

# Result Snapshot

# UMW Holdings

Bloomberg: UMWH MK| Reuters: UMWS.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

28 Aug 2014

**HOLD RM12.28** KLCI : 1,872.38

Price Target :12-Month RM12.80 (Prev RM13.50)

Shariah Compliant: Yes

## Analyst

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## Result Summary

FY Dec (RM m)	2Q 2014	2Q 2013	1Q 2014	yoy % chg	qoq % chg
<b>P&amp;L Items</b>					
Turnover	3,966.8	3,499.2	3,583.4	13.4	10.7
Gross Profit	272.5	317.7	409.4	(14.2)	(33.4)
Opg Profit	382.9	415.9	433.3	(7.9)	(11.6)
EBITDA	382.9	415.9	433.3	(7.9)	(11.6)
Net Profit	142.0	251.0	235.5	(43.4)	(39.7)
<b>Other Data</b>					
Gross Margin (%)	6.9	9.1	11.4		
Opg Margin (%)	9.7	11.9	12.1		
Net Margin (%)	3.6	7.2	6.6		

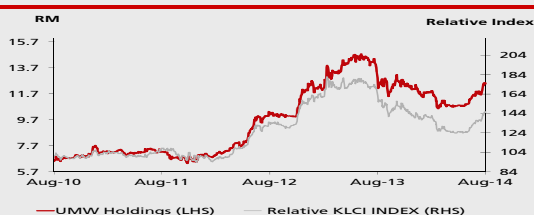
## Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	13,951	15,531	16,706	17,774
Operating Profit	1,296	1,937	2,259	2,471
EBITDA	1,622	2,263	2,584	2,797
Net Pft (Pre Ex.)	653	911	1,038	1,135
EPS (sen)	66.0	77.9	88.8	97.2
EPS Pre Ex. (sen)	55.9	77.9	88.8	97.2
EPS Gth (%)	(22)	18	14	9
EPS Gth Pre Ex (%)	(36)	39	14	9
Net DPS (sen)	27.9	39.0	44.4	48.6
BV Per Share (sen)	538.4	577.4	621.8	670.4
PE (X)	18.6	15.8	13.8	12.6
PE Pre Ex. (X)	22.0	15.8	13.8	12.6
EV/EBITDA (X)	10.7	7.7	6.9	6.5
Net Div Yield (%)	2.3	3.2	3.6	4.0
P/Book Value (X)	2.3	2.1	2.0	1.8
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	13.8	14.0	14.8	15.0

## At A Glance

Issued Capital (m shrs)	1,168
Mkt. Cap (RMm/US\$m)	14,347 / 4,541
Avg. Daily Vol.('000)	2,205

## Price Relative



Source: Company, AllianceDBS

## Dragged by non-core businesses

- **2Q14 core net profit of RM179m below expectations - stronger automotive profit offset by non-core businesses**
- **Cut FY14-16F EPS by 9-12%**
- **Declared interim net DPS of 10 sen**
- **Maintain HOLD, TP lowered to RM12.80**

## Highlights

**Below expectations.** UMW's 2Q14 core net profit fell 29% y-o-y to RM178.6m after excluding one-off net loss of RM36.6m. Results was below our expectations as 1H14 core net profit of RM386.9m made up only 38% of our full-year estimate.

**Improved earnings from most segments.** 2Q14 automotive segment's revenue grew 13% y-o-y to RM2.9bn while PBT rose 14% to RM408.5m. This was largely driven by stronger sales of its new Vios and Altis models. However, this could explain slower sales of Perodua. UMW's total share of profits from associates and JVs fell 40% to RM39.4m.

Equipment segment's 2Q14 PBT strengthened by 41% y-o-y to RM55.1m. This is on the back of encouraging performance from the construction and quarry sectors, coupled with UMW maintaining its leading market position in the equipment business via Toyota forklifts in Malaysia. Manufacturing and engineering (M&E) segment booked PBT of RM11.9m vs. 2Q13's pretax loss of RM2.5m. This was mainly due to favourable performances from its from Malaysian and China operations coupled with a better forex rate for India.

**Slower O&G and non-core businesses.** Despite stronger 2Q14 revenue from the O&G segment at RM238.8m (+42% y-o-y), PBT fell by 13% to RM66.2m. This was due to lower contribution from Naga 3 which underwent repair works in May'14 while segment's 2Q13 profit was lifted by a one-off RM30m disposal gain. Meanwhile, 'Others' and non-core business segment was a further drag on the bottomline as it incurred RM119.7m pretax loss which we think could have been due to a slowdown in the pipe business.

## Our View

**Cut FY14-16F EPS by 9-12 %.** This is following our revision in the following areas/segments: 1) higher losses from 'Others' segment, 2) better profit from M&E, and 3) higher effective tax rates.

## Recommendation

**Maintain HOLD with lower RM12.80 TP.** We incorporated a higher discount rate to our SOP valuation to factor in earnings risk from its non-core business. We think current valuation of 13-16x FY14-16F EPS is fair and the stock is trading at +1SD above its 10-year forward PE mean. HOLD for potential earnings upside from Toyota and Perodua in the near-term.

## UMW Holdings

### Segmental breakdown

(RMm)	2Q14	2Q13	1Q14	% Chg y-o-y	% Chg q-o-q	2Q14 Comments*
<b>Segment revenue</b>						
Automotive	2,904.4	2,571.4	2,656.4	13.0	9.3	Driven by better sales of Vios and Altis
Equipment	453.8	444.2	434.9	2.1	4.3	Encouraging construction and mining sector, and favourable demand for Toyota forklifts
Manufacturing & Engineering	188.9	187.9	181.9	0.5	3.8	Better performance from Malaysian and China operations with improved forex in India
Oil & Gas	238.8	167.8	195.6	42.3	22.1	Lifted by contribution from all drilling rigs
Others	181.0	128.0	114.5	41.4	58.0	
<b>Total</b>	<b>3,966.8</b>	<b>3,499.2</b>	<b>3,583.4</b>	<b>13.4</b>	<b>10.7</b>	
<b>Segment pretax profit</b>						
Automotive	408.5	358.1	406.6	14.1	0.5	In-line with better car sales but could be partially offset by lower profit contribution from Perodua
Equipment	55.1	51.9	39.1	6.1	40.9	In-line with improved construction and quarry sectors, and better demand
Manufacturing & Engineering	11.9	(2.5)	9.6	n.m.	24.0	Better performance from Malaysian and China operations with improved forex in India
Oil & Gas	66.2	75.8	58.3	(12.6)	13.6	Partially offset by Naga 3 which underwent scheduled repair
Others	(119.7)	(40.1)	(34.2)	n.m.	n.m.	Could be due to slowdown in O&G pipe business
<b>Total</b>	<b>422.1</b>	<b>443.2</b>	<b>479.4</b>	<b>(4.8)</b>	<b>(12.0)</b>	

\* Based on y-o-y unless stated otherwise

Source: Company, DBS Vickers

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

**DISCLOSURE****Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

**Commonly used abbreviations**

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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