

28 Feb 2018

Hold

Price
 RM6.49

Target Price
 RM6.30

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	7,582.2
52-week high/low (RM)	6.98 / 4.70
Avg daily turnover (RMm)	8.1
KLCI (pts)	1,871.5

Source: Bloomberg, KAF

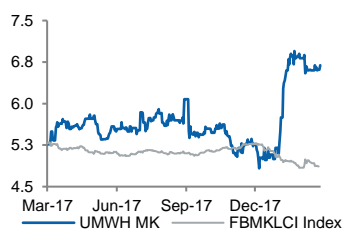
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.7%)
EPF	(9.1%)
KWAP	(8.0%)
Free Float	25.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	21.1	14.1	25.9
Rel Market (%)	11.3	7.8	13.9



Source: Bloomberg, KAF

Analyst

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UMW Holdings

2017: Tending to wounds

UMW reported 2017 core earnings of RM12m after taking into account UMWOG losses in 1H losses, provisions as well as demerger loss. While auto sales were up 6%, margins were compressed by the weak MYR. We expect stronger earnings in 2018 on absence of O&G losses, narrowing aerospace losses and improved margins from a stronger MYR. We deem these are fairly reflected at the current price. Maintain Hold.

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	10,959	11,391	11,918	12,300	12,736
Core net profit (RMm)	(369)	12	382	439	502
Core EPS (Sen)	(31.6)	1.0	32.7	37.6	43.0
EPS growth (%)	nm	nm	>100	14.8	14.3
DPS (Sen)	0.0	0.0	20.0	25.0	25.0
Core PE (x)	nm	658.4	19.8	17.3	15.1
Div yield (%)	0.0	0.0	3.1	3.9	3.9
ROE (%)	(40.2)	(17.3)	11.7	11.9	12.1
Net Gearing (%)	88.2	51.6	2.0	Net Cash	Net Cash
PBV(x)	1.1	1.8	1.6	1.4	1.3

Source: Company, KAF

Core net profit of RM105m in 4Q. UMW reported net loss of RM50m for 4Q17 on 1% topline growth compared to a year earlier for its continuing operations. Excluding one-off items (RM254m provision for early settlement of guaranteed loans and RM284m provisions for impairment), UMW reported core earnings of RM105m for 4Q (including discontinued operations). No dividends were declared.

Full year core earnings of RM12m. For the full year, UMW reported core earnings of RM12m, after taking into account the aforementioned provisions as well as RM127m loss on the demerger, and losses from UMWOG in 1H. Recall that the demerger of UMWOG was completed in mid-2017. We deem the core numbers to be in line with our forecast (FY17F: RM28m). Consolidated revenue grew 4% during the year.

Auto revenue up 6% but margins compressed. The automotive division's revenue grew 6% on higher Toyota sales during the year. UMW sold 70k Toyota and Lexus vehicles during the year – up 8% from 65k a year earlier. However, the weaker MYR resulted in compressed PBT margins of 4.8% (vs. 5.9% a year earlier) and PBT falling 13% during the year. Recall that MYR traded at average of 4.30 last year (vs. 4.14 in 2016) against the USD.

Gestation losses for aerospace plant. The manufacturing division fell into the red with a loss before tax of RM16m (vs. PBT of RM25m a year earlier) on gestation losses for its aerospace plant. Recall that the plant had delivered its first fan case to Rolls-Royce in Nov; the plant is expected to break even in 2019 with a targeted delivery of 160 fan cases next year. Meanwhile, its equipment division's PBT fell 3% (on 5% sales growth) due to provisions for slow-moving inventories.

Targeting flattish Toyota sales. Management is targeting to sell 70k Toyota and Lexus vehicles this year (flattish vs. 2017's 70k sales), while Perodua sales are expected to grow 2% to 209k (from 204k in 2017). We deem the sales targets to be realistic; sales growth for the former would be sustained by new launches such as the C-HR, Vellfire and Alphard facelifts, and Toyota Camry. Sales for the Perodua would be mainly driven by the all-new Myvi and the new SUV to be potentially launched at year-end.

Maintain Hold. The latest results affirmed our view that 2017 was a recovery year for UMW as it exited its O&G businesses, while auto margins were impacted by the weaker MYR. We expect stronger earnings this year on improved margins (from a stronger MYR) as well as narrowing losses for its manufacturing division on ramping up of fan case deliveries. We forecast auto PBT margins to improve to 8% (on MYR:USD assumption of 3.90) from 5%. We deem UMW to be fairly valued at this juncture with the auto division trading at a residual PE of 13x. We also expect UMW to resume paying dividends this year (premised on 60% of net earnings).

Exhibit 1: Results summary

FYE 31 Dec	4Q16	3Q17	4Q17	yoy %	qoq%	FY16	FY17	yoy %
Continued operations								
Revenue	2938	2671	2955	1%	11%	10437	11046	6%
Operating profit	(616)	(11)	16	-103%	-248%	(457)	120	-126%
Investment income	17	21	20	18%	-5%	63	80	26%
Finance cost	(16)	(20)	(77)	389%	280%	(33)	(119)	266%
JV & Associates	72	30	58	-19%	97%	184	172	-6%
Pretax profit	(543)	20	18	-103%	-12%	(242)	253	-204%
Tax	(24)	(30)	(33)	38%	11%	(134)	(122)	-8%
Profit after tax (continued ops)	(567)	(10)	(15)	-97%	57%	(376)	131	-135%
MI	(29)	29	(35)	18%	-218%	(121)	(106)	-12%
Net profit (continuing ops)	(596)	20	(50)	-92%	-357%	(497)	24	-105%
Discontinued Operations								
Revenue	118	0	26	-78%		522	335	-36%
Loss before tax from discontinued ops	(1532)	0	(412)	-73%		(1888)	(803)	-57%
Loss after tax from discontinued ops	(1532)	0	(413)	-73%		(1894)	(805)	-58%
MI	594	0	31	-95%		733	129	-82%
Net loss from discontinued ops	(937)	0	(382)	-59%		(1161)	(676)	-42%
Consolidated								
Revenue	3056	2671	2981	-2%	12%	10959	11391	4%
(Loss)/profit before tax	(2074)	20	(395)	-81%	-2081%	(2130)	(550)	-62%
Profit after tax	(2098)	(10)	(429)	-80%	4263%	(2270)	(674)	-70%
MI	565	29	(4)	-101%	-114%	612	23	-96%
Net profit	(1534)	20	(433)	-72%	-2314%	(1658)	(651)	-61%
Core net profit	(829)	20	105	-113%	439%	(369)	12	-103%
Consolidated								
EPS (sen)	(131.3)	1.7	(37.0)			(141.9)	(55.7)	
Core EPS (sen)	(70.9)	1.7	9.0			(31.6)	1.0	
Net DPS (sen)	0	0	0			0	0	
BV (RM)	4.04	3.01	2.64			4.04	2.64	
PBT margin (%)	-68%	1%	-13%			-19%	-5%	
PAT margin (%)	-69%	0%	-14%			-21%	-6%	
Net profit margin (%)	-50%	1%	-15%			-15%	-6%	
Core net profit margin (%)	-27%	1%	4%			-3%	0%	
Continued ops								
EBIT margin (%)	-21%	0%	1%			-4%	1%	
PBT margin (%)	-18%	1%	1%			-2%	2%	
PAT margin (%)	-19%	0%	-1%			-4%	1%	
Net margin (%)	-20%	1%	-2%			-5%	0%	
Effective tax rate (%)	-4%	149%	188%			-55%	48%	

Source: Company, KAF

Exhibit 2:

Segmental	4Q16	3Q17	4Q17	yoy %	qoq %	FY16	FY17	yoy %
Continued								
Automotive	2454	2116	2387	-3%	13%	8451	8954	6%
Equipment	331	369	393	19%	7%	1383	1457	5%
O&G	0	38	0			0	0	
Manufacturing	170	156	170	0%	9%	601	646	7%
Others & Eliminations	100	(8)	4	-96%	-158%	(1984)	(10)	-100%
Total Revenue (RM mil)	3056	2671	2955	-3%	11%	10437	11046	6%
Automotive	147	106	142	-4%	33%	497	434	-13%
Equipment	30	39	30	-1%	-24%	146	141	-3%
O&G	0	(36)	0			0	0	
Manufacturing	5	(7)	(3)	-165%	-55%	25	-16	-166%
Others	(170)	(83)	(151)	-11%	81%	(910)	(338)	-63%
Total PBT (RM mil)	12	20	18	42%	-12%	(242)	253	-204%
Automotive PBT margin (%)	6%	5%	6%			6%	5%	
Equipment PBT margin (%)	9%	11%	8%			11%	10%	
O&G PBT margin (%)	n/m	n/m	n/m			n/m	n/m	
Manufacturing PBT (%)	3%	-4%	-2%			4%	3%	
Total PBT margin (%)	0%	1%	1%			-2%	2%	

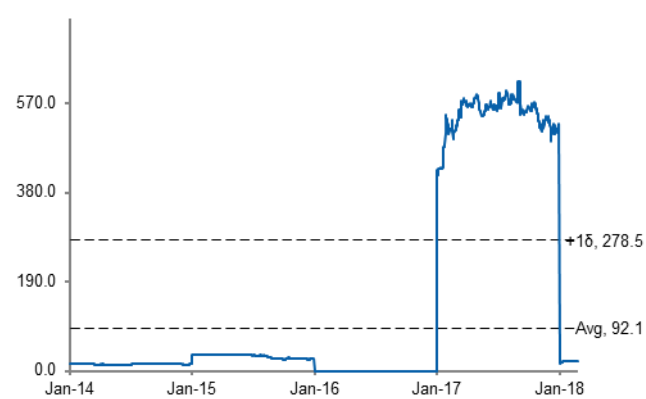
Source: Company, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	10,958.5	11,390.6	11,917.7	12,300.4	12,736.1
EBITDA	(1,612.0)	(328.6)	897.0	1,044.3	1,165.2
Depreciation/Amortisation	(569.5)	(336.3)	(289.5)	(314.0)	(338.5)
Operating income (EBIT)	(2,181.5)	(664.8)	607.4	730.3	826.7
Other income & associates	156.4	171.7	155.7	159.8	183.8
Net interest	(105.1)	(56.8)	(32.6)	(79.6)	(111.7)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	(2,130.2)	(549.9)	730.5	810.5	899.8
Taxation	(139.6)	(124.0)	(175.3)	(194.5)	(216.0)
Minorities/pref dividends	611.7	22.8	(172.8)	(177.0)	(181.9)
Net profit	(2,269.8)	(674.0)	382.4	439.0	501.9
Core net profit	(369.3)	11.5	382.4	439.0	501.9

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	7,678.5	2,660.6	3,418.7	3,804.7	4,166.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	791.3	451.4	451.4	451.4	451.4
Total non-current assets	10,478.0	4,820.3	5,578.4	5,964.3	6,325.8
Cash & equivalent	2,193.9	1,163.4	4,686.3	6,815.6	8,219.5
Stock	1,931.2	1,342.7	1,404.2	1,182.8	1,198.0
Trade debtors	988.5	993.6	815.6	823.2	832.2
Other current assets	671.5	1,298.2	204.0	28.8	0.0
Total current assets	5,785.1	4,798.0	7,110.1	8,850.3	10,249.7
Trade creditors	1,878.6	2,662.1	3,037.7	3,411.4	3,460.8
Short-term borrowings	2,639.3	685.3	3,716.5	4,534.2	5,381.0
Other current liabilities	234.0	205.7	140.5	140.5	140.5
Total current liabilities	4,752.0	3,553.2	6,894.7	8,086.1	8,982.4
Long-term borrowings	3,715.8	2,069.7	1,037.8	1,356.5	1,509.5
Other long-term liabilities	931.0	143.2	34.0	34.0	61.7
Total long-term liabilities	4,646.7	2,213.0	1,071.8	1,390.5	1,571.2
Shareholders' funds	4,718.6	3,082.4	3,455.8	3,894.8	4,396.8
Minority interests	2,145.7	1,093.4	1,266.2	1,443.2	1,625.1

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	(2,130.2)	(549.9)	730.5	810.5	899.8
Depreciation/Amortisation	569.5	336.3	289.5	314.0	338.5
Net change in working capital	441.2	528.9	492.1	587.5	25.2
Others	1,410.3	130.4	302.8	326.4	313.1
Cash flow from operations	290.7	445.6	1,814.9	2,038.5	1,576.7
Capital expenditure	(1,181.6)	(1,003.8)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(1,844.2)	(230.2)	(298.6)	(298.6)	(298.6)
Others	2,253.3	(746.5)	1,557.5	262.5	194.0
Cash flow from investing	(772.5)	(1,980.5)	559.0	(736.1)	(804.6)
Debt raised/(repaid)	380.1	176.0	1,231.5	1,136.4	999.8
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(116.8)	0.0	0.0	(233.7)	(292.1)
Others	(654.1)	(75.9)	(75.9)	(75.9)	(75.9)
Cash flow from financing	(390.8)	100.1	1,155.6	826.8	631.9
Net cash flow	(872.6)	(1,434.8)	3,529.4	2,129.2	1,404.0
Cash b/f	2,621.1	2,171.2	1,156.9	4,686.3	6,815.6
Cash c/f	1,607.3	1,156.9	4,686.3	6,815.6	8,219.5

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	(24.1)	3.9	4.6	3.2	3.5
EBITDA growth (%)	nm	(79.6)	nm	16.4	11.6
Pretax margins (%)	(19.4)	(4.8)	6.1	6.6	7.1
Net profit margins (%)	(20.7)	(5.9)	3.2	3.6	3.9
Interest cover (x)	(20.8)	(11.7)	18.6	9.2	7.4
Effective tax rate (%)	0.0	35.4	29.6	0.0	0.0
Net dividend payout (%)	nm	nm	0.0	0.0	0.0
Debtors turnover (days)	47	32	28	24	24
Stock turnover (days)	64	52	42	38	34
Creditors turnover (days)	69	73	87	96	98

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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