

Outthink. Outperform.

## Steering in the right direction

We reiterate our HOLD rating on UMWH with a higher price target of RM5.08 (from RM4.40) based on 20x 2018E EPS. We change our valuation methodology to PER (from SOP) following the spinoff of its former subsidiary, UMWOG. We like UMWH's progressive divestment of its non-listed O&G business and are also mildly positive on its 2018 new model line-up. Earnings recovery, however, may come in slower than expected as the progress trails our expectations.

### Progressive exit of unlisted O&G assets

UMWH maintains its plan to exit the O&G business. Active negotiations are ongoing for some of its remaining 14 unlisted O&G assets, following the disposal of Arabian Drilling services in Oman and a China O&G asset. Pretax losses (from O&G assets) has narrowed to RM35.6m in 3Q17, from RM70.6m in 2Q17. While we are positive on UMWH's divestment plan, the process is taking longer than anticipated and losses may spill over into 2018, in our view.

### MyVi should lift Perodua sales, Toyota new launches may stir interest

We expect UMWH's automotive segment to perform better in FY18, driven by attractive new model launches and the strengthening of the Ringgit against the US\$. We like Perodua's award winning MyVi. With strong bookings of 28,000 units (since its launch in Nov17), MyVi should lift Perodua's 2018-19 sales volume. Elsewhere, we are cautiously optimistic on Toyota's 2018 sales prospects - their new model line up (CH-R, Rush, Camry, Harrier, Vios) looks exciting but their relatively high price points (CH-R, Camry, Harrier) may weigh on demand.

### A soft touch for heavy equipment

Prospects for heavy and industrial equipment (10.7% of 2018E revenue) should remain soft, we believe, in view of the continued slowdown of activities in key sectors (ie. mining), intense competition from Chinese-produced heavy equipment and changes in regulatory framework in Myanmar. We are positive on the recently announced partnership with Komatsu, which should help expand UMWH's products offering. That said, we expect near-term earnings contribution to be minimal.

### Aerospace contribution only fruitful in 2019E

UMWH has delivered its first fan case in Nov 2017, a major milestone for its aerospace business. Management expects the aerospace unit to break even by 2019 and to hit full production capacity of 250 fans by 2021.

### Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	14,441.6	10,958.5	11,005.6	10,856.6	11,427.4
EBITDA (RMm)	1,329.8	652.6	144.6	553.1	803.1
Pretax profit (RMm)	269.7	(2,130.2)	(84.9)	454.9	684.5
Net profit (RMm)	(37.2)	(1,658.0)	18.4	296.8	422.7
EPS (sen)	(3.2)	(141.9)	1.6	25.4	36.2
PER (x)	n.m.	n.m.	322.5	20.0	14.1
Core net profit (RMm)	646.3	621.5	(35.8)	296.8	422.7
Core EPS (sen)	55.3	53.2	(3.1)	25.4	36.2
Core EPS growth (%)	(3.9)	(3.8)	(105.8)	928.4	42.4
Core PER (x)	9.2	9.6	(166.0)	20.0	14.1
Net DPS (sen)	20.0	20.0	-	13.0	18.0
Dividend Yield (%)	3.8	3.8	-	2.6	3.5
EV/EBITDA (x)	6.9	16.0	50.1	13.7	7.4
Chg in EPS (%)	-	-	(193.2)	(19.3)	15.0
Affin/Consensus (x)	-	-	n.m.	0.7	0.9

Source: Company, Affin Hwang estimates

## Company Update

# UMW Holdings

UMWH MK  
Sector: Auto & Autoparts

**RM5.09 @ 2 Jan 2018**

**HOLD (maintain)**

Downside: -0.2%

**Price Target: RM5.08**

Previous Target: RM4.40



## Price Performance

	1M	3M	12M
Absolute	-3.4%	-8.3%	20.5%
Rel to KLCI	-6.9%	-9.7%	11.0%

## Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	5946.6/1479.4
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	4.09-6.08
Est free float	22.5%
BV per share (RM)	3.01
P/BV (x)	1.69
Net cash/ (debt) (RMm) (3Q17)	(428.64)
ROE (2018E)	0.5%
Derivatives	Nil
Shariah Compliant	Yes

## Key Shareholders

ASB	40.7%
EPF	11.6%
KWAP	8.2%

Source: Affin Hwang, Bloomberg

Brian Yeoh  
(603) 2146 7658  
Brian.yeoh@affinhwang.com

Out think. Out perform.

**Revise 2018E/2019E net profit by -19.3%/+15.0% accordingly**

We cut our 2018E net profit forecasts by 19.3% but raise our forecasts for 2019E by 15.0% respectively, imputing (i) continued losses from the unlisted oil & gas assets, as the disposals are taking longer-than-anticipated; and (ii) lower profit margins forecasts for the automotive business, in view of the highly competitive market environment. In the mass-market sedan segment, Proton's aggressive marketing campaign may incite price response from Perodua; in the SUV market, the higher price tag of CH-R may erode its competitiveness over Honda's HR-V and Mazda CX-3. Our revised 2018/19E net profit forecasts are -3.0% /+7.6% below / above street expectations.

**Maintain HOLD. Worst is over, but recovery take time**

Maintain HOLD with a revised price target of RM5.08 (from RM4.40), based on 20x 2018E PER, +2 stdev to its historical average, taking into consideration strong earnings recovery in 2018-19, a swing from 2 loss making years (2015-16). We changed our valuation methodology to PER (from Sum-of-Parts), following the spinoff of its listed subsidiary, UMW Oil & Gas Berhad. We believe the worst is over for UMWH (lower losses from O&G business, recovery in Toyota's sales) but earnings recovery may take time.

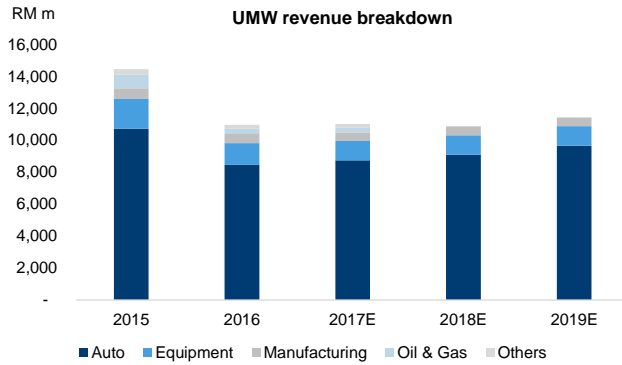
**Key risks**

Upside risks are stronger than expected vehicle sales or better automotive margins; downside risks include impairments losses of non-listed O&G assets, weaker than expected vehicle sales.

Out think. Out perform.

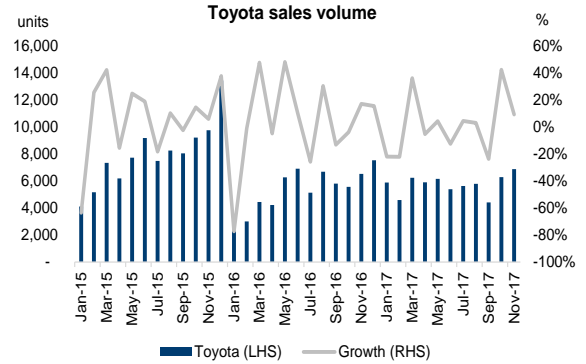
Focus Charts

Fig 1: Expect topline to stay flat



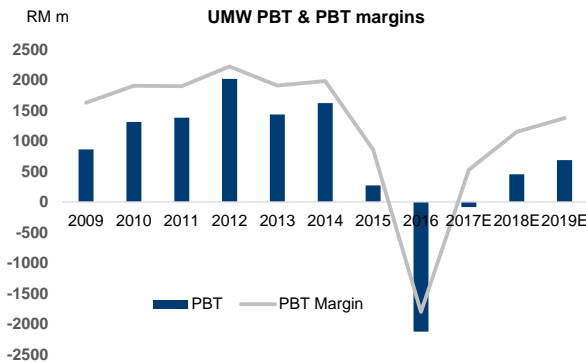
Source: Company, Affin Hwang

Fig 2: Toyota sales to pick up slightly by FY18/19E



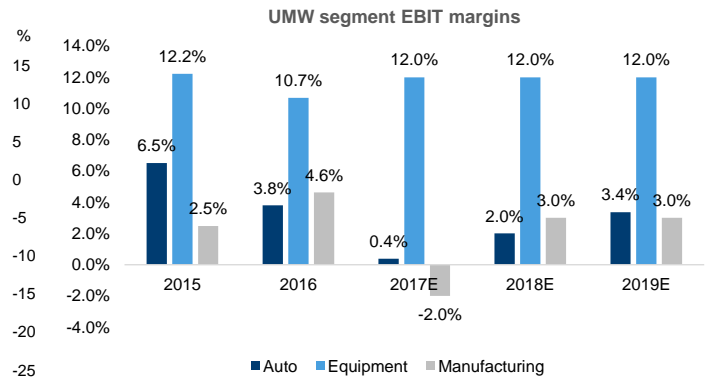
Source: Company, Affin Hwang

Fig 3: Narrowing losses as unlisted O&G asset exits



Source: Company, Affin Hwang

Fig 4: Margins remain compressed



Source: Company, Affin Hwang

Fig 5: Peer Comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year end	Core PE (x)		Core EPS		Core EPS growth (%)		EV/EBITDA (x)		P/BV	ROE (%)		DY (%)	
						CY17E	CY18E	CY16	CY17E	CY17E	CY18E	CY17E	CY17E		CY17E	CY18E	FY17E	FY18E
APM AUTOMOTIVE	HOLD	3.65	3.92	735.8	Dec	19.5	12.9	0.2	0.2	0.3	(24.7)	51.2	4.2	0.6	3.0	4.5	3.1	3.1
MBMR	HOLD	2.23	2.10	871.3	Dec	12.6	9.6	0.2	0.2	0.2	(28.3)	31.7	70.8	0.6	4.2	5.3	2.7	2.7
PECCA	HOLD	1.53	1.35	286.9	Jun	17.3	16.0	0.1	0.1	0.1	1.8	8.4	8.7	1.7	9.1	9.5	3.3	3.3
SIME DARBY	BUY	2.22	2.16	15,098.2	Jun	8.5	18.4	0.4	0.3	0.1	(36.7)	(54.0)	12.4	0.4	1.8	2.1	5.9	1.4
UMW	HOLD	5.09	4.40	5,946.6	Dec	(80.3)	16.2	0.5	(0.1)	0.3	(111.9)	>100	39.7	1.3	(0.3)	5.4	3.9	3.9
<b>Average</b>				<b>22,938.9</b>		<b>12.8</b>	<b>17.0</b>	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>	<b>(50.8)</b>	<b>(24.8)</b>	<b>16.2</b>	<b>0.9</b>	<b>1.7</b>	<b>2.8</b>	<b>3.8</b>	<b>2.9</b>

Source: Bloomberg, Affin Hwang estimates  
Note: Pricing as of close on 2 Jan 2018

## UMW – FINANCIAL SUMMARY

### Profit & Loss Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Revenue	14,441.6	10,958.5	11,005.6	10,856.6	11,427.4
Operating expenses	(12,645.8)	(10,093.0)	(9,290.2)	(8,755.0)	(8,990.1)
EBITDA	1,329.8	652.6	144.6	553.1	803.1
Depreciation	(510.7)	(554.6)	(334.3)	(258.6)	(314.6)
EBIT	819.1	98.0	(189.8)	294.6	488.6
Net int inc/(exp)	(0.4)	(105.1)	(11.8)	(7.2)	(12.7)
Associates' contribution	134.4	156.4	116.7	167.5	208.6
Exceptional items	(683.5)	(2,279.5)	0.0	0.0	0.0
Pretax profit	269.7	(2,130.2)	(84.9)	454.9	684.5
Tax	(267.5)	(139.6)	42.5	(71.9)	(119.0)
Minority interest	(39.4)	611.7	60.9	(86.2)	(142.8)
<b>Net profit</b>	<b>(37.2)</b>	<b>(1,658.0)</b>	<b>18.4</b>	<b>296.8</b>	<b>422.7</b>

### Balance Sheet Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Fixed assets	8,102.8	7,678.5	2,547.7	2,989.1	3,374.5
Other long term assets	2,412.7	2,799.4	2,838.1	2,921.8	3,046.6
<b>Total non-curr assets</b>	<b>10,515.5</b>	<b>10,478.0</b>	<b>5,385.7</b>	<b>5,910.9</b>	<b>6,421.1</b>
Cash and equivalents	2,734.1	1,857.4	1,579.3	1,224.1	981.5
Stocks	1,890.0	1,931.2	1,507.6	1,487.2	1,565.4
Debtors	1,885.3	988.5	995.0	981.6	1,033.2
Other current assets	1,200.5	1,008.0	1,008.0	1,008.0	1,008.0
<b>Total current assets</b>	<b>7,709.8</b>	<b>5,785.1</b>	<b>5,089.9</b>	<b>4,700.9</b>	<b>4,588.0</b>
Creditors	2,241.2	1,878.6	1,654.4	1,559.1	1,601.0
Short term borrowings	3,725.0	2,639.3	827.1	827.1	827.1
Other current liabilities	371.8	234.0	234.0	234.0	234.0
<b>Total current liab</b>	<b>6,338.0</b>	<b>4,752.0</b>	<b>2,715.6</b>	<b>2,620.3</b>	<b>2,662.2</b>
Long term borrowings	2,289.8	3,715.8	2,044.2	2,044.2	2,044.2
Other long term liabilities	213.7	931.0	931.0	931.0	931.0
<b>Total long term liab</b>	<b>2,503.4</b>	<b>4,646.7</b>	<b>2,975.2</b>	<b>2,975.2</b>	<b>2,975.2</b>
<b>Shareholders' Funds</b>	<b>9,383.9</b>	<b>6,864.3</b>	<b>4,784.8</b>	<b>5,016.3</b>	<b>5,371.8</b>

### Cash Flow Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
PBT	269.7	(2,130.2)	(84.9)	454.9	684.5
Depreciation & amortisation	499.0	552.2	334.3	258.6	314.6
Working capital changes	67.9	200.7	192.8	(61.4)	(87.9)
Cash tax paid	(273.8)	(209.0)	(95.0)	(71.9)	(119.0)
Others	386.3	1,877.7	(270.9)	(246.5)	(282.0)
<b>Cashflow frm operation</b>	<b>949.1</b>	<b>291.4</b>	<b>76.3</b>	<b>333.7</b>	<b>510.1</b>
Capex	(2,409.4)	(1,181.6)	(600.0)	(700.0)	(700.0)
Disposal/(purchases)	1,210.1	2,134.6	0.0	0.0	0.0
Others	(541.1)	(1,725.5)	(205.9)	162.7	157.2
<b>Cash flow frm investing</b>	<b>(1,740.3)</b>	<b>(772.5)</b>	<b>(805.9)</b>	<b>(537.3)</b>	<b>(542.8)</b>
Debt raised/(repaid)	(234.7)	(1,171.4)	267.6	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Net int inc/(exp)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(479.0)	(116.8)	0.0	(151.6)	(210.0)
Others	1,231.0	897.4	(51.4)	0.0	0.0
<b>Cash flow from financing</b>	<b>517.3</b>	<b>(390.8)</b>	<b>216.2</b>	<b>(151.6)</b>	<b>(210.0)</b>
<b>Free Cash Flow</b>	<b>(1,460.3)</b>	<b>(890.2)</b>	<b>(523.7)</b>	<b>(366.3)</b>	<b>(189.9)</b>

Source: Company, Affin Hwang estimates

### Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
<b>Growth</b>					
Revenue (%)	(3.3)	(24.1)	0.4	(1.4)	5.3
EBITDA (%)	(27.0)	(50.9)	(77.8)	282.6	45.2
Core net profit (%)	(3.9)	(3.8)	(97.0)	1,509.8	42.4
<b>Profitability</b>					
EBITDA margin (%)	9.2	6.0	1.3	5.1	7.0
PBT margin (%)	1.9	(19.4)	(0.8)	4.2	6.0
Net profit margin (%)	(0.3)	(15.1)	0.2	2.7	3.7
Effective tax rate (%)	99.2	(6.6)	50.0	15.8	17.4
ROA (%)	(0.2)	(10.2)	0.2	2.8	3.8
Core ROE (%)	10.2	13.7	17.1	0.5	7.4
ROCE (%)	(0.6)	(35.1)	0.5	7.9	10.6
Dividend payout ratio (%)	(627.6)	(14.1)	-	51.1	49.7
<b>Liquidity</b>					
Current ratio (x)	1.2	1.2	1.9	1.8	1.7
Op. cash flow (RMm)	1,329.8	652.6	144.6	553.1	803.1
Free cashflow (RMm)	(1,460)	(890.2)	(523.7)	(366.3)	(189.9)
FCF/share (sen)	(125.0)	(76.2)	(44.8)	(31.4)	(16.3)
<b>Asset management</b>					
Debtors turnover (days)	47.6	32.9	33.0	33.0	33.0
Stock turnover (days)	47.8	64.3	50.0	50.0	50.0
Creditors turnover (days)	64.7	67.9	65.0	65.0	65.0
<b>Capital structure</b>					
Net gearing (%)	49.8	95.3	35.5	43.6	47.3
Interest cover (x)	10.5	3.5	1.7	6.4	9.3

### Quarterly Profit & Loss

FYE 31 Dec (RMm)	3Q16	4Q16	1Q17	2Q17	3Q17
Revenue	2,807.1	3,062.3	2,803.6	2,785.7	2,671.0
Operating expenses	(2,992.8)	(5,187.3)	(2,783.9)	(2,821.0)	(2,681.9)
EBIT	(185.7)	(2,125.0)	19.7	(35.3)	(10.8)
Int expense	(41.1)	(60.6)	(67.6)	(24.0)	(20.3)
Associates' contribution	40.8	65.3	40.1	28.0	29.6
Investment income/(expenses)	14.6	22.3	22.2	20.1	21.4
Exceptional items	(35.6)	(1,283.0)	24.7	(13.4)	(43.0)
Pretax profit	(171.3)	(2,098.0)	14.4	(11.2)	19.9
Tax	(41.3)	(24.9)	(24.9)	(35.2)	(29.8)
Minority interest	34.0	556.8	30.7	(7.5)	(19.5)
Net profit	(178.5)	(1,566.2)	20.2	(54.0)	(29.4)
Core net profit	(142.8)	(283.2)	(4.5)	(40.6)	13.7
<b>Margins (%)</b>					
EBIT	(6.6)	(69.4)	0.7	(1.3)	(0.4)
PBT	(6.1)	(68.5)	0.5	(0.4)	0.7
Net profit	(6.4)	(51.1)	0.7	(1.9)	(1.1)

**Equity Rating Structure and Definitions**


---

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

---

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:  
 Affin Hwang Investment Bank Berhad (14389-U)  
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
 69, Jalan Raja Chulan,  
 50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700  
 F : + 603 2146 7630  
 research@affinhwang.com

www.affinhwang.com