



AmInvestment Bank

## Company report

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# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

AUTOMOBILE

20 Sep 2017

*Onward and upward*

## HOLD

(Maintained)

**Rationale for report: Company update**

Price	RM5.44
Fair Value	RM5.20
52-week High/Low	RM6.08/RM4.09

### Key Changes

Fair value	↑
EPS	↑

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	10,958.5	11,131.1	12,200.2	12,912.7
Core net profit (RM mil)	(360.7)	26.0	387.7	452.7
FD Core EPS (sen)	(30.9)	2.2	33.2	38.7
FD Core EPS growth (%)	(273.6)	(107.2)	1,390.6	16.8
Consensus Net Profit (RM mil)	-	196.5	351.4	405.7
DPS (sen)	10.0	0.7	10.0	11.6
PE (x)	nm	244.4	16.4	14.0
EV/EBITDA (x)	nm	18.9	9.9	6.9
Div yield (%)	1.8	0.1	1.8	2.1
ROE (%)	(29.2)	0.6	8.0	8.8
Net Gearing (%)	95.3	111.6	104.6	91.5

### Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,355.5
Book Value (RM/share)	4.04
P/BV (x)	1.3
ROE (%)	(29.2)
Net Gearing (%)	95.3

Major Shareholders	Skim ASB(42.1%) EPF(13.7%) Yayasan Pelaburan Bumiputera(5.7%)
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Free Float	32.6
Avg Daily Value (RMmil)	1.8

Price performance	3mth	6mth	12mth
Absolute (%)	(2.7)	(3.5)	3.3
Relative (%)	(2.0)	(5.2)	(4.0)



### Investment Highlights

- We maintain **HOLD** on UMW Holdings (UMW) with a higher SOP-based fair value of RM5.20 (from RM5) after reducing the projected losses from the unlisted O&G segment and M&E segment. We are assured that the group appears to be concise with its key actions it needs to take to improve its core segments.

### Key points from an analyst briefing held yesterday:





- 1) **Charting a complete exit from O&G.** Following the demerger of UMWOG in June, the group is still left with 16 assets that have dented its bottomline significantly in the past. It aims to dispose of most of these (12 of 16) by the year-end. It has received offers and is in final negotiations for certain assets. Operational losses from this segment (unlisted O&G) will continue although the quantum should reduce over time. It saw a net loss of RM71mil in 1H17 largely due to the cessation of drilling operations in Oman.
  - 2) **Auto on cruise control.** The next addition to the local Toyota line-up may only be the CH-R in early 2018. UMW is still finalizing the pricing for this model although road shows have been underway since May. It is sticking to the sensible target of 70K in sales for 2017, having accomplished 48% of this in the first half of the year. With volume stabilizing, UMW will focus on strengthening Auto margins which have declined to 4% (from 8-14% in previous years) by: (1) improving the amount of local content and number of CKD models; (2) continuing talks with Toyota to obtain better pricing; (3) riding on any sustained strength in the ringgit going forward.
  - 3) **Lift off into Aerospace.** The group is on track to make its first delivery of fan cases for the Rolls-Royce contract in 4Q. It did not disclose the initial earnings contribution or details on the volume ramp-up that is meant to make this a profitable area for UMW by 2019. Management believes that start-up costs should peak this year. Recall that the aerospace (or high-value manufacturing) operation dragged the M&E segment into the red in 1H17 with set-up costs of RM24mil.
- To this end, the immediate goals for UMW would be to fortify the positions of its core segments and dispose of the remaining O&G assets. FY18 would be an especially precarious year as it works to set a stronger foundation while counting on a more stable external environment.

## EXHIBIT 1: SUM-OF-PARTS VALUATION

Pegged to FY18F							
Segment	PBT	PAT	Ownership	PE Multiple	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	588.8	447.5	51%	12	2,738.8	2.34	1,168.3
Equipment	191.7	145.7		11	1,602.3	1.37	
Manu & Eng	7.8	5.9		8	47.4	0.04	
O&G	0.0					0.00	
Others	(50.0)				(50.0)	(0.04)	
Associates & JV		213.1		15	3,270.7	2.80	
Net Debt (Company level)					(1,536.2)	(1.31)	
Fair Value:						<u>5.20</u>	

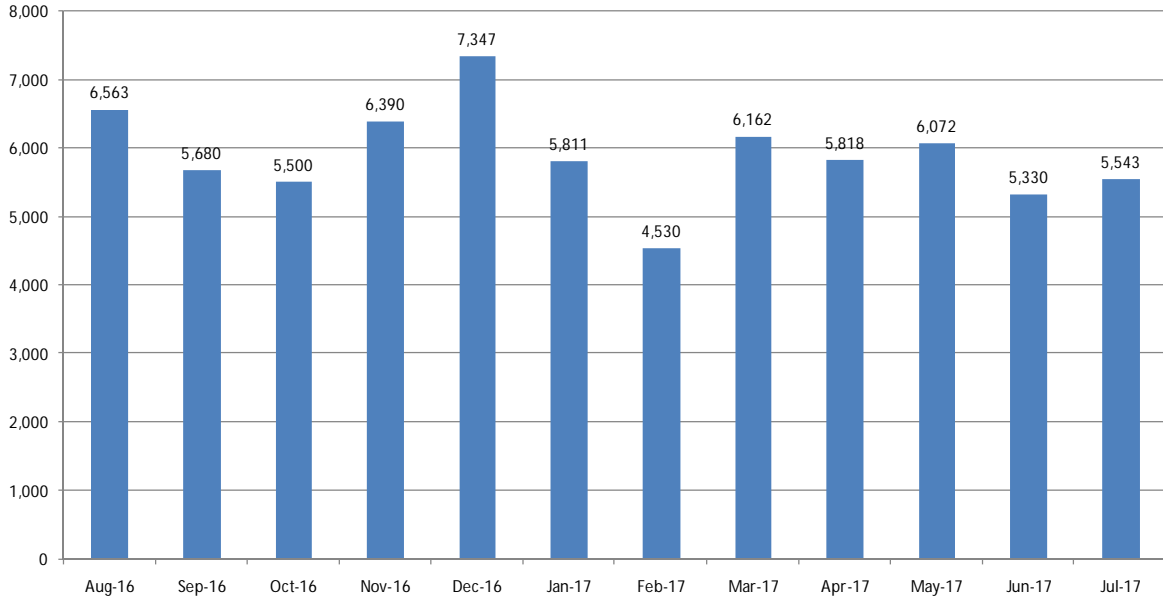
Source: AmInvestment Bank Bhd

## EXHIBIT 2: UMW'S PLAN FOR DISPOSALS OF REMAINING O&amp;G ASSETS

	No. of Assets	Target 2017	Target 2018	Oil & Gas unlisted assets
 Drilling & Exploration	3	1- Ceased operations, to dispose assets 2- Active negotiations	-	<ul style="list-style-type: none"> <li>16 assets to exit.</li> <li>Target to complete progressive exit by 2018.</li> <li>Likely to incur operational losses given limited income.</li> <li>Until exit, numerous mitigation strategies deployed to minimise operational losses such as ceasing operations.</li> <li>Various exit strategies considered including outright sale.</li> <li>In active negotiations with interested parties to dispose our equity in several companies.</li> </ul>
 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	
<b>Total</b>	<b>16</b>			

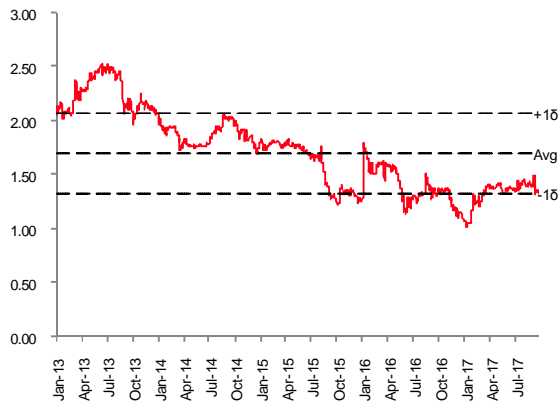
Source: Company

**EXHIBIT 3: TOYOTA SALES IN 1 YEAR TO JULY**

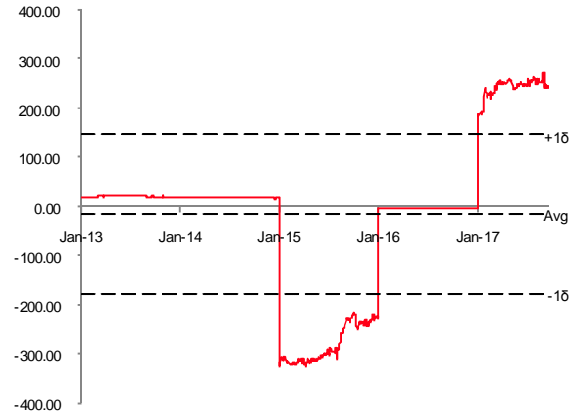


Source: MAA

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	14,441.6	10,958.5	11,131.1	12,200.2	12,912.7
EBITDA	646.3	(1,612.0)	616.1	1,173.7	1,630.9
Depreciation/Amortisation	(510.7)	(569.5)	(604.3)	(644.6)	(687.9)
Operating income (EBIT)	135.6	(2,181.5)	11.7	529.2	943.0
Other income & associates	134.4	156.4	148.2	213.1	-
Net interest	(0.4)	(105.1)	21.0	(3.9)	13.2
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>269.7</b>	<b>(2,130.2)</b>	<b>180.9</b>	<b>738.3</b>	<b>956.1</b>
Taxation	(267.5)	(131.0)	(8.2)	(131.3)	(239.0)
Minorities/pref dividends	(39.4)	611.7	(146.7)	(219.3)	(264.4)
<b>Net profit</b>	<b>(37.2)</b>	<b>(1,649.5)</b>	<b>26.0</b>	<b>387.7</b>	<b>452.7</b>
Core net profit	207.8	(360.7)	26.0	387.7	452.7
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17F</b>	<b>FY18F</b>	<b>FY19F</b>
Fixed assets	8,102.8	7,678.5	7,976.6	8,317.7	8,673.7
Intangible assets	25.2	-	-	-	-
Other long-term assets	2,429.9	2,463.0	2,396.0	2,425.0	2,235.5
<b>Total non-current assets</b>	<b>10,557.9</b>	<b>10,141.5</b>	<b>10,372.7</b>	<b>10,742.6</b>	<b>10,909.2</b>
Cash & equivalent	2,734.1	1,857.4	1,608.7	2,200.8	3,110.6
Stock	1,890.0	1,931.2	1,445.1	1,603.9	1,676.4
Trade debtors	1,833.4	988.5	1,332.7	1,460.7	1,546.0
Other current assets	1,209.9	1,008.0	1,008.0	1,008.0	1,008.0
<b>Total current assets</b>	<b>7,667.4</b>	<b>5,785.1</b>	<b>5,394.4</b>	<b>6,273.4</b>	<b>7,340.9</b>
Trade creditors	2,241.2	1,878.6	1,865.9	2,065.2	2,164.6
Short-term borrowings	3,725.0	2,639.3	3,893.9	4,420.9	4,947.9
Other current liabilities	371.8	234.0	194.3	199.9	203.6
<b>Total current liabilities</b>	<b>6,338.0</b>	<b>4,752.0</b>	<b>5,954.2</b>	<b>6,686.0</b>	<b>7,316.1</b>
Long-term borrowings	2,289.8	3,715.8	3,003.0	3,020.0	3,037.1
Other long-term liabilities	213.7	931.0	117.1	126.6	132.2
<b>Total long-term liabilities</b>	<b>2,503.4</b>	<b>4,646.7</b>	<b>3,120.1</b>	<b>3,146.6</b>	<b>3,169.3</b>
<b>Shareholders' funds</b>	<b>6,584.5</b>	<b>4,718.6</b>	<b>4,736.8</b>	<b>5,008.2</b>	<b>5,325.0</b>
Minority interests	2,799.4	2,145.7	2,292.4	2,511.7	2,776.2
BV/share (RM)	5.64	4.04	4.05	4.29	4.56
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17F</b>	<b>FY18F</b>	<b>FY19F</b>
Pretax profit	269.7	(2,130.2)	180.9	738.3	956.1
Depreciation/Amortisation	510.7	569.5	604.3	644.6	687.9
Net change in working capital	67.9	200.7	(691.8)	(74.0)	(50.1)
Others	100.8	945.7	(249.2)	(424.8)	(349.1)
<b>Cash flow from operations</b>	<b>949.1</b>	<b>(414.3)</b>	<b>(155.8)</b>	<b>884.0</b>	<b>1,244.9</b>
Capital expenditure	(2,280.4)	(1,181.6)	(834.8)	(915.0)	(968.5)
Net investments & sale of fixed assets	12.0	225.3	-	-	-
Others	528.0	188.0	207.9	195.4	225.0
<b>Cash flow from investing</b>	<b>(1,740.3)</b>	<b>(768.2)</b>	<b>(627.0)</b>	<b>(719.6)</b>	<b>(743.4)</b>
Debt raised/(repaid)	1,322.6	380.1	541.8	544.0	544.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(805.2)	(212.7)	(7.8)	(116.3)	(135.8)
Others	-	-	-	-	-
<b>Cash flow from financing</b>	<b>517.3</b>	<b>167.4</b>	<b>534.0</b>	<b>427.7</b>	<b>408.2</b>
<b>Net cash flow</b>	<b>(273.9)</b>	<b>(1,015.1)</b>	<b>(248.8)</b>	<b>592.2</b>	<b>909.8</b>
<b>Net cash/(debt) b/f</b>	<b>2,830.4</b>	<b>2,621.1</b>	<b>1,857.4</b>	<b>1,608.7</b>	<b>2,200.8</b>
<b>Net cash/(debt) c/f</b>	<b>2,621.1</b>	<b>1,464.8</b>	<b>1,608.7</b>	<b>2,200.8</b>	<b>3,110.6</b>
<b>Key Ratios (YE31 Dec)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17F</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue growth (%)	(3.3)	(24.1)	1.6	9.6	5.8
EBITDA growth (%)	(64.3)	(349.4)	(138.2)	90.5	38.9
Pretax margin (%)	1.9	(19.4)	1.6	6.1	7.4
Net profit margin (%)	(0.3)	(15.1)	0.2	3.2	3.5
Interest cover (x)	336.5	(2,075.8%)	nm	134.3	nm
Effective tax rate (%)	99.2	6.1	4.5	17.8	25.0
Dividend payout (%)	nm	nm	22.5	22.5	22.5
Debtors turnover (days)	49	47	38	42	42
Stock turnover (days)	47	64	55	46	46
Creditors turnover (days)	56	69	61	59	60

Source: Company, AmInvestment Bank Bhd estimates

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