Weak results, strong share price, SELL

UMWH reported a disappointing 2017 core net loss of RM168m, below market and our expectations due to higher than expected losses from its unlisted oil & gas business and weaker than expected automotive sales / profit margins. Looking into 2018, management expects higher automotive sales (+1% yoy), better earnings from equipment and lower losses from its oil & gas / aerospace business. While we are mildly positive on UMWH's 2018 business outlook, we caution that its business environment remains challenging. UMWH's share price has rallied by 21% in 3 months and its current valuation of 26x 2018E PER looks stretched. Downgrade to SELL.

2017 core net loss of RM168m, below expectations

UMW Holdings (UMWH) reported a disappointing 2017 core net loss of RM168m, below market and our expectations. The earnings miss was due to higher than expected losses from its unlisted oil & gas business, as well as weaker than expected automotive sales / profit margins. High one-off charges (ie. asset impairment (RM281m), losses on demerger of UMW Oil & Gas (RM127m)) has dragged the headline net loss to RM651m. While the group continue to generate positive operating cash flow (RM446m in 2017, from RM291m in 2016), its free cash flow remained negative due to its high capex of RM1-1.2bn per annum in 2016-17. Similar to 2016, UMWH did not declare any dividend for 2017.

Management guidance for 2018: improving, but still challenging

Looking into 2018, management targets to sell more than 279,000 units of new vehicles in 2018, +1% from its 2017 sales of 275,332 units. Elsewhere, management expects better performance of the equipment segment in view of improved demand for heavy and industrial equipment. Besides, the production ramp up of fan cases should taper the operating losses at its aerospace unit.

Minor earnings tweak. We expect earnings improvement on lower oil & gas losses, higher automotive margins

Notwithstanding the weak results, we maintain our key forecast parameters: (i) we expect UMWH to dispose its unlisted oil & gas business by 1H18, translating to losses; and (ii) the stronger Ringgit and improving market sentiment should lift 2018E automotive sales and earnings, we believe. All in, we made some minor adjustments to our 2018-19E EPS post-results, but maintain our 12-month target price of RM5.08 based on an unchanged 20x 2018E PER.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	10,436.8	11,046.5	10,856.6	11,427.4	11,639.1
EBITDA (RMm)	107.8	158.2	562.3	812.4	936.8
Pretax profit (RMm)	(2,136.2)	(551.6)	453.7	670.3	735.8
Net profit (RMm)	(1,658.0)	(651.2)	296.3	421.0	427.1
EPS (sen)	(141.9)	(55.7)	25.4	36.0	36.6
PER (x)	n.m	n.m	25.6	18.0	17.8
Core net profit (RMm)	(381.0)	(167.9)	296.3	421.0	427.1
Core EPS (sen)	(32.6)	(14.4)	25.4	36.0	36.6
Core EPS growth (%)	(167.1)	(55.9)	n.m	42.1	1.5
Core PER (x)	n.m	n.m	25.6	18.0	17.8
Net DPS (sen)	0.0	0.0	13.0	18.0	18.0
Dividend Yield (%)	0.0	0.0	2.0	2.8	2.8
EV/EBITDA (x)	112.0	58.0	17.0	12.0	10.5
Chg in EPS (%)			-0.2	-0.4	New
Affin/Consensus (x)			0.7	0.9	-

Source: Company, Affin Hwang estimates

Results Note

UMW Holdings

UMWH MK
Sector: Auto and Autoparts

RM6.49 @ 27 February 2018

SELL (downgrade)
Downside: 22%

Price Target: RM5.08
Previous Target: RM5.08

Price Performance

	1M	3M	12M
Absolute	-5.3%	21.1%	25.9%
Rel to KLCI	-6.1%	11.3%	13.9%

Stock Data

Issued shares (m)	1,168
Mkt cap (RMm)/(US$m)	7582.2/1939.9
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	4.7-6.98
Est free float	25.2%
BV per share (RM)	2.64
P/BV (x)	2.46
Net cash/ (debt) (RMm)	(1,598)
ROE (2018E)	8.6%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

ASB	40.7%
EPF	9.1%
KWAP	8.1%

Source: Affin Hwang, Bloomberg

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

Isaac Chow
(603) 2146 7536
Isaac.chow@affinhwang.com

Post 21% price rally, valuation looks stretched, downgrade to SELL

UMWH's share price has rallied by 21% in 3 months on improved investor sentiment and expectations for a strong earnings turnaround. Current valuations of 26x 2018E PER looks stretched, coupled with downside earnings risks (ie. Longer than expected disposal of oil & gas business, lower than expected car sales), we downgrade our rating to **SELL** (from HOLD). Key risks to our rating are stronger than expected car sales and higher than expected improvement in auto margins.

Fig 1: Results Comparison

FYE Dec (RMm)	4Q17	qoq % chg	yoy % chg	2017	yoy % chg	Comment
Revenue	2,954.7	10.6	0.6	11,046.5	5.8	2017 revenue grew by 6% yoy driven by higher sales across all segments. Automotive reported higher revenue of RM8.95bn (+6% yoy) on higher sales volume while better demand for heavy equipment lifted equipment sales by 5% yoy to RM1.45bn.
Op costs	-2,933.6	8.9	-8.4	-11,224.6	3.0	
EBIT	**21.0**	n.m.	-108.0	**-178.1**	-61.4	
EBIT margin (%)	0.7	*+1.6ppt*	*+9.7ppt*	-1.6	*+2.8ppt*	
Int expense	-77.1	280.0	389.2	-119.0	266.0	
Int and other inc	20.3	-5.3	17.6	79.8	26.5	
Associates	58.3	96.6	-18.9	171.7	-6.5	Weaker 2017 associate earnings (-7% yoy) due to higher competition in the auto segment.
Exceptional items	-418.2	n.m.	n.m.	-506.0	n.m	
Pretax	**-395.6**	-2,085.0	n.m.	**-551.6**	n.m	
Cont. operations	17.6	-11.8	n.m.	252.9	n.m	
Discon. Operations	-413.2	n.m.	-73.0	-804.5	-57.5	Management has reclassified its unlisted oil & gas segment as Held for Sale.
Tax	-33.0	11.0	37.8	-122.3	-8.4	
Tax rate (%)	-8.3	*n.m.*	*n.m.*	-22.2	*n.m.*	
MI	-4.0	-79.5	n.m.	22.8	-96.3	
Net profit	**-428.7**	n.m	-79.6	**-651.2**	-71.3	
EPS (sen)	-36.7	n.m	-79.6	-55.7	-71.3	
Core net profit	**-10.5**	-51.5	-95.1	**-145.2**	-61.9	Below market and our expectations

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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

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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 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com