

29 August 2017 | 2Q17 Result Review

UMW Holdings

Heavy one-offs, but core earnings expanded

- Core earnings expanded further in 2Q17
- Four launches by UMW Toyota from next month, coupled with stronger Ringgit
- Trim FY17F/18F earnings slightly to factor in higher fan case plant pre-operating expense
- Reaffirm BUY at unchanged TP of RM7.20/share.

Earnings expansion. After returning to the black in 1Q17, UMW registered further core earnings expansion to RM27m in 2Q17 (+35%qoq). This brought core earnings to RM47m in 1H17, excluding heavy non-operational items: (1) RM127m one-off accounting loss on demerger of UMWOG (2) RM40m one-off redundancy expenses on cessation of drilling operations in Oman (3) ~RM69m Sukuk drawdown charges. From 3Q17, earnings should improve significantly from absence of UMWOG losses. Expect further improvement in auto earnings against the seasonally weak and peak USD in 1H17 and driven by new launches in 2H17. However, the 1H17 core earnings were a tad below expectations due to higher than expected pre-operating expense from UMW's new fan case plant.

Relooking at fan case plant pre-op losses. Our chat with management yesterday suggests pre-operating expenses from the fan case manufacturing plant (to commence supplies to Rolls Royce from 4Q17) could be larger than our earlier estimates. We trim our FY17F/18F by 7%/10% to factor in a loss run-rate of ~RM14m/quarter from the plant, before turning profitable in FY19F.

Autos improved further. Auto pretax earnings improved 14%qoq on the back of a stronger Ringgit and volume improvement (+4%qoq) (+1%yoy). 2H17 should strengthen further with new launches i.e. facelifts of Vios / Fortuner / Hilux / Camry commencing next month – these models account for >70% of Toyota TIV. The Ringgit has strengthened further to USD:RM4.26 levels from USD:RM4.33 in 2Q17.

Meaningful launches in FY18. The much awaited CH-R and the all new Camry are likely to be introduced in FY18F. Our recent visit to a CH-R showbooth at PNB suggests a possible 3Q17 launch of the CBU-spec CH-R, to be available in two specs i.e. 1.8 litre and 2 litre hybrid with indicative initial import batch of 500 units. However, the first round of showcase at Setia City Convention Centre in May already generated registration of interest by over 3,000 potential buyers. CKD of the CH-R is likely after UMW's Bukit Raja plant is completed by early FY19F, which could bring down cost of the CH-R substantially. Perodua is expected to launch the new MyVi towards year end and underpins stronger FY18F numbers (accounts for an estimated 37% of group bottomline).

MIDF RESEARCH is a unit of MIDF AMANAH INVESTMENT BANK

Kindly refer to the last page of this publication for important disclosures

Maintain BUY

Unchanged Target Price (TP):RM7.20

RETURN STATS

Price (28 Aug 2017)	RM5.74
Target Price	RM7.20
Expected Share Price Return	+25.4%
Expected Dividend Yield	+0.0%
Expected Total Return	+25.4%

STOCK INFO

KLCI	1,769.49
Bursa / Bloomberg	4588 / UMWH MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	6,717.69
Price over NA	1.90
52-wk price Range	RM4.09 – RM5.98
Beta (against KLCI)	1.31
3-mth Avg Daily Vol	0.43m
3-mth Avg Daily Value	RM2.55m
Major Shareholders (%)	
SKIM ASB	42.1%
EPF	11.7%
KWAP	8.3%

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	14,932.5	14,419.8	10,965.1	11,208.8	10,228.9
EBIT (RM'm)	1,432.9	134.9	(2,202.8)	691.9	1,108.4
Pre-tax Profit (RM'm)	1,621.5	265.6	(2,153.8)	600.1	977.8
Core net profit (RM'm)	836.8	338.0	(401.8)	328.9	479.1
FD EPS (sen)	71.6	28.9	(34.4)	28.2	41.0
EPS growth (%)	(12.9)	(59.6)	NA	181.9	45.6
PER (x)	7.9	19.7	NA	20.2	13.9
Net Dividend (sen)	41.0	20.0	0.0	0.0	0.0
Net Dividend Yield (%)	7.2	3.5	0.0	0.0	0.0

Source: Company, MIDFR

FY17F earnings to be backloaded. As we had highlighted before, FY17F earnings will be back loaded given: (1) Elimination of UMWOG losses in 2H17 (2) Peak USD in 1Q17 (3) Seasonally stronger volumes in 2H, especially 4Q which historically accounts for 30%-35% of full year TIV (4) Four new launches in 2H17, commencing next month.

Reaffirm contrarian BUY at unchanged TP of RM7.20/share. Key catalysts: **(1) Demerger of O&G units** deleverages balance sheet, drives UMW back into the black and allows better focus on core divisions **(2) Reversal of prior years' market share loss**, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy **(3) Redevelopment of UMW's 711 acres Serendah land** which will unlock value of the asset – easily worth 39sen/share on our estimates **(4) A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production

EXHIBIT 1: UMW NET PROFIT BREAKDOWN

	FY16	FY17F	FY18F
Automotive	301.0	394.9	482.3
Equipment	115.3	145.8	140.3
Manuf & Eng	(2.0)	(52.3)	(39.4)
Oil & Gas (Listed)	(661.0)	(126.0)	
Oil & Gas (Unlisted)	(541.3)	(31.9)	(20.8)
Others	(902.6)	(1.6)	(83.2)
Net profit	(1,690.6)	328.9	479.1
Net profit ex-O&G	414.4	488.4	583.1

Source: Company, MIDFR

EXHIBIT 2: UMW SUM-OF-PARTS VALUATION

Segments	FY18F net profit attributable to UMW (RMm)	PE (x)	Value (RMm)	Comments
Auto related	482	13	6,264	
Equipment	140	12	1,681	
Serendah land		RNAV	452	RNAV of Serendah land (711acres@RM16psf)
M&E / Others / O&G	(143)	NA		Attribute no value given lack of details on segmental book value
Total value	479		8,397	
No of shares (m)			1,168	
Fair value (RM)			7.20	

Source: Company, MIDFR

EXHIBIT 3: UMW 2Q17 RESULTS

FYE Dec (RMm)	2Q16	1Q17	2Q17	YoY	QoQ	1H16	1H17	YTD
Revenue	2,846.8	2,803.6	2,785.7	-2.1%	-0.6%	5,046.0	5,515.0	9.3%
Operating Profit	41.1	19.7	(35.3)	-185.9%	-279.0%	58.2	54.7	-6.0%
Finance Cost	(41.3)	(67.6)	(24.0)	-41.8%	-64.4%	(84.6)	(52.9)	-37.5%
Associates	26.5	40.1	28.0	5.7%	-30.1%	48.6	68.0	40.0%
Investment Income	18.5	22.2	20.1	8.6%	-9.5%	43.6	38.2	-12.5%
Pretax Profit	44.8	14.4	(11.2)	-125.0%	-177.8%	65.9	108.1	64.1%
Taxation	(48.5)	(24.9)	(35.2)			(74.5)	(60.2)	
Minorities	8.4	(30.7)	(15.6)	NA	NA	(13.1)	(46.3)	
Loss from discontinued operations (UMWOG)			(178.5)				(283.4)	
Net Profit	(12.1)	20.2	(209.3)	NA	NA	4.5	(189.1)	NA
Core net profit	68.6	20.2	27.2	-60.3%	34.9%	(125.6)	47.4	NA
Core net profit (ex-O&G)	105.7	84.6	67.6	-36.0%	-20.1%	192.5	152.3	-20.9%
EPS (FD, sen)	5.9	1.7	2.3			-10.8	4.1	
DPS (sen)	0.0	0.0	0.0			0.0	0.0	
Margins (%):								
Operating	1.4%	0.7%	-1.3%			1.2%	1.0%	
Pretax Profit	1.6%	0.5%	-0.4%			1.3%	2.0%	
Core Net Profit	2.4%	0.7%	1.0%			0.1%	-3.4%	
Tax Rate	108.3%	173.4%	-314.7%			113.1%	55.7%	

Source: Company, MIDFR

EXHIBIT 4: UMW 2Q17 RESULTS BREAKDOWN

Segmental Breakdown	2Q16	1Q17	2Q17	YoY	QoQ	1H16	1H17	YTD
Automotive	2,177.1	2,190.9	2,260.3	3.8%	3.2%	3,733	4,451	19.2%
Equipment	351.2	342.4	351.4	0.1%	2.6%	709	694	-2.2%
Manuf & Eng	157.0	165.9	153.9	-2.0%	-7.2%	302	320	5.7%
Oil & Gas (Listed)	130.0	74.3	139.9	7.6%	88.4%	218	214	-1.6%
Oil & Gas (Unlisted)	42.3	36.3	32.7	-22.7%	-9.9%	120	68	-43.6%
Revenue	2,857.5	2,809.7	2,938.1	2.8%	4.6%	5,082.8	5,746.9	13.1%
Automotive	133.3	87.1	99.0	-25.7%	13.7%	216	186	-13.9%
Equipment	43.3	39.5	32.2	-25.7%	-18.6%	83	72	-13.1%
Manuf & Eng	10.9	3.1	(9.6)	-188.0%	-409.9%	17	(7)	-137.2%
Oil & Gas (Listed)	(64.0)	(104.9)	(178.3)	178.6%	70.0%	(132)	(283)	113.9%
Oil & Gas (Unlisted)	(45.3)	(15.0)	(70.6)	56.0%	369.9%	(118)	(86)	-27.3%
Pretax profit	78.3	9.8	(127.4)	-262.7%	-1402.5%	65.9	(117.6)	-278.5%
Pretax margins								
Automotive	6.1%	4.0%	4.4%			5.8%	4.2%	
Equipment	12.3%	11.5%	9.2%			11.6%	10.3%	
Manuf & Eng	6.9%	1.9%	-6.2%			5.8%	-2.0%	
Oil & Gas (Listed)	-49.2%	-141.2%	-127.4%			-60.8%	-132.2%	
Oil & Gas (Unlisted)	-107.1%	-41.5%	-216.1%			-97.8%	-126.1%	
Toyota TIV (units)	17,033	16,503	17,220	1.1%	4.3%	27,249	33,723	23.8%
Average revenue/car (RM)	127,819	132,755	131,262	2.7%	-1.1%	137,000	131,993	-3.7%
USD:RM (Spot)	4.01	4.45	4.33	8.0%	-2.7%	4.10	4.39	
Net profit	(12.1)	20.2	(209.3)			4.5	(189.1)	
Automotive	69.5	56.0	57.0	-18.0%	1.8%	124.9	112.9	
Equipment	32.8	31.1	24.8	-24.4%	-20.3%	63.0	55.9	
Manuf & Eng	3.4	(2.4)	(14.1)	-512.0%	479.1%	4.6	(16.5)	
Oil & Gas (Listed)	(37.5)	(58.0)	(28.4)	-24.3%	-51.0%	(73.7)	(86.4)	
Oil & Gas (Unlisted)	(80.3)	(10.7)	(52.0)	-35.2%	383.6%	(114.3)	(62.7)	
Others	-	4.3	(196.5)	#DIV/0!	-4675.0%		(192.2)	
Net profit ex-O&G	105.7	84.6	67.6	-36.0%	-20.1%	192.5	152.3	

Source: Company, MIDFR

Income Statement	FY14	FY15	FY16	FY17F	FY18F
Revenue	14,932.5	14,419.8	10,965.1	11,208.8	10,228.9
Operating expenses	(13,499.6)	(14,157.6)	(13,167.9)	(10,516.9)	(9,120.4)
EBIT	1,567.0	262.1	(2,202.8)	691.9	1,108.4
Net interest expense	(85.1)	(126.6)	(105.7)	(176.0)	(196.5)
Associates	139.6	130.1	154.8	84.2	65.9
PBT	1,621.5	265.6	(2,153.8)	600.1	977.8
Taxation	(408.5)	(259.9)	(140.7)	(77.4)	(182.4)
Minority Interest	(561.0)	44.6	(603.9)	(193.8)	(316.4)
Net profit	652.0	(38.9)	(1,690.6)	328.9	479.1
Core net profit	836.8	338.0	(401.8)	328.9	479.1
Core net profit (ex-O&G)	NA	NA	414.4	411.1	479.1
Consensus net profit	836.8	338.0	103.9	259.3	405.6
Balance Sheet	FY14	FY15	FY16	FY17F	FY17F
Non-current assets	7,923.4	10,511.7	10,070.2	11,921.1	12,529.6
PPE	5,669.7	8,132.7	7,639.0	9,323.9	9,866.5
Investments in associate	1,797.5	1,894.5	1,996.7	2,112.7	2,178.6
Others	456.3	484.6	434.4	484.6	484.6
Current assets	8,596.2	7,568.9	6,136.0	8,078.2	9,088.1
Inventories	1,830.4	1,891.6	1,517.9	1,681.3	1,534.3
Receivables	1,238.3	1,273.3	1,416.7	1,681.3	1,534.3
Others	2,156.8	1,675.7	278.0	1,210.1	1,210.1
Cash & equivalent	3,370.7	2,728.3	2,923.5	3,505.4	4,809.3
TOTAL ASSETS	16,519.7	18,080.6	16,206.1	19,999.3	21,617.7
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,852.6	2,827.1	3,082.3	3,276.2	3,592.5
Reserves	5,996.3	5,812.7	5,860.9	6,189.8	6,668.9
TOTAL EQUITY	9,433.1	9,223.9	9,527.4	10,050.1	10,845.6
Non-current liabilities	2,017.0	3,165.1	4,678.1	5,065.1	6,015.1
Long-term borrowings	1,803.0	2,782.5	3,732.5	4,682.5	5,632.5
Deferred tax liabilities	27.4	34.1	34.1	34.1	34.1
Others	186.6	348.5	911.5	348.5	348.5
Current liabilities	5,069.6	5,691.6	4,619.2	4,884.1	4,757.1
Short-term borrowings	2,292.6	3,159.1	2,859.1	2,859.1	2,859.1
Payables	2,217.0	2,230.3	1,623.5	1,798.3	1,641.1
Others	560.0	302.2	136.6	226.6	256.8
TOTAL LIABILITIES	7,086.6	8,856.7	9,297.3	9,949.1	10,772.1

Cash Flow Statement	FY14	FY15	FY16	FY17F	FY18F
Operating activities					
PBT	1,621.5	265.6	302.7	600.1	977.8
Depreciation & Amortization	378.7	765.5	488.0	524.8	559.4
Chgs in working capital	(149.1)	(134.2)	69.3	(229.5)	167.0
Interest expense	(48.9)	(120.8)	(155.8)	(176.0)	(196.5)
Tax paid	(418.3)	(275.5)	0.0	(77.4)	(182.4)
Others	(18.9)	(125.3)	(855.0)	91.8	130.6
CF from Operations	1,364.9	375.3	(150.9)	733.9	1,455.9
Investing activities					
Capex	(2,185.5)	(2,168.8)	(966.3)	(1,250.0)	(1,250.0)
Others	1,870.6	264.6	370.7	148.0	148.0
CF from Investments	(315.0)	(1,904.2)	(595.6)	(1,102.0)	(1,102.0)
Financing activities					
Dividends paid	(947.2)	(806.1)	0.0	0.0	0.0
Net proceeds in borrowings	1,150.7	1,692.3	650.0	950.0	950.0
Others	0.0	0.0	(429.2)	0.0	0.0
CF from Financing	203.6	886.3	220.8	950.0	950.0
Net changes in cash	1,253.5	(642.6)	(525.7)	581.9	1,303.9
Beginning cash	1,492.3	3,276.6	2,649.5	2,923.5	3,505.4
Overdrafts & Deposits	1,565.1	15.6	31.2	0.0	0.0
Ending cash	4,310.9	2,649.5	2,154.9	3,505.4	4,809.3
Ratios	FY14	FY15	FY16	FY17F	FY17F
Revenue growth	7.0%	-3.4%	-29.8%	10.8%	-8.7%
EBIT growth	10.5%	-90.6%	>100%	113.2%	60.2%
Core net profit growth	-12.9%	-59.6%	-218.9%	-181.9%	45.6%
PBT margin	10.9%	1.8%	3.0%	5.4%	9.6%
Core net profit margin	5.6%	2.3%	-3.7%	2.9%	4.7%
ROE	10.1%	-0.6%	0.7%	5.0%	6.8%
ROA	9.1%	0.8%	1.8%	3.6%	5.3%
Net gearing (%)	7.7%	34.8%	38.5%	40.2%	34.0%
Book value/share (RM)	5.63	5.48	5.52	5.80	6.21
PBV (x)	1.02	1.05	1.04	0.99	0.92
EV/EBITDA (x)	4.1	11.0	12.7	8.8	6.2

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.