19 September 2017

Hold

Price
RM5.44

Target price
RM5.20

Equity | Malaysia | Autos

Flashnote

UMW Holdings

Targets most of O&G disposal by year-end

Financial Highlights

Year to Dec (RMm)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	14,442	10,965	11,690	11,927	12,229
Normalised net profit	322	(402)	28	174	219
Normalised EPS	28	(34)	2	15	19
Normalised EPS growth (%)	(59)	(225)	(107)	533	26
Net DPS (sen)	20.0	0.0	20.0	20.0	20.0
P/E (x)	(75)	(3)	231	37	29
ROE (%)	(1)	(30)	1	5	6
Net yield (%)	8	0	4	4	4
Net gearing (%)	50	90	80	50	52
P/B (x)	0.4	1.1	2.2	1.7	1.6

Source: Company, KAF

- In an analyst briefing today, management highlighted that it is targeting to dispose 12 of its non-listed O&G assets by year-end. Another four assets are expected to be disposed next year.
- Management pointed out that these assets are in various stages towards execution of disposal, but would continue to book minimal operational losses until then. See Chart 1 for list of assets. While UWM may book some losses from the disposal of these assets, these would be minimal given the significant impairment that was made in 4Q16.
- Recall that for 1H17, the non-listed O&G division losses before tax widened to RM86m (vs. RM81m a year earlier). However, these included about RM35m retrenchment costs for its Oman operations (which ceased operations in April) as well as RM20m for writedown of inventories.
- On its plans to form a JV company with partner Komatsu, management said the move is to help solidify Komatsu's presence in its existing markets in Malaysia, Singapore, Papua New Guinea and Myanmar (UMW is distributor of Komatsu's heavy equipment in these four markets). Specifically, the JV is intended to help Komatsu penetrate underserved sectors in Malaysia such as construction; management iterated that there are no intentions of setting up a manufacturing presence here in Malaysia.
- As for its aerospace business, UMW is on track to deliver its first fan case in Oct. For 1H17, the aerospace recorded losses of RM25m – contributing to the manufacturing division losses of RM7m. Management expect the division's losses to narrow as it books revenue from the delivery of fans. The aerospace firm is expected to become profitable in 2019.
- As for the auto division, management said it had completed all launches for 2017. We understand that the C-HR (CBU import) is only slated for launch in Jan/Feb 2018. As for the new-gen Camry, we believe it could be introduced locally next year.
- Recall that for 1H17, the auto division's margins were under pressure from the weak MYR with PBT margin shrinking from 6% to 4%. While management had locked the rate at 4.24 (vs. USD) until Sept, we believe margin should improve as the MYR strengthens. In our model, we have 5% PBT margin expectations for FY17F. UMW maintained its Toyota sales target of 70k (68k for Toyota and 2k for Lexus).

Analyst

Max Koh
+60 3 2171 0505
maxkoh@kaf.com.my

- Overall, the briefing affirmed our view that 2017 is a year of recovery for UMWH. The deconsolidation of UWMOG is positive as UMW would no longer recognise losses from it from 2H onwards. However, we take cognisant of continuing losses from the unlisted O&G assets until their eventual disposals as well as gestation losses for its aerospace division. Management also targets to monetise its land asset in Serendah (861 acres).
- We are slightly disappointed with the targeted launch of C-HR for early 2018 (from the expected 2H17), but we believe this should contribute positively to volume for next year. The current model line-up should sustain sales for 2017. Until July, Toyota sales of 39k make up 57% of our and management's full-year forecast.
- We maintain our Hold recommendation and TP of RM5.20. We believe the auto division recovery is fairly reflected at the current price.

Chart 1 : Unlisted O&G assets

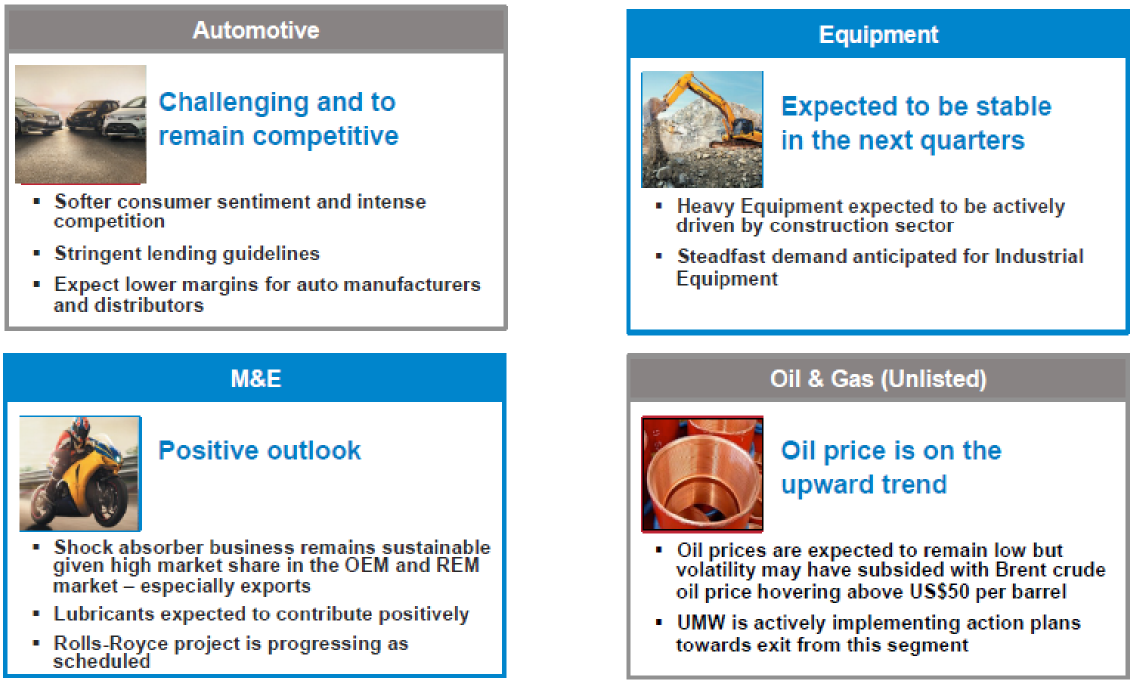
	No. of Assets	*Target* 2017	*Target* 2018
Drilling & Exploration	3	1- Ceased operations, to dispose assets 2- Active negotiations	-
OCTG & Line Pipe	5	1- Offer received, to exit 2- Active negotiations	2– active negotiations
Fabrication	2	2 – Offer received, final negotiations	-
Trading and Oilfield services	6	1 – Phased out exit (Phase 1 completed, Phase 2 by year end) 1 - Offer received, finalisation 1 - Restructure and exit 1 – To cease operations	2- exit
Total	16		

Oil & Gas unlisted assets

- 16 assets to exit.
- Target to complete progressive exit by 2018.
- Likely to incur operational losses given limited income.
- Until exit, numerous mitigation strategies deployed to minimise operational losses such as ceasing operations.
- Various exit strategies considered including outright sale.
- In active negotiations with interested parties to dispose our equity in several companies.

Source: UMW, KAF

Chart 2 : Prospects for 2017



Source: UMW, 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.

Disclaimer

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF-Seagroatt & Campbell Securities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF-Seagroatt & Campbell Securities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.

Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)