

UMW Holdings Bhd

Hit by Lower Margins and Wider Losses

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MARKET PERFORM ↔

Price: RM5.30
Target Price: RM5.30 ↓

9M17 core PATAMI of RM45.1m excluding impairment, came in below expectations compared to our/consensus forecasts of RM455.7m/RM195.3m. The negative deviations were due to the lower-than-expected margins in Automotive segment and wider losses in M&E and unlisted Oil & Gas division. Thus, we cut our earnings assumptions for FY17E/FY18E by 75%/30%. As such, we lowered our TP from RM5.77 to RM5.30. Reiterate MARKET PERFORM.

9M17 below expectations. The group reported 9M17 core PATAMI of RM45.1m excluding impairment (RM51.4m) which came in below expectations compared to our/consensus forecasts of RM455.7m/RM195.3m. The negative deviations were due to the lower-than-expected margins in Automotive segment and wider losses in M&E and unlisted Oil & Gas division. No dividend was declared for the quarter, as expected.

YoY, 9M17 revenue increased by 7% due to higher contribution from the Auto segment (+10%), with improvement in volume of cars sold by 3% to 201,549 units as per MAA statistics, with higher deliveries for the existing and face-lifted variants models (i.e. of Perodua Axia, Myvi, Bezza and Toyota face-lifted variants of the Camry, Innova, Corolla Altis and Vios). The positive growth was also supported by the Equipment segment (+1%), with higher contract awards, the M&E segment (+6%), with higher sales of shock absorbers. This, however, was dampened by lower contribution in unlisted Oil & Gas segment (-32%), due to lower drilling activities and ceasing of operations in Oman. Despite the higher sales, PBT plunged by 40%, hampered by the higher import costs from unfavourable forex rates (as at 9M17, the USD/MYR at RM 4.3473/USD compared to RM4.0842/USD as at 9M16).

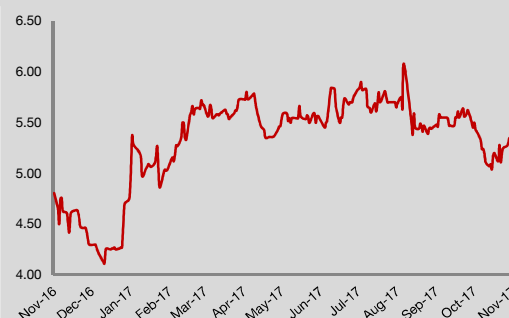
QoQ, 3Q17 revenue declined by 4% attributed to lower contribution from the Auto segment (-4%) due to lower demand in post-festivities (Hari Raya) period. This was cushioned by the higher contribution from other segments namely Equipment (+5%), M&E (+1%), and unlisted Oil & Gas segments (+19%) attributed to higher sales and contract awards. Nonetheless, the PBT returned to the black for the quarter at RM19.9m (2Q17:-RM11.2m) due to the improved contribution from all segments attributed to the stronger USD/MYR rates (as at 3Q17, the USD/MYR was at RM 4.2637/USD compared to RM4.3592/USD as at 2Q17).

Outlook. The strategic exit from the O&G industry is expected to improve the group's profitability with more solid balance sheet. Additionally, the anticipated new models (2018 Toyota CH-R, 2018 Toyota Harrier & third-generation Perodua MyVi) should excite consumers, bringing in more sales volume to the group. The group is on track to meet the targeted 272,000 units in FY17 (201,549 units as of 9M17: at 74% of the target). Nonetheless, we maintain our neutral stance on UMW in view of the single-digit growth in its automotive segment sales volume pending the completion in its new Bukit Raja Plant (expected to be operational in early 2019) and the gestation

Post-results, we cut our FY17E/FY18E earnings assumptions by 75%/30% to account for lower margin assumption for its lion's share Automotive segment as well as wider losses in M&E segment as we were previously too optimistic with our numbers. Nonetheless, FY18 earnings growth is expected to benefit from the full divestment of unlisted Oil & Gas division.

Maintain MARKET PERFORM with a lower TP of RM5.30, based on revised 17.0x FY18E PER in line with 5 years average historical PER. We think our valuation is fair considering the expected improvement in all of its core segments with its Automotive segment TIV comprise almost half of the total Malaysian TIV volume (previously from, RM5.77, based on 13x FY18 PER). Risks to our call include: (i) lower-than-expected car sales volume, and (ii) lower-than-expected margins.

Share Price Performance



KLCI	1,714.42
YTD KLCI chg	4.4%
YTD stock price chg	25.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,192.0
Issued shares	1,168.3
52-week range (H)	6.08
52-week range (L)	4.09
3-mth avg daily vol:	261,889
Free Float	39%
Beta	1.4

Major Shareholders

Skim Amanah Saham Bumiputera	41.1%
Employees Provident Fund	11.7%
Kumpulan Wang Persaraan	8.2%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	10,981.3	11,045.7	11,050.2
EBIT/ (LBIT)	(2,202.8)	23.1	274.6
PBT/ (LBT)	(2,153.8)	142.2	413.1
Net Profit/(NL)	(1,690.6)	114.8	365.7
Core NP/(NL)	(362.2)	114.8	365.7
Consensus NP	-	195.3	375.6
Earnings Revision	-	-74.8%	-29.5%
Core EPS (sen)	-31.0	9.8	31.3
Core EPS growth	-251.1%	-131.7%	218.6%
NDPS (sen)	-	-	-
BVPS (RM)	4.04	2.80	3.34
PER (x)	N.M	54.0	16.9
PBV (x)	1.3	1.9	1.6
Net Gearing (x)	0.9	0.4	0.3
Net Div. Yield (%)	-	-	-

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Result Highlight								
(Continued Operation)	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	2,671.0	2,785.7	-4%	2,807.1	-5%	8,186.0	7,635.4	7%
EBIT/LBIT	(10.8)	(35.3)	69%	(31.1)	65%	43.9	116.3	-62%
PBT/(LBT)	19.9	(11.2)	278%	11.4	75%	128.0	209.7	-39%
Taxation and Zakat	(29.8)	(35.2)	16%	(38.7)	23%	(89.9)	(112.1)	20%
PATAMI	(29.4)	(54.0)	46%	6.6	-545%	(5.2)	84.8	-106%
Core PATAMI	18.0	(48.0)	138%	(7.9)	328%	45.1	84.6	-47%
Core EPS (sen)	1.5	(4.1)	138%	(0.7)	328%	3.9	7.2	-47%
DPS (sen)	-	-	-	-	-	-	-	-

** Note that the 3Q17 core LATAMI of RM37.6m has been adjusted by excluding non-core items amounting to RM48.0m, which consists of: (i) provision for impairment losses of receivables of RM56.3m, (ii) Reversal for write down of inventories of RM1.5m, (iii) gain on disposal of quoted or unquoted investments of RM0m, (vi) Gain on disposal of property, plant and equipment of RM7.4m.*

** Note that the 9M17 core PATAMI of RM27.0m has been adjusted by excluding non-core items amounting to RM51.4m, which consists of: (i) provision for impairment losses of receivables of RM60.7m, (ii) provision for write down of inventories of RM6.7m, (iii) gain on disposal of quoted or unquoted investments of RM0m, (vi) Gain on disposal of property, plant and equipment of RM17.2m.*

EBIT/(LBIT) margin	-0.4%	-1.3%		-1.1%		0.5%	1.5%	
PBT/(LBT) margin	0.7%	-0.4%		0.4%		1.6%	2.7%	
Core NP/ (NL) margin	0.7%	-1.7%		-0.3%		0.6%	1.1%	
Effective tax rate	-149.3%	314.7%		-339.1%		-70.2%	-53.4%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM'm)	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Revenue	2,671.0	2,785.7	-4.1%	2,807.1	-4.8%	8,186.0	7,635.4	7.2%
Automotive	2,115.9	2,260.3	-6.4%	2,263.4	-6.5%	6,567.1	5,996.5	9.5%
Equipment	369.3	351.4	5.1%	342.8	7.7%	1,063.1	1,052.0	1.1%
M&E	155.8	153.9	1.3%	144.6	7.8%	475.6	447.0	6.4%
O&G (Unlisted)	37.5	31.7	18.5%	58.4	-35.8%	105.5	154.2	-31.6%
Elimination	(7.6)	(11.6)	34.3%	(2.1)	-265.5%	(25.3)	(14.3)	-77.4%
Segment PBT/(LBT)	19.9	(11.2)	278.0%	11.4	74.6%	128.0	209.7	-39.0%
Automotive	106.1	99.0	7.2%	133.5	-20.5%	292.1	349.5	-16.4%
Equipment	39.3	32.2	21.9%	33.6	17.0%	111.0	116.1	-4.4%
M&E	(6.7)	(9.6)	29.9%	2.5	-373.8%	(13.2)	20.0	-166.3%
O&G (Unlisted)	(35.6)	70.6	-150.4%	(36.1)	1.5%	(121.3)	117.0	-203.7%
Elimination	(83.1)	(203.4)	59.2%	(121.9)	31.9%	(140.6)	(392.8)	64.2%
Segment PBT/(LBT) margin								
Automotive	5.0%	4.4%		5.9%		4.4%	5.8%	
Equipment	10.6%	9.2%		9.8%		10.4%	11.0%	
M&E	-4.3%	-6.2%		1.7%		-2.8%	4.5%	
O&G (Unlisted)	-94.8%	222.9%		-61.9%		-115.0%	75.8%	

Source: Company, Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @ 28/11/17	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RM m)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
BERMAZ AUTO BHD	2.11	2,416.9	20.8	12.6	11.1	7.3%	43.5%	117.6	193.3	220.8	64.3%	14.2%	2.40	OP
DRB-HICOM BHD	1.71	3,305.8	N.M.	N.M.	N.M.	1.2%	6.3%	-732.0	-186.1	-101.4	N.M	N.M	1.70	MP
MBM RESOURCES BERHAD	2.12	828.3	11.2	10.6	9.7	2.1%	5.0%	74.0	78.1	85.2	5.5%	9.0%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.51	985.7	N.M.	N.M.	N.M.	1.3%	2.0%	-46.1	-83.4	-84.4	N.M	N.M	1.40	UP
UMW HOLDINGS BHD	5.30	6,192.0	N.M.	13.6	11.9	0.0%	4.0%	-362.2	114.8	365.7	N.M	218.6%	5.30	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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