

# UMW (SELL ↔, EPS ↔)

**INDUSTRY: NEUTRAL**
**COMPANY INSIGHT/BRIEFING**
**5 March 2018**
**Price Target: RM5.20(↔)**
**Share price: RM6.10**

## Better 2018; Discontinue OG unlisted

**Highlights/  
Comments**

- UMW's earnings continued to disappoint in FY17, being dragged by various segments – Auto, UMWOG, Manufacturing, O&G unlisted and Others, on depreciation of RM against US\$, subdued consumer sentiments, weak oil price and high start-up costs.
- The group recognized loss of RM126.9m for the demerger of UMWOG, write downs of RM10.9m for equipment segment and RM399.6m for O&G unlisted, and loss of RM253.9m of financial guarantees (related to the cessation of O&G unlisted USTPL) in FY17, on top of the impairments/provisions made in FY16, totaling RM780m for UMWOG and RM1,462m for O&G unlisted and others.
- In FY18, UMW will cease to further recognize any loss or profit contribution from O&G unlisted segment, which had been reclassified as discontinued operation/asset for sales with net asset value of RM155m. UMW will only recognize any disposal gain/loss when UMW completes the disposal/winding up exercises.
- Auto segment is expected to see some improvements in FY17 from new model launches, improving consumer sentiments and appreciating RM against US\$. Management is targeting 279k sales in FY17 (70k from Toyota & Lexus and 209k from Perodua). The impact of every 1sen movement against US\$ is RM5-6m/year. The new manufacturing plant in Klang is expected to commence operation in FY19, with remaining RM600m capex.
- Equipment segment will be leveraging on the up-coming 74:24 JV set up with principal Komatsu & Tico (K&T). With the involvement of K&T, the unit will further expand its product line up and offer more value added services.
- Manufacturing and engineering segment is expected to breakeven in FY18 as Rolls Royce fan case manufacturing plant ramp up production, after registering loss of RM16.3m in FY17 (dragged by RM60m start up loss).

**Risks**

- Prolonged tightening of banks' HP rules.
  - Slowdown in the Malaysian economy affecting car sales.
  - Global automotive supply chain disruption.
  - Depreciation of RM.
  - Plunge in crude oil price and slowdown in O&G exploration.
- We increase FY18 and FY19 earnings by 23.3% and 12.8% after we remove the loss from O&G unlisted segment.

**Forecasts**
**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**

- We maintain Sell recommendation with unchanged TP of RM5.20 based on SOP, given that we have already applied zero valuation for O&G unlisted segment.

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KLCI	1,856.1
Expected share price return	-14.8%
Expected dividend return	0.8%
Expected total return	-13.9%

**Share Price**

**Information**

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	7,127
3-mth avg. volume ('000)	1,472
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-11.3	19.1	15.8
Relative	-11.5	10.7	6.6

**Major Shareholders**

PNB	57.6%
EPF	9.2%
KWAP	7.7%

**Summary Earnings Table**

FYE Dec (RM m)	FY16A	FY17A	FY18E	FY19F
Turnover	10,859	11,167	11,899	12,888
EBITDA	564	736	800	992
Pre-tax Profit	-2,130	146	603	789
Rpt. net profit	-1,667	-648	328	460
Norm. net profit	89	-128	328	460
Norm. EPS (sen)	7.6	-10.9	28.1	39.3
P/E (x)	80.5	-55.7	21.7	15.5
Book Value (RM)	4.0	2.6	3.7	4.0
P/B (x)	1.5	2.3	1.6	1.5
Net Dvd Yield (%)	11.8	12.0	0.8	1.6
Net Gearing	89.5	51.6	64.4	59.6
ROE (%)	1.6	-3.3	7.8	10.1
ROA (%)	0.5	-1.0	2.6	3.5

**Consensus:**

EPS (sen)	26.5	35.3
% Diff	6.0	11.4

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

### Income Statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
<b>Revenue</b>	<b>14,442</b>	<b>10,859</b>	<b>11,167</b>	<b>11,899</b>	<b>12,888</b>
Operating cost	-12,872	-10,295	-10,430	-11,098	-11,896
<b>EBITDA</b>	<b>1,569</b>	<b>564</b>	<b>736</b>	<b>800</b>	<b>992</b>
Depreciation	-765	-555	-207	-294	-296
<b>EBIT</b>	<b>804</b>	<b>9</b>	<b>529</b>	<b>507</b>	<b>696</b>
Interest income	126	81	47	54	46
Interest expense	-127	-186	-150	-118	-123
Associates	134	155	156	161	172
Exceptionals	-668	-2,189	-437	0	0
<b>Pretax profit</b>	<b>270</b>	<b>-2,130</b>	<b>146</b>	<b>603</b>	<b>789</b>
Taxation	-267	-141	-816	-136	-163
Minorities	-39	604	23	-140	-167
<b>Net profit</b>	<b>-37</b>	<b>-1,667</b>	<b>-648</b>	<b>328</b>	<b>460</b>
<b>Core PATAMI</b>	<b>256</b>	<b>89</b>	<b>-128</b>	<b>328</b>	<b>460</b>
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
<b>Core EPS (sen)</b>	<b>21.9</b>	<b>7.6</b>	<b>-10.9</b>	<b>28.1</b>	<b>39.3</b>

### Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Fixed assets	8,106	7,642	2,661	4,427	4,571
Other assets	4,038	3,709	3,894	4,086	4,129
<b>Working capital</b>	<b>1,968</b>	<b>1,778</b>	<b>1,456</b>	<b>1,972</b>	<b>2,146</b>
Receivables	1,458	754	880	833	902
Payables	-1,380	-898	-767	-943	-1,011
Inventory	1,890	1,922	1,343	2,082	2,255
<b>Net cash</b>	<b>-3,281</b>	<b>-4,226</b>	<b>-1,592</b>	<b>-2,812</b>	<b>-2,806</b>
Cash	2,734	2,179	1,163	1,377	1,236
ST debt	-3,725	-2,617	-685	-1,117	-1,117
LT debt	-2,290	-3,789	-2,070	-3,073	-2,925
<b>Equity</b>	<b>6,584</b>	<b>4,722</b>	<b>3,082</b>	<b>4,366</b>	<b>4,709</b>
Share capital	584	584	584	584	584
Reserves	6,000	4,138	2,498	3,782	4,125
Minorities	2,799	2,187	1,093	1,312	1,337
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	800	992
Net interest	-1	-106	-103	-64	-78
WCap changes	69	190	323	-129	-175
Taxation	-283	-136	-123	-136	-163
Others	-279	-583	-302	0	0
<b>Opex cashflow</b>	<b>1,075</b>	<b>-70</b>	<b>531</b>	<b>471</b>	<b>576</b>
Capex & acq.	-2,388	-925	-935	-1,240	-440
<b>Free cashflow</b>	<b>-1,313</b>	<b>-995</b>	<b>-404</b>	<b>-769</b>	<b>136</b>
Other inv cashflow	502	248	-1,131	121	129
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	-119	-142
<b>Net cashflow</b>	<b>-274</b>	<b>-526</b>	<b>-1,435</b>	<b>-333</b>	<b>-142</b>
Forex translation	65	25	421	0	0
<b>Beginning cash</b>	<b>3,277</b>	<b>2,655</b>	<b>2,655</b>	<b>1,686</b>	<b>1,353</b>
<b>Ending cash</b>	<b>3,067</b>	<b>2,155</b>	<b>1,641</b>	<b>1,353</b>	<b>1,212</b>

### Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
<b>Core EPS (sen)</b>	<b>21.9</b>	<b>7.6</b>	<b>-10.9</b>	<b>28.1</b>	<b>39.3</b>
PER (x)	-191.7	-4.3	-11.0	21.7	15.5
<b>Core PER (x)</b>	<b>27.8</b>	<b>80.5</b>	<b>-55.7</b>	<b>21.7</b>	<b>15.5</b>
Net DPS (sen)	20.0	72.0	73.0	5.0	10.0
Net DY (%)	3.3	11.8	12.0	0.8	1.6
<b>BV/ share (RM)</b>	<b>5.6</b>	<b>4.0</b>	<b>2.6</b>	<b>3.7</b>	<b>4.0</b>
P/BV (x)	1.1	1.5	2.3	1.6	1.5
FCF/share (sen)	-112.4	-85.2	-34.6	-65.8	11.7
<b>Market Cap</b>	<b>7,127</b>	<b>7,127</b>	<b>7,127</b>	<b>7,127</b>	<b>7,127</b>
Net cash	-3,281	-4,226	-1,592	-2,812	-2,806
Enterprise value	10,407	11,353	8,718	9,939	9,933
EV/EBITDA (x)	6.6	20.1	11.8	12.4	10.0
<b>ROE (%)</b>	<b>3.9</b>	<b>1.6</b>	<b>-3.3</b>	<b>7.8</b>	<b>10.1</b>
<b>ROA (%)</b>	<b>1.5</b>	<b>0.5</b>	<b>-1.0</b>	<b>2.6</b>	<b>3.5</b>

### Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
<b>Growth (%)</b>					
Sales	-3.3	-24.8	2.8	5.2	8.3
EBITDA	-19.5	-64.0	30.5	102.7	23.9
EBIT	-48.8	-98.8	N.M.	1068.1	37.3
PBT	-83.4	-890.0	-106.8	337.0	30.8
Core PATAMI	-67.4	-65.4	-244.4	338.4	40.0
<b>Margins (%)</b>					
EBITDA	10.9	5.2	6.6	6.7	7.7
EBIT	5.6	0.1	4.7	4.3	5.4
PBT	1.9	-19.6	1.3	5.1	6.1
Core PATAMI	1.8	0.8	-1.1	2.8	3.6
<b>Net Gearing (%)</b>	<b>49.8</b>	<b>89.5</b>	<b>51.6</b>	<b>64.4</b>	<b>59.6</b>

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