

Company Result

28 February 2018

UMW Holdings Berhad

HOLD

2018: A watershed year

Maintained

Share Price	RM6.49
Target Price	RM6.00

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMWH MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	7652.33
52-week price Range	RM4.70-6.98
Beta (against KLCI)	1.31
3-m Average Daily Volume	132m
3-m Average Daily Value [^]	RM8.19m

Share Performance

	1m	3m	12m
Absolute (%)	-4.0	26.0	28.0
Relative (%-pts)	-4.0	14.2	16.0

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	40.71
EMPLOYEES PROVIDENT FUND	9.11
KUMPULAN WANG PERSARAAN	8.08
ESTIMATED FREE FLOAT	25.21

Historical Chart



Source: Bloomberg

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- **UMW Holdings Berhad (UMW) posted a net loss of RM432.7m in 4Q17, widening from a net loss of RM29.4m in 3Q17 but narrowing from a net loss of RM1.6b a year ago.** The poor performance on qoq was due to write down of asset amounting to RM286.3m. Meanwhile, the Group's topline stood at RM3b, which was up 10.6% qoq but down 3.5% yoy.
- **As for full year 2017, the Group reported a net loss of RM651.2m as compared to a net loss of RM1.7b a year ago.** However, revenue inched up marginally by 1.2% yoy to RM11b from RM10.9b.
- **Below expectations** – The result was below our expectation and market consensus. The shortfall was mainly affected by losses from its discontinued operations (listed and unlisted O&G).

Comment

- **Toyota sales improved yoy.** Auto segment revenue in 12M17 inched up by 5.9% yoy, aided by higher car sales volume of Toyota. Toyota car sales increased by 7.2% in 2017 with 11.6% market share as the Group introduced few facelifts of Toyota models within the year (i.e. updated Camry, Fortuner, Hilux, Innova). The Group targets to launch its new Toyota CH-R soon and we believe this model is able to boost Toyota sales volume for this year. However, Auto PBT in 12M17 down by 12% due to strong USD against MYR.
- **Perodua hits 2017 target.** Perodua sales volume reached 204.9k units in 2017, exceeding their target of 202k units for the year. However, the growth declined 1.1% yoy due to high base effect. Perodua maintains its leading market share of 35.5% in 2017 (vs 2016: 35.8%). Overall we foresee Perodua's sales volume to be robust for this year especially after the launch of new MyVi during 4Q17. Notably, the new MyVi has secured more than 48k units booking while around 20k units have been delivered until last month.
- **Equipment division dented by lower margin.** The Equipment division for 12M17 registered higher revenue (+5.3%) but lower PBT (-23.2%). The higher revenue in this segment was supported by massive demand for product support sales in heavy equipment operation while lower Equipment's PBT was due to provision for slow-moving inventory in heavy equipment operations. As such, PBT margin for Equipment division dipped by 2.9ppts.

- **Unlisted Oil & Gas (O&G) remains in the red.** Revenue for unlisted O&G slumped by 40% while PBT narrowed its losses during 12M17 to loss before tax of RM519.6m from loss before tax of RM706.5m in 12M16. The sluggish performance in unlisted (O&G) segment was dented by termination in operation in Oman as well write down of asset and liabilities amounting RM286.3m. For listed O&G, the segment posted lower revenue and lower loss before tax (up to 1H17) following completion of the demerger exercise. To recap, the Group completed its demerger of UMW Oil and Gas Corporation in June 2017 as an initiative to exit oil and gas segment. The Group commits to sell off its unlisted O&G segment by 2018 and totally exit the industry. Looking forward, we foresee the Group's earnings will recover with the disposals of its loss-making unlisted O&G companies.
- **Higher operating cost in Aerospace business weigh down M&E division.** Manufacturing & Engineering's PBT posted a net loss of RM16.3m in 12M17 as compared to a net profit of RM24.6m in 12M16. The disappointing performance posted by this segment was due to the higher operating cost in aerospace business which was still at a pre-operating phase. UMW Aerospace has delivered its first unit of fan case since Nov'17 and has completed 6 units of fan case in 2017. The Group expects to ramp up another 80 units and 160 units of fan cases in FY18 and FY19 respectively with full capacity of 250 units fan cases in 2020.

Earnings Outlook/Revision

- **We slash our net earnings forecasts by 6.6% for FY18 and introduced FY19F with 2.7% growth.** This is to account for lower margins for M&E division and break-even expected in FY19 for this segment.
- **We expect the Group to re-focus on three core businesses which will resume positive growth momentum over the longer term** - 1) Auto division is expected to register a robust growth with the launch of new Toyota CH-R during the 1H18; 2) M&E division is expected to move towards into high value-added manufacturing; 3) New plant in Bukit Raja (initial 50K capacity p.a.) to be fully completed and operational in 2019; and 4) Exit of O&G segment in 2018 that will help to improve the Group's overall profitability.
- **Maintain HOLD call on UMW with an unchanged target price of RM6.00.** Our valuation for UMW is pegged at 24x FY2018F PE based on revised EPS of 25 sen. The target PE valuation is close to its mean PE of 22x. While we reckon that the worst is over for the Group, we have yet to see any catalyst to drive the share price. We are still cautious on its outlook, as affected by some downside risks such as tepid consumer sentiment and fluctuation in foreign exchange.

Figure 1: Quarterly Figures

Year to 31 Dec	4Q17 (RMm)	3Q17 (RMm)	4Q16 (RMm)	QoQ % chg	YoY % chg	12M17 (RMm)	12M16 (RMm)	YoY % chg
Revenue	2,954.66	2,671.01	3,062.31	10.62%	-3.52%	11,046.48	10,915.42	1.2%
Operating Profit	16.10	(10.84)	(2,125.00)	N/A	N/A	120.42	(2,097.90)	N/A
Pre-tax Profit	17.58	19.93	(2,098.03)	-11.78%	N/A	252.89	(2,020.74)	N/A
Profit After Tax	(428.67)	(9.83)	(2,122.97)	N/A	N/A	(673.95)	(2,294.50)	N/A
Net Profit	(432.67)	(29.37)	(1,566.20)	N/A	N/A	(651.20)	(1,690.58)	N/A
Operating Margin (%)	0.5%	-0.4%	-69.4%	N/A	N/A	1.1%	-19.2%	N/A
PBT Margin (%)	0.6%	0.7%	-68.5%	-0.1%	N/A	2.3%	-18.5%	N/A
Net Margin (%)	-14.5%	-0.4%	-69.3%	N/A	N/A	-6.1%	-21.0%	N/A

Source: Company, JF Apex

Figure 2: Segmental Breakdown

2017	4Q17 (RMm)	3Q17 (RMm)	4Q16 (RMm)	Q-O-Q (%)	Y-O-Y (%)	12M17 (RMm)	12M16 (RMm)	Y-O-Y (%)
Segmental Revenue								
Automotive	2,386.68	2,115.92	2,462.35	12.80%	-3.07%	8,953.80	8,458.84	5.85%
Equipment	393.46	369.33	330.85	6.53%	18.93%	1,456.58	1,382.82	5.33%
Oil & Gas (Unlisted)	26.20	37.53	64.20	N/A	-59.20%	120.37	200.67	-40.02%
M & E	170.05	155.82	152.64	9.13%	11.40%	645.62	599.63	7.67%
Others	38.29	20.50	(12.70)	86.79%	N/A	89.99	36.52	146.39%
Elimination	(22.52)	(28.10)	8.66	N/A	N/A	(99.51)	(54.82)	N/A
Segmental PBT								
Automotive	141.60	106.07	143.59	33.49%	-1.38%	433.71	493.08	-12.04%
Equipment	1.48	39.25	30.59	-96.22%	-95.15%	112.48	146.72	-23.34%
Oil & Gas (Unlisted)	-412.30	-35.59	-615.90	N/A	N/A	-519.63	-706.47	N/A
M & E	-3.03	-6.73	4.04	N/A	N/A	-16.26	24.62	N/A
Segmental Margin								
Automotive	5.93%	5.01%	5.83%	0.92	0.1	4.84%	5.83%	0.99
Equipment	0.38%	10.63%	9.24%	-10.25	-8.86	7.72%	10.61%	-2.89
Oil & Gas	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M & E	N/A	N/A	2.65%	N/A	N/A	N/A	N/A	N/A

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017	2018F	2019F
Revenue	13,951.46	14,932.49	14,441.58	10,958.52	11,046.48	11,909.32	12,973.58
Operating profit	1,296.46	1,432.91	135.62	-2,181.51	120.42	992.47	180.79
PBT	1,435.67	1,621.46	269.65	-2,130.23	252.89	567.12	642.54
Net profit	652.93	651.97	-37.17	-1,658.04	-651.20	286.24	351.62
Core profit	960.40	836.80	338.00	-401.80	-651.20	286.24	351.62
EPS (sen)	0.56	0.56	-0.03	-1.42	-0.56	0.25	0.30
P/BV (x)	0.87	0.82	0.84	1.12	1.86	1.68	1.52
DPS (sen)	0.44	0.41	0.20	0.00	0.00	0.07	0.12
Dividend yield (%)	6.62%	6.17%	3.01%	0.00%	0.00%	1.11%	1.81%
Operating margin (%)	9.29%	9.60%	0.94%	-19.91%	1.09%	8.33%	1.39%
PBT margin (%)	10.29%	10.86%	1.87%	-19.44%	2.29%	4.76%	4.95%
Net profit margin (%)	4.68%	4.37%	-0.26%	-15.13%	-5.90%	2.40%	2.71%
Net Gearing Ratio(x)	0.93	1.10	1.26	1.66	2.19	2.21	2.22
ROE (%)	7.27%	6.90%	-0.40%	-24.00%	-15.59%	6.20%	6.90%
ROA (%)	4.41%	3.97%	-0.21%	-10.23%	-6.55%	2.43%	2.82%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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