Results Note

UMW Holdings

UMW MK
Sector: Auto & Autoparts

RM5.30 @ 28 November 2017

HOLD (upgrade)

Downside: -5.1%

Price Target: RM5.03

Previous Target: RM4.82

Revving the engine

UMW posted a headline loss of RM29.4m in 3Q17 (-45.6% qoq, -77.2% yoy). On a cumulative basis, overall revenue grew by 7.2% yoy but was still affected by falling margins and intense competition. Although UMW's earnings may be depressed in the nearer term due to a challenging market environment, we believe the recovery in consumer sentiment and the strengthening of the RM will spur more activity for UMW going forward. We raise UMW to a HOLD (from SELL) with a higher target price of RM 5.03.

9M17 below expectations

Despite the higher revenue of RM8.2bn (+7.2% yoy), the group registered a net loss of RM117.5m (+1.1% yoy) due to weaker operating margins, negatively impacted by forex and the competitive operating environment. Cumulative 9M17 losses were larger than expected. The higher topline came from the automotive, manufacturing and engineering (M&E) as well as the equipment segments. The Automotive segment climbed 9.5% yoy aided by better sales in car models such as Innova, Fortuner and Sienta with a boost in sales promotion activities. However, margins remained weak, averaging 4.5% vs 5.8% in 9M16. The equipment segment also grew marginally by 1.1% in 9M17 on the back of higher demand for spare parts and services. As for M&E segment, the business was up 6.4% yoy due to strong demand for shock absorbers and more promotional campaigns.

Sluggish yoy earnings

Excluding the Automotive segment, the Equipment segment and M&E segment grew by 7.7% and 7.8% respectively. The automotive segment reported a – 6.5% yoy drop in revenue in 3Q17 due to lesser demand for Toyota vehicles in anticipation of new model launches. On the brighter note, equipment segment's improved performance was attributed to higher heavy equipment sales in Malaysia coming from higher construction activities and increased exports for parts in Myanmar. The M&E segment was also up thanks to increased contribution from the auto components manufacturing business.

Raise to HOLD with new TP at RM5.03

We now assume UMW to record a full year loss for 2017E and raise our FY18-19E earnings slightly by 2.5%-0.6% post some housekeeping adjustments. Our SOP based target price is lifted to RM5.03 (from RM4.82 previously) post some adjustments. With limited stock price downside, we raise UMW to a **HOLD**.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	14,442	10,959	11,006	11,010	10,538
EBITDA (RMm)	1,329.8	652.6	289.9	1,456.8	1,444.6
Pretax profit (RMm)	269.7	(2,130.2)	(273.9)	860.0	831.9
Net profit (RMm)	(37.2)	(1,658.0)	(19.8)	432.1	431.0
EPS (sen)	(3.2)	(141.9)	(1.7)	37.0	36.9
PER (x)	n.m	n.m	(313.1)	14.3	14.4
Core net profit (RMm)	646.3	621.5	(74.1)	432.1	431.0
Core EPS (sen)	55.3	53.2	(6.3)	37.0	36.9
Core EPS growth (%)	(3.9)	(3.8)	(111.9)	(2,285)	(0.3)
Core PER (x)	10.4	10.8	n.m.	14.3	14.4
Net DPS (sen)	20.0	20.0	20.0	20.0	20.0
Dividend Yield (%)	3.5	3.5	3.8	3.8	3.8
EV/EBITDA (x)	7.5	17.2	40.2	8.2	4.3
Chg in EPS (%)			(113.5)	2.5	0.6
Affin/Consensus (x)			n.m.	1.1	0.9

Source: Company, Affin Hwang forecasts, Bloomberg

Price Performance

	1M	3M	12M
Absolute	-2.0%	-7.8%	13.8%
Rel to KLCI	-0.2%	-4.9%	8.1%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	6192/1508.8
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	4.09-6.08
Est free float	22.6%
BV per share (RM)	3.03
P/BV (x)	1.75
Net cash/ (debt) (RMm) (3Q17)	(377.83)
ROE (FY18E)	3.0%
Shariah Compliant	Yes

Key Shareholders

ASB	41.1%
EPF	11.7%
KWAP	8.2%

Source: Affin Hwang, Bloomberg

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Key upside risks: a strong rebound in auto sales, strengthening of the Ringgit and recovery of consumer spending. Key downside risk: depreciation of Ringgit.

Fig 1: Results Comparison

FYE 31 Dec (RMm) Continuing operations	3Q17	QoQ % chg	YoY % chg	9M17	YoY % chg	Comment
Revenue	2,671.0	(4.1)	(4.8)	8,186.0	7.2	Stronger revenue was mainly driven by better performance in the three main segments – automotive, equipment and M&E.
Op costs	(2,703.3)	(4.6)	(10.7)	(8,318.5)	3.1	
EBIT	32.2	(166.1)	(118.7)	(58.2)	(132.4)	
EBIT margin (%)	*1.2*	*3.0ppt*	*7.2ppt*	*(0.7)*	*1.4ppt*	
Int expense	(20.3)	(15.5)	(50.6)	(111.9)	(10.9)	
Int and other income	21.4	6.8	46.5	63.6	9.3	
Associates	29.6	5.7	(27.4)	97.8	9.3	
Exceptional item	(43.0)	n.m.	n.m	(54.3)	n.m	
Pretax profit/(loss)	**19.9**	(278.0)	(116.4)	**23.1**	(141.5)	
Tax	(29.8)	(15.6)	(27.9)	(89.9)	(22.3)	
Tax rate (%)	*149.3*	*n.m*	*n.m*	*389.0*	*n.m.*	
MI	(19.5)	n.m	n.m	3.6	n.m	
Net profit/(loss)	**(29.4)**	(45.6)	(77.2)	**(63.2)**	(49.2)	
EPS (sen)	(2.5)	(45.6)	(77.2)	(5.4)	(49.2)	
Core net profit/(loss)	**(72.4)**	78.4	(22.3)	**(117.5)**	1.1	Below our and consensus estimates.

Source: Affin Hwang, Company

Fig 2: Segment Comparison

Segments	3Q17	QoQ % chg	YoY % chg	9M16	9M17	YoY % chg
Automotive	2,115.9	(6.4)	(6.5)	5,996.5	6,567.1	9.5
Equipment	369.3	5.1	7.7	1,052.0	1,063.1	1.1
M&E	155.8	1.3	7.8	447.0	475.6	6.4
Others (unlisted)	58.0	(7.7)	(30.1)	203.4	157.2	(22.7)
Elimination	(28.1)	-	n.m.	(63.5)	(77.0)	n.m.
Total revenue	**2,671.0**	**(4.1)**	**(4.8)**	**7,635.4**	**8,186.0**	**7.2**

Source: Affin Hwang, Company

Fig 3: UMW SOTP-based 12-month TP

Segments	Valuation Method	Equity Value (RMm)	Equity value/share (RM)
Automotive	13x P/E	4,312.2	3.69
Equipment	12x P/E	1,432.3	1.23
Manufacturing and engineering (M&E)	12x P/E	131.5	0.11
Equity value / Price Target		**5,876.0**	**5.03**

Source: Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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