

UMW (SELL ↔, EPS ↓)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

 29 November 2017
 Price Target: RM4.48 (↓)
 Share price: RM5.30

3Q17 stays disappointed

Results	<ul style="list-style-type: none"> ▪ Below Expectations - Reported core net loss of RM8.4m in 3Q17, dragging down 9M17 to a net loss of RM83.4m as compared to HLIB's forecasted earnings of RM138.9m for FY17 and consensus of RM195.3m.
Deviations	<ul style="list-style-type: none"> ▪ Lower than expected contribution from Automotive segment and higher than expected losses from Manufacturing, O&G unlisted and others.
Dividends	<ul style="list-style-type: none"> ▪ None.
Highlights	<ul style="list-style-type: none"> ▪ YoY: Lower core loss in 3Q17 (vs. RM92.7m loss inclusive of UMWOG in 3Q16) after discontinuation of UMWOG (distributed out as dividend in specie). However, UMW ongoing operations worsened YoY, dragged by Automotive (RM depreciation); Manufacturing (start-up costs for Rolls Royce plant); O&G unlisted (lower market demand); and Other division. ▪ QoQ: Core loss narrowed (from RM70.8m loss in 2Q17) on improvement across all divisions, as the group continued to embark on cost restructuring and improved US\$/RM position as well as discontinued recognition from UMWOG. ▪ YTD: Core loss of RM83.4m (including UMWOG loss of RM86.4m) was dragged by weaker margins of the overall group, affected by weaker RM (automotive), competitive market (across all segment), start-up costs (manufacturing) and low demand (O&G and other division). ▪ Outlook: Automotive division is expected to continue face competitive market, while Manufacturing segment is expected to improve with the commencement of Rolls-Royce plant in 4Q17. UMW's shares in UMWOG had been fully distributed (in-specie) to shareholders in early July, avoiding further drag from UMWOG.
Risks	<ul style="list-style-type: none"> ▪ Prolonged tightening of banks' HP rules. ▪ Slowdown in the Malaysian economy affecting car sales. ▪ Global automotive supply chain disruption. ▪ Appreciation of US\$. ▪ Plunge in crude oil price and slowdown in O&G market.
Forecasts	<ul style="list-style-type: none"> ▪ We cut our FY17-19 earnings by 80.2%, 17.4% and 7.3% respectively to account for the slower than expected recovery from Automotive division, near term high pre-operating expenses for Rolls-Royce plant and ongoing drag from O&G unlisted and other divisions.
Rating	SELL (↔) <ul style="list-style-type: none"> ▪ UMW group continues to be dragged by weakened consumer sentiment, depreciating RM (against US\$), and slowdown in oil & gas activity. Furthermore, sustainability of dividend payout is a concern given consecutive losses and increased capex commitment.
Valuation	<ul style="list-style-type: none"> ▪ Maintain Sell with lower TP RM4.48 (from RM4.75). We believe UMW valuation is relatively steep at this juncture, given the low earnings (high growth due to low base) with unattractive dividend yield.

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KLCI	1714
Expected share price return	-15.5%
Expected dividend return	0.9%
Expected total return	-14.5%

Share Price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	6,192
3-mth avg. volume ('000)	262
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-2.0	-7.8	13.8
Relative	-0.2	-4.9	8.1

Major Shareholders

PNB	57.5%
EPF	11.7%
KWAP	8.2%

Summary Earnings Table

FYE Dec (RM m)	FY16A	FY17E	FY18F	FY19F
Turnover	10,882	11,307	11,955	13,313
EBITDA	564	387	747	1,002
Pre-tax Profit	-2,130	78	482	734
Rpt. net profit	-1,667	28	263	450
Norm. net profit	-46	28	263	450
Norm. EPS (sen)	-3.9	2.4	22.5	38.5
P/E (x)	-135.3	226.8	23.7	13.9
Book Value (RM)	4.0	3.5	3.6	3.9
P/B (x)	1.3	1.5	1.5	1.4
Net Dvd Yield (%)	13.5	0.9	0.9	1.9
Net Gearing	89.5	48.5	65.7	61.0
ROE (%)	-0.8	0.6	6.3	10.2
ROA (%)	-0.3	0.2	2.1	3.5

Consensus:

EPS (sen)	18.6	31.9	36.7
% Diff	-87.3	-29.5	5.0

HLIB

Figure #1: Quarterly result comparison

FYE Dec (RMm)	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	Comment
Revenue	2,807.1	2,785.7	2,671.0	-4.1	-4.8	YoY & QoQ: Slight drop in revenue, being dragged by lower contribution from automotive segment on lower automotive sales volume (Toyota & Lexus). Excluded UMWOG from income statement-Continued Operation and lumped the division under Discontinued Operation.
EBITDA	229.8	30.9	90.3	192.4	-60.7	
EBITDA Margin (%)	8.2	1.1	3.4	204.9	-58.7	YoY: EBITDA margin deteriorated on lower sales volume and RM depreciation. QoQ: Stronger group EBITDA margin on improved sales mix for automotive segment and on-going restructuring for O&G unlisted as well as improved overall cost structures.
EBIT	148.5	-18.4	42.1	-329.5	-71.6	
EBIT Margin (%)	5.3	-0.7	1.6	2.2	-3.7	
Net Finance Expense	-1.7	-9.3	-8.8	-5.0	406.4	
Associates	40.8	28.0	29.6	5.7	-27.3	
Els	-176.1	-11.6	-43.0			Related to derivatives, forex, impairments and provisions.
Reported PBT	11.4	-11.2	19.9	-278.0	74.6	
Tax	-38.7	-35.2	-29.8	-15.6	-23.1	
Reported Operational Net Profit	-27.3	-46.4	-9.8	-78.8	-64.0	On-Going operations registered loss, dragged by Manufacturing, O&G unlisted and Other division.
Discontinued Operation	-135.6	-178.5	0.0	-100.0	-100.0	Related to UMWOG, which was distributed out to shareholders of UMW in 2Q17.
Reported Net Profit	-162.9	-224.9	-9.8	-95.6	-94.0	
Reported PATAMI	-128.7	-209.3	-29.4	-86.0	-77.2	
Core PATAMI	-92.7	-70.8	-8.4	-88.2	-91.0	Group remained in loss, being dragged by larger losses from start-up of fan case manufacturing plant for Rolls-Royce engine for aircrafts.
Reported EPS (Sen)	-11.0	-17.9	-2.5	-86.0	-77.2	
Core EPS (Sen)	-7.9	-6.1	-0.7	-88.2	-91.0	

Company, HLIB

Figure #2: Cumulative result comparison

FYE Dec (RMm)	9M16	9M17	YoY (%)	Comment
Revenue	7,635.4	8,186.0	7.2	Revenue improved on automotive contribution, boosted by higher Toyota car sales.
EBITDA	502.9	237.1	-52.9	
EBITDA Margin (%)	6.6	2.9	-3.7	EBITDA margin declined on higher operational costs across all segments especially on automotive (affected by weakened RM against US\$) and Manufacturing (start-up costs for Rolls Royce plant).
EBIT	292.6	94.8	-67.6	
EBIT Margin (%)	3.8	1.2	-2.7	
Net Finance Expense	-14.1	-34.2	143.2	
Associates	89.2	97.7	9.5	
Els	-158.0	-30.2		Related to derivatives, forex, impairments and provisions.
Reported PBT	209.7	128.0	-39.0	
Tax	-112.1	-89.9	-19.7	
Reported Operational Net Profit	97.6	38.1	-61.0	Lower profits from on-going operations due to weakened automotive margins and high pre-operational costs related to Rolls-Royce engine case manufacturing plant.
Discontinued Operation	-269.2	-283.4	5.3	Related to UMWOG, distributed out to shareholders of UMW by mid 2017.
Reported Net Profit	-171.5	-245.3	43.0	
Reported PATAMI	-124.3	-218.5	75.8	
Core PATAMI	-106.3	-83.4	-21.5	Core loss (included UMWOG) was weaker than HLIB's expectation.
Reported EPS (Sen)	-10.6	-18.7	75.8	
Core EPS (Sen)	-9.1	-7.1	-21.5	

Company, HLIB

Figure #3: UMW Group automotive sales statistics

Unit Sales	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	9M16	9M17
Toyota (51% ownership)	10,216	17,033	17,271	19,237	16,503	17,220	15,596	44,520	49,319
Lexus (51% ownership)	272	359	334	388	191	219	240	965	650
Perodua (38% ownership)	47,181	50,189	53,519	56,211	50,265	49,410	51,905	150,889	151,580
Total	57,669	67,581	71,124	75,836	66,959	66,849	67,741	147,234	138,705
Growth YoY (%)	-21.81	-9.21	-2.30	-14.00	16.11	-1.08	-4.76	119.9	-5.8

Company, HLIB

Figure #4: UMW earnings breakdown

	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,263.4	2,260.3	2,115.9	-6.4	-6.5	Related to sales volume of Toyota and Lexus, which declined YoY and QoQ.
Equipment	342.8	351.4	369.3	5.1	7.7	Improved on higher demand for construction sector.
Manufacturing & Engineering	144.6	153.9	155.8	1.3	7.8	Higher demand for shock absorbers.
Oil & Gas Unlisted	58.4	31.7	37.5	18.5	-35.8	Affected by low industry demand.
Others	24.6	18.0	20.5	13.6	-16.5	
Intersegment	(26.6)	(29.6)	(28.1)	-5.1	5.5	
Total	2,807.1	2,785.7	2,671.0	-4.1	-4.8	
Reported PATAMI						
Automotive	77.3	57.0	62.9	10.5	-18.6	Lower YoY in line with lower sales volume.
Equipment	25.0	24.8	31.7	27.8	26.5	Improved on higher sales and support.
Manufacturing & Engineering	(2.9)	(14.1)	(11.9)	N.M.	N.M.	Affected by competitive environment and start-up cost related to new Rolls Royce plant.
Oil & Gas Unlisted	15.1	(52.0)	(28.3)	N.M.	N.M.	Continued loss due to low demand in the sector.
Others	(167.9)	(69.6)	(83.7)	N.M.	N.M.	
UMWOG	(75.5)	(28.4)	0.0	(75.5)	(28.4)	Discontinued Operations: Improved margins due to high rigs utilization and cost cutting measures.
Total	(128.8)	(82.4)	(29.4)	N.M.	N.M.	Affected by derivatives losses, forex movements and impairments.
Core PATAMI	(92.7)	(70.8)	(8.4)	N.M.	N.M.	

Company, HLIB

Figure #5: UMW SOP

Division	Stakes (%)	FY18 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	292.1	2,920.5	2.50	FY18 PE 10x
Equipment	Various	146.7	1,173.6	1.00	FY18 PE 8x
Manufacturing & Engineering	Various	112.8	1,128.0	0.97	FY19 PE 10x
Others	Various	(288.8)	0.0	0.00	
Target Price (RM)			5,222.1	4.48	

No of Shares	1,163.8	As at end FY16
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Company, HLIB

Figure #6: HLIB forecast versus consensus

	FY17E		Difference (%)	FY18F		Difference (%)	FY18F		Difference (%)
	HLIB	Consensus		HLIB	Consensus		HLIB	Consensus	
Revenue (RMm)	11,306.5	10,904.0	3.7%	11,955.2	11,208.0	6.7%	13,313.2	12,248.0	8.7%
EBITDA (RMm)	386.8	613.7	-37.0%	747.5	880.1	-15.1%	1,001.7	1,065.0	-5.9%
Core Profit (RMm)	27.5	195.3	-85.9%	262.8	375.6	-30.0%	450.0	432.4	4.1%
EPS (Sen)	2.4	18.6	-87.3%	22.5	31.9	-29.5%	38.5	36.7	5.0%

Bloomberg, HLIB

Financial Projections

Income Statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Revenue	14,442	10,882	11,307	11,955	13,313
Operating cost	-12,872	-10,317	-10,920	-11,208	-12,311
EBITDA	1,569	564	387	747	1,002
Depreciation	-765	-555	-413	-343	-342
EBIT	804	9	-27	405	660
Interest income	126	81	69	55	45
Interest expense	-127	-186	-111	-118	-123
Associates	134	155	147	141	152
Exceptionals	-668	-2,189	0	0	0
Pretax profit	270	-2,130	78	482	734
Taxation	-267	-141	-96	-133	-164
Minorities	-39	604	46	-86	-120
Net profit	-37	-1,667	28	263	450
Core PATAMI	256	-46	28	263	450
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	2.4	22.5	38.5
Core EPS (sen)	21.9	-3.9	2.4	22.5	38.5

Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
Fixed assets	8,106	7,642	3,422	4,299	4,378
Other assets	4,038	3,709	4,046	4,081	4,119
Working capital	1,968	1,778	1,842	1,976	2,215
Receivables	1,458	754	791	837	932
Payables	-1,380	-898	-928	-953	-1,046
Inventory	1,890	1,922	1,979	2,092	2,330
Net cash	-3,281	-4,226	-1,964	-2,794	-2,798
Cash	2,734	2,179	1,736	1,383	1,215
ST debt	-3,725	-2,617	-1,117	-1,117	-1,117
LT debt	-2,290	-3,789	-2,584	-3,060	-2,896
Equity	6,584	4,722	4,049	4,254	4,587
Share capital	584	584	584	584	584
Reserves	6,000	4,138	3,465	3,669	4,003
Minorities	2,799	2,187	1,303	1,316	1,334
Other liabilities	1,447	1,994	1,994	1,994	1,994

Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
GDP Growth (%)	6.0%	4.2%	5.8%	4.5%	4.5%
TIV ('000)	666.5	580.1	591.7	609.5	627.7
Growth (%)	1.6%	-13.0%	2.0%	3.0%	3.0%
Unit Sale (Unit)	309.2	272.2	276.0	289.5	300.7
Toyota ('000)	93.8	63.8	68.7	72.1	75.0
Lexus ('000)	2.1	1.4	1.3	1.4	1.4
Perodua ('000)	213.3	207.1	206.0	216.0	224.2
Average Price					
UMW (RM '000)	107.9	123.1	116.9	113.4	114.6
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17E	FY18F	FY19F
EBITDA	1,569	564	387	747	1,002
Net interest	-1	-106	-42	-64	-77
WCap changes	69	190	-64	-134	-239
Taxation	-283	-136	-96	-133	-164
Others	-279	-583	0	0	0
Opex cashflow	1,075	-70	184	416	521
Capex & acq.	-2,388	-925	-1,994	-1,220	-420
Free cashflow	-1,313	-995	-1,809	-804	101
Other inv cashflow	502	248	110	106	114
Net borrowings	1,323	433	1,095	476	-164
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	162	-73	-102
Net cashflow	-274	-526	-442	-354	-168
Forex translation	65	25	0	0	0
Beginning cash	3,277	2,655	2,155	1,712	1,359
Ending cash	3,067	2,155	1,712	1,359	1,191

Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Rep. EPS (sen)	-3.2	-142.7	2.4	22.5	38.5
Core EPS (sen)	21.9	-3.9	2.4	22.5	38.5
PER (x)	-167.8	-3.7	226.8	23.7	13.9
Core PER (x)	24.4	-135.3	226.8	23.7	13.9
Net DPS (sen)	20.0	72.0	5.0	5.0	10.0
Net DY (%)	3.7	13.5	0.9	0.9	1.9
BV/ share (RM)	5.6	4.0	3.5	3.6	3.9
P/BV (x)	0.9	1.3	1.5	1.5	1.4
FCF/share (sen)	-112.4	-85.2	-154.9	-68.8	8.7
Market Cap	6,239	6,239	6,239	6,239	6,239
Net cash	-3,281	-4,226	-1,964	-2,794	-2,798
Enterprise value	9,519	10,465	8,202	9,032	9,036
EV/EBITDA (x)	6.1	18.6	21.2	12.1	9.0
ROE (%)	3.9	-0.8	0.6	6.3	10.2
ROA (%)	1.5	-0.3	0.2	2.1	3.5

Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17E	FY18F	FY19F
Growth (%)					
Sales	-3.3	-24.7	3.9	5.7	11.4
EBITDA	-19.5	-64.0	-31.4	93.2	34.0
EBIT	-48.8	-98.8	N.M.	-1625.6	63.0
PBT	-83.4	-890.0	-103.6	521.1	52.2
Core PATAMI	-67.4	-118.0	-159.7	855.1	71.2
Margins (%)					
EBITDA	10.9	5.2	3.4	6.3	7.5
EBIT	5.6	0.1	-0.2	3.4	5.0
PBT	1.9	-19.6	0.7	4.0	5.5
Core PATAMI	1.8	-0.4	0.2	2.2	3.4
Net Gearing (%)	49.8	89.5	48.5	65.7	61.0

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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