

Company Result

29 November 2017

UMW Holdings Berhad

3Q17: *Improving but not convincing*

HOLD

Maintained

Share Price	RM5.30
Target Price	RM5.20

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6191.96
52-week price Range	RM4.09-6.08
Beta (against KLCI)	1.31
3-m Average Daily Volume	0.26m
3-m Average Daily Value [^]	RM1.44m

Share Performance

	1m	3m	12m
Absolute (%)	-2.0	-4.5	17.8
Relative (%-pts)	-0.2	-3.5	11.8

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	42.11
EMPLOYEES PROVIDENT FUND	11.74
KUMPULAN WANG PERSARAAN	8.25
ESTIMATED FREE FLOAT	22.19

Historical Chart



Source: Bloomberg

Team Coverage

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- **UMW Holdings Berhad (UMW) posted a net loss of RM29.4m in 3Q17, narrowing from a net loss of RM209.3m in 2Q17 and net loss of RM128.8m a year ago.** Meanwhile, the Group's topline stood at RM2.7b, which was marginally down 4.1% q-o-q and 4.9% y-o-y.
- **As for 9M17, the Group reported a net loss of RM218.5m as compared to a net loss of RM124.4m in 9M16.** Meanwhile, revenue decreased by 5.2% y-o-y to RM8.3b. Overall, the Group recorded a net loss RM59.6m in 9M17 as compared to net loss of RM118.6m in 9M16.
- **Below expectations** – 9M17 results were below our expectation and market consensus. The shortfall was mainly due to lower-than-expected contribution from automotive segment as well as sluggish performance in unlisted Oil & Gas segment.

Comment

- **Subdued Auto division in 9M17.** Auto segment's PBT in 9M17 recorded a decline of 16.4%, dented by higher USD against MYR. We also believe the intense competition from other car markers has led to drop in Toyota sales by 11.4% y-o-y in 3Q. However, on a q-o-q basis, auto's PBT recorded an increase of 7.2% q-o-q as it was reinforced by strong demand for Toyota Innova and Toyota Fortuner and Toyota Hilux. Toyota still able to maintain its market share of 11.7% during 9M17. We reckon that Toyota sales will be robust in the near term as the Group will exert a massive effort on promotional activities towards end of the year coupled with launching of new Toyota CH-R in 1H18.
- **New MYVI 2018 to bolster Perodua sales.** Recently, Perodua has announced a third-generation of Myvi and it has been opened for booking from price range of RM44.3k to RM55.3k. We foresee the new launch will contribute to the Group towards 4Q17. As for 9M17 results, Perodua maintained its leading position with 35.6% market share and recorded a minimal growth of 0.5% y-o-y. We believe sales were driven by Axia facelift and updated Bezza which took place early this year.
- **Lower margin weighed on Equipment division.** The Equipment division for 9M17 (topline: +1.1%, bottomline: -4.4%) was affected by lower profit margin from industrial equipment business in Malaysia and Singapore. PBT margin decreased by -1.38ppts. On a quarterly comparison, both topline and bottomline increased by 5.1% and 21.9% respectively, propelled by higher construction activities that resulted in sterling performance

in equipment sales and product support segment.

- **Narrowing losses from unlisted Oil & Gas (O&G).** Unlisted O&G narrowed its losses during 9M17, posting a loss before tax of RM191.9m as compared to RM265.5m in 9M16. The continued poor performance was due to weaker drilling activities as well as cessation of drilling business in Oman. Following ceased operations in its Oman business in April 2017, the Group is currently in the midst of negotiating to exit other business units. Besides that, on q-o-q, the loss before tax also narrowed as lower losses incurred from its operations in China. The Group commits to sell off its unlisted O&G segment by 2018 and totally exit the sector. Looking forward, we foresee the Group's earnings will recover with the disposals of its loss-making unlisted O&G segment.
- **Slumbering M&E division.** Manufacturing & Engineering's PBT posted a net loss of RM13.2m in 9M17 as compared to a net profit of RM20m in 9M16. The disappointing performance posted by this segment was due to the aerospace business which is still at a pre-operating phase. The Group expects to deliver its first unit of product in the next quarter. However, meaningful contribution from aerospace business to M&E division is expected to be felt from 2019 onwards.

Earnings Outlook/Revision

- **We slash our net earnings forecasts by respective 17.5% and 21.7% for FY17F and FY18F to account for lower margins for Auto division and M&E division as well as losses from unlisted O&G.**
- **We expect the Group to re-focus on three core businesses which will resume positive growth momentum over the longer term** - 1) Auto division is expected to register a robust growth with the launch of new Toyota CH-R during the 1H18 coupled with strong marketing strategies in 4Q17; 2) M&E division is expected to move towards into high value-added manufacturing; 3) New plant in Bukit Raja (initial 50K capacity p.a.) to be fully completed and operational in 2019; and 4) Exit of O&G segment in 2018 that will help to improve the Group's overall profitability.
- **However, we reckon that this year is still full of challenges for the Group** especially for its core business, auto division, as impacted by weaker consumer sentiment towards big-ticket items and volatility in foreign exchange. Also, the non-listed O&G assets will continue to weigh on the Group.
- **Maintain HOLD call on UMW with an unchanged target price of RM5.20.** Our valuation for UMW is pegged at 24.8x FY2018F PE based on revised EPS of 21 sen. Our target PE for valuation is above its historical mean PE as to better reflect the Group's meaningful earnings recovery in 2018F.

Figure 1: Quarterly Figures

Year to 31 Dec	3Q17 (RMm)	2Q17 (RMm)	3Q16 (RMm)	QoQ % chg	YoY % chg	9M17 (RMm)	9M16 (RMm)	YoY % chg
Revenue	2,671.01	2,785.68	2,807.13	-4.12%	-4.85%	8,260.29	7,853.10	5.2%
Operating Profit	-10.84	-35.27	-31.12	N/A	N/A	-26.41	27.10	N/A
Pre-tax Profit	19.93	-11.20	11.42	N/A	N/A	23.12	77.30	N/A
Profit After Tax	-9.83	-224.89	-162.88	N/A	N/A	-245.28	-171.54	N/A
Net Profit	-29.37	-209.30	-128.83	N/A	N/A	-218.50	-124.38	N/A
Core Profit	13.64	-68.72	-92.76	N/A	N/A	-59.57	-118.59	N/A
Operating Margin (%)	-0.4%	-1.3%	-1.1%	N/A	N/A	-0.3%	0.3%	N/A
PBT Margin (%)	0.7%	-0.4%	0.4%	N/A	N/A	0.3%	1.0%	N/A
Net Margin (%)	-0.4%	-8.1%	-5.8%	N/A	N/A	-3.0%	-2.2%	N/A
Core Net Margin (%)	-1.1%	-7.5%	-4.6%	N/A	N/A	-2.6%	-1.6%	N/A

Source: Company, JF Apex

Figure 2: Segmental Breakdown

2017	3Q17 (RMm)	2Q17 (RMm)	3Q16 (RMm)	Q-O-Q (%)	Y-O-Y (%)	9M17 (RMm)	9M16 (RMm)	Y-O-Y (%)
Segmental Revenue								
Automotive	2,115.92	2,260.34	2,263.37	-6.39%	-6.51%	6,567.12	5,996.49	9.52%
Equipment	369.33	351.35	342.85	5.12%	7.72%	1,063.12	1,051.97	1.06%
Oil & Gas	37.53	139.91	49.65	-73.17%	-24.41%	251.72	267.34	-5.84%
M & E	155.82	153.87	144.57	1.27%	7.78%	475.57	446.99	6.40%
Others	20.50	18.05	-71.25	13.57%	N/A	51.70	49.22	5.04%
Elimination	-28.10	-29.62	139.91	N/A	N/A	(76.99)	-63.48	N/A
Total Revenue	2671.01	2893.91	2869.11	-7.70%	-6.90%	8332.242	7748.53	7.53%
Segmental PBT								
Automotive	106.07	98.97	133.47	7.18%	-20.53%	292.11	349.50	-16.42%
Equipment	39.25	32.20	33.55	21.91%	16.99%	111.00	116.14	-4.43%
Oil & Gas	-35.59	-51.38	-133.04	N/A	N/A	-191.88	-265.46	N/A
M & E	-6.73	-9.60	2.46	N/A	N/A	-13.23	19.96	N/A
Total PBT	103.00	70.18	36.44	46.76%	92.57%	197.993	220.13	-10.06%
Segmental Margin								
Automotive	5.01%	4.38%	5.90%	0.63%	-0.88%	4.45%	5.83%	-1.38%
Equipment	10.63%	9.16%	9.79%	1.46%	0.84%	10.44%	11.04%	-0.60%
Oil & Gas	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M & E	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017F	2018F
Revenue	13,951.46	14,958.91	14,419.75	10,965.07	9,109.47	9257.41
Operating profit	1,296.46	1,426.78	166.64	-2,202.81	307.90	383.26
PBT	1,435.67	1,620.83	265.36	-2,153.78	431.58	566.67
Net profit	679.61	650.70	-38.93	-1,690.58	181.26	246.50
Core profit	960.40	836.80	338.00	-401.80	181.26	246.50
EPS (sen)	0.58	0.56	-0.03	-1.45	0.16	0.21
P/BV (x)	0.69	0.66	0.67	0.90	0.81	0.73
DPS (sen)	0.44	0.41	0.20	0.00	0.06	0.08
Dividend yield (%)	8.30%	7.74%	3.77%	0.00%	1.17%	1.59%
Operating margin (%)	9.29%	9.54%	1.16%	-20.09%	3.38%	4.14%
PBT margin (%)	10.29%	10.84%	1.84%	-19.64%	4.74%	6.12%
Net profit margin (%)	4.87%	4.35%	-0.27%	-15.42%	1.99%	2.66%
Net Gearing Ratio(x)	0.37	0.38	0.66	1.03	1.04	1.10
ROE (%)	7.57%	6.89%	-0.42%	-24.47%	2.37%	2.91%
ROA (%)	4.59%	3.96%	-0.22%	-10.43%	1.06%	1.36%

Source: Company, JF Apex

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STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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