

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/SELL/RM5.30/Target: RM4.60)

3Q17: Hit By Losses From Non-Core Businesses

3Q17 RESULTS

Year to 31 Dec	3Q17 (RMm)	qoq % chg	yoy % chg	9M17 (RMm)	yoy % chg
Revenue	2,671.0	(4.1)	(6.5)	8,186.0	7.2
-Auto	2,115.9	(6.4)	(6.5)	6,567.1	9.5
-Equipment	369.3	5.1	7.7	1,063.1	1.1
-Manufacturing & Engineering	155.8	1.3	7.8	475.6	6.4
-Oil & Gas (unlisted)	37.5	(44.0)	(35.8)	105.5	(31.6)
-Others	(7.6)	na	na	(25.3)	77.4
Associates	29.6	5.7	(27.3)	97.7	9.5
PBT	19.9	(278.0)	74.6	128.0	(39.0)
-Auto	106.1	7.2	(20.5)	292.1	(16.4)
-Equipment	39.3	21.9	17.0	111.0	(4.4)
-Manufacturing & Engineering	(6.7)	(29.9)	(373.8)	(13.2)	(166.3)
-Oil & Gas (unlisted)	(35.6)	(49.6)	(1.5)	(121.3)	3.7
-Others	(83.1)	33.7	(121.9)	(140.6)	(11.5)
Net Profit from continuing ops	(29.4)	(45.6)	(544.7)	(5.2)	(106.1)
Core NP from continuing ops	26.9	(156.3)	155.4	55.5	(34.5)
PBT Margins (%)					
-Overall	0.7	1.1	0.3	1.6	(1.2)
-Auto	5.0	0.6	(0.9)	4.4	(1.4)
-Equipment	10.6	1.5	0.8	10.4	(0.6)
-Manufacturing & Engineering	(4.3)	1.9	(6.0)	(2.8)	(7.2)
-Oil & Gas (unlisted)	(94.8)	128.1	(33.0)	(115.0)	(39.1)

EARNINGS FORECASTS

Year to 30 Dec (RMm)	2017F	2018F	2019F
Revenue	10,493.2	10,539.1	10,608.6
EBITDA	500.7	708.7	821.7
EBIT	180.7	384.7	493.9
Net Profit	23.4	257.3	327.2
Core Net Profit	84.1	257.3	327.2
PE (x)	264.2	24.1	18.9
Div Yield (%)	0.0	2.1	2.6
Forecast Revision (%)			
Net Profit	47.0	29.1	22.0

Source: UMW, UOB Kay Hian

WHAT'S NEW

- **UMW Holdings' (UMW) 3Q17 core net profit of RM26.9m is below our and consensus expectations.** 9M17 core net profit accounts for only 35% and 28% of our and consensus' 2017 forecasts respectively. Our 3Q17 core net profit estimate excludes RM56.3m impairment loss of receivables (3Q16: RM3.9m impairment loss of receivables). Note that these figures exclude losses from the listed UMW O&G, which was demerged from UMWH on 11 Jul 17. The underperformance largely stemmed from: a) higher-than-expected pre-tax loss of RM121.3m at its oil and gas (O&G) division in 9M17 (vs our full-year pre-tax loss forecast of RM120m), b) pre-tax loss of RM83.1m in the Others segment this quarter, bringing 9M17 pre-tax loss to RM140.1m (vs our full-year pre-tax loss forecast of RM60m). Cash balance stood at RM1.3b (2QFY17: RM1.4b). No interim dividend was declared.
- **Strong qoq recovery on narrowing losses at its unlisted O&G segment.** Pre-tax losses at its O&G segment narrowed to RM35.6m from 2Q17's pre-tax loss of RM70.6m as bulk of the costs incurred from cessation of drilling operations in Oman were incurred in 2Q17.
- **Automobile performance should have bottomed.** Although sales declined 6.5% yoy on the back of a 9.7% yoy decrease in Toyota sales volume to 15,596 units, PBT fell by a higher 20.5% yoy which may be due to higher discounting to clear its previous models in anticipation of new launches of the Innova, Fortuner and Hilux in 2H17, and the weak ringgit. Although we opine that the worst could be over against the backdrop of the recent strengthening of the ringgit, we do not see a strong margin recovery, given that the quantum of the ringgit strengthening is not sufficed and aggressive discounting will persist due to stiff competition amid a saturated market.
- **Other non-core segments still bleeding.** Its manufacturing and engineering segment was impacted by pre-operating expense of RM17.9m at the the aerospace manufacturing business this quarter, bringing 9M17 loss to RM42.3m. We believe O&G losses should continue until UMW exits the segment by end-18. Losses from the aerospace manufacturing segment should persist until 2019 until the group ramps up production to reach breakeven level.

COMMENT

- We cut our 2017-19 core earnings forecasts by 47%, 29% and 22% to RM84m, RM257m and RM327m respectively after adjusting for: a) higher-than-expected losses in the O&G, manufacturing and engineering, and Others segments.
- **Maintain SELL with a lower SOTP-based target price of RM4.60 (from RM4.80),** following our earnings revision and rolling valuation to 2019 (from 2018). We do not see any re-rating catalysts in the near to medium term as all its major businesses are operating in challenging environments. The stock is currently trading at a lofty 2018 valuations of 24x PE and 1.5x P/B, with an unappealing yield of 2.1%. There are downside risks to our earnings on higher-than-expected losses from its non-core businesses as well as a longer-than-expected exit from the O&G segment.

ANALYST

Fong Kah Yan

+603 2147 1993

kahyan@uobkayhian.com

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