

UMW (SELL ↔, EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

28 February 2018

Price Target: RM5.20 (↔)

Share Price: RM6.49

4Q17 remain disappointing
Results

- **Below expectations** - Reported core net loss of RM44.5m in 4Q17 dragged FY17 to a core net loss of RM127.9m as compared to HLIB's forecasted earnings of RM74.9m for FY17 and consensus of RM80.0m.

Deviations

- Lower-than-expected contribution from equipment segment and higher-than-expected losses from manufacturing, O&G unlisted and others.

Dividends

- None.

Highlights

- **YoY:** Turned to core loss in 4Q17 (vs. RM36.7m profit in 4Q16), dragged by lower automotive contribution, start-up cost for Rolls-Royce fan case manufacturing plant and higher losses for O&G unlisted and others segments.
- **QoQ:** Core loss widened (from RM8.4m loss in 3Q17) due to higher losses for O&G unlisted and others segments.
- **FY17:** Turned to core loss in FY17 (vs. RM88.5m profit in FY16) due to lower automotive contributions, high start-up costs (Rolls Royce fan case manufacturing) and cessation costs and operational loss related to O&G unlisted and others segment.
- **Outlook:** Automotive division will continue to face competition. The group is targeting sales volume of over 70k units for Toyota (including Lexus) and 209k units for Perodua. Expected new launches for Toyota include upgraded Vios, new Camry, new C-HR and new Harrier, while for Perodua include facelift Alza and new SUV model. Perodua will continue to ride on the existing strong demand for newly launched MyVi model.
- Rolls-Royce fan case manufacturing operation is expected to remain in the red in 2018 due to underutilization of the facility. The plant is only expected to turnaround by 2020.
- The group is taking pro-active measures (fully impaired) to exit O&G unlisted segment in 2018 (recognized under discontinued business in 4Q17). Hence, there will be no further impact from this segment in 2018.

Risks

- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting car sales.
- Global automotive supply chain disruption.
- Appreciation of US\$.
- Plunge in crude oil price and slowdown in O&G market.

Forecasts

- Unchanged.

Rating
SELL (↔)

- UMW group continues to be dragged by weakened consumer sentiment, relatively high US\$ against RM and continued losses from Rolls Royce fan case manufacturing plant in 2018. Furthermore, sustainability of dividend payout is a concern given consecutive losses and increased capex commitment.

Valuation

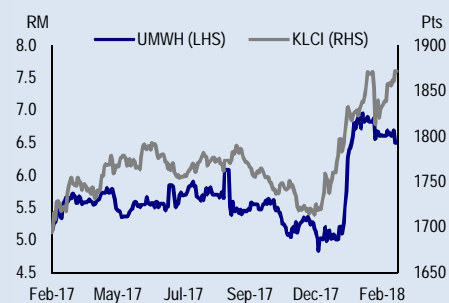
- Maintain Sell with unchanged TP RM5.20. We believe UMW valuation is relatively steep at this juncture, given the low earnings with unattractive dividend yield.

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KLCI	1,871.5
Expected share price return	-19.9%
Expected dividend return	0.8%
Expected total return	-19.1%

Share Price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	7,582
3-mth avg. volume ('000)	1,317
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.8	23.1	26.8
Relative	-5.7	13.2	14.8

Major Shareholders

PNB	40.7%
EPF	9.1%
KWAP	8.1%

Summary Earnings Table

FYE Dec (RM m)	FY16A	FY17A	FY18F	FY19F
Turnover	10,859	11,167	12,069	13,076
EBITDA	564	736	767	974
Pre-tax Profit	-2,130	146	504	705
Rpt. net profit	-1,667	-648	266	407
Norm. net profit	89	-128	266	407
Norm. EPS (sen)	7.6	-10.9	22.8	34.9
P/E (x)	85.7	-59.3	28.5	18.6
Book Value (RM)	4.0	2.6	3.7	3.9
P/B (x)	1.6	2.5	1.8	1.7
Net Dvd Yield (%)	11.1	11.2	0.8	1.5
Net Gearing	89.5	51.6	66.3	62.2
ROE (%)	1.6	-3.3	6.3	9.2
ROA (%)	0.5	-1.0	2.2	3.2

Consensus:

EPS (sen)	26.5	35.3
% Diff	-14.0	-1.2
HLIB		

Figure #1: Quarterly result comparison

FYE Dec (RMm)	4Q16	3Q17	4Q17	QoQ (%)	YoY (%)	Comment
Revenue	3,008.8	2,671.0	2,980.9	11.6	-0.9	YoY: Relatively flat due to higher equipment revenue (maiden contribution from Rolls Royce fan case manufacturing plant) in 4Q17 was offset by lower automotive revenue. QoQ: Higher on seasonally stronger 4Q car sales volume and maiden contribution from Rolls Royce fan case manufacturing plant.
EBITDA	-122.5	90.3	499.3	453.1	-507.5	Not comparable due to exclusion of O&G unlisted segment's losses in 4Q17 (categorized under discontinued operations).
EBITDA Margin (%)	-4.1	3.4	16.7	395.6	-511.4	
EBIT	-181.5	42.1	434.6	932.0	-339.5	
EBIT Margin (%)	-6.0	1.6	14.6	13.0	20.6	
Net Finance Expense	-4.4	-8.8	-68.6	676.9	1472.1	
Associates	40.8	29.6	58.3	96.6	43.0	
Eis	-1,953.0	-43.0	-406.8			Related to derivatives, forex, impairments and provisions.
Reported PBT	-2,098.0	19.9	17.6	-11.8	-100.8	
Tax	-24.0	-29.8	-29.8	0.0	24.2	
Reported Operational Net Profit	-2,122.0	-9.8	-12.2	23.9	-99.4	On-Going operations registered loss, dragged by other segment.
Discontinued Operation	-135.6	0.0	-413.2	N.M.	204.8	Related to O&G unlisted entities which are due for disposals.
Reported Net Profit	-2,257.6	-9.8	-425.4	4229.8	-81.2	
Reported PATAMI	-1,700.8	-29.4	-429.2	1361.6	-74.8	
Core PATAMI	36.7	-8.4	-44.5	431.6	-221.1	Group remained in loss, being dragged by weak contribution from automotive segment, start-up costs of Rolls Royce fan case manufacturing plant and losses from O&G unlisted entities and others segment.
Reported EPS (Sen)	-145.6	-2.5	-36.7	1361.6	-74.8	
Core EPS (Sen)	3.1	-0.7	-3.8	431.6	-221.1	

Company, HLIB

Figure #2: Cumulative result comparison

FYE Dec (RMm)	FY16	FY17	YoY (%)	Comment
Revenue	10,644.3	11,166.9	4.9	Revenue improved on automotive contribution, boosted by higher Toyota car sales.
EBITDA	380.4	736.4	93.6	
EBITDA Margin (%)	3.6	6.6	3.0	Not comparable due to exclusion of O&G unlisted segment's losses in 4Q17 and UMWOG in (categorized under discontinued operations).
EBIT	111.2	529.4	376.3	
EBIT Margin (%)	1.0	4.7	3.7	
Net Finance Expense	-18.4	-102.8	457.7	
Associates	129.9	156.0	20.1	
Eis	-2,111.0	-437.0		
Reported PBT	-1,888.3	145.6	-107.7	
Tax	-136.0	-119.7	-12.0	
Reported Operational Net Profit	-2,024.4	25.9	-101.3	
Discontinued Operation	-404.8	-696.6	72.1	
Reported Net Profit	-2,429.1	-670.7	-72.4	
Reported PATAMI	-1,825.1	-647.7	-64.5	
Core PATAMI	88.5	-127.9	-244.4	Core loss (included UMWOG and O&G unlisted) was weaker than HLIB's expectation.
Reported EPS (Sen)	-156.2	-55.4	-64.5	
Core EPS (Sen)	-6.0	-10.9	83.9	

Company, HLIB

Figure #3: UMW Group automotive sales statistics

Unit Sales	1Q17	2Q17	3Q17	4Q17	FY16	FY17
Toyota (51% ownership)	16,503	17,220	15,567	20,202	63,757	69,492
Lexus (51% ownership)	191	219	240	303	1,353	953
Perodua (38% ownership)	50,265	49,410	51,905	53,307	207,100	204,887
Total	66,959	66,849	67,712	73,812	147,234	138,705
Growth YoY (%)	16.11	-1.08	-4.80	-2.67	119.9	-5.8

Company, HLIB

Figure #4: UMW earnings breakdown

	4Q16	3Q17	4Q17	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,462.3	2,115.9	2,386.7	12.8	-3.1	Related to sales volume of Toyota and Lexus, which stayed relatively flat YoY, but increased QoQ.
Equipment	330.8	369.3	393.5	6.5	18.9	Improved on higher demand for heavy equipment.
Manufacturing & Engineering	152.6	155.8	170.0	9.1	11.4	Higher demand for shock absorbers and new contribution from Rolls Royce fan case manufacturing plant.
Oil & Gas Unlisted	67.0	37.5	14.9	-60.3	-77.8	Affected by cessation of some entities.
Others	(12.7)	20.5	38.3	86.8	-401.5	
Intersegment	8.7	(28.1)	(22.5)	-19.9	-360.0	
Total	3,008.8	2,671.0	2,980.9	11.6	-0.9	

Reported PATAMI

Automotive	98.8	62.9	85.7	36.3	-13.2	Lower YoY, affected by lower revenue and higher cost, and improved QoQ on higher sales volume.
Equipment	27.4	31.7	24.9	-21.3	-8.9	Lower margins due to provisions for slow moving inventories in 4Q17.
Manufacturing & Engineering	(3.6)	(11.9)	(9.3)	-22.2	155.5	Affected by start-up cost related to new Rolls Royce plant.
UMWOG	(511.8)	0.0	0.0	N.M.	N.M.	
Oil & Gas Unlisted	(442.1)	(28.3)	(371.3)	N.M.	N.M.	Losses due to impairments and provisions.
Others	(734.8)	(83.7)	(162.8)	N.M.	N.M.	Losses due to re-measurement of financial guarantee contract in 4Q17.
Total	(1,566.2)	(29.4)	(432.7)	N.M.	N.M.	Affected by derivatives, forex movements and impairments.
Core PATAMI	36.7	(8.4)	(44.5)	N.M.	N.M.	

Company, HLIB

Figure #5: UMW SOP

Division	Stakes (%)	FY19 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	342.7	3,427.5	2.93	FY19 PE 10x
Equipment	Various	170.6	1,365.0	1.17	FY19 PE 8x
Manufacturing & Engineering	Various	106.4	1,915.0	1.64	FY20 PE 18x
Others	Various	(353.6)	0.0	0.00	
Total (RM)			6,707.5	5.74	
Holding Co Discount				10.0%	
Target Price (RM)			8,622.5	5.20	
No of Shares		1,163.8			As at end FY2016

Company, HLIB

Figure #6: HLIB forecast versus consensus

	FY18E		Difference (%)	FY18F		Difference (%)
	HLIB	Consensus		HLIB	Consensus	
Revenue (RMm)	12,069.5	11,388.0	6.0%	13,075.7	12,332.0	6.0%
EBITDA (RMm)	766.7	714.8	7.3%	974.5	935.5	4.2%
Core Profit (RMm)	266.2	309.4	-14.0%	407.3	416.6	-2.2%
EPS (Sen)	22.8	26.5	-14.0%	34.9	35.3	-1.2%

Bloomberg, HLIB

Financial Projections - UMW (SELL; TP: RM5.20)

Income Statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Revenue	14,442	10,859	11,167	12,069	13,076
Operating cost	-12,872	-10,295	-10,430	-11,303	-12,101
EBITDA	1,569	564	736	767	974
Depreciation	-765	-555	-207	-339	-342
EBIT	804	9	529	428	633
Interest income	126	81	47	53	44
Interest expense	-127	-186	-150	-118	-123
Associates	134	155	156	141	152
Exceptionals	-668	-2,189	-437	0	0
Pretax profit	270	-2,130	146	504	705
Taxation	-267	-141	-816	-139	-165
Minorities	-39	604	23	-98	-132
Net profit	-37	-1,667	-648	266	407
Core PATAMI	256	89	-128	266	407
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	-55.4	22.8	34.9
Core EPS (sen)	21.9	7.6	-10.9	22.8	34.9

Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Fixed assets	8,106	7,642	2,661	4,381	4,480
Other assets	4,038	3,709	3,894	4,081	4,119
Working capital	1,968	1,778	1,456	1,996	2,175
Receivables	1,458	754	880	845	915
Payables	-1,380	-898	-767	-961	-1,029
Inventory	1,890	1,922	1,343	2,112	2,288
Net cash	-3,281	-4,226	-1,592	-2,854	-2,859
Cash	2,734	2,179	1,163	1,335	1,183
ST debt	-3,725	-2,617	-685	-1,117	-1,117
LT debt	-2,290	-3,789	-2,070	-3,073	-2,925
Equity	6,584	4,722	3,082	4,304	4,595
Share capital	584	584	584	584	584
Reserves	6,000	4,138	2,498	3,720	4,011
Minorities	2,799	2,187	1,093	1,306	1,326
Other liabilities	1,447	1,994	2,244	1,994	1,994

Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
GDP Growth (%)	6.0%	4.2%	5.8%	5.3%	5.0%
TIV ('000)	666.5	580.1	588.8	600.6	612.6
Growth (%)	1.6%	-13.0%	1.5%	2.0%	2.0%
Unit Sale (Unit)	309.2	272.2	275.3	292.4	303.6
Toyota ('000)	93.8	63.8	69.5	75.0	78.0
Lexus ('000)	2.1	1.4	1.0	1.4	1.4
Perodua ('000)	213.3	207.1	204.9	216.0	224.2
Average Price					
UMW (RM '000)	107.9	123.1	120.2	114.6	115.8
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
EBITDA	1,569	564	736	767	974
Net interest	-1	-106	-103	-65	-79
WCap changes	69	190	323	-154	-179
Taxation	-283	-136	-123	-139	-165
Others	-279	-583	-302	0	0
Opex cashflow	1,075	-70	531	409	551
Capex & acq.	-2,388	-925	-935	-1,240	-440
Free cashflow	-1,313	-995	-404	-831	111
Other inv cashflow	502	248	-1,131	106	114
Net borrowings	1,323	433	176	492	-148
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	-76	-84	-112
Net cashflow	-274	-526	-1,435	-375	-152
Forex translation	65	25	421	0	0
Beginning cash	3,277	2,655	2,655	1,686	1,311
Ending cash	3,067	2,155	1,641	1,311	1,159

Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Rep. EPS (sen)	-3.2	-142.7	-55.4	22.8	34.9
Core EPS (sen)	21.9	7.6	-10.9	22.8	34.9
PER (x)	-204.0	-4.5	-11.7	28.5	18.6
Core PER (x)	29.6	85.7	-59.3	28.5	18.6
Net DPS (sen)	20.0	72.0	73.0	5.0	10.0
Net DY (%)	3.1	11.1	11.2	0.8	1.5
BV/ share (RM)	5.6	4.0	2.6	3.7	3.9
P/BV (x)	1.2	1.6	2.5	1.8	1.7
FCF/share (sen)	-112.4	-85.2	-34.6	-71.1	9.5
Market Cap	7,582	7,582	7,582	7,582	7,582
Net cash	-3,281	-4,226	-1,592	-2,854	-2,859
Enterprise value	10,863	11,809	9,174	10,437	10,441
EV/EBITDA (x)	6.9	20.9	12.5	13.6	10.7
ROE (%)	3.9	1.6	-3.3	6.3	9.2
ROA (%)	1.5	0.5	-1.0	2.2	3.2

Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Growth (%)					
Sales	-3.3	-24.8	2.8	6.7	8.3
EBITDA	-19.5	-64.0	30.5	94.2	27.1
EBIT	-48.8	-98.8	N.M.	885.8	48.0
PBT	-83.4	-890.0	-106.8	264.7	39.9
Core PATAMI	-67.4	-65.4	-244.4	255.5	53.0
Margins (%)					
EBITDA	10.9	5.2	6.6	6.4	7.5
EBIT	5.6	0.1	4.7	3.5	4.8
PBT	1.9	-19.6	1.3	4.2	5.4
Core PATAMI	1.8	0.8	-1.1	2.2	3.1
Net Gearing (%)	49.8	89.5	51.6	66.3	62.2

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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Industry rating definitions

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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.