

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

28 Feb 2018

UMW Holdings (UMWH MK) : FULLY VALUED

Mkt. Cap: US\$1,932m | 3m Avg. Daily Val: US\$2.0m

Last Traded Price (27 Feb 2018): RM6.49

Price Target 12-mth: RM4.49 (31% downside) (Prev RM4.49)

Shariah Compliant: Yes

Analyst

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Waiting for better earnings ahead

- Headline losses widen on further impairment for oil & gas business
- Core auto business turnaround in 4Q17; beating expectations
- Sequential PBT improvement for the auto segment was driven by higher sales (+29.8% q-o-q) and the strengthening of Ringgit
- Valuation remains stretched; maintain FULLY VALUED with TP of RM4.49

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	11,046	11,192	11,228	11,265
EBITDA	457	868	913	930
Pre-tax Profit	(423)	671	716	726
Net Profit	(651)	351	360	384
Net Pft (Pre Ex.)	278	351	360	384
Net Pft Gth (Pre-ex) (%)	nm	26.0	2.5	6.8
EPS (sen)	(55.7)	30.0	30.8	32.9
EPS Pre Ex. (sen)	23.8	30.0	30.8	32.9
EPS Gth Pre Ex (%)	(156)	26	2	7
Diluted EPS (sen)	23.8	30.0	30.8	32.9
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	264	294	325	358
PE (X)	nm	21.6	21.1	19.7
PE Pre Ex. (X)	27.2	21.6	21.1	19.7
P/Cash Flow (X)	17.0	9.4	11.0	11.4
EV/EBITDA (X)	22.5	12.4	12.4	12.8
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	2.5	2.2	2.0	1.8
Net Debt/Equity (X)	0.4	0.4	0.4	0.5
ROAE (%)	(16.7)	10.8	10.0	9.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

- UMW recorded headline net loss of RM432.7m in 4Q17 which brings FY17 net loss to RM651.2m. Stripping out exceptional items of RM636.5m brings 4Q17 core net profit to RM203.8m. As for FY17, full year core net profit amounts to RM278.5m after adjusting for exceptional items of RM929.7m which comprise of net loss from discontinued oil & gas operation of RM675.7m and provision of RM254m due to anticipated early settlement of the guaranteed loans as part of the exit strategy from the oil & gas business. This is above ours and consensus expectations.
- As for the discontinued operations which include the losses from the listed oil & gas business up to demerger in Jun 17 and the unlisted oil & gas business, cumulative net loss for the year widened to RM675.7m from RM213.3m in 9MFY17. The sequentially weaker performance was due to weak demand of OCTG pipes and cessation of operations in Oman. Furthermore, a further impairment charge of RM286.3m was booked in 4Q17.
- Management targets to sell the unlisted oil & gas business by end 2018.

Core business improving

- The auto segment's pretax profit came in at RM141.6m (-1.4% y-o-y; +33.5% q-o-q) in 4Q17. This is in line with revenue of RM2,386.7m (-3.1% y-o-y; +12.8% q-o-q). The better q-o-q numbers were due to higher sales volume for Toyota (+29.8% q-o-q) and Perodua (+2.7% q-o-q). We believe higher sales are exceptional as they were lifted by year-end promotions and the launch of Toyota Innovative international Multipurpose Vehicle



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(IMV) improvement models for Innova, Fortuner and Hilux in September 2017. This was further boosted by foreign exchange gains as a result of the strengthening of the Ringgit against USD.

- The equipment segment recorded higher revenue of RM393.5m (+18.9% y-o-y; +6.5% q-o-q) due to higher heavy equipment sales in Malaysia on the back of higher construction activities and the increased demand for parts and services in Myanmar. Profit before tax, however, declined to RM29.6m (-3.1% y-o-y; -24.5% q-o-q) due to provision for slow-moving inventory for heavy equipment operations.
- Manufacturing and engineering segment however posted net loss of RM3.0m in 4Q17 as earnings were dragged by the start-up operating expense incurred by the aerospace business.

Outlook

Earnings to come from core business

- Jan 2018 industry numbers for auto sales were down y-o-y with a total industry vehicle (TIV) of 44,575 units (-0.2% y-o-y). The Malaysian Automotive Association

expects the TIV for FY18 to improve by a mere 2.3% y-o-y to 590,000 units.

- The new launches such as the Toyota Camry, Corolla Altis, Hilux, Fortuner and Innova which were introduced in September 2017 will help support volume in the coming quarters. The sales volume may also be boosted by the highly anticipated Toyota C-HR which will be launched in early 2018 with an estimated price of RM145.5k.
- The aerospace business with Rolls-Royce is progressing as per schedule with delivery of the first fan case in 4Q17. Going forward, it expects to deliver 80 units and 160 units for FY18F and FY19F respectively.

Valuation

We maintain our FULLY VALUED call with an unchanged SOP-based TP of RM4.49. Despite anticipated earnings recovery in FY2018, valuation remains stretched as the stock is currently trading at 22x 2018 PE.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	2,938	2,671	2,955	0.6	10.6
Other Oper. (Exp)/Inc	(3,554)	(2,682)	(2,939)	(17.3)	9.6
Operating Profit	(616)	(10.8)	16.1	(102.6)	(248.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	71.9	29.7	58.3	(18.9)	96.6
Net Interest (Exp)/Inc	1.48	1.13	(56.8)	nm	nm
Exceptional Gain/(Loss)	(938)	0.0	(382)	59.2	nm
Pre-tax Profit	(1,480)	19.9	(365)	75.3	nm
Tax	(24.0)	(29.8)	(33.0)	37.8	11.0
Minority Interest	(29.4)	(19.5)	(34.7)	(18.0)	77.8
Net Profit	(1,534)	(29.4)	(433)	71.8	1,373.3
Net profit bef Except.	(596)	(29.4)	204	nm	(793.9)
EBITDA	(475)	37.3	80.7	nm	116.4
Margins (%)					
Opg Profit Margins	(21.0)	(0.4)	0.5		
Net Profit Margins	(52.2)	(1.1)	(14.6)		

Source of all data: Company, AllianceDBS

SOP valuation

Division	Stake	Valuation	Value (RM m)	Per share
Automotive				
Toyota	51.0%	PE 13x	1,731.39	1.09
Perodua	38.0%	PE 13x	2,239.81	1.92
Equipment	100.0%	PE 12x	1,197.59	1.23
Manufacturing & engineering	100.0%	PE 12x	243.14	0.25
Total			5,244.54	4.49

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 17	5.12	4.90	HOLD
2:	01 Mar 17	5.17	4.90	HOLD
3:	13 Mar 17	5.57	4.90	HOLD
4:	14 Mar 17	5.60	4.90	HOLD
5:	11 Apr 17	5.59	4.90	HOLD
6:	24 May 17	5.47	4.99	HOLD
7:	29 Nov 17	5.23	4.49	FULLY VALUED

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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