

29 August 2017

UMW Holdings Bhd

Expecting a Stronger 2H17

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

1H17 core PATAMI of RM27.0m excluding impairment, appears to be below our/consensus PATAMI estimates of RM455.7m/RM261.8m; however, we consider the results to be within expectation as we expect a much stronger 2H due to the elimination of losses in Oil & Gas segment following the demerger of UMW Oil & Gas (in July 2017). No changes in earnings assumption. Maintain MARKET PERFORM with unchanged TP of RM5.77.

1H17 deemed to be within expectation. The group reported a 1H17 core PATAMI of RM27.0m excluding the impairment (RM2.8m), appear to be below our/consensus PATAMI estimates of RM455.7m/RM261.8m; however, we consider the results to be within expectation as we expect a much stronger 2H due to the elimination of losses in Oil & Gas segment following the demerger of UMW Oil & Gas (in July 2017). No dividend was declared as expected.

YoY, 1H17 revenue increased by 15% due to higher contribution from the Auto segment (+19%), with improvement in numbers of cars sold by 7% to 133,589 units, with higher deliveries for the existing and face-lifted variants models (i.e. of Perodua Axia, Myvi, Bezza and Toyota face-lifted variants of the Camry, Innova, Corolla Altis and Vios) and supported by the M&E segment (+6%), with higher sales of shock absorbers. However, mitigated by the Equipment segment (-2%) which was affected by intense competition and the O&G segment (-10%), which experienced softer charter rate even with the increased tendering activities (5 of the 7 jack-up rigs were income-generating). Meanwhile, in terms of PBT, despite the higher sales, the Auto segment (-14%) was still hampered by the higher import costs from unfavourable forex rates, while the O&G segment (-73%) continued to be deeply affected by high overhead costs resulting from low operational efficiency from low rig utilisation. The underlying factors above led 1H17 PBT to decline by 46%

QoQ. 2Q17 revenue slightly declined by 1% due to lower contribution from M&E segment (-7%), cushioned by higher contribution from other segments. The Auto segment increased by 3%, due to surge in demand for Innova and Fortuner. Meanwhile, revenue from the Oil & Gas segments increased by 55% with the assets utilization rate improving at 68%. Nonetheless, the earnings before tax sunk into the red with LBT of RM11.2m compared to 1Q17 PBT of RM14.4m which was dragged down by provisions for impairment of assets as well as forex losses resulting from weakness of MYR against USD.

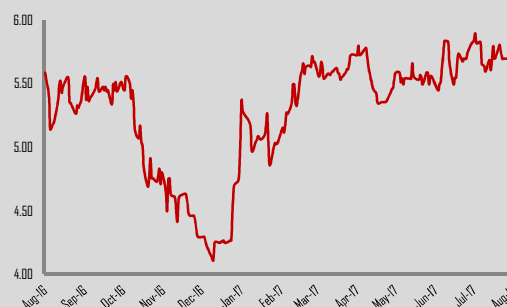
Outlook. The strategic exit from the O&G industry is expected to improve the group's profitability with more solid balance sheet. Additionally, the anticipated upcoming new models (Toyota CH-R, Toyota Vios 2017 & Toyota Hilux 2.4G Limited Edition) should excite consumers, bringing in more sales volume to the group. The group is on track to meet the targeted 272,000 units in FY17 (133,589 units as of 1H17: at 49% of the target). Nonetheless, we maintain our neutral stance on UMWH in view of the single-digit growth in its automotive segment sales volume pending the completion in its new Bukit Raja Plant (expected to be operational in early 2019) and the gestation period for its Rolls-Royce plant.

No changes in earnings assumption as we expect a much stronger 2H due to the elimination of losses in Oil & Gas segment following the demerger of UMW Oil & Gas (in July 2017). **Maintain MARKET PERFORM with unchanged TP RM5.77**, based on 13.0x PER to our FY18E EPS, where earnings are excluding from O&G segment.

MARKET PERFORM ↔

Price: RM5.75
Target Price: RM5.77 ↔

Share Price Performance



KLCI	1,769.49
YTD KLCI chg	7.8%
YTD stock price chg	36.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,717.7
Issued shares	1,168.3
52-week range (H)	5.98
52-week range (L)	4.09
3-mth avg daily vol:	434,766
Free Float	38%
Beta	1.3

Major Shareholders

Skim Amanah Saham Bumiputera	42.1%
Employees Provident Fund	11.7%
Kumpulan Wang Persaraan	8.3%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	10,981.3	9,201.9	9,407.1
EBIT/ (LBIT)	(2,202.8)	349.9	450.0
PBT/ (LBT)	(2,153.8)	450.0	564.4
Net Profit/(NL)	(1,690.6)	455.7	518.5
Core NP/(NL)	(362.2)	455.7	518.5
Consensus NP	-	261.8	408.5
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	-31.0	39.0	44.4
Core EPS growth	-251.1%	-225.8%	13.8%
NDPS (sen)	-	10.0	15.0
BVPS (RM)	4.04	3.16	3.81
PER (x)	N.M	14.7	13.0
PBV (x)	1.4	1.8	1.5
Net Gearing (x)	0.9	0.4	0.2
Net Div. Yield (%)	-	1.7%	2.6%

29 August 2017

Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	2,785.7	2,803.6	-0.6%	2,716.8	2.5%	5,515.0	4,818.3	14.5%
EBIT	(35.3)	19.7	-279.0%	83.0	-142.5%	54.7	147.4	-62.9%
PBT/(LBT)	(11.2)	14.4	-177.8%	108.8	-110.3%	108.1	198.3	-45.5%
Taxation	(35.2)	(24.9)	-41.2%	(47.5)	25.7%	(60.2)	(73.4)	18.0%
PATAMI/(LATAMI)	(54.0)	78.2	-169.0%	(12.1)	-345.1%	24.2	78.2	-69.0%
Core PATAMI/(LATAMI)	(48.0)	75.0	-164.0%	(17.6)	-172.9%	27.0	75.8	-64.4%
Core EPS (sen)	(4.1)	6.4	-164.0%	(1.3)	-223.1%	2.3	6.5	-64.4%
DPS (sen)	-	-	-	-	-	-	-	-
<p>* Note that the 2Q17 core LATAMI of RM48.0m has been adjusted by excluding non-core items amounting to RM6.0m, which consists of: (i) provision for impairment losses of receivables of RM6.1m, (ii) provision for write down of inventories of RM4.4m, (iii) gain on disposal of quoted or unquoted investments of RM0m, (vi) Gain on disposal of property, plant and equipment of RM4.6m.</p> <p>* Note that the 1H17 core PATAMI of RM27.0m has been adjusted by excluding non-core items amounting to RM2.8m, which consists of: (i) provision for impairment losses of receivables of RM4.4m, (ii) provision for write down of inventories of RM8.2m, (iii) gain on disposal of quoted or unquoted investments of RM0m, (vi) Gain on disposal of property, plant and equipment of RM9.8m.</p>								
EBIT/(LBIT) margin	-1.3%	0.7%		3.1%		1.0%	3.1%	
PBT/(LBT) margin	-0.4%	0.5%		4.0%		2.0%	4.1%	
Core NP/ (NL) margin	-1.7%	2.7%		-0.6%		0.5%	1.6%	
Effective tax rate	314.7%	-173.4%		-43.6%		-55.7%	-37.0%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Revenue	2,785.7	2,803.6	-0.6%	2,716.8	2.5%	5,515.0	4,818.3	14.5%
Automotive	2,260.3	2,190.9	3.2%	2,177.1	3.8%	4,451.2	3,733.1	19.2%
Equipment	351.4	342.4	2.6%	351.2	0.1%	693.8	709.1	-2.2%
O&G	171.6	110.5	55.2%	130.0	32.0%	282.1	313.5	-10.0%
M&E	153.9	165.9	-7.2%	157.0	-2.0%	319.8	302.4	5.7%
Elimination	(151.5)	(6.1)	<100%	(98.5)	<100%	(231.9)	(239.9)	3.3%
Segment PBT/(LBT)	(11.2)	14.4	-177.8%	108.8	-110.3%	108.1	198.3	-45.5%
Automotive	99.0	87.1	13.7%	133.3	-25.7%	186.0	216.0	-13.9%
Equipment	32.2	39.5	-18.6%	43.3	-25.7%	71.7	82.6	-13.1%
O&G	(248.9)	(119.9)	-107.5%	(64.0)	-289.0%	(368.9)	(213.2)	-73.0%
M&E	(9.6)	4.6	<100%	10.9	<100%	6.5	17.5	<100%
Elimination	116.2	3.1	>100%	(14.7)	>100%	212.7	95.4	>100%
Segment PBT/(LBT) margin								
Automotive	4.4%	4.0%		6.1%		4.2%	5.8%	
Equipment	9.2%	11.5%		12.3%		10.3%	11.6%	
O&G	-145.1%	-108.5%		-49.2%		-130.7%	-68.0%	
M&E	-6.2%	2.8%		6.9%		2.0%	5.8%	

Source: Company, Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @ 28/08/17	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RM m)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
BERMAZ AUTO BHD	1.87	2,142.0	18.2	11.2	9.9	7.8%	43.5%	119.1	193.5	218.6	62.5%	12.9%	2.05	OP
DRB-HICOM BHD	1.57	3,035.1	N.M.	N.M.	N.M.	1.3%	6.3%	-732.0	-186.1	-101.4	N.M	N.M	1.65	MP
MBM RESOURCES BERHAD	2.17	847.8	11.5	10.9	10.0	2.1%	5.0%	74.0	78.1	85.2	5.5%	9.0%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.69	1,103.2	N.M.	N.M.	N.M.	1.2%	2.0%	-46.1	-66.0	-40.4	N.M	N.M	1.45	UP
UMW HOLDINGS BHD	5.75	6,717.7	N.M.	14.7	13.0	1.7%	4.0%	-362.2	455.7	518.6	N.M	13.8%	5.77	MP

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

29 August 2017

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research