



Company Note

Malaysia

HOLD (previously REDUCE)

Consensus ratings*: Buy 1 Hold 5 Sell 10

Current price:	RM5.44
Target price:	RM5.90
Previous target:	RM4.90
Up/downside:	8.5%
CIMB / Consensus:	20.6%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,517m
	RM6,356m
Average daily turnover:	US\$0.38m
	RM1.61m
Current shares o/s:	1,168m
Free float:	37.8%

*Source: Bloomberg

Key changes in this note

No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.6	-2.7	3.3
Relative (%)	-4.6	-2	-4.3

Major shareholders	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)



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UMW Holdings

Accelerating towards earnings recovery

- We left UMW's 2Q17 briefing feeling confident on the group's earnings recovery, driven by narrowing losses from non-listed OG assets and stronger auto contribution.
- We expect stronger earnings in 2H17 following completed cost rationalisation exercise for its non-listed oil & gas assets in India, Oman and China in 1H17.
- Moreover, we project stronger earnings from M&E in 2H17F due to maiden contribution from aerospace manufacturing and higher automotive earnings.
- We upgrade the stock to Hold with a higher RM5.90 TP as we roll over our valuation to FY19F, still based on 14x P/E. We prefer Bermaz for exposure to the auto sector.

More positive after 2Q17 analyst briefing

We attended UMW Holdings' 2Q17 analyst briefing together with 15 sell-side analysts at the group's headquarters in Shah Alam this afternoon. The briefing was hosted by Group Chief Operating Officer, Azmin Che Yusoff. We were encouraged to learn that the group is expecting minimal operating losses from the remaining non-listed OG assets following the complete cessation of its loss-making Arabian Drilling Services in Oman.

On track to exit the non-listed OG assets in 2018

The non-listed OG assets posted wider pretax losses of RM70.6m in 2Q17 vs. RM15m in 1Q17 due to lower drilling activities and equipment demand due to lower crude oil prices and one-off cost of RM55m related to the cessation of operations in Oman. UMW also completed the disposal of one of the non-listed OG assets in China in May 17. Overall, the group is on track to complete the disposal of all its 16 non-listed OG assets in 2018.

Expecting stronger automotive earnings in 2H17F

In addition, we also expect stronger earnings from the automotive division on the back of higher (3.3% hoh) volume growth in 2H17. We see an encouraging outlook for the auto division due to favourable forex from the strengthening of RM in the current quarter. Moreover, the group is planning to open bookings for the highly anticipated sports utility vehicle, Toyota C-HR in Oct 17. The new model will allow UMW to compete in the compact SUV segment, which is currently dominated by Honda HR-V and Mazda CX-3.

Strengthening of heavy equipment segment with Komatsu

UMW recently announced that it is planning to form a strategic partnership with Komatsu (Japan) to grow the market penetration of Komatsu's products in Malaysia, Singapore, Myanmar and Papua New Guinea. Under the partnership, UMW will hold a 74% stake, while Komatsu the remaining 26%. We learnt that this partnership will allow UMW to have access to advanced heavy equipment with better pricing from the principal. However, we do not expect major earnings from this partnership in the near term.

Meaningful aerospace earnings may only materialise in 2019F

Management said the group is on track to deliver its first engine fan-case in Oct 17. However, we expect the aerospace division to remain in the red in FY17F due to start-up costs. The group incurred RM25m pretax loss in 1H17 mainly due to pre-operating expenses. We expect the losses to narrow by half in 2H17F once the group starts product delivery. However, we only expect meaningful earnings in FY19F.

We upgrade UMW to Hold with a higher RM5.90 TP

We upgrade to Hold as we think the worst is over following the disposal of UMW-OG and ongoing efforts to dispose non-listed OG assets. We raise our target price to RM5.90 as we roll over our valuation to FY19F, still based on 14x P/E, 10% premium to its FY09-FY14 historical mean of 13x. Key upside risks are accelerated disposal of non-listed OG and strengthening of RM, while key downside risks are delayed disposal of non-listed OG and depreciation of RM against US\$.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	14,442	10,965	10,366	11,129	11,569
Operating EBITDA (RMm)	1,054	(359)	608	782	858
Net Profit (RMm)	370.5	(401.8)	308.5	394.6	495.1
Core EPS (RM)	0.32	(0.34)	0.26	0.34	0.42
Core EPS Growth	(52%)	(208%)		28%	25%
FD Core P/E (x)	16.93	NA	20.34	15.90	12.67
DPS (RM)	0.20	0.00	0.10	0.20	0.20
Dividend Yield	3.68%	0.00%	1.84%	3.68%	3.68%
EV/EBITDA (x)	11.80	NA	18.37	14.23	13.49
P/FCFE (x)	7	NA	NA	5,405	NA
Net Gearing	35.0%	61.5%	48.9%	43.0%	44.8%
P/BV (x)	0.97	1.35	2.25	2.13	1.96
ROE	5.6%	(7.1%)	8.2%	13.6%	15.9%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.58	1.13	1.22

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: UMW is on track to complete the disposal of non-listed OG assets in 2018

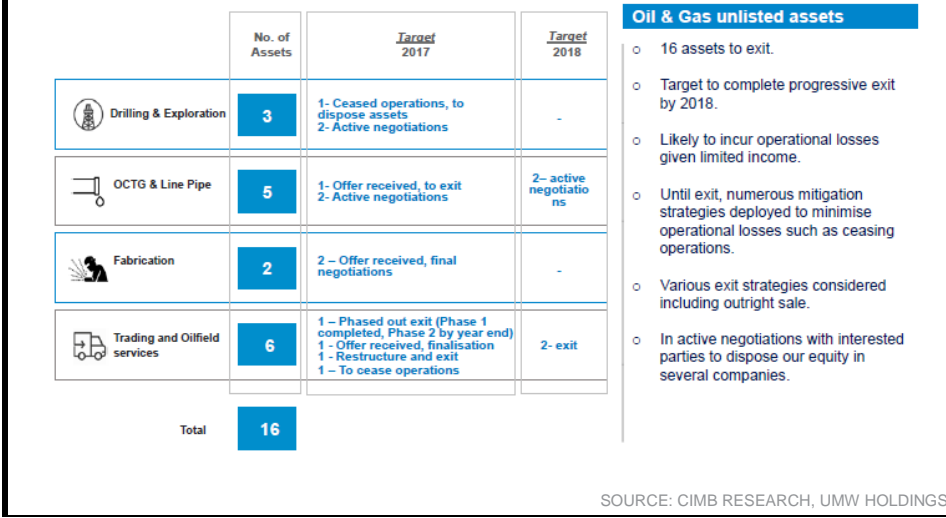
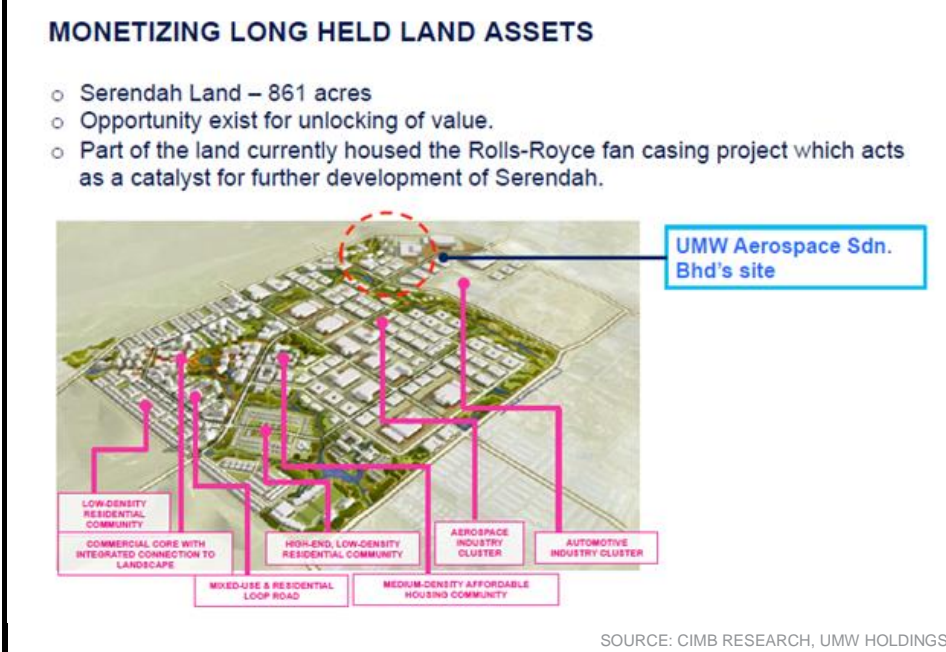


Figure 2: UMW is planning to monetise its land asset



Potential catalyst from monetisation of land assets

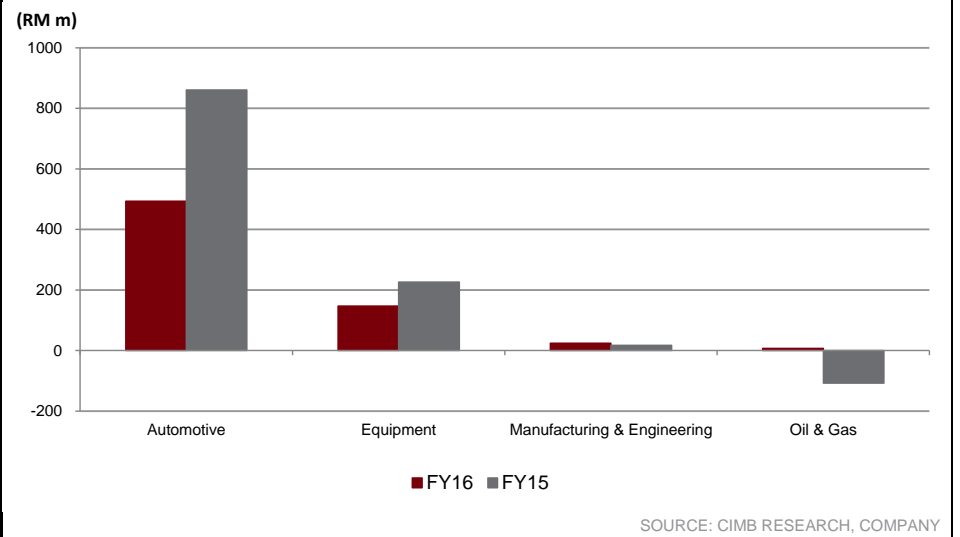
During the analyst briefing, the group said it plans to monetise its long-held land assets of approximately 861 acres in Serendah, Selangor. Currently, it houses the site for UMW Aerospace Sdn Bhd, which is responsible for the manufacturing of Rolls-Royce engine fan-case. We estimate the aerospace division only utilises 40 acres out of the entire area. Therefore, we see potential catalysts for the group in the future from the gain on disposal of land or revaluation of Serendah land. Based on UMW’s 2016 Annual Report, Serendah land’s book value is estimated to be RM74.5m.

Figure 3: Toyota C-HR



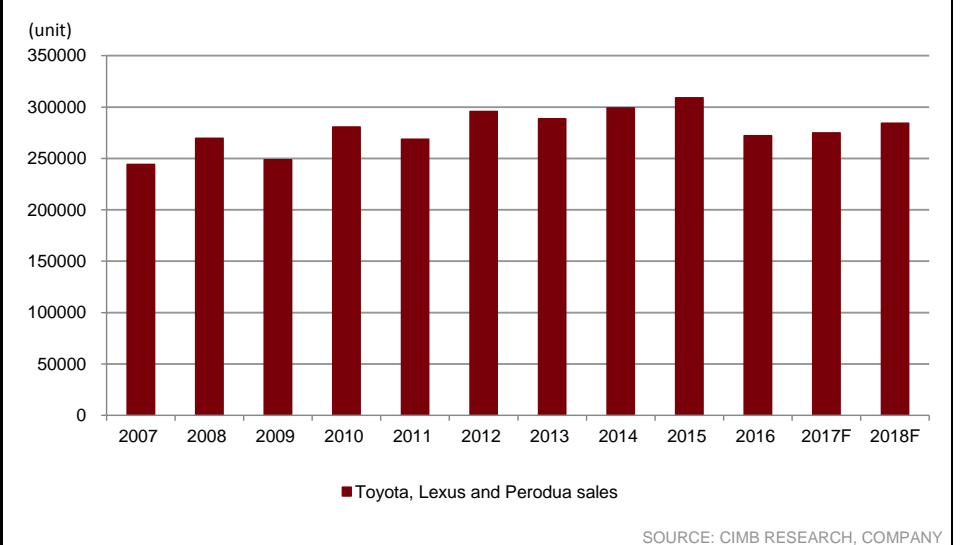
SOURCE: CIMB RESEARCH, PAULTAN

Figure 4: Historical FY15 and FY16 pretax profit breakdown by segment



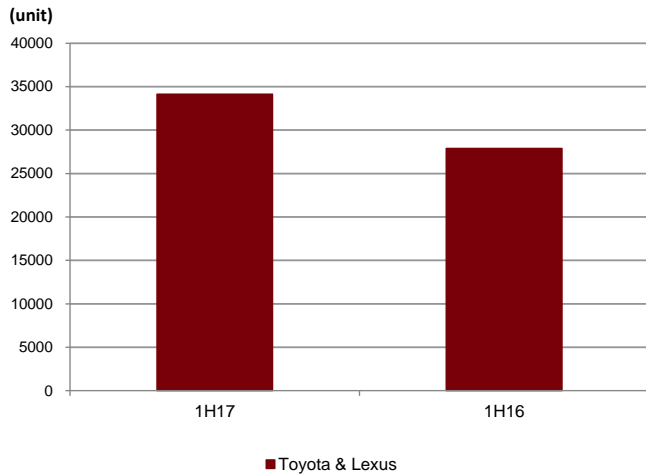
SOURCE: CIMB RESEARCH, COMPANY

Figure 5: Historical and projected FY17-18F annual sales volume forecast



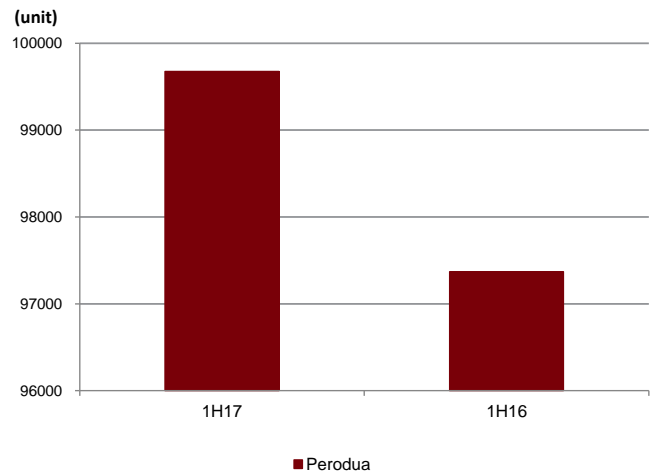
SOURCE: CIMB RESEARCH, COMPANY

Figure 6: Toyota & Lexus sales volume in 1H17 vs. 1H16



SOURCE: CIMB RESEARCH, COMPANY

Figure 7: Perodua sales volume in 1H17 vs. 1H16



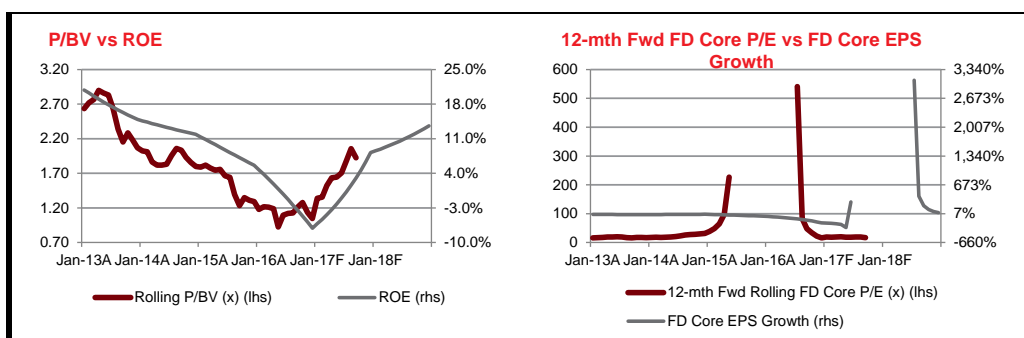
SOURCE: CIMB RESEARCH, COMPANY

Figure 8: Sector comparison

Company	Recom.	Price	Target Price	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		(RM)	(RM)		CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F
Bermaz Auto Berhad	Add	2.06	2.30	567	16.5	13.0	5.5	5.3	31.7%	41.2%	10.3	8.1	6.1%	6.8%
Tan Chong Motor Holdings	Reduce	1.73	1.55	270	na	152.3	0.4	0.4	-3.0%	0.3%	25.4	13.1	0.0%	0.0%
DRB-Hicom	Add	1.67	2.35	771	na	97.4	0.6	0.5	-5.7%	0.6%	12.1	7.7	0.0%	0.0%
UMW Holdings	Hold	5.44	5.90	1,517	20.6	16.1	2.3	2.1	7.9%	13.6%	19.0	14.2	1.8%	3.7%
Sector average					512.6	21.1	1.1	1.1	0.2%	5.2%	14.8	10.1	2.1%	3.1%

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	14,442	10,965	10,366	11,129	11,569
Gross Profit	3,391	1,645	1,659	1,948	1,735
Operating EBITDA	1,054	(359)	608	782	858
Depreciation And Amortisation	(511)	(555)	(208)	(210)	(208)
Operating EBIT	543	(914)	400	573	650
Financial Income/(Expense)	(0)	(106)	(15)	(105)	(95)
Pretax Income/(Loss) from Assoc.	134	155	159	205	232
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	677	(865)	544	672	787
Exceptional Items					
Pre-tax Profit	677	(865)	544	672	787
Taxation	(267)	(141)	(109)	(128)	(134)
Exceptional Income - post-tax					
Profit After Tax	410	(1,006)	435	545	653
Minority Interests	(39)	604	(127)	(150)	(158)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	371	(402)	309	395	495
Recurring Net Profit	371	(402)	309	395	495
Fully Diluted Recurring Net Profit	371	(402)	309	395	495

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	1,054	(359)	608	782	858
Cash Flow from Inv. & Assoc.					
Change In Working Capital	68	775	131	(220)	(413)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	511	528	208	210	208
Net Interest (Paid)/Received	1	106	15	105	95
Tax Paid	(274)	(207)	(109)	(128)	(134)
Cashflow From Operations	1,360	842	854	749	615
Capex	(2,280)	(966)	(1,000)	(750)	(750)
Disposals Of FAs/subsidiaries	44	0	0	0	0
Acq. Of Subsidiaries/investments			0	0	
Other Investing Cashflow	126	81	87	2	15
Cash Flow From Investing	(2,111)	(886)	(913)	(748)	(735)
Debt Raised/(repaid)	1,692	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(479)	0	(117)	(234)	(234)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	1,213	0	(117)	(234)	(234)
Total Cash Generated	462	(44)	(176)	(232)	(354)
Free Cashflow To Equity	941	(44)	(59)	1	(120)
Free Cashflow To Firm	(878)	(230)	(162)	(106)	(230)

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet					
(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	2,734	2,179	56	363	394
Total Debtors	1,833	1,022	1,113	1,205	1,458
Inventories	1,890	1,922	1,397	1,644	1,902
Total Other Current Assets	1,252	1,012	962	962	962
Total Current Assets	7,710	6,136	3,528	4,174	4,716
Fixed Assets	8,103	7,639	4,295	4,541	5,083
Total Investments	3	2	0	0	0
Intangible Assets	25	0	0	0	0
Total Other Non-Current Assets	2,384	2,429	2,426	2,083	1,833
Total Non-current Assets	10,515	10,070	6,721	6,624	6,916
Short-term Debt	3,725	2,641	1,558	909	709
Current Portion of Long-Term Debt					
Total Creditors	2,241	1,781	1,477	1,596	1,694
Other Current Liabilities	372	197	192	192	192
Total Current Liabilities	6,338	4,619	3,228	2,697	2,595
Total Long-term Debt	2,290	3,789	1,005	1,787	2,303
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	214	889	888	888	888
Total Non-current Liabilities	2,503	4,678	1,893	2,675	3,191
Total Provisions	0	0	0	0	0
Total Liabilities	8,841	9,297	5,121	5,372	5,786
Shareholders' Equity	6,584	4,722	2,821	2,982	3,243
Minority Interests	2,797	2,187	2,307	2,444	2,602
Total Equity	9,381	6,909	5,128	5,426	5,846

Key Ratios					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(3.3%)	(24.1%)	(5.5%)	7.4%	4.0%
Operating EBITDA Growth	(46%)	(134%)	N/A	29%	10%
Operating EBITDA Margin	7.30%	(3.28%)	5.87%	7.03%	7.42%
Net Cash Per Share (RM)	(2.81)	(3.64)	(2.15)	(2.00)	(2.24)
BVPS (RM)	5.64	4.04	2.41	2.55	2.78
Gross Interest Cover	4.29	(4.91)	3.90	5.33	5.92
Effective Tax Rate	39.5%	0.0%	20.0%	19.0%	17.0%
Net Dividend Payout Ratio	36.6%	NA	28.0%	44.7%	37.2%
Accounts Receivables Days	49.44	47.66	37.59	38.00	42.00
Inventory Days	61.44	74.85	69.57	60.45	65.81
Accounts Payables Days	73.63	78.98	68.30	61.09	61.07
ROIC (%)	3.89%	(5.32%)	2.49%	5.04%	5.64%
ROCE (%)	4.62%	(5.80%)	4.63%	7.27%	7.83%
Return On Average Assets	3.90%	(4.56%)	4.20%	7.14%	7.66%

Key Drivers					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	0.0%	2.0%	0.0%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	-5.7%	-9.1%	6.4%	6.2%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Description:	Excellent	Very Good	Good	N/A	

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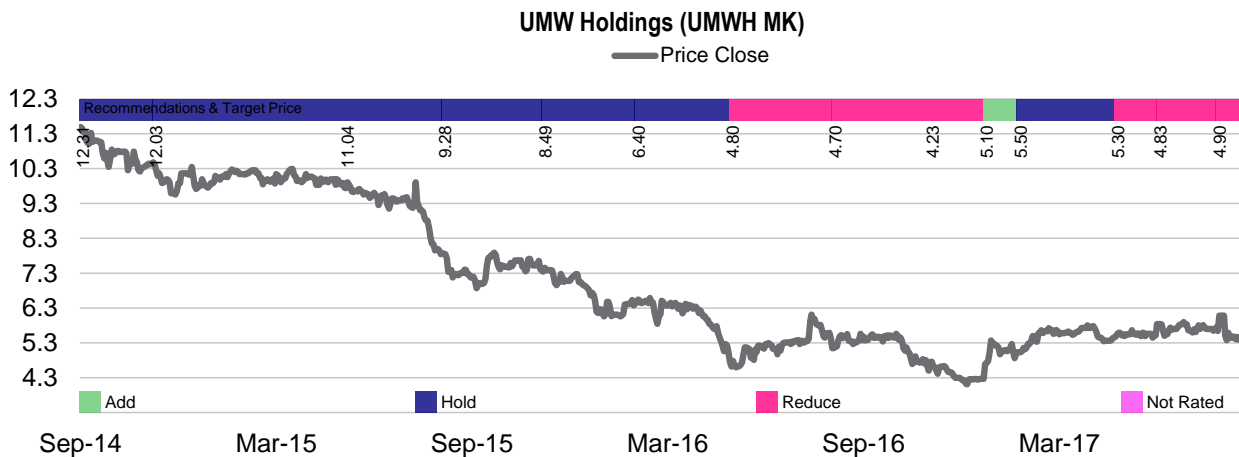
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	Rating Distribution (%)	Investment Banking clients (%)
Add	51.2%	5.5%
Hold	35.7%	3.1%
Reduce	11.9%	0.1%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.