

Company Note

Malaysia

HOLD (no change)

Consensus ratings*: Buy 1 Hold 6 Sell 9

Current price:	RM5.30
Target price:	RM5.50
Previous target:	RM5.90
Up/downside:	3.7%
CIMB / Consensus:	9.6%

Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,509m
	RM6,192m
Average daily turnover:	US\$0.32m
	RM1.33m
Current shares o/s:	1,168m
Free float:	37.8%

*Source: Bloomberg

Key changes in this note

- FY17-19F EPS decreased by 8-55%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2	-7.8	13.8
Relative (%)	-0.2	-4.7	8.5

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

Analyst(s)



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UMW Holdings

Back in the black

- 9M17 core net profit was below expectations at 22%/35% of our/Bloomberg consensus full-year forecasts due to weaker earnings across all divisions.
- However, UMW posted RM31m core net profit in 3Q17, higher than the RM17m core net loss in 2Q17 due to a sequential improvement in all business segments.
- We cut our FY17-19F EPS by 8-55% to account for narrowing margins in automotive due to rising opex from forex volatility, higher depreciation and tax expense.
- We are cautiously optimistic of a stronger earnings delivery in 4Q17, driven by the auto sector on the back of new model launches and year-end promotions.
- Maintain Hold with a lower RM5.50 TP, based on 14x CY19F P/E. We prefer Bermaz for exposure to the auto sector due to its stronger earnings delivery and higher yield.

Back in the black in 3Q17

UMW posted a higher core net profit of RM31m in 3Q17 against RM17m core net loss in 2Q17 due to improvements across all divisions – Automotive, Equipment, Manufacturing & Engineering (M&E) and unlisted oil & gas (O&G). Automotive and Equipment reported 7.2% and 21.9% pretax profit growth qoq, respectively, while M&E and unlisted O&G saw lower pretax losses qoq. As expected, there was no dividend declared in the quarter.

9M17 core net profit fell 19% yoy

9M17 revenue grew by 7.2% yoy, driven by higher sales contribution from Automotive (9.5%), Equipment (1.1%) and M&E (6.4%). In spite of the higher sales, the group posted a lower pretax profit of RM128m in 9M17 vs. RM210m in 9M16, partly due to narrowing margins in the automotive division from forex volatility which resulted in higher costs for completely knocked down (CKD) kits. Overall, 9M17 core net profit fell 18.7% yoy.

Higher sales volume by Toyota and Perodua

Toyota sales volume grew by 10.6% yoy in 9M17, driven by better sales from new model launches such as the Innova, Fortuner and Sienta, coupled with ongoing sales promotion activities. Meanwhile, its associate, Perusahaan Otomobil Kedua (Perodua), also posted marginal 0.5% volume growth to 151,664 units in 9M17, driven by the Axia and Bezza.

Projecting a stronger earnings delivery in 4Q17

We expect the automotive segment to drive UMW's earnings growth in 4Q17, with year-end promotions and new model launches from Perodua. We understand that Perodua received 6k bookings for its new Myvi model within less than a week of its official launch. Moreover, we expect UMW to benefit from the recent initiative to transfer its outlets to dealers in order to focus on product development, marketing and dealer network support. This should help to improve the group's operating efficiency, in our view.

Unlisted O&G assets remain an overhang for the share price

The unlisted O&G division posted wider pretax losses of RM121m in 9M17 vs. RM117m in 9M16 due to lower demand for drilling activities. In spite of the wider losses, we see a minimal impact on the group's cashflow given that the majority of losses in 9M17 was related to a one-off RM55m write-off for the cessation of drilling operations in Oman. Nevertheless, the exposure to unlisted O&G division remains a drag on UMW's earnings.

Cut FY17-19F EPS by 8-55%; Maintain Hold with a lower RM5.50 TP

We cut our FY17-19F EPS forecasts by 8-55% to account for lower margins from the automotive division due to rising opex from foreign volatility. We keep our Hold rating on the stock with a lower RM5.50 TP, still based on 14x CY19F P/E, a 10% premium to its FY09-FY14 historical mean of 13x. Key upside risks are accelerated disposal of unlisted O&G assets and strengthening of the RM, while key downside risks are delayed disposal of unlisted O&G assets 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	12,007
Operating EBITDA (RMm)	1,054	(359)	512	516	800
Net Profit (RMm)	370.5	(401.8)	137.9	223.7	456.5
Core EPS (RM)	0.32	(0.34)	0.12	0.19	0.39
Core EPS Growth	(52%)	(208%)		62%	104%
FD Core P/E (x)	16.50	NA	44.33	27.32	13.39
DPS (RM)	0.20	0.00	0.10	0.20	0.20
Dividend Yield	3.77%	0.00%	1.89%	3.77%	3.77%
EV/EBITDA (x)	11.64	NA	21.05	21.20	14.14
P/FCFE (x)	6.50	NA	30.58	NA	NA
Net Gearing	35.0%	61.5%	47.9%	49.7%	52.7%
P/BV (x)	0.94	1.31	2.34	2.35	2.16
ROE	5.6%	(7.1%)	3.7%	8.5%	16.6%
% Change In Core EPS Estimates			(55.3%)	(43.3%)	(7.8%)
CIMB/consensus EPS (x)			0.63	0.60	1.06

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	3Q17	3Q16	yoy % chg	2Q17	qoq % chg	3Q17 Cum	3Q16 Cum	yoy % chg	Prev. FY17F	Comments
Continuing operations	Restate					Restate				
Revenue	2,671	2,807	(4.8)	2,786	(4.1)	8,186	7,635	7.2	10,366	Higher due to stronger contribution from Automotive,
Operating costs	(2,573)	(2,687)	(4.2)	(2,735)	(5.9)	(7,796)	(7,106)	9.7	(9,758)	Equipment and M&E in 9M17
EBITDA	98	120	(18.6)	51	91.9	390	530	(26.4)	608	Below expectation
<i>EBITDA margin (%)</i>	3.7	4.3		1.8		4.8	6.9		5.9	
Depn & amort.	(48)	(151)	(68.1)	(49)	(2.2)	(272)	(413)	(34.3)	(208)	Above expectation
EBIT	49	(31)	258.9	2	2,921.3	118	116	1.5	400	
Interest expense	(20)	(8)	144.6	(24)	(15.5)	(73)	(42)	75.7	(103)	In line
Interest & invt inc	21	10	112.7	20	6.8	60	46	29.9	87	In line
Associates' contrib	30	41	(27.3)	28	5.7	98	89	9.5	159	Stronger contribution from Perodua
Exceptionals	(60)		n.m.	(37)	63.4	(74)		n.m.	0	Derivatives and forex losses
Pretax profit	20	11	74.6	(11)	278.0	128	210	(39.0)	544	Below expectations
Tax	(30)	(39)	(23.1)	(35)	(15.6)	(90)	(112)	(19.7)	(109)	Higher tax rate due to expenses that were not
<i>Tax rate (%)</i>	149.3	339.1	(56.0)	(314.7)	147.4	70.2	53.4		20.0	allowable for tax purposes and losses in subs
Minority interests	(20)	(34)	(42.6)	(8)	159.2	(43)	(13)	236.5	(127)	Below expectation
Net profit	(29)	(61)	(52.1)	(54)	(45.6)	(5)	85	(106.1)	308.5	Below expectation
Core net profit	31	(61)	150.4	(17)	281.3	69	85	(18.7)	308.5	
EPS (sen)	(2.5)	(5.3)	(52.1)	(4.6)	(45.6)	(0.4)	7.3	(106.1)	26.4	
Core EPS (sen)	2.6	(5.3)	150.4	(1.5)	281.3	5.9	7.3	(18.7)	26.4	

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Segmental breakdown

Revenue Segmental	3Q17	3Q16	yoy % chg	2Q17	qoq % chg	3Q17	3Q16	yoy % chg	
Automotive	2,116	2,263	(6.5)	2,260	(6.4)	6,567	5,996	9.5	Toyota and Perodua sales volume grew 10.6% and 0.5% yoy
Equipment	369	343	7.7	351	5.1	1,063	1,052	1.1	Stiff competition in construction sector
Manufacturing & Engineering	156	145	7.8	154	1.3	476	447	6.4	Stronger demand for shock absorber from OEM and REM markets
Oil & Gas (unlisted)	38	58	(35.8)	32	18.5	105	154	(31.6)	Lower due weak demand in exploration sub-segment
Others	(8)	(2)	265.5	(12)	(34.3)	(25)	(14)	77.4	
Total	2,671	2,807	(4.8)	2,786	(4.1)	8,186	7,635	7.2	
PBT									
	3Q17	3Q16	yoy % chg	2Q17	qoq % chg	3Q17	3Q16	yoy % chg	
Automotive	106	133	(20.5)	99	7.2	292	349	(16.4)	Affected by volatility in currency
Equipment	39	34	17.0	32	21.9	111	116	(4.4)	
Manufacturing & Engineering	(7)	2	(373.8)	(10)	(29.9)	(13)	20	(166.3)	Higher opex related to aerospace business
Oil & Gas (unlisted)	(36)	(36)	(1.5)	(71)	(49.6)	(121)	(117)	3.7	
Others	(83)	(122)	(31.9)	(62)	33.7	(141)	(159)	(11.5)	
Total	20	11	74.6	(11)	278.0	128	210	(39.0)	

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Sector comparison

Company	Recom.	Price (RM)	Target Price (RM)	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F
Bermaz Auto Berhad	Add	2.11	2.30	593	16.9	13.3	5.6	5.4	31.7%	41.3%	10.8	8.5	6.0%	6.6%
Tan Chong Motor Holdings	Reduce	1.51	1.49	240	na	469.2	0.4	0.4	-3.2%	0.1%	26.5	12.9	0.0%	0.0%
DRB-Hicom	Add	1.71	2.35	806	na	99.8	0.6	0.6	-5.7%	0.6%	12.3	7.8	0.0%	0.0%
UMW Holdings	Hold	5.30	5.50	1,509	44.9	27.7	2.3	2.3	3.6%	8.5%	22.0	21.2	1.9%	3.8%
Sector average					na	29.3	1.1	1.1	-1.2%	3.8%	15.6	11.3	2.1%	3.2%

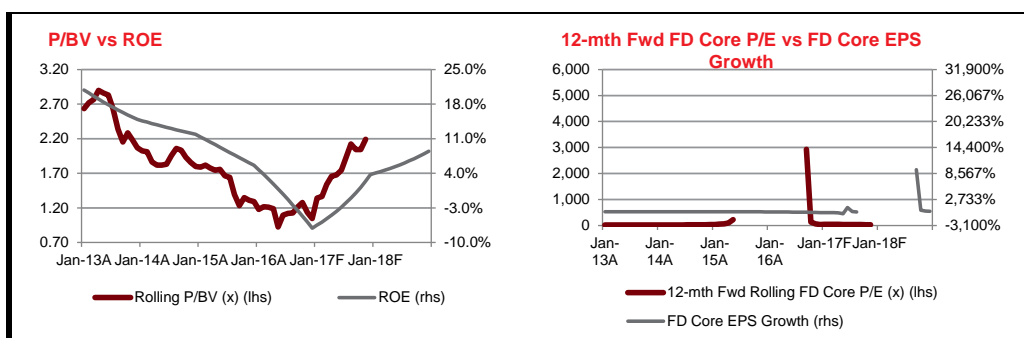
SOURCES: CIMB, COMPANY REPORTS

Figure 4: Earnings revision

	Previous			Revised			Changes		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
Revenue	10,366	11,129	11,569	10,366	11,129	12,007	0%	0%	4%
EBIT	400	573	650	179	304	583	-55%	-47%	-10%
Pretax Profit	544	672	787	323	388	705	-41%	-42%	-11%
Net Profit	309	395	495	138	224	456	-55%	-43%	-8%
EPS	26	34	42	12	19	39	-55%	-43%	-8%

SOURCES: CIMB, COMPANY REPORTS

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	12,007
Gross Profit	3,391	1,645	1,503	1,948	1,801
Operating EBITDA	1,054	(359)	512	516	800
Depreciation And Amortisation	(511)	(555)	(333)	(212)	(217)
Operating EBIT	543	(914)	179	304	583
Financial Income/(Expense)	(0)	(106)	(15)	(98)	(100)
Pretax Income/(Loss) from Assoc.	134	155	159	183	222
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	677	(865)	323	388	705
Exceptional Items					
Pre-tax Profit	677	(865)	323	388	705
Taxation	(267)	(141)	(129)	(97)	(176)
Exceptional Income - post-tax					
Profit After Tax	410	(1,006)	194	291	528
Minority Interests	(39)	604	(56)	(67)	(72)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	371	(402)	138	224	456
Recurring Net Profit	371	(402)	138	224	456
Fully Diluted Recurring Net Profit	371	(402)	138	224	456

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	1,054	(359)	512	516	800
Cash Flow from Inv. & Assoc.					
Change In Working Capital	68	775	163	(252)	(464)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	511	528	333	212	217
Net Interest (Paid)/Received	(1)	(106)	(15)	(98)	(100)
Tax Paid	(274)	(207)	(129)	(97)	(176)
Cashflow From Operations	1,358	630	863	280	276
Capex	(2,280)	(966)	(750)	(750)	(600)
Disposals Of FAs/subsidiaries	44	0	0	0	0
Acq. Of Subsidiaries/investments			0	0	
Other Investing Cashflow	126	81	87	9	10
Cash Flow From Investing	(2,111)	(886)	(663)	(741)	(590)
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	461	(256)	83	(695)	(548)
Free Cashflow To Equity	940	(256)	200	(461)	(315)
Free Cashflow To Firm	(626)	(69)	302	(354)	(205)

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	221	246	259
Total Debtors	1,833	1,022	1,113	1,205	1,513
Inventories	1,890	1,922	1,397	1,644	1,974
Total Other Current Assets	1,252	1,012	962	962	962
Total Current Assets	7,710	6,136	3,692	4,056	4,707
Fixed Assets	8,103	7,639	3,920	4,163	4,547
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	6,346	6,246	6,380
Short-term Debt	3,725	2,641	1,558	909	709
Current Portion of Long-Term Debt					
Total Creditors	2,241	1,781	1,509	1,596	1,770
Other Current Liabilities	372	197	192	192	192
Total Current Liabilities	6,338	4,619	3,259	2,697	2,671
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	5,152	5,372	5,862
Shareholders' Equity	6,584	4,722	2,650	2,640	2,863
Minority Interests	2,797	2,187	2,236	2,290	2,362
Total Equity	9,381	6,909	4,886	4,931	5,225

Key Ratios					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(3.3%)	(24.1%)	(5.5%)	7.4%	7.9%
Operating EBITDA Growth	(46%)	(134%)	N/A	1%	55%
Operating EBITDA Margin	7.30%	(3.28%)	4.94%	4.63%	6.66%
Net Cash Per Share (RM)	(2.81)	(3.64)	(2.00)	(2.10)	(2.36)
BVPS (RM)	5.64	4.04	2.27	2.26	2.45
Gross Interest Cover	4.29	(4.91)	1.74	2.83	5.31
Effective Tax Rate	39.5%	0.0%	40.0%	25.0%	25.0%
Net Dividend Payout Ratio	36.6%	NA	43.8%	72.8%	36.9%
Accounts Receivables Days	49.44	47.66	37.59	38.00	41.31
Inventory Days	61.44	74.85	68.35	60.45	64.70
Accounts Payables Days	73.63	78.98	67.75	61.72	60.19
ROIC (%)	3.89%	(5.32%)	1.11%	2.81%	5.29%
ROCE (%)	4.62%	(5.80%)	2.56%	4.14%	7.47%
Return On Average Assets	3.90%	(4.56%)	2.55%	4.54%	7.29%

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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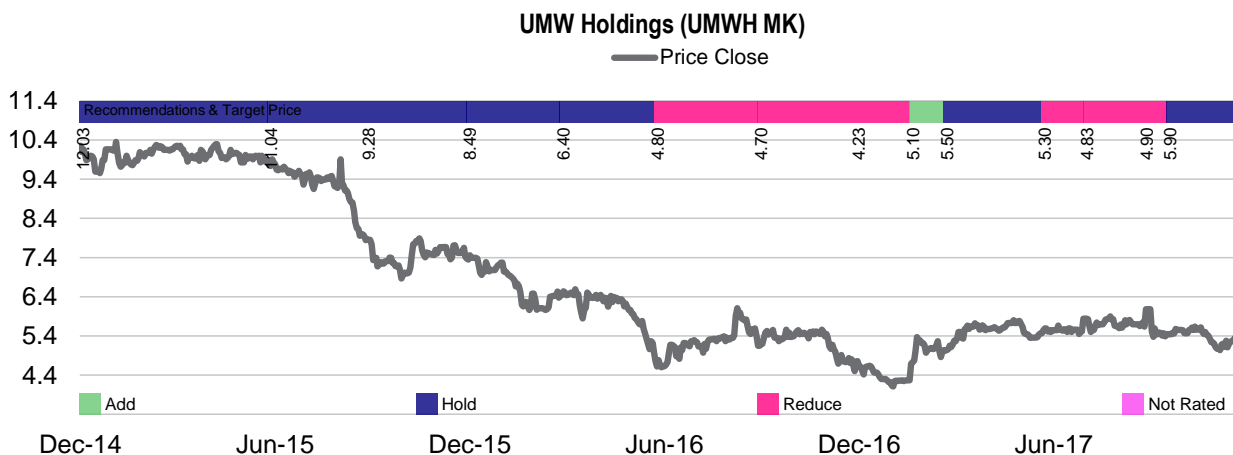
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	Rating Distribution (%)	Investment Banking clients (%)
Add	53.5%	4.3%
Hold	35.9%	2.6%
Reduce	9.7%	0.2%

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 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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