

COMPANY RESULTS

UMW Holdings (UMWH MK)

2Q17: Much Ado About Nothing

2Q17 results missed expectations on: a) bigger-than-expected losses at its unlisted oil & gas business, b) manufacturing and engineering segment which dipped into the red this quarter, and c) losses in the Others segment. We remain negative, given operational headwinds at its core businesses - notably automobile - in the near to medium term. UMW intends to sell its unlisted O&G assets by end-18. Maintain SELL and target price of RM4.80 on demanding valuations and sub-optimal yields.

2Q17 RESULTS

Year to 31 Dec (RMm)	2Q17	qoq % chg	yoy % chg	1H17	yoy % chg
Revenue	2,785.7	2.1	2.5	5,515.0	14.2
-Auto	2,260.3	3.2	3.8	4,451.2	19.2
-Equipment	351.4	2.6	0.1	693.8	(2.2)
-Mfg & Eng	153.9	(7.2)	(2.0)	319.8	5.7
-Oil & gas (unlisted)	31.7	(52.7)	(40.8)	67.9	(29.1)
-Others	(11.6)	n.a.	n.a.	(17.7)	45.3
Associates	28.0	(30.1)	6.0	68.0	40.3
PBT	(11.2)	(109.4)	(110.3)	108.1	(45.5)
-Auto	99.0	13.7	(25.7)	186.0	(13.9)
-Equipment	32.2	(18.6)	(25.7)	71.7	(13.1)
-Mfg & Eng	(9.6)	(409.9)	(188.0)	(6.5)	(137.2)
-Oil & gas (unlisted)	(70.6)	369.9	56.0	(85.7)	6.0
-Others	(62.1)	n.a.	n.a.	(57.5)	55.5
Net profit from continuing ops	(54.0)	n.a.	(313.0)	24.2	(69.0)
Toyota unit sales	17,220	4.3	1.1	33,723	23.8
Perodua unit sales	49,410	(1.7)	(1.6)	99,675	2.4
PBT margins (%)					
-Overall	(0.4)	(4.8)	(4.4)	2.0	(2.1)
-Auto	4.4	0.4	(1.7)	4.2	(1.6)
-Equipment	9.2	(2.4)	(3.2)	10.3	(1.3)
-Mfg & Eng	(6.2)	(8.1)	(13.2)	(2.0)	(7.8)
-Oil & gas (unlisted)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: UMW, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	14,442	10,965	10,493	10,539	10,609
EBITDA	646	(1,648)	777	973	1,050
Operating profit	136	(2,203)	316	495	582
Net profit (rep./act.)	(37)	(1,691)	159	363	420
Net profit (adj.)	160	(812)	159	363	420
EPS (sen)	13.7	(69.5)	13.6	31.1	35.9
PE (x)	42.0	n.m.	42.3	18.5	16.0
P/B (x)	1.0	1.4	1.6	1.5	1.5
EV/EBITDA (x)	14.7	n.m.	12.3	9.8	9.1
Dividend yield (%)	4.3	0.0	0.0	2.7	3.1
Net margin (%)	(0.3)	(15.4)	1.5	3.4	4.0
Net debt/(cash) to equity (%)	51.5	89.5	11.7	11.8	12.4
Interest cover (x)	1,603.8	(15.6)	13.3	43.0	36.7
ROE (%)	n.a.	n.a.	3.6	8.5	9.4
Consensus net profit	-	-	262	408	459
UOBKH/Consensus (x)	-	-	0.61	0.89	0.91

Source: UMW, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	RM5.75
Target Price	RM4.80
Upside	-14.8%

COMPANY DESCRIPTION

Auto assembler, with operations in equipment, engineering and O&G activities.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	6,717.7
Market cap (US\$m):	1,574.1
3-mth avg daily t'over (US\$m):	0.6

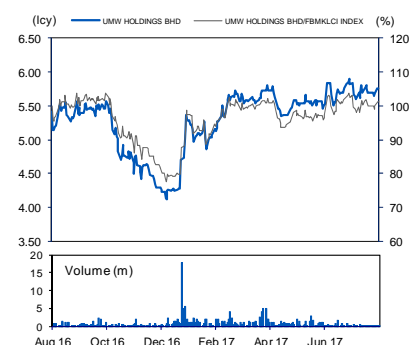
Price Performance (%)

52-week high/low	RM5.90/RM4.11			
1mth	3mth	6mth	1yr	YTD
(1.2)	2.9	12.3	2.9	36.2

Major Shareholders

Amanah Saham Bumiputra	42.1
EPF	11.7
KWAP	7.9
FY17 NAV/Share (RM)	3.57
FY17 Net Debt/Share (RM)	0.42

PRICE CHART



Source: Bloomberg

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RESULTS

- 2Q17 results missed expectations.** UMW Holdings (UMWH) reported 2Q17 net loss of RM54m. 1H17 net profit of RM24.2m is much lower against our and consensus full-year forecasts of RM204m and RM262m respectively. Note that these figures exclude losses from the listed UMW O&G, which was demerged from UMWH on 11 Jul 17. The underperformance came from: a) bigger-than-expected pre-tax loss of RM70.6m from the unlisted oil & gas business, b) manufacturing and engineering segment which dipped into the red this quarter (1Q17: PBT of RM3.1m, 2Q16: PBT of RM10.9m), and c) pre-tax loss of RM62.1m in the Others segment.
- Gloomy outlook for its automobile arm on weak demand and prolonged weakness of the ringgit.** Automobile sales rose 3.8% yoy in 2Q17 with 17,220 cars sold, up 1.1% yoy (2Q16: 17,033 cars). However, PBT declined 25.7% yoy as PBT margin was compressed to 4.4% (2Q16: 6.1%, 1Q17: 4%) on prolonged weakness in the ringgit as well as heavy discounting amid stiff competition. For 2017, we do not see a strong recovery in automobile sales volume amid still-weak consumer sentiment and a saturated market. More aggressive promotions driven by stiff competition, and high input costs due to the prolonged ringgit weakness will continue to cap margins at low levels.
- Lacklustre performance at equipment as well as manufacturing and engineering segments.** PBT of the equipment arm declined 25.7% yoy in 2Q17 due to shrinking margins amid stiff competition. Meanwhile, its manufacturing and engineering segment dipped into the red this quarter with a pre-tax loss of RM9.6m (2Q16: PBT of RM10.9m, 1Q17: PBT of RM3.1m) as the aerospace segment reported pre-tax loss of RM24.3m in 1H17 (1H16: pre-tax loss of RM7.3m).
- To exit O&G business by end-18.** The segment reported a larger-than-expected pre-tax loss of RM70.6m (2Q16: pre-tax loss of RM45.3m, 1Q17: pre-tax loss of RM15m) mainly due to redundancy expenses on the cessation of drilling operations in Oman.

STOCK IMPACT

- New aerospace component manufacturing business a catalyst in the longer term.** In Aug 15, UMW announced an agreement with Rolls Royce to manufacture and assemble aerospace products. The contract duration is 25 years with an optional 5-year renewal whereby sales will be in US dollars. Construction of the plant in Serendah has been completed with the first fan case delivery expected in late-17. However, there is a gestation period of two to three years. Hence, this segment is expected to be profitable or break even only by 2019 and to contribute meaningfully only from 2020.

EARNINGS REVISION/RISK

- In view of the weaker-than-expected performance in 2Q17, we cut our 2017-19F earnings forecasts by 22%, 11% and 6% respectively (see RHS table).

VALUATION/RECOMMENDATION

- Maintain SELL and SOTP target price of RM4.80.** We change our valuation of the automobile segment from PE to P/B methodology at 1.5x, in line with its 3-year mean trading P/B. Our target price implies 1.3x 2018F P/B. The stock is trading at a lofty 18.5x 2018F PE and 1.5x P/B. Given operational headwinds, even with the planned exit from the O&G business, we remain negative on UMW's prospects in the near to medium term.

SOTP FAIR VALUE OF RM4.80/SHARE

Segment	Stake (%)	Equity value (RMm)	Remarks
Toyota/Lexus	51.0	2,463	1.5x 2018F BV (from 12x PE)
Equipment	100.0	1,247	11x 2018F PE
Manufacturing	100.0	128	11x 2018F PE
Perodua	38.0	2,620	1.5x 2018F BV (from 12x PE)
Net cash/(debt)		(261)	
Total		6,197	
10% holding company discount		5,577	
Share base (m)		1,168	
Target price (RM)		4.80	

Source: UOB Kay Hian

SEGMENTAL SALES AND EBIT FORECASTS

FY Dec (RMm)	2017F	2018F	2019F
Previous			
Sales	10,393	10,239	10,458
Auto	8,190	8,136	8,250
Equipment	1,421	1,492	1,567
Manufacturing	582	611	641
Others	200	-	-
EBIT			
Auto	369	391	437
Equipment	156	164	172
Manufacturing	29	31	32
Others	(50)	(50)	(50)
Total	504	536	591
Associate	163	167	172
Tax	(155)	(164)	(180)
Current			
Sales	10,493	10,539	10,609
Auto	8,190	8,136	8,250
Equipment	1,421	1,492	1,567
Manufacturing	582	611	641
Others	300	300	150
EBIT			
Auto	369	391	437
Equipment	142	149	157
Manufacturing	(15)	15	18
Others	(180)	(60)	(30)
Total	316	495	582
Associate	161	167	174
Tax	(123)	(133)	(147)

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Net turnover	10,965	10,493	10,539	10,609
EBITDA	(1,648)	797	994	1,070
Deprec. & amort.	555	481	499	488
EBIT	(2,203)	316	495	582
Associate contributions	155	161	167	174
Net interest income/(expense)	(106)	(58)	(23)	(29)
Pre-tax profit	(2,154)	419	640	727
Tax	(141)	(123)	(133)	(147)
Minorities	604	(137)	(144)	(161)
Net profit	(1,691)	159	363	420
Net profit (adj.)	(812)	159	363	420

CASH FLOW

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Operating	(151)	437	623	666
Pre-tax profit	(2,154)	419	640	727
Tax	(207)	(123)	(133)	(147)
Deprec. & amort.	555	481	499	488
Associates	(155)	(161)	(167)	(174)
Working capital changes	775	(110)	(157)	(172)
Other operating cashflows	1,036	(70)	(59)	(57)
Investing	(537)	(1,261)	(465)	(508)
Capex (growth)	(966)	(700)	(300)	(300)
Investments	0	0	0	0
Others	429	(561)	(165)	(208)
Financing	221	200	(82)	(110)
Dividend payments	(213)	0	(182)	(210)
Proceeds from borrowings	433	200	100	100
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(467)	(624)	76	48
Beginning cash & cash equivalent	2,621	2,179	1,555	1,631
Changes due to forex impact	25	0	0	0
Ending cash & cash equivalent	2,179	1,555	1,631	1,679

BALANCE SHEET

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Fixed assets	7,646	2,556	2,861	2,938
Other LT assets	2,425	2,586	2,753	2,927
Cash/ST investment	2,179	1,555	1,631	1,679
Other current assets	3,957	4,065	4,242	4,566
Total assets	16,206	10,762	11,487	12,111
ST debt	2,617	1,000	1,000	1,000
Other current liabilities	2,003	1,563	1,863	2,016
LT debt	3,789	1,043	1,143	1,243
Other LT liabilities	889	656	656	656
Shareholders' equity	4,722	4,176	4,357	4,567
Minority interest	2,187	2,324	2,468	2,629
Total liabilities & equity	16,206	10,762	11,487	12,111

KEY METRICS

Year to 31 Dec (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	(15.0)	7.6	9.4	10.1
Pre-tax margin	(19.6)	4.0	6.1	6.9
Net margin	(15.4)	1.5	3.4	4.0
ROA	n.a.	1.2	3.3	3.6
ROE	n.a.	3.6	8.5	9.4
Growth				
Turnover	(24.1)	(4.3)	0.4	0.7
EBITDA	(355.0)	n.a.	24.7	7.6
Pre-tax profit	(898.7)	n.a.	52.8	13.6
Net profit	n.a.	n.a.	128.5	15.6
Net profit (adj.)	(607.4)	n.a.	128.5	15.6
EPS	(607.4)	n.a.	128.5	15.6
Leverage				
Debt to total capital	48.1	23.9	23.9	23.8
Debt to equity	135.7	48.9	49.2	49.1
Net debt/(cash) to equity	89.5	11.7	11.8	12.4
Interest cover (x)	(15.6)	13.7	43.9	37.3

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