

05 March 2018

# UMW Holdings Bhd

## Focusing on Three Core Businesses

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We came back from UMW's FY17 analyst briefing with our cautious view unchanged. Key takeaways from the briefing includes: i) losses in O&G segments at RM519.6m dragged down the FY17 results, ii) Automotive and Equipment segments to boost products range for a better sales, and iii) UMW Aerospace breakeven point in FY19 with 160 fan cases expected to be delivered. Maintain MP with unchanged TP of RM6.25.

**Re-look on FY17 results.** The group FY17 revenue increased by 6% with all three core businesses registering higher revenue, however, mitigated by the lower contribution from the O&G segment. Subsequently, the group PBT was at RM252.9m as opposed to a LBT of RM242.5m in FY16. Taking a detailed look at the segments, Automotive (RM433.7m, -13% YoY) and Equipment (RM140.6m, -3% YoY) continued to be profitable, whereas M&E registered losses (-RM16.3m from PBT of RM24.6m in FY16). Excluding UMW aerospace pre-operating losses (c.RM60m), M&E was also profitable (at RM44m). Meanwhile, demerger of UMW O&G Corp. was completed in June 2017, but still affected the FY17 results with net losses of c.RM156m. As a part of the exit strategy for the unlisted O&G segment, total impairment of RM654m was incurred in FY17 with the write-down on assets to fair value (RM286.3m), write-down on inventories (RM113.3m) and a charge on re-measured financial guarantee due to anticipated early settlement (RM254.0m) have kept the O&G segment at losses (LBT of RM519.6m from LBT of RM706.5m). On the other hand, forex losses at RM82.9m in the 1H17 impacted financials of Automotive Division due to its imports in USD. Excluding impairment, PBT was higher by 10% to RM506.9m from RM462.5m in FY16 in which we believed was due to the narrower losses in O&G segment with the elimination of losses from Oman operation's cessation. Correspondingly, the group registered CNP of RM57.1m from CNL of RM497.1m. The group will continue focusing on 3 core segments with the planned total exit from the O&G segment (9 unlisted O&G companies remained to be disposed by end-2018).

**Automotive and Equipment to boost products range.** For Automotive segment, UMW Toyota expected to launch new car models to boost market share (2018 sales target at c.75k units) namely 2018 Toyota CHR (1Q18), 2018 Toyota Harrier (1Q18), face-lifted Toyota variants, and Lexus models (LS, RX350L & Lexus NX300 in 2H18) whereas, strengthening of MYR against USD would lead to better margins. On the other hand, Perodua's contribution will continue to be sustainable with strong demand in entry level segment (2018 sales target at 209k) supported by the all-new Perodua MyVi and all-new Perodua SUV D38L (4Q18). For Equipment, the group will continue to leverage on partner's (KOMATSU & TICO) strength to boost product range and market penetration, while, expanding value added services by providing total solutions services.

**UMW Aerospace breakeven point in FY19.** UMW Aerospace, under the M&E segment, is expected to trim its losses to c.RM20m level in FY18 (from losses of c.RM60m in FY17) before reaching breakeven level in FY19 with 160 fan cases level expected to be delivered considering that some front-loaded investments need to be amortised. UMW Aerospace has delivered 6 fan cases for FY17 and additionally, expects to ramp up its production to 80 fan cases for 2018 and 160 fan cases by 2019 before hitting full capacity of 250 fan cases by 2020.

**Maintain MARKET PERFORM with an unchanged TP of RM6.25** based on 20x FY18E EPS implying +1.0 SD of its 5-year mean historical PER. 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 1Q19), gestation period for UMW Aerospace and elimination of losses in stages for the unlisted O&G companies until complete disposal targeted by end-2018. Risks to our call include: (i) higher-than-expected car sales volume, and (ii) unfavourable forex.

## MARKET PERFORM ↔

Price: **RM6.10**  
Target Price: **RM6.25** ↔

### Share Price Performance



KLCI	1,856.07
YTD KLCI change	3.3%
YTD stock price change	17.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	7,126.6
Issued shares	1,168.3
52-week range (H)	6.98
52-week range (L)	4.70
3-mth avg daily vol:	1,439,248
Free Float	42%
Beta	1.3

### Major Shareholders

Skim Amanah Saham	40.7%
Employees Provident Fund	9.2%
Kumpulan Wang Persaraan	7.7%

### Summary Earnings Table



FY Dec (RM'm)	2017A	2018E	2019E
Turnover	11,046.5	11,258.2	11,380.4
EBIT/ (LBIT)	120.4	419.2	429.6
PBT/ (LBT)	252.9	566.2	599.5
<b>NP/(NL)</b>	<b>24.5</b>	<b>365.7</b>	<b>378.7</b>
<b>CNP/(CNL)</b>	<b>57.1</b>	<b>365.7</b>	<b>378.7</b>
Consensus NP	-	320.1	422.8
Earnings Revision	-	-	-
Core EPS (sen)	4.9	31.3	32.4
Core EPS growth	-112.3%	540.4%	3.5%
NDPS (sen)	-	-	-
BVPS (RM)	2.64	2.95	3.28
PER (x)	124.8	19.5	18.8
PBV (x)	2.3	2.1	1.9
Net Gearing (x)	0.5	0.5	0.5
Net Div. Yield (%)	-	-	-


Update on the unlisted Oil & Gas segment

No	Company	Status
1	UMW Synergistic Generation Sdn Bhd	✓ COMPLETED rationalisation
2	Sichuan Haihua Petroleum Steelpipe Co. Ltd-Sub	✓ COMPLETED
3	PPF Holdings Pty Ltd	✓ Completed disposal of PFP Taiwan
4	UMW Fabritech Sdn Bhd	✓ Executed SPA, awaiting authorities approval
5	UMW Coating Technologies (Tianjin) Co. Ltd	✓ Executed SPA, awaiting authorities approval
6	Arabian Drilling Services	✓ Ceased operations, finalisation of disposal of assets
7	United Seamless Tubulaar Pvt Ltd	✓ Ceased operations, under receivership and to proceed with disposal of assets
8	Jaybee Drilling Pvt Ltd	Active negotiations
9	UMW Sher (L) Ltd	
10	Shanghai BSW Petro-pipe Co. Ltd	
11	Zhongyou BSS(Qinhuangdao) Petropipe Co. Ltd	
12	Oil Country Tubular Limited	
13	Tubulars International Pte Ltd	
14	UMW Oilfield International (M) Sdn Bhd / UMW Oilfield International (L) Ltd	
15	Jiangshu Tube-Cote Shuguang Coating Ltd	
16	Shanghai Tube-Cote Petroleum Pipe Coating	

Source: Company, Kenanga Research

UMW Marques Achievement in 2017

UMW TOYOTA MOTOR  	2017 (units)	2017 Target (units)	% achieved above target for 2017	2016 (units)
	70,445	70,000	0.6	65,110

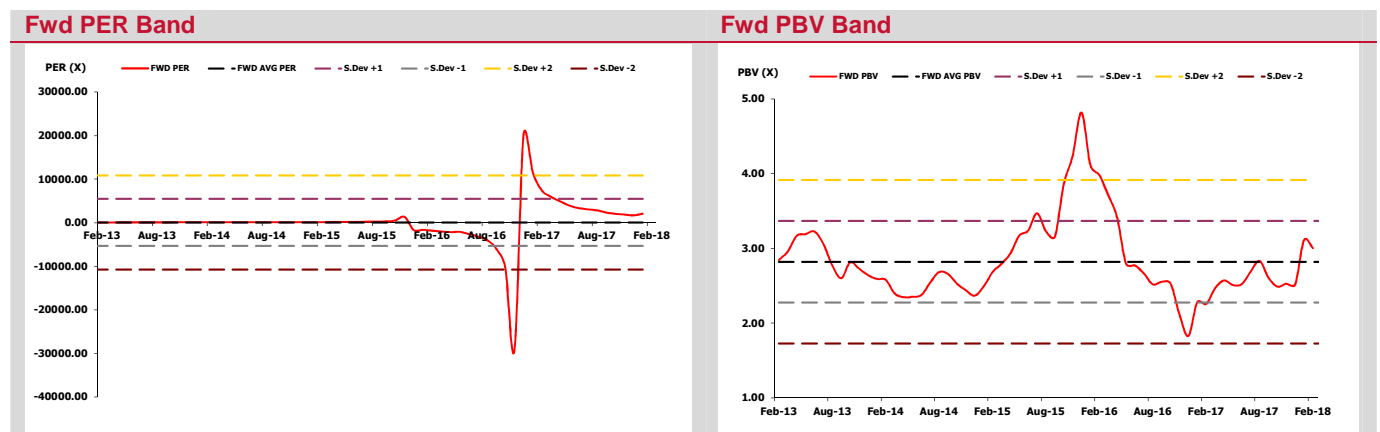
PERODUA  PERODUA	2017 (units)	2017 Target (units)	% achieved above target for 2017	2016 (units)
	204,887	202,000	1.4	207,110

Source: Company, Kenanga Research

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Income Statement					Financial Data & Ratios				
FY Dec (RM m)	2016A	2017A	2018E	2019E	FY Dec (RM m)	2016A	2017A	2018E	2019E
Revenue	10,436.8	11,046.5	11,258.2	11,380.4	<b>Growth (%)</b>				
EBITDA	(456.7)	120.4	419.2	429.6	Turnover	-5.0	5.8	1.9	1.1
Depreciation	(569.5)	(336.3)	(114.9)	(247.0)	EBITDA	-5.0	5.8	1.9	1.1
Interest Inc/(Exp)	(32.5)	(119.0)	(106.7)	(115.7)	Operating Profit	-17.7	-121.1	248.1	2.5
Associate	183.6	171.7	162.3	188.9	PBT	-88.7	-204.3	123.9	5.9
PBT	(242.5)	252.9	566.2	599.5	CNP	28.2	-112.3	540.4	3.5
Taxation	(133.5)	(122.3)	(109.1)	(126.1)	<b>Profitability (%)</b>				
Minority Interest	(120.9)	(106.1)	(91.4)	(94.7)	Operating Margin	-4.4	1.1	3.7	3.8
<b>NP</b>	<b>(496.9)</b>	<b>24.5</b>	<b>365.7</b>	<b>378.7</b>	PBT Margin	-2.3	2.3	5.0	5.3
<b>CNP</b>	<b>(464.3)</b>	<b>57.1</b>	<b>365.7</b>	<b>378.7</b>	CNP Margin	-4.4	0.5	3.2	3.3
					ROA	-3.1	0.2	3.6	3.5
					ROE	-10.5	0.6	11.2	10.4
Balance Sheet					DuPont Analysis				
FY Dec (RM m)	2016A	2017A	2018E	2019E	Net Margin (%)	2016A	2017A	2018E	2019E
F. Assets	7,109.0	2,324.3	3,041.0	3,708.7	Assets Turnover(x)	0.6	1.1	1.1	1.0
Int. Assets	6.5	6.5	6.5	6.5	Leverage Factor(x)	3.4	3.2	3.0	2.9
Other F.Assets	3,362.5	2,489.5	2,489.5	2,489.5	ROE (%)	-10.6	0.6	11.2	10.4
Inventories	1,931.2	1,342.7	1,383.0	1,404.4					
Receivables	867.7	880.2	892.5	902.5	<b>Leverage</b>				
Other C. Assets	1,128.7	1,735.4	1,735.4	1,735.4	Debt/Asset (x)	0.4	0.3	0.3	0.2
Cash	1,857.4	1,163.4	964.4	843.3	Debt/Equity (x)	1.3	0.9	0.8	0.7
<b>Total Assets</b>	<b>16,263.0</b>	<b>9,942.0</b>	<b>10,512.2</b>	<b>11,090.3</b>	Net (Cash)/Debt	4,475	1,592	1,791	1,912
					Net Debt/Equity (x)	0.9	0.5	0.5	0.5
Payables	1,038.9	767.2	788.9	798.9	<b>Valuations</b>				
ST Borrowings	2,616.6	685.3	685.3	685.3	Core EPS (sen)	(39.7)	4.9	31.3	32.4
Other ST Liability	1,096.5	2,100.6	2,100.6	2,100.6	NDPS (sen)	-	-	-	-
LT Borrowings	3,715.8	2,069.7	2,069.7	2,069.7	BV/sh (RM)	4.0	2.6	3.0	3.3
Other LT Liability	931.0	143.2	143.2	143.2	PER (x)	(15.4)	124.8	19.5	18.8
<b>Net Assets</b>	<b>6,864.3</b>	<b>4,175.8</b>	<b>4,724.4</b>	<b>5,292.4</b>	Div. Yield (%)	-	-	-	-
					PBV (x)	1.5	2.3	2.1	1.9
S.holders' Equity	4,718.6	3,082.4	3,448.1	3,826.8	EV/EBITDA (x)	(2.4)	(19.9)	8.0	6.4
Minority Interests	2,145.7	1,093.4	1,276.3	1,465.6					
<b>Total Equity</b>	<b>6,864.3</b>	<b>4,175.8</b>	<b>4,724.4</b>	<b>5,292.4</b>					
Cashflow Statement									
FY Dec (RM m)	2016A	2017A	2018E	2019E					
Operating CF	290.7	445.6	576.9	720.5					
Investing CF	-766.9	-1,980.5	-669.3	-725.9					
Financing CF	167.4	100.1	-106.7	-115.7					
Change In Cash	-308.7	-1,434.8	-199.0	-121.1					
FCF	-465.3	-310.4	-254.7	-194.3					

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Malaysian Automotive Peers Comparison

NAME	Price @ 02/03/18	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 YrFwd	2 YrFwd	(%)	(%)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)	
BERMAZ AUTO BHD	2.07	2,389.4	20.3	15.3	11.7	5.4%	43.5%	117.6	156.0	203.7	32.6%	30.5%	2.30	OP
DRB-HICOM BHD	2.53	4,891.0	N.M.	14.6	13.9	0.8%	6.3%	-732.0	334.3	351.7	N.M.	N.M.	2.50	MP
MBM RESOURCES BHD	2.21	863.9	9.2	8.5	7.6	2.7%	5.0%	93.7	101.4	113.2	8.2%	11.7%	2.85	OP
SIME DARBY BHD	2.69	1,054.2	24.9	24.4	22.2	2.6%	2.2%	734.0	750.0	822.6	2.2%	9.7%	2.70	MP
TAN CHONG MOTOR HOLDINGS BHD	1.70	1,109.6	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	6.10	7,126.6	N.M.	19.5	18.8	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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