



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

28 February 2018

Kitchen-sinking

HOLD

(Maintained)

Al Zaquan

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Rationale for report: Company results

Investment Highlights

Price RM6.49
Fair Value RM5.50
52-week High/Low RM6.98/RM4.70

Key Changes

Fair value ⇄
EPS ⇄

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	11,046.5	12,200.2	12,812.7	13,513.1
Core net profit (RM mil)	(89.7)	312.4	509.3	575.9
FD Core EPS (sen)	(7.7)	26.7	43.6	49.3
FD Core EPS growth (%)	(75.1)	(448.4)	63.0	13.1
Consensus Net Profit (RM mil)	55.1	309.4	416.6	-
DPS (sen)	(16.7)	8.0	13.1	14.8
PE (x)	nm	24.3	14.9	13.2
EV/EBITDA (x)	28.8	11.5	9.0	8.0
Div yield (%)	(2.6)	1.2	2.0	2.3
ROE (%)	(14.5)	7.1	10.9	11.4
Net Gearing (%)	130.4	114.6	102.2	89.6

Stock and Financial Data

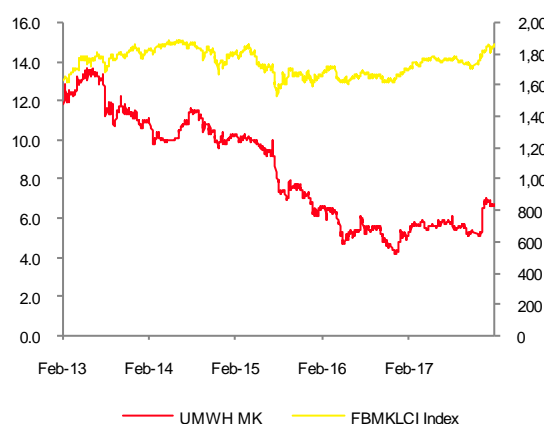
Shares Outstanding (million) 1,168.3
Market Cap (RMmil) 7,582.2
Book Value (RM/share) 3.65
P/BV (x) 1.8
ROE (%) (14.5)
Net Gearing (%) 130.4

Major Shareholders Skim ASB(42.1%)
EPF(13.7%)
Yayasan Pelaburan
Bumiputera(5.7%)

Free Float 32.6
Avg Daily Value (RMmil) 8.1

Price performance

	3mth	6mth	12mth
Absolute (%)	21.1	14.1	25.9
Relative (%)	11.3	7.8	13.9



● We maintain HOLD on UMW with an SOP-based FV of RM5.50 based on an FY18F PE of 12x for its auto segment. UMW saw a core net loss of RM90mil in FY17 vs. a core net loss of RM361mil in FY16. This was above our projection of a RM115mil loss but below consensus' projection of a net profit of RM55mil.

● This takes into account the loss from the listed O&G unit up to its demerger in June, and excludes EIs comprising mainly a provision for impairments on PPE and JVs, the re-measurement of a financial guarantee contract and the loss on demerger.

● FY17 topline improved 6% YoY to RM11bil on higher sales for all three of its core segments. However, net profit sank 57% YoY as profitability fell for the automotive and equipment segments, and the rest remained loss-making.

Going by segment:

- 1) **Automotive:** Revenue improved 6% YoY as Toyota sales rebounded 9% YoY in 2017 (after a 32% YoY drop in 2016), but net profit declined 13% YoY as margins were compressed by a weaker RM.
- 2) **Equipment:** Revenue rose 5% YoY on strong demand for spare parts and after sales services for its Komatsu distribution. Net profit slipped 2% YoY due to a provision for slow-moving inventory.
- 3) **Manufacturing & Engineering:** Revenue climbed 7% YoY on the cost savings initiatives for its auto components unit, but the M&E segment saw losses balloon to RM38mil due to start-up costs for the aerospace unit. The aerospace unit delivered its first fan case in November and is targeted for breakeven in 2019.
- 4) **O&G:** Losses from the remaining O&G assets fell 15% YoY following the disposal of certain assets and a RM286mil write-down.

● In 4Q17 revenue was flat YoY while losses shrank due largely to the impairment on the unlisted O&G assets.

● With the M&E segment in the backseat for the immediate term, we reiterate the priorities to be:

● (1) To regain market share for Toyota, relying largely on the Vios and Hilux which collectively made up two thirds of Toyota sales last year. The new Harrier (from RM238K), C-HR (from RM146K), Rush and Camry would also contribute. UMW targets a flattish sales growth from the 70K (in Toyota and Lexus units) sold last year, as competition intensifies in 1H17 from players wanting to clear stock and launch festive promotions.

● (2) To complete its exit from O&G by year-end. It has 13 assets to dispose of by this self-imposed deadline. Losses from this segment will continue although the quantum should reduce over time.

EXHIBIT 1: RESULTS SUMMARY

	4Q17	FY16	FY17	%
Revenue	2,954.7	10,436.8	11,046.5	6%
Operating Expenses	(2,997.7)	(10,964.1)	(11,045.3)	1%
Other Operating Income	59.1	70.7	119.2	69%
Operating Profit	16.1	(456.7)	120.4	>100%
Finance Costs	(77.1)	(32.5)	(119.0)	>100%
Share of Profits of Associates & JV	58.3	183.6	171.7	-6%
Investment Income	20.3	63.1	79.8	26%
Profit before tax	17.6	(242.5)	252.9	>100%
Tax	(33.0)	(133.5)	(122.3)	-8%
Profit after tax	(15.4)	(376.0)	130.6	>100%
Minority interest				
Continuing operations	34.7	120.9	106.1	-12%
Discontinued operations	(30.7)	(732.6)	(128.8)	-82%
Total	4.0	(611.7)	(22.8)	-96%
Net profit				
Continuing operations	(50.2)	(496.9)	24.5	>100%
Discontinued operations	(382.5)	(1,161.2)	(675.7)	-42%
Total	(432.7)	(1,658.0)	(651.2)	-61%
<u>Margins</u>				
EBIT margin	0.5%	-4.4%	1.1%	
PBT Margin	0.6%	-2.3%	2.3%	
Net profit margin	-1.7%	-4.8%	0.2%	
Toyota				
Sales volume	20,202	63,757	69,492	9%
Perodua				
Sales volume	53,307	207,110	204,887	-1%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: RESULTS BREAKDOWN

	4Q17	FY16	FY17	%
<u>Segmental Breakdown</u>				
Revenue				
Automotive	2,386.7	8,451.0	8,953.8	6%
Equipment	393.5	1,382.8	1,456.6	5%
Manufacturing & Engineering	170.0	601.5	645.6	7%
O&G (Unlisted)	26.2	200.7	120.4	-40%
Others	(21.7)	1.6	(9.5)	>100%
Total from Continuing Operations	2,954.7	10,637.5	11,166.9	5%
O&G (Listed)	0.0	321.1	214.2	0%
Loss on demerger	0.0	0.0	0.0	0%
Total from Discontinued Operations	0.0	321.1	214.2	0%
Consolidated total	2,954.7	10,958.5	11,381.0	0%
PBT				
Automotive	141.6	496.9	433.7	-13%
Equipment	29.6	145.6	140.6	-3%
Manufacturing & Engineering	(3.0)	24.6	(16.3)	>100%
O&G (Unlisted)	(412.3)	(706.5)	(519.6)	-26%
Others	261.7	(909.7)	(305.2)	-66%
Total from Continuing Operations	17.6	(949.0)	(266.7)	-72%
O&G (Listed)	0.0	(1,181.3)	(156.3)	-87%
Loss on demerger	0.0	0.0	(126.9)	0%
Total from Discontinued Operations	0.0	(1,181.3)	(283.2)	-76%
Consolidated total	17.6	(2,130.2)	(549.9)	-74%
Net profit				
Automotive	85.7	301.0	261.6	-13%
Equipment	24.9	115.3	112.5	-2%
Manufacturing & Engineering	(9.3)	(2.0)	(37.7)	>100%
O&G (listed)	(371.3)	(541.3)	(462.4)	-15%
Others	(162.8)	(902.6)	(311.9)	-65%
Total	(432.7)	(1,029.6)	(437.9)	-57%
<u>PBT Margin</u>				
Automotive	5.9%	5.9%	4.8%	
Equipment	7.5%	10.5%	9.7%	
Manufacturing & Engineering	-1.8%	4.1%	-2.5%	
<u>Net Margin</u>				
Automotive	3.6%	3.6%	2.9%	
Equipment	6.3%	8.3%	7.7%	
Manufacturing & Engineering	-5.4%	-0.3%	-5.8%	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: SUM-OF-PARTS VALUATION

Pegged to FY18F							
Segment	PBT	PAT	Ownership	PE Multiple	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	630.2	479.0	51%	12	2,992.3	2.56	1,168.3
Equipment	191.7	145.7		13	1,951.8	1.67	
Manu & Eng	(23.4)	(17.8)		8	(135.1)	(0.12)	
O&G	0.0					0.00	
Others	(70.0)				(70.0)	(0.06)	
Associates & JV		213.1		15	3,217.4	2.75	
Net Debt (Company level)					(1,536.2)	(1.31)	
Fair Value:						<u>5.50</u>	

Source: AmlInvestment Bank Bhd

EXHIBIT 4: PB BAND CHART

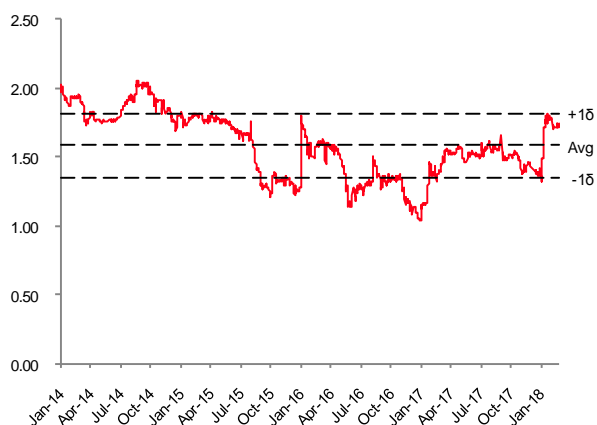


EXHIBIT 5: PE BAND CHART

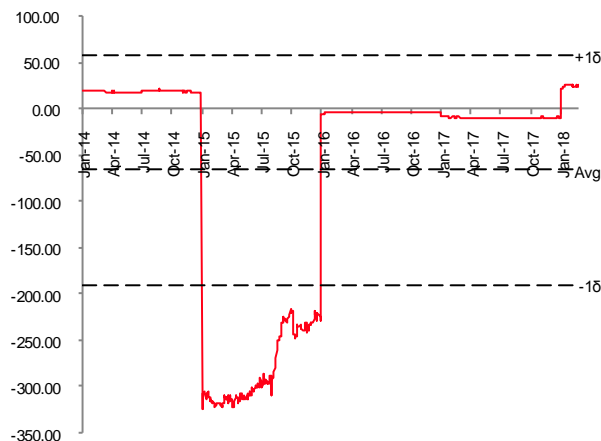


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	10,958.5	11,046.5	12,200.2	12,812.7	13,513.1
EBITDA	(1,612.0)	456.7	1,107.2	1,391.7	1,541.4
Depreciation/Amortisation	(569.5)	(336.3)	(644.3)	(687.4)	(732.9)
Operating income (EBIT)	(2,181.5)	120.4	462.8	704.2	808.6
Other income & associates	156.4	171.7	213.1	230.8	249.7
Net interest	(105.1)	(39.2)	(17.4)	18.5	42.5
Exceptional items	-	-	-	-	-
Pretax profit	(2,130.2)	252.9	658.5	953.5	1,100.9
Taxation	(131.0)	(122.3)	(111.4)	(180.7)	(212.8)
Minorities/pref dividends	611.7	22.8	(234.7)	(263.4)	(312.2)
Net profit	(1,649.5)	(651.2)	312.4	509.3	575.9
Core net profit	(360.7)	(89.7)	312.4	509.3	575.9
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	7,678.5	7,970.7	8,312.0	8,661.3	9,022.9
Intangible assets	-	-	-	-	-
Other long-term assets	2,463.0	2,419.2	2,448.3	2,489.1	2,543.8
Total non-current assets	10,141.5	10,389.9	10,760.3	11,150.4	11,566.7
Cash & equivalent	1,857.4	1,338.6	2,307.2	3,038.8	3,833.6
Stock	1,931.2	1,760.4	1,614.0	1,673.9	1,743.2
Trade debtors	988.5	1,322.6	1,460.7	1,534.0	1,617.9
Other current assets	1,008.0	1,008.0	1,008.0	1,008.0	1,008.0
Total current assets	5,785.1	5,429.5	6,389.8	7,254.7	8,202.6
Trade creditors	1,878.6	1,760.4	2,075.2	2,158.3	2,254.1
Short-term borrowings	2,639.3	3,893.9	4,420.9	4,947.9	5,474.9
Other current liabilities	234.0	193.9	199.9	203.0	206.7
Total current liabilities	4,752.0	5,848.2	6,696.0	7,309.3	7,935.7
Long-term borrowings	3,715.8	3,003.0	3,020.0	3,037.1	3,054.1
Other long-term liabilities	931.0	114.4	126.8	131.6	137.0
Total long-term liabilities	4,646.7	3,117.4	3,146.9	3,168.7	3,191.1
Shareholders' funds	4,718.6	4,262.7	4,481.4	4,838.0	5,241.1
Minority interests	2,145.7	2,123.0	2,357.6	2,621.1	2,933.3
BV/share (RM)	4.04	3.65	3.84	4.14	4.49
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	(2,130.2)	252.9	658.5	953.5	1,100.9
Depreciation/Amortisation	569.5	336.3	644.3	687.4	732.9
Net change in working capital	200.7	(1,105.6)	339.9	(43.1)	(49.3)
Others	945.7	(105.9)	(391.4)	(526.8)	(614.5)
Cash flow from operations	(414.3)	(622.3)	1,251.3	1,071.0	1,170.0
Capital expenditure	(1,181.6)	(828.5)	(915.0)	(961.0)	(1,013.5)
Net investments & sale of fixed assets	225.3	-	-	-	-
Others	188.0	194.8	181.9	230.4	266.9
Cash flow from investing	(768.2)	(633.7)	(733.1)	(730.6)	(746.5)
Debt raised/(repaid)	380.1	541.8	544.0	544.0	544.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(212.7)	195.4	(93.7)	(152.8)	(172.8)
Others	-	-	-	-	-
Cash flow from financing	167.4	737.2	450.3	391.2	371.3
Net cash flow	(1,015.1)	(518.8)	968.6	731.7	794.7
Net cash/(debt) b/f	2,621.1	1,857.4	1,338.6	2,307.2	3,038.8
Net cash/(debt) c/f	1,464.8	1,338.6	2,307.2	3,038.8	3,833.6
Key Ratios (YE31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(24.1)	0.8	10.4	5.0	5.5
EBITDA growth (%)	(349.4)	(128.3)	142.4	25.7	10.8
Pretax margin (%)	(19.4)	2.3	5.4	7.4	8.1
Net profit margin (%)	(15.1)	(5.9)	2.6	4.0	4.3
Interest cover (x)	(2,075.8%)	3.1	26.5	nm	nm
Effective tax rate (%)	6.1	48.4	16.9	18.9	19.3
Dividend payout (%)	nm	nm	22.5	22.5	22.5
Debtors turnover (days)	47	38	42	43	43
Stock turnover (days)	64	61	50	47	46
Creditors turnover (days)	69	60	57	60	60

Source: Company, AmlInvestment Bank Bhd estimates

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