

29 August 2017

UMW Holdings

Hold

Price
RM5.75

Target price
RM5.20

Market data

Bloomberg code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	6,717.7
52-week high/low (RM)	5.90 / 4.11
Avg daily turnover (RMm)	5.0
KLCI (pts)	1,769.49

Source: Bloomberg

Not all bright yet

UMW reported consolidated core loss of RM62m at half-time after stripping off a one-off RM126m loss from the UMWOG demerger. While earnings drag from UWMOG will be removed in 2H, challenges remain in the form of forex pressure on auto margins, continued losses from unlisted O&G unit and gestation losses for its aerospace unit. Maintain Hold.

Financial Highlights

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	14,442	10,959	11,690	11,927	12,229
Normalised net profit	322	(369)	28	174	219
Normalised EPS	28	(32)	2	15	19
EPS growth (%)	(59)	(215)	(107)	533	26
Net DPS (sen)	20.0	0.0	20.0	20.0	20.0
PE (x)	(75)	(3)	244	39	31
ROE (%)	(1)	(29)	1	5	6
Net yield (%)	8	0	3	3	3
Net gearing (%)	50	88	80	50	52
PBV (x)	0.4	1.1	2.3	1.8	1.7

Source: Company, KAF

1H consolidated core loss of RM62m. UMW Holdings Bhd (UMW) reported consolidated net loss of RM189m for 1H17 (vs. core earnings of RM4m a year earlier). However, after stripping one RM126m loss from the UWMOG demerger, UMW would have reported a core loss of RM62m.

Loss on demerger of RM126m. The loss on demerger recognised in 2Q was calculated from the difference between the UMWOG's market value and net assets as at 13 June, which is the date that UMW ceased to exercise control over UMWOG.

Narrowing margins. Revenue from its continuing business rose 14% mainly from higher auto sales. However, group PBT margin continued to shrink to 2% (vs. 4% a year earlier) from forex pressure as well as losses at its manufacturing arm (the Rolls-Royce plant is in gestation period).

Also, the unlisted O&G unit remained in the red while the equipment segment was also a victim of intense competition and forex.

Auto sales up but margins down. Auto division revenue for the auto division was up 19%. Based on TIV data, Toyota vehicle sales during 1H were up 25% to 34k from a low base last year.

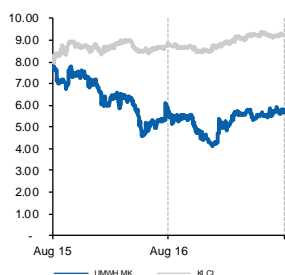
However, auto margin was shaved down from 6% to 4% from the weak MYR. Recall that all non-local content for Toyota are transacted in USD (estimated at 40% of Toyota costs). During the 1H period, the MYR averaged at 4.39 vs. 4.10 a year earlier. Ytd, the MYR traded at an average of 4.36 to close at 4.27.

Earnings drag removed in 2H. On a positive note, UMW will no longer reflect losses from UMWOG given the completion of the demerger in 2H. That said, we believe earnings will remain subdued from losses from its non-listed O&G business, gestation losses from the Rolls-Royce aerospace unit, and forex pressure on auto margins.

Auto recovery priced in. For the 7M period, Toyota sales grew 22% to 39k. We deem the sales growth to be in line as the annualised monthly sales make up 98% of management's

Performance

	1M	3M	12M
Absolute (%)	(1)	3	3
Rel market (%)	(1)	3	(2)



Source: Bloomberg

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Important disclosures can be found in the Disclosure Appendix

forecast of 68k. Volume bolsters are launches of new models in 2H such as the CH-R and Camry.

Adjustments. We make adjustments to reflect the unexpected higher losses from the unlisted O&G division (RM86m in 1H17 vs. RM81m a year earlier) as well as thinner margins from forex pressure. Consequently, our FY17F net earnings was reduced to RM28m (from RM383m earlier). We believe the stronger MYR in 2H should help to alleviate the margin pressure.

Maintain Hold. We remain steadfast in our view that FY17F is a year of recovery following the removal of the UMWOG earnings drag. However, not all is bright as forex remains a strong pressure on auto margins while the unlisted O&G division will likely remain in the red until the eventual disposal. Hence, our Hold recommendation and SOP-derived TP of RM5.20 remains.

Table 1 : Results summary

FYE 31 Dec	2Q16	2Q17	yoy %	1HFY16	1HFY17	yoy %
<u>Continued Operations</u>						
Revenue	2717	2786	3%	4828	5515	14%
Operating profit	83	(35)	-142%	147	55	-63%
Investment income	15	20	30%	36	38	7%
Finance cost	(16)	(24)	50%	(33)	(53)	59%
JV & Associates	26	28	6%	48	68	41%
Pretax profit	109	(11)	-110%	198	108	-45%
Tax	(47)	(35)	-26%	(73)	(60)	-18%
Profit after tax (continued ops)	61	(46)	-176%	125	48	-62%
MI	(36)	(8)	-79%	(47)	(24)	-49%
Net profit (continuing ops)	25	(54)	-313%	78	24	-69%
<u>Discontinued Operations</u>						
Revenue	130	140	8%	218	214	-2%
Loss before tax from discontinued ops	(64)	(178)	179%	(132)	(283)	114%
Loss after tax from discontinued ops	(65)	(178)	174%	(134)	(283)	112%
MI	28	23	-16%	60	70	17%
Net loss from discontinued ops	(37)	(155)	314%	(74)	(213)	189%
<u>Consolidated</u>						
Revenue	2847	2926	3%	5046	5729	14%
(Loss)/profit before tax	45	(189)	-523%	66	(175)	-366%
Profit after tax	(4)	(225)	5936%	(9)	(235)	2619%
MI	(8)	16	-286%	13	46	253%
Net profit	(12)	(209)	1626%	4	(189)	-4347%
Core net profit	(12)	(82)	n/m	4	(62)	n/m
<u>Consolidated</u>						
EPS (sen)	(1.0)	(17.9)		0.4	(16.2)	
Core EPS (sen)	(1.0)	(7.1)		0.4	(5.3)	
Net DPS (sen)	0	0		0	0	
BV (RM)	5.46	3.02		5.46	3.02	
PBT margin (%)	2%	-6%		1%	-3%	
PAT margin (%)	0%	-8%		0%	-4%	
Net profit margin (%)	0%	-7%		0%	-3%	
Core net profit margin (%)	0%	-3%		0%	-1%	
<u>Continued Operations</u>						
EBIT margin (%)	3%	-1%		3%	1%	
PBT margin (%)	4%	0%		4%	2%	
PAT margin (%)	2%	-2%		3%	1%	
Net margin (%)	1%	-2%		2%	0%	
Core net margin (%)	1%	3%		2%	3%	
Effective tax rate (%)	44%	-315%		37%	56%	

Source: Company, KAF

Table 2 : Segmental breakdown

	2Q16	2Q17	yoy %	1HFY16	1HFY17	yoy %
Continued Operations						
Automotive	2177	2260	4%	3733	4451	19%
Equipment	351	351	0%	709	694	-2%
O&G	42	32	-25%	96	68	-29%
Manufacturing	157	154	-2%	302	320	6%
Others & Eliminations	(11)	(12)	8%	(12)	(18)	45%
Total Revenue (RM mil)	2717	2786	3%	4828	5515	14%
Automotive	133	99	-26%	216	186	-14%
Equipment	43	32	-26%	83	72	-13%
O&G	(45)	(71)	56%	(81)	(86)	6%
Manufacturing	11	(10)	-188%	17	(7)	-137%
Others	(33)	(62)	86%	(37)	(58)	56%
Total PBT (RM mil)	109	(11)	-110%	198	108	-45%
Automotive PBT margin (%)	6%	4%		6%	4%	
Equipment PBT margin (%)	12%	9%		12%	10%	
O&G PBT margin (%)	n/m	n/m		n/m	n/m	
Manufacturing PBT (%)	7%	-6%		6%	-2%	
Total PBT margin (%)	4%	0%		4%	2%	

Source: Company, KAF

Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Turnover	14,442	10,959	11,690	11,927	12,229
Operating costs	(11,050)	(8,545)	(8,745)	(8,818)	(8,946)
EBITDA	646	(1,612)	331	407	511
Depreciation	(511)	(570)	(265)	(290)	(314)
EBIT	136	(2,182)	66	117	197
Net interest	(0)	(105)	(98)	(44)	(80)
Exceptionals	0	0	0	0	0
Share of results of associates	134	156	132	144	145
Pretax profit	270	(2,130)	99	217	263
Taxation	(267)	(140)	(24)	(24)	(24)
Minority interest	(39)	612	(48)	(19)	(20)
Net profit	(37)	(1,658)	28	174	219
Normalised net profit	322	(369)	28	174	219

Source: Company, KAF

Cash flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cashflow from operations (CFO)					
Pretax profit	270	(2,130)	99	217	263
Depreciation & amortisation	511	570	265	290	314
Others	233	1,620	1,622	1,555	1,590
Changes in WC	210	441	974	165	578
Tax paid	(274)	(210)	(24)	(24)	(24)
CFO	949	291	2,936	2,203	2,720
Cashflow from investing (CFI)					
Capital expenditures	(2,280)	(1,182)	(756)	(700)	(700)
Interests received	126	76	76	76	76
Others	362	286	286	(820)	(1,972)
CFI	(1,740)	(772)	(394)	(1,445)	(2,596)
Cashflow from financing (CFF)					
Dividends paid	(479)	(117)	0	(234)	(234)
Share issue	0	0	0	0	0
Changes in debts	1,323	380	(2,832)	1,232	1,136
Others	(326)	(654)	(96)	(96)	(96)
CFF	517	(391)	(2,928)	902	807
Net change in cash and cash equivalents	(274)	(873)	(387)	1,660	931
Forex effect	65	(141)	0	0	0
Ending cash	2,621	1,607	1,221	2,881	3,812

Source: Company, KAF

Balance Sheet

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Property, plant and equipment	8,103	7,679	3,008	3,419	3,805
Associates	1,923	1,953	1,953	1,953	1,953
Deferred tax	75	93	93	93	93
Goodwill	42	48	48	48	48
Others	415	705	367	367	367
Total non-current assets	10,558	10,478	5,470	5,880	6,266
Inventories	1,890	1,931	1,437	1,449	1,225
Trade and other receivables	1,833	988	840	846	856
Cash and cash equivalents	2,734	2,194	1,221	2,881	3,812
Others	1,210	672	668	892	1,531
Total current assets	7,667	5,785	4,166	6,068	7,425
Total Assets	18,225	16,263	9,636	11,948	13,691
Trade and other payables	2,241	1,879	2,210	2,393	2,757
Borrowings	3,725	2,639	2,940	3,716	4,534
Others	372	234	273	277	281
Total current liabilities	6,338	4,752	5,423	6,386	7,572
Borrowings	2,290	3,716	583	1,038	1,356
Other long term liabilities	214	931	23	23	23
Total non-current liabilities	2,503	4,647	606	1,061	1,379
Share capital	584	584	584	584	584
Reserves	1,240	1,236	79	79	79
Shareholders' funds	6,584	4,719	2,889	3,763	3,983
Minority interest	2,799	2,146	718	737	757
Total Liabilities & Shareholders' Funds	18,225	16,263	9,636	11,948	13,691

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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