

29 Nov 2017

Hold

Price
 RM5.30

Target Price
 RM5.70

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	6,191.9
52-week high/low (RM)	6.08 / 4.09
Avg daily turnover (RMm)	1.4
KLCI (pts)	1,714.4

Source: Bloomberg, KAF

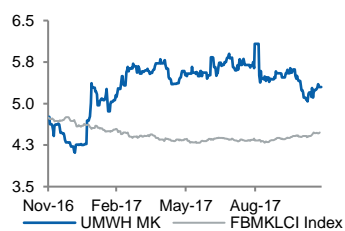
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(42.1%)
EPF	(11.7%)
KWAP	(8.3%)
Free Float	22.6

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(5.8)	(4.1)	11.6
Rel Market (%)	(3.1)	(1.2)	5.5



Source: Bloomberg, KAF

Analyst

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UMW Holdings

On the mend

UMW reported net profit of RM20m for 3Q17 following the completion of UWMOG demerger in mid-2017. For the 9M period, UMW remained in the red with a consolidated core loss of RM92m (after stripping off the RM127m loss on demerger). While 9M auto sales improved, margins were impacted by forex. Maintain Hold.

Financial Highlights

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue (RMm)	14,442	10,959	11,534	11,880	12,254
Core net profit (RMm)	322	(369)	28	336	467
Core EPS (Sen)	27.6	(31.6)	2.4	28.8	40.0
EPS growth (%)	(58.9)	nm	nm	>100	39.0
DPS (Sen)	20.0	0.0	2.0	20.0	25.0
Core PE (x)	19.4	nm	nm	18.6	13.4
Div yield (%)	3.7	0.0	0.4	3.7	4.7
ROE (%)	(0.6)	(29.3)	0.7	9.9	11.2
Net Gearing (%)	49.8	88.2	79.7	40.6	33.8
PBV(x)	0.7	0.9	1.7	1.3	1.2

Source: Company, KAF

A profitable 3Q. Following the completion of UMWOG demerger, UMW Holdings Bhd (UMW) reported net earnings of RM20m for 3Q. This is on a 5% yoy revenue decline due to slower auto sales and cessation of its Oman operations.

9M core net loss of RM92m. For the 9M period, UMW reported a core net loss of RM92m (vs. RM124m losses a year earlier) as there was still recognition of losses from UMWOG in 1H. Our core numbers exclude the RM127m loss from the demerger of UMWOG.

Forex pressure remains. Revenue from its continuing businesses rose 7% from the 9M period mainly on improved auto sales. Be that as it may, group PBT margin shrunk to 2% (from 3%) from forex pressure as well as gestation losses at its Rolls-Royce aerospace plant. But prospects look brighter as the MYR strengthens in 4Q while the plant is on track to deliver its first fan case.

9M auto sales up but margins down. Auto division revenue rose 10% for the 9M period. Based on TIV data, Toyota sales rose 11% to 49k (vs. 45k a year earlier) for the Jan-Sept period. We believe UMW is on track to achieve its Toyota sales target of 68k for the full year. While sales are on the mend, forex pressure reduced the auto division's PBT margin to 4% (from 6% a year earlier).

Firmer margins in 4Q. Sequentially, auto margins had improved by 1ppt to 5% in 3Q; we believe margin could improve in 4Q on a stronger MYR. Recall that all non-local Toyota content are transacted in USD (estimated at 40% of Toyota costs). During the 9M period, MYR averaged at 4.34 (vs. 4.23 a year earlier). For the 4Q thus far, it averaged 4.20 to trade at the 4.10 currently.

Maintain Hold. We maintain our numbers as we believe 4Q would be a stronger quarter given the improving MYR, seasonal year-end sales, and delivery of its first auto fan case. Besides, management is also looking to dispose its non-listed O&G assets (although impact would be minimal given the significant impairment made earlier) and unlock the value of its Serendah land. All in, our view of 2017 as a recovery year still holds true. The launch of the C-HR in Jan/Feb 2018 should provide some excitement. We maintain Hold and SOP-based TP of RM5.70.

Exhibit 1: Results summary

FYE 31 Dec	3Q16	2Q17	3Q17	yoy %	qoq%	9M16	9M17	yoy %
Continued operations								
Revenue	2807	2786	2671	-5%	-4%	7635	8186	7%
Operating profit	(31)	(35)	(11)	-65%	-69%	116	44	-62%
Investment income	10	20	21	113%	7%	46	60	30%
Finance cost	(8)	(24)	(20)	145%	-16%	(42)	(73)	76%
JV & Associates	41	28	30	-27%	6%	89	98	10%
Pretax profit	11	(11)	20	75%	-278%	210	128	-39%
Tax	(39)	(35)	(30)	-23%	-16%	(112)	(90)	-20%
Profit after tax (continued ops)	(27)	(46)	(10)	-64%	-79%	98	38	-61%
MI	(7)	(8)	29	-545%	-490%	(13)	(43)	237%
Net profit (continuing ops)	(34)	(54)	20	-158%	-136%	85	(5)	-106%
Discontinued Operations								
Revenue	50	140	0			267	214	-20%
Loss before tax from discontinued ops	(133)	(178)	0			(265)	(283)	7%
Loss after tax from discontinued ops	(136)	(178)	0			(269)	(283)	5%
MI	0	23	0			60	70	17%
Net loss from discontinued ops	(135)	(155)	0			(209)	(213)	2%
Consolidated								
Revenue	2857	2926	2671	-7%	-9%	7903	8400	6%
(Loss)/profit before tax	(122)	(189)	20	-116%	-111%	(56)	(155)	178%
Profit after tax	(163)	(225)	(10)	-94%	-96%	(172)	(245)	43%
MI	(6)	16	29	-555%	88%	47	27	-43%
Net profit	(169)	(209)	20	-112%	-109%	(124)	(218)	76%
Core net profit	(169)	(82)	20	-112%	-124%	(124)	(92)	-26%
Consolidated								
EPS (sen)	(14.5)	(17.9)	1.7			(10.6)	(18.7)	
Core EPS (sen)	(14.5)	(7.1)	1.7			(10.6)	(7.8)	
Net DPS (sen)	0	0	0			0	0	
BV (RM)	5.46	3.02	3.01			4.04	3.01	
PBT margin (%)	-4%	-6%	1%			-1%	-2%	
PAT margin (%)	-6%	-8%	0%			-2%	-3%	
Net profit margin (%)	-6%	-7%	1%			-2%	-3%	
Core net profit margin (%)	-6%	-3%	1%			-2%	-1%	
Continued ops								
EBIT margin (%)	-1%	-1%	0%			2%	1%	
PBT margin (%)	0%	0%	1%			3%	2%	
PAT margin (%)	-1%	-2%	0%			1%	0%	
Net margin (%)	-1%	-2%	1%			1%	0%	
Effective tax rate (%)	339%	-315%	149%			53%	70%	

Source: Company, KAF

Exhibit 2: Segmental breakdown

	3Q16	2Q17	3Q17	yoy %	qoq %	9M16	9M17	yoy %
Continued								
Automotive	2263	2260	2116	-7%	-6%	5996	6597	10%
Equipment	343	351	369	8%	5%	1052	1063	1%
O&G	58	32	38	-36%	18%	154	105	-32%
Manufacturing	145	154	156	8%	1%	320	476	49%
Others & Eliminations	(2)	(12)	(8)	265%	-34%	113	(55)	-149%
Total Revenue (RM mil)	2807	2786	2671	-5%	-4%	7635	8186	7%
Automotive	133	99	106	-21%	7%	349	292	-16%
Equipment	34	32	39	17%	22%	116	111	-4%
O&G	(36)	(71)	(36)	-2%	-50%	(117)	(121)	4%
Manufacturing	2	(10)	(7)	-374%	-30%	20	(13)	-166%
Others	(122)	(62)	(83)	-32%	34%	(159)	(141)	-12%
Total PBT (RM mil)	11	(11)	20	75%	-278%	210	128	-39%
Automotive PBT margin (%)	6%	4%	5%			6%	4%	
Equipment PBT margin (%)	10%	9%	11%			11%	10%	
O&G PBT margin (%)	n/m	n/m	n/m			n/m	n/m	
Manufacturing PBT (%)	2%	-6%	-4%			6%	-3%	
Total PBT margin (%)	0%	0%	1%			3%	2%	

Source: Company, KAF

Exhibit 3: SOP value

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	214.7	0.18	3%	FY16A UMW O&G division
Equipment division	1623	1.39	24%	12x FY18F PE
M&E division	436	0.37	7%	1x 2016A book value
Auto division	5,354	4.58	80%	14x FY18F PE
Serendah land	319	0.27	5%	RNAV (732 acres at RM10psf)
Company net cash/(debt)	(1286)	-1.10	-19%	FY16A
	6660		100%	
UMWH share base	1168			
Fair value	5.70			

Source: Company, KAF

UMW Holdings

Income Statement

FYE Dec (RMm)	2015	2016	2017F	2018F	2019F
Revenue	14,441.6	10,958.5	11,534.1	11,879.9	12,254.1
EBITDA	646.3	(1,612.0)	330.9	621.5	810.2
Depreciation/Amortisation	(510.7)	(569.5)	(265.0)	(289.5)	(314.0)
Operating income (EBIT)	135.6	(2,181.5)	65.9	332.0	496.2
Other income & associates	134.4	156.4	132.5	148.6	152.7
Net interest	(0.4)	(105.1)	(98.1)	(44.1)	(79.6)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	269.7	(2,130.2)	100.2	436.5	569.2
Taxation	(267.5)	(139.6)	(24.1)	(24.1)	(24.1)
Minorities/pref dividends	(39.4)	611.7	(48.0)	(76.5)	(78.3)
Net profit	(37.2)	(1,658.0)	28.2	335.9	466.9
Core net profit	322.1	(369.3)	28.2	335.9	466.9

Balance Sheet

FYE Dec (RMm)	2015	2016	2017F	2018F	2019F
Fixed assets	8,102.8	7,678.5	3,008.3	3,418.7	3,804.7
Intangible assets	25.2	0.0	0.0	0.0	0.0
Other long-term assets	450.8	791.3	453.3	453.3	453.3
Total non-current assets	10,557.9	10,478.0	5,469.7	5,880.1	6,266.1
Cash & equivalent	2,734.1	2,193.9	1,220.6	3,161.5	4,403.8
Stock	1,890.0	1,931.2	1,429.2	1,404.4	1,182.1
Trade debtors	1,833.4	988.5	835.4	823.0	830.0
Other current assets	1,209.9	671.5	668.8	891.6	1,531.3
Total current assets	7,667.4	5,785.1	4,154.0	6,280.4	7,947.3
Trade creditors	2,241.2	1,878.6	2,197.1	2,388.2	2,759.8
Short-term borrowings	3,725.0	2,639.3	2,940.2	3,716.5	4,534.2
Other current liabilities	371.8	234.0	273.4	274.6	274.2
Total current liabilities	6,338.0	4,752.0	5,410.7	6,379.3	7,568.3
Long-term borrowings	2,289.8	3,715.8	582.6	1,037.8	1,356.5
Other long-term liabilities	213.7	931.0	23.0	23.0	23.0
Total long-term liabilities	2,503.4	4,646.7	605.5	1,060.7	1,379.4
Shareholders' funds	6,584.5	4,718.6	2,889.4	3,926.0	4,392.8
Minority interests	2,799.4	2,145.7	718.0	794.5	872.8

Cash flow Statement

FYE Dec (RMm)	2015	2016	2017F	2018F	2019F
Pretax profit	269.7	(2,130.2)	100.2	436.5	569.2
Depreciation/Amortisation	510.7	569.5	265.0	289.5	314.0
Net change in working capital	209.7	441.2	973.5	228.4	586.8
Others	(41.0)	1,410.3	1,596.7	1,526.6	1,558.1
Cash flow from operations	949.1	290.7	2,935.5	2,481.1	3,028.2
Capital expenditure	(2,280.4)	(1,181.6)	(756.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(1,116.2)	(1,844.2)	(1,891.5)	(1,891.5)	(1,891.5)
Others	1,656.2	2,253.3	2,253.5	939.1	(1.2)
Cash flow from investing	(1,740.3)	(772.5)	(394.1)	(1,652.4)	(2,592.7)
Debt raised/(repaid)	1,322.6	380.1	(2,832.4)	1,231.5	1,136.4
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(479.0)	(116.8)	0.0	(23.4)	(233.7)
Others	(326.2)	(654.1)	(95.8)	(95.8)	(95.8)
Cash flow from financing	517.3	(390.8)	(2,928.2)	1,112.3	806.9
Net cash flow	(273.9)	(872.6)	(386.7)	1,941.0	1,242.3
Cash b/f	2,830.4	2,621.1	1,607.3	1,220.6	3,161.5
Cash c/f	2,621.1	1,607.3	1,220.6	3,161.5	4,403.8

Key Ratios

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue growth (%)	(3.3)	(24.1)	5.3	3.0	3.2
EBITDA growth (%)	(64.3)	nm	nm	87.8	30.4
Pretax margins (%)	1.9	(19.4)	0.9	3.7	4.6
Net profit margins (%)	(0.3)	(15.1)	0.2	2.8	3.8
Interest cover (x)	336.5	(20.8)	0.7	7.5	6.2
Effective tax rate (%)	0.0	0.0	24.0	0.0	0.0
Net dividend payout (%)	nm	nm	0.0	0.0	0.0
Debtors turnover (days)	49	47	29	25	25
Stock turnover (days)	47	64	53	44	39
Creditors turnover (days)	56	69	64	70	77

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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