/A	N/A	-6.50	17.50	N/A
Total PBT	70.18	24.81	123.543	182.89%	-79.92%	94.991	183.689	-48.29%
Segmental Margin								
Automotive	4.38%	3.97%	6.12%	0.40%	-1.74%	4.18%	5.79%	-1.61%
Equipment	9.16%	11.55%	12.34%	-2.39%	-3.18%	10.34%	11.65%	-1.31%
Oil & Gas	-36.73%	-141.24%	-49.22%	N/A	N/A	-72.97%	-60.83%	N/A
M & E	-6.24%	1.87%	6.95%	N/A	N/A	-2.03%	5.79%	N/A

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017F	2018F
Revenue	13,951.46	14,958.91	14,419.75	10,965.07	8,815.77	8946.08
Operating profit	1,296.46	1,426.78	166.64	-2,202.81	297.97	370.37
PBT	1,435.67	1,620.83	265.36	-2,153.78	467.13	658.10
Net profit	679.61	650.70	-38.93	-1,690.58	196.20	286.27
Core net profit	960.40	836.80	338.00	-401.80	196.20	286.27
EPS (sen)	0.58	0.56	-0.03	-1.45	0.17	0.25
P/BV (x)	0.75	0.71	0.73	0.97	0.88	0.79
DPS (sen)	0.44	0.41	0.20	0.00	0.10	0.10
Dividend yield (%)	7.65%	7.13%	3.48%	0.00%	1.74%	1.74%
Operating margin (%)	9.29%	9.54%	1.16%	-20.09%	3.38%	4.14%
PBT margin (%)	10.29%	10.84%	1.84%	-19.64%	5.30%	7.36%
Net profit margin (%)	4.87%	4.35%	-0.27%	-15.42%	2.23%	3.20%
Net Gearing Ratio(x)	0.37	0.38	0.66	1.03	1.04	1.10
ROE (%)	7.57%	6.89%	-0.42%	-24.47%	2.56%	3.38%
ROA (%)	4.59%	3.96%	-0.22%	-10.43%	1.15%	1.58%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Lim Teck Seng
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Low Zy Jing (ext 754)
Nazhatul Shaza binti Shukor (ext 755)
Nursuhaiza Binti Hashim (ext 752)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:

JF Apex Securities Berhad (47680-X)
(A Participating Organisation of Bursa Malaysia Securities Berhad)