



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

29 Nov 2017

Still finding its sea legs

HOLD

(Maintained)

Al Zaquan

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Rationale for report: Company results

Price	RM5.30
Fair Value	RM5.00
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)	(114.7)	249.9	348.8
FD Core EPS (sen)	(30.9)	(9.8)	21.4	29.9
FD Core EPS growth (%)	(273.6)	(68.2)	(317.9)	39.6
Consensus Net Profit (RM mil)	-	195.3	375.6	432.4
DPS (sen)	10.0	(2.9)	6.4	9.0
PE (x)	nm	nm	24.8	17.7
EV/EBITDA (x)	nm	27.0	12.5	8.1
Div yield (%)	1.9	(0.6)	1.2	1.7
ROE (%)	(29.2)	(2.5)	5.3	7.1
Net Gearing (%)	95.3	116.1	113.9	103.9

Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,192.0
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%)
Free Float	32.6
Avg Daily Value (RMmil)	1.4

Price performance	3mth	6mth	12mth
Absolute (%)	(7.8)	(5.2)	13.8
Relative (%)	(4.9)	(2.0)	8.1



Investment Highlights

- We maintain HOLD on UMW Holdings (UMW) with a lower SOP-based FV of RM5/share (from RM5.20).
- For the remaining operations in 3Q17: revenue fell 5%YoY and it made a net loss of RM29mil vs. a profit of RM7mil last year. At its topline, lower Toyota sales (-10% YoY) were partially cushioned by higher equipment (+8% YoY) and M&E earnings (+8% YoY). At its bottomline, it saw lower net profit from auto (-19% YoY), as well as higher losses from its M&E segment and unlisted O&G assets.
- For 9M17, it made a net loss of RM92mil (this includes the losses from the listed O&G assets up to end-2Q when they were demerged, and excludes the loss on demerger of RM123mil) vs. a loss of RM124mil last year.
- For the 9M17 of its continuing operations only, revenue improved (+7%YoY) but it swung to a net loss of RM5mil (from profit of RM85mil last year). While its topline improvement was led by better Toyota sales (+11%YoY; with stronger sales of the Innova, Fortuner and Sienta), the auto bottomline fell on lower profitability (net margin down 0.4ppt to 3%), flat earnings from equipment, as well as significant losses from M&E and its non-core operations.
- The M&E segment is still carrying the set-up costs ("pre-operating expenses") for the aerospace segment that is meant to see its first output by end-2017 and profit by 2019. Apart from this, UMW emphasized the other operations (auto components and lubricants) within the segment were in the black.
- Net losses from the unlisted O&G assets were still significant (RM91mil YTD). Recall that it had resolved to dispose of 12 of the 16 assets by year-end, so losses here are likely continue but on a gradual decline.
- We believe the signs for UMW's core operations to stage a stronger rebound following the demerger of the listed O&G unit are still hazy. Apart from selling off the remaining O&G assets, UMW has resolved to boost the profitability of its auto segment and contain the worst of the costs for the aerospace segment to this year.
- 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: RESULTS SUMMARY

	3Q17	QOQ	YOY	9M16	9M17	%
Revenue	2,671.0	-4%	-5%	7,635.4	8,186.0	7%
Operating Expenses	(2,703.3)	-5%	-6%	(7,556.5)	(8,203.5)	9%
Other Operating Income	21.4	20%	-22%	37.4	61.4	64%
Operating Profit	(10.8)	-69%	-65%	116.3	43.9	-62%
Operating margin:	0%			2%	1%	
Finance Costs	(20.3)	-16%	145%	(41.6)	(73.1)	76%
Share of Profits of Associates & JV	29.6	6%	-27%	89.2	97.7	10%
Investment Income	21.4	7%	>100%	45.9	59.6	30%
Profit before tax	19.9	>100%	75%	209.7	128.0	-39%
Tax	(29.8)	-16%	-23%	(112.1)	(89.9)	-20%
Profit after tax	(9.8)	-79%	-64%	97.6	38.1	-61%
Minority interest						
Continuing operations	19.5	>100%	>100%	(16.9)	43.3	-79%
Discontinued operations	0.0	-100%	>100%	(96.9)	(70.0)	-16%
Total	19.5	>100%	>100%	(113.8)	(26.8)	>100%
Net profit						
Continuing operations	(29.4)	-46%	>100%	84.8	(5.2)	>100%
Discontinued operations	0.0			(209.2)	(213.3)	2%
Total	(29.4)			(124.4)	(218.5)	76%
Margins						
EBIT margin	1%					
PBT Margin	-1%					
Net profit margin	0%					
Toyota						
Sales volume	15,567	-10%	-10%	44,520	49,290	11%
Revenue per car (RM)	135,924	4%	4%			
Net profit per car (RM)	4,042	22%	-10%			
Perodua						
Sales volume	51,905	5%	-3%	150,889	151,580	0%
Net profit per car (RM)	1,503					
Segmental Breakdown						
Revenue						
Automotive	2,115.9	-6%	-7%	5,996.5	6,567.1	10%
Equipment	369.3	5%	8%	1,052.0	1,063.1	1%
Manufacturing & Engineering	155.8	1%	8%	447.0	475.6	6%
O&G (Unlisted)	37.5	18%	-36%	154.2	105.5	-32%
Others	(7.6)	-34%	265%	(14.3)	(25.3)	77%
Total from Continuing Operations	2,671.0	-4%	-5%	7,635.4	8,186.0	7%
PBT						
Automotive	106.1	7%	-21%	349.5	292.1	-16%
Equipment	39.3	22%	17%	116.1	111.0	-4%
Manufacturing & Engineering	(6.7)	-30%	>100%	20.0	(13.2)	>100%
O&G (Unlisted)	(35.6)	-50%	-2%	(117.0)	(121.3)	4%
Others (deduced)	(83.1)	34%	-32%	(158.9)	(140.6)	-12%
Total from Continuing Operations	19.9	>100%	75%	209.7	128.0	-39%
Net profit						
Automotive	62.9	10%	-19%	202.2	175.8	-13%
Equipment	31.7	28%	26%	88.0	87.6	0%
Manufacturing & Engineering	(11.9)	-16%	>100%	1.7	(28.4)	>100%
O&G (listed)	(28.3)			(99.2)	(91.1)	
Others	(83.7)			(167.9)	(149.1)	
Total	(29.4)			24.8	(5.2)	
PBT Margin						
Automotive	5%			6%	4%	
Equipment	11%			11%	10%	
Manufacturing & Engineering	-4%			4%	-3%	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: FINANCIAL DATA

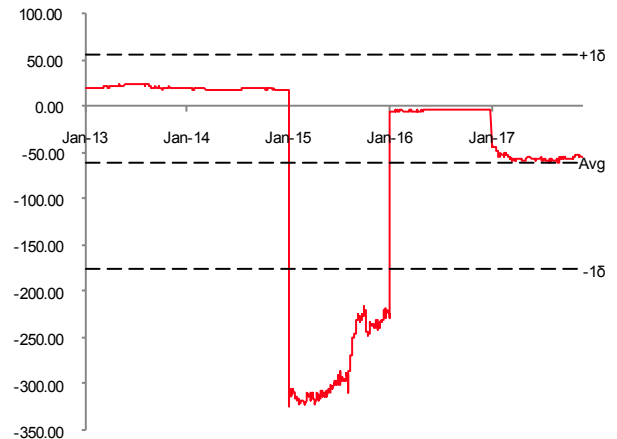
Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	14,441.6	10,958.5	11,131.1	12,200.2	12,912.7
EBITDA	646.3	(1,612.0)	428.5	933.4	1,417.3
Depreciation/Amortisation	(510.7)	(569.5)	(604.3)	(644.6)	(687.9)
Operating income (EBIT)	135.6	(2,181.5)	(175.9)	288.8	729.4
Other income & associates	134.4	156.4	148.2	213.1	-
Net interest	(0.4)	(105.1)	21.0	(8.9)	1.1
Exceptional items	-	-	-	-	-
Pretax profit	269.7	(2,130.2)	(6.7)	493.0	730.5
Taxation	(267.5)	(131.0)	38.7	(70.0)	(182.6)
Minorities/pref dividends	(39.4)	611.7	(146.7)	(173.1)	(199.0)
Net profit	(37.2)	(1,649.5)	(114.7)	249.9	348.8
Core net profit	207.8	(360.7)	(114.7)	249.9	348.8
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
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
Total non-current assets	10,557.9	10,141.5	10,372.7	10,742.6	10,909.2
Cash & equivalent	2,734.1	1,857.4	1,510.2	1,959.9	2,731.6
Stock	1,890.0	1,931.2	1,445.1	1,614.0	1,687.0
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
Total current assets	7,667.4	5,785.1	5,295.9	6,042.5	6,972.5
Trade creditors	2,241.2	1,878.6	1,865.9	2,075.2	2,175.2
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
Total current liabilities	6,338.0	4,752.0	5,954.2	6,696.0	7,326.7
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	126.8	132.4
Total long-term liabilities	2,503.4	4,646.7	3,120.1	3,146.9	3,169.5
Shareholders' funds	6,584.5	4,718.6	4,638.3	4,813.2	5,057.4
Minority interests	2,799.4	2,145.7	2,292.4	2,465.5	2,664.5
BV/share (RM)	5.64	4.04	3.97	4.12	4.33
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	269.7	(2,130.2)	(6.7)	493.0	730.5
Depreciation/Amortisation	510.7	569.5	604.3	644.6	687.9
Net change in working capital	67.9	200.7	(691.8)	(73.8)	(50.0)
Others	100.8	945.7	(202.3)	(358.6)	(280.6)
Cash flow from operations	949.1	(414.3)	(296.5)	705.2	1,087.8
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	190.5	213.0
Cash flow from investing	(1,740.3)	(768.2)	(627.0)	(724.5)	(755.5)
Debt raised/(repaid)	1,322.6	380.1	541.8	544.0	544.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(805.2)	(212.7)	34.4	(75.0)	(104.7)
Others	-	-	-	-	-
Cash flow from financing	517.3	167.4	576.2	469.1	439.4
Net cash flow	(273.9)	(1,015.1)	(347.3)	449.7	771.7
Net cash/(debt) b/f	2,830.4	2,621.1	1,857.4	1,510.2	1,959.9
Net cash/(debt) c/f	2,621.1	1,464.8	1,510.2	1,959.9	2,731.6
Key Ratios (YE31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	(3.3)	(24.1)	1.6	9.6	5.8
EBITDA growth (%)	(64.3)	(349.4)	(126.6)	117.8	51.9
Pretax margin (%)	1.9	(19.4)	(0.1)	4.0	5.7
Net profit margin (%)	(0.3)	(15.1)	(1.0)	2.0	2.7
Interest cover (x)	336.5	(2,075.8%)	nm	32.6	nm
Effective tax rate (%)	99.2	6.1	579.2	14.2	25.0
Dividend payout (%)	nm	nm	nm	22.5	22.5
Debtors turnover (days)	49	47	38	42	42
Stock turnover (days)	47	64	55	46	47
Creditors turnover (days)	56	69	61	59	60

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART



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