

28 February 2018

UMW Holdings Bhd

Hit by Losses in O&G Segment

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FY17 CNP of RM57.1m came in below expectations compared to our/consensus forecasts of RM114.8m/RM80m. The negative deviations were due to the higher-than-expected losses in O&G segment. We believe that the losses will be narrower with the on-going termination of O&G operations continuing in FY18. Maintain MARKET PERFORM with unchanged TP of RM6.25.

FY17 below expectations. FY17 CNP of RM57.1m came in below expectations compared to our/consensus forecasts of RM114.8m/RM80m. The negative deviations were due to the higher-than-expected losses in O&G segments. No dividend was declared for the quarter, as expected.

YoY, FY17 revenue increased by 6% due to higher contribution from the Auto segment (+6%), with improvement in car sales volume to 275,332 units (+1%) as per MAA statistics, underpinned by higher deliveries for the existing and face-lifted variants models. The positive growth was also supported by the Equipment segment (+5%), with the strong demand for product support sales in the heavy equipment operations, and the M&E segment (+7%), with higher sales of shock absorbers. This, however, was dampened by lower contribution in O&G segment (-40%), due to lower drilling activities and ceasing of operation in Oman. Meanwhile, the group registered PBT of RM252.9m from LBT of RM242.5m due to lower impairment of RM254.0m in FY17 (additional provision) compared to impairment of RM705.0m in FY16 (re-measurement of financial guarantee contract). Excluding impairment, PBT was higher by 10% to RM506.9m from RM462.5m in FY16 which we believe was due to the narrower losses in O&G segment with the elimination of losses from cessation of Oman operation. Correspondingly, the group registered CNP of RM57.1m from CNL of RM497.1m.

QoQ. 4Q17 revenue increased by 11% attributed to higher contribution from the Auto segment (+13%) with improvement in car sales volume to 73,812 units (+9%) as per MAA statistics mainly from the year-end promotional campaign and the launch of Toyota Innovative international Multipurpose Vehicle (IMV) improvement models for Innova, Fortuner and Hilux in September 2017. The positive growth was also supported by the Equipment segment (+7%), with higher contract awards, the M&E segment (+9%), with higher sales of shock absorbers. This, however, was dampened by lower contribution in unlisted Oil & Gas segment (-30%), due to lower drilling activities and ceasing of operations in Oman. Nevertheless, the group registered lower PBT by 12% due to impairment in O&G segment of RM254.0m (additional provision), but cushioned by the stronger PBT in Automotive Division (+34%) from the stronger MYR against USD (as at 4Q17, the average USD/MYR was at RM4.1717/USD compared to RM4.2837/USD as at 3Q17). Correspondingly, the group registered CNL of RM67.1m from CNP of RM18.0m.

Outlook. The strategic exit from the O&G industry is expected to improve the group's profitability with more solid balance sheet. Additionally, the anticipated new models namely 2018 Toyota CH-R (1Q18), 2018 Toyota Harrier (1Q18), Lexus models (LS, RX350L & Lexus NX300 in 2H18) and all-new Perodua SUV D38L (4Q18) should excite consumers, bringing in more sales volume to the group. Nonetheless, we maintain our neutral stance on UMW in view of the limited growth in car sales pending the completion of its new Bukit Raja Plant (expected to be operational in early 2019), and gestation period for UMW Aerospace.

Maintain MARKET PERFORM with unchanged TP of RM6.25 based on 20x FY18E EPS implying +1.0 SD of its 5-year mean historical PER.

Risks to our call include: (i) higher-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price: RM6.49
Target Price: RM6.25 ↔

Share Price Performance



KLCI	1,871.46
YTD KLCI chg	4.2%
YTD stock price chg	24.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	7,582.2
Issued shares	1,168.3
52-week range (H)	6.98
52-week range (L)	4.70
3-mth avg daily vol:	1,299,445
Free Float	42%
Beta	1.3

Major Shareholders

Skim Amanah Saham Bumiputera	40.7%
Employees Provident Fund	9.1%
Kumpulan Wang Persaraan	8.1%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	11,046.5	11,258.2	11,380.4
EBIT/ (LBIT)	120.4	291.3	280.0
PBT/ (LBT)	252.9	438.4	462.4
NP/(NL)	24.5	365.7	378.7
CNP/(CNL)	57.1	365.7	378.7
Consensus NP	-	309.4	416.6
Earnings Revision	-	-	new
Core EPS (sen)	4.9	31.3	32.4
Core EPS growth	-115.8%	540.3%	3.6%
NDPS (sen)	-	-	-
BVPS (RM)	3.07	3.74	4.19
PER (x)	133.0	20.8	20.1
PBV (x)	2.1	1.7	1.6
Net Gearing (x)	0.4	0.2	0.1
Net Div. Yield (%)	-	-	-

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Result Highlight								
(Continued Operation)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	2,954.7	2,671.0	11%	2,937.9	1%	11,046.5	10,436.8	6%
EBIT/LBIT	16.1	(10.8)	248%	(616.1)	103%	120.4	(456.7)	126%
PBT/(LBT)	17.6	19.9	-12%	(542.8)	103%	252.9	(242.5)	204%
Taxation and Zakat	(33.0)	(29.8)	-11%	(24.0)	-38%	(122.3)	(133.5)	8%
PATAMI	(50.2)	(29.4)	-71%	(596.2)	92%	24.5	(496.9)	105%
Core PATAMI	(67.1)	18.0	-472%	(17.3)	-289%	57.1	(497.1)	111%
Core EPS (sen)	(5.7)	1.5	-472%	(1.5)	-289%	4.9	(42.6)	111%
DPS (sen)	-	-	-	-	-	-	-	-
* Note that the FY17 core PATAMI has been adjusted by excluding non-core items amounting to RM51.4m, which consists of: (i) provision for impairment losses of receivables of RM4.8m, (ii) provision for write down of inventories of RM60.0m, (iii) gain on disposal of quoted or unquoted investments of RM0m, (vi) Gain on disposal of property, plant and equipment of RM22.5m.								
EBIT/(LBIT) margin	0.5%	-0.4%		-21.0%		1.1%	-4.4%	
PBT/(LBT) margin	0.6%	0.7%		-18.5%		2.3%	-2.3%	
Core NP/ (NL) margin	-2.3%	0.7%		-0.6%		0.5%	-4.8%	
Effective tax rate	-187.8%	-149.3%		4.4%		-48.4%	55.1%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM'm)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Revenue	2,954.7	2,671.0	10.6%	2,937.9	0.6%	11,046.5	10,436.8	5.8%
Automotive	2,386.7	2,115.9	12.8%	2,454.5	-2.8%	8,953.8	8,451.0	6.0%
Equipment	393.5	369.3	6.5%	330.8	18.9%	1,456.6	1,382.8	5.3%
M&E	170.0	155.8	9.1%	154.5	10.1%	645.6	601.5	7.3%
O&G (Unlisted)	26.2	37.5	-30.2%	64.2	-59.2%	120.4	200.7	-40.0%
Elimination	(21.7)	(7.6)	-185.8%	(66.1)	67.1%	(129.9)	(199.1)	34.8%
Segment PBT/(LBT)	17.6	19.9	-11.8%	(542.8)	103.2%	252.9	(242.5)	204.3%
Automotive	141.6	106.1	33.5%	133.5	6.1%	433.7	496.9	-12.7%
Equipment	29.6	39.3	-24.5%	29.9	-0.8%	140.6	145.6	-3.4%
M&E	(3.0)	(6.7)	55.0%	4.7	-165.0%	(16.3)	24.6	-166.1%
O&G (Unlisted)	(412.3)	(35.6)	-1058.5%	(412.3)	0.0%	(519.6)	(706.5)	26.4%
Elimination	261.7	(83.1)	415.0%	(298.5)	187.7%	214.4	(203.2)	205.5%
Segment PBT/(LBT) margin								
Automotive	5.9%	5.0%		5.4%		4.8%	5.9%	
Equipment	7.5%	10.6%		9.0%		9.7%	10.5%	
M&E	-1.8%	-4.3%		3.0%		-2.5%	4.1%	
O&G (Unlisted)	-1574.1%	-94.8%		-642.7%		-431.7%	-352.1%	

Source: Company, Kenanga Research

Malaysian Automotive Peers Comparison

NAME	Price @ 27/02/18	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RM m)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
BERMAZ AUTO BHD	2.18	2,516.4	21.4	16.1	12.4	5.1%	43.5%	117.6	156.0	203.7	32.6%	30.5%	2.30	OP
DRB-HICOM BHD	2.67	5,161.6	N.M.	15.4	14.7	0.7%	6.3%	-732.0	334.3	351.7	N.M	N.M	1.80	MP
MBM RESOURCES BHD	2.29	895.2	9.6	8.8	7.9	2.6%	5.0%	93.7	101.4	113.2	8.2%	11.7%	2.85	OP
SIME DARBY BHD	2.75	1,077.7	25.5	24.9	22.7	2.5%	2.2%	734.0	750.0	822.6	2.2%	9.7%	2.70	MP
TAN CHONG MOTOR HOLDINGS BHD	1.71	1,116.1	N.M.	N.M.	N.M.	1.2%	2.0%	-83.9	-30.4	-11.7	N.M	N.M	1.80	MP
UMW HOLDINGS BHD	6.49	7,582.3	N.M.	20.7	20.0	0.0%	4.0%	57.1	365.7	378.7	N.M	3.6%	6.25	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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