

# UMW (HOLD ↓, EPS ↓)

 INDUSTRY: NEUTRAL  
 EARNINGS EVALUATION

28 August 2014

Price Target: RM12.28 (↓)

Share price: RM12.28

## Expect Tough Automotive Market in 2H14

Results	<ul style="list-style-type: none"> <li>Reported core net profit of RM174.9m in 2Q14 and RM386.7m in 1H14, in line with HLIB's RM804.7m (48.1%), but below consensus RM944.3m (40.9%).</li> </ul>
Deviations	<ul style="list-style-type: none"> <li>None.</li> </ul>
Dividends	<ul style="list-style-type: none"> <li>Announced interim single tier dividend of 10 sen/share.</li> </ul>
Highlights	<ul style="list-style-type: none"> <li><b>Automotive:</b> 2Q14 revenue increased by 9.3% qoq and 13.0% yoy on higher Toyota sales (new model Vios and Altis). Nevertheless, we expect stiff competitive market in 2H14, which may affect Toyota's margin. Furthermore, Perodua sales is expected to be weak in 3Q14 (due to ending of Viva model in August), before strong rebound in 4Q14 from newly launched EEV-AXIA model.</li> <li><b>Equipment:</b> 2Q14 revenue improved marginally by 4.3% qoq and 2.1% yoy, due to continued soft demand from construction sector (project delays) and mining sector (weak commodity prices and license suspension). The lifting of suspension on Jade Mining in Myanmar effective Sep 2014, will likely boost the demand for mining equipment in 2015. UMW has won a contract to supply 60 units of Komatsu equipment in Myanmar worth RM200m.</li> <li><b>Oil &amp; Gas:</b> 2Q14 revenue improved further by 22.1% qoq from the commencement of Naga 5 in May 2014 and improved HWU utilization, which was partly offset by the suspended Naga 3, which undergone scheduled maintenance in the quarter. Expect stronger earnings in 2H14 with the deliveries of Naga 6 and Naga 7.</li> <li><b>Manufacturing &amp; Engineering:</b> 2Q14 revenue improved marginally by 3.8% qoq and 0.5% yoy mainly on sustained Malaysia and China operations, partly offsets by the weaker India operations. UMW has provided RM93m losses related to the Indian investments disposal by end 2014.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>Weakening of RM.</li> <li>Prolonged tightening of banks' HP rules.</li> <li>Slowdown in the Malaysian economy affecting car sales.</li> <li>Global automotive supply chain disruption.</li> </ul>
Forecasts	<ul style="list-style-type: none"> <li>We have fine-tuned our models, by cutting 4-5% of FY14-16 earnings forecasts, mainly in anticipation of lower margins from automotive segment from intensified competition.</li> </ul>
Rating	<p><b>HOLD (↓)</b></p> <ul style="list-style-type: none"> <li>Positives – 1) Control largest market share of Malaysia TIV with leading brand - Toyota, Lexus and Perodua; 2) Strong growth of Oil &amp; Gas division; and 3) Expanding reach of Manufacturing &amp; Engineering division into fast growing China and India.</li> <li>Negatives – 1) High crude oil prices affecting margins of its oil based products i.e. lubricants; 2) Tightening of bank's lending rules; and 3) Intense competition from rival automotive marques.</li> </ul>
Valuation	<ul style="list-style-type: none"> <li>In view of share price rallied near to our Target Price, we cut to Hold with lower Target Price of RM12.28 (previously RM12.55) based on SOP, due to the limited upside.</li> </ul>

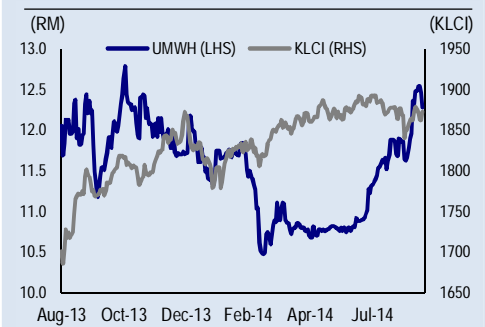
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KLCI	1872
Expected share price return	0.0%
Expected dividend return	4.2%
Expected total return	4.2%

### Share price



### Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	14,347
3-mth avg. volume ('000)	2,197

Price Performance	1M	3M	12M
Absolute	3.4	13.5	-1.0
Relative	3.6	13.2	-10.0

### Major shareholders

PNB	53.6%
EPF	14.0%
KWAP	5.0%

### Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E	2016E
Turnover	13,951	15,384	15,818	16,632
EBITDA	1,827	1,980	2,234	2,528
Pre-tax Profit	1,436	1,730	1,929	2,193
Rpt. net profit	654	772	935	1,085
Norm. net profit	837	772	935	1,085
Norm. EPS (sen)	71.7	66.0	80.0	92.9
P/E (x)	17.1	18.6	15.4	13.2
Book Value (RM)	5.4	5.7	6.0	6.3
P/B (x)	2.3	2.2	2.1	2.0
Net Dvd Yield (%)	3.6	3.5	4.2	4.9
Net Gearing	7.5	28.0	43.6	47.5
ROE (%)	14.9	11.9	13.8	15.2
ROA (%)	6.7	5.3	5.8	6.3

HLIB

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	2Q13	1Q14	2Q14	QoQ (%)	YoY (%)	Comment
Revenue	3,499.2	3,583.4	3,966.8	10.7	13.4	Stronger revenue mainly driven by stronger Toyota Sales, due to new launching of Vios and Altis models.
EBITDA	483.0	490.3	498.3	1.6	3.2	
EBITDA Margin (%)	13.8	13.7	12.6	-8.2	-9.0	EBITDA margin declined due to margin depression in automotive division.
EBIT	412.4	417.1	417.7	0.1	1.3	
EBIT Margin (%)	11.8	11.6	10.5	-1.1	-1.3	
Net Finance Expense	-12.2	5.4	15.3	184.9	-225.6	
Associates	39.4	40.7	23.8	-41.4	-39.5	
EI	30.6	23.7	-32.9			Included property disposal gains/losses, impairments and fair value changes (derivatives). UMW has made provision for RM93.2m losses related to disposal of M&E investments in India by end 2014.
Reported PBT	443.2	479.4	422.1	-12.0	-4.8	
Tax	-101.2	-87.3	-128.1	46.7	26.6	Higher effective tax due to lower non-taxable expenses and higher tax rates for overseas subsidiaries.
Reported Net Profit	342.0	392.1	294.0	-25.0	-14.0	
Reported PATAMI	251.0	235.5	142.0	-39.7	-43.4	
Core PATAMI	220.4	211.8	174.9	-17.4	-20.7	Excluded EIs and Forex.
Reported EPS (Sen)	21.5	20.2	12.2	-39.7	-43.4	
Core EPS (Sen)	18.9	18.1	15.0	-17.4	-20.7	

Company, HLIB

Figure #2: Cumulative Result Comparison

FYE Dec (RMm)	1H13	1H14	YoY (%)	HLIB FY14	vs HLIB (%)	Comment
Revenue	6,858.5	7,550.2	10.1	14,871.5	50.8	Growth YoY driven by automotive (higher car sales) and O&G (commencement of Naga 4 and 5, and higher charter rates).
EBITDA	953.1	988.6	3.7	1,808.2	54.7	
EBITDA Margin (%)	13.9	13.1	-0.8	12.2	0.9	EBITDA margin declined on stiff competitions within the automotive market (higher promotional and marketing expenses).
EBIT	811.9	834.8	2.8	1,487.6	56.1	
EBIT Margin (%)	11.8	11.1	-0.8	10.0	1.1	Filtered through lower EBITDA margin.
Net Finance Expense	-12.7	20.6	-262.2	-34.0	-60.6	
Associates	77.9	64.5	-17.2	235.2	27.4	Associate contribution declined on lower car sales and stiff competition (related to Perodua).
EI	20.4	-9.2		0.0		Net Impairments, Forex and Gains on disposals.
Reported PBT	875.9	901.4	2.9	1,688.8	53.4	
Tax	-198.7	-215.4	8.4	-335.3	64.2	
Reported Net Profit	677.2	686.1	1.3	1,353.5	50.7	
Reported PATAMI	470.7	377.5	-19.8	804.7	46.9	
Core PATAMI	450.3	386.7	-14.1	804.7	48.1	Within HLIB's forecast.
Reported EPS (Sen)	40.3	32.3	-19.8	68.9	46.9	
Core EPS (Sen)	38.5	33.1	-14.1	68.9	48.1	

Company, HLIB

Figure #3: UMW Group Automotive Operating Statistics

Unit Sales	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Toyota (51% owned)	22,540	29,011	24,848	28,752	20,137	23,610	20,329	27,109	24,185	26,937
Lexus (51% owned)	352	412	374	333	229	287	337	483	449	367
Perodua (28% owned)	44,743	48,180	46,488	49,726	46,696	50,177	50,525	48,673	44,024	50,456
<b>Total</b>	<b>67,635</b>	<b>77,603</b>	<b>71,710</b>	<b>78,811</b>	<b>67,062</b>	<b>74,074</b>	<b>71,191</b>	<b>76,265</b>	<b>68,658</b>	<b>77,760</b>
<b>Growth:</b>										
<b>YoY (%)</b>	<b>0.99</b>	<b>42.09</b>	<b>0.28</b>	<b>4.31</b>	<b>-0.85</b>	<b>-4.55</b>	<b>-0.72</b>	<b>-3.23</b>	<b>2.38</b>	<b>4.98</b>
<b>QoQ (%)</b>	<b>-10.48</b>	<b>14.74</b>	<b>-7.59</b>	<b>9.90</b>	<b>-14.91</b>	<b>10.46</b>	<b>-3.89</b>	<b>7.13</b>	<b>-9.97</b>	<b>13.26</b>

Company, HLIB

Figure #4: UMW Earnings Breakdown

	2Q13	1Q14	2Q14	QoQ	YoY	Comment
<b>Reported Revenue</b>						
Automotive	2,571.4	2,656.4	2,904.4	9.3%	13.0%	Growth driven by higher Toyota sales (new Vios and Altis).
Equipment	444.2	434.9	453.8	4.3%	2.1%	Marginal growth driven by industry equipment.
Oil & Gas	146.5	195.6	238.8	22.1%	62.9%	QoQ growth on new earnings contribution from NAGA 5 (commencement in early-May 2014).
Manufacturing & Engineering	187.9	181.9	188.9	3.8%	0.5%	Marginal growth driven by higher demand in the lubricants and automotive businesses in Malaysia and China, while India market remained weak.
Others	176.1	130.7	204.9	56.7%	16.3%	Included dividend income in 2Q13 and 2Q14.
Intersegment	(26.9)	(16.2)	(23.9)	47.6%	-11.3%	
<b>Total</b>	<b>3,499.2</b>	<b>3,583.4</b>	<b>3,966.8</b>	<b>10.7%</b>	<b>13.4%</b>	
<b>Reported PBT</b>						
Automotive	358.1	406.6	408.5	0.5%	14.1%	Growth mainly driven by higher car sales volume, while margins declined qoq and yoy (exclude Perodua's contribution) due to higher promotional expenses to fend off stiff market competition.
Equipment	51.9	39.1	55.1	40.9%	6.1%	QoQ improvements in margin due to strengthened RM against US\$ and higher revenue (higher margins).
Oil & Gas	72.9	58.3	66.2	13.6%	-9.2%	In line with improved revenue. UMWOG recognized RM30m gain from property disposal in 2Q13.
Manufacturing & Engineering	(2.5)	9.6	11.9	24.0%	-570.3%	Earnings improved mainly from forex gain on US\$ loan.
Others	(37.2)	(34.2)	(119.7)	250.0%	221.5%	Included property disposal gains/losses, impairments and fair value changes (derivatives) amounting to +RM0.6m in 2Q13, +RM23.7m in 1Q14 and -RM32.9m in 2Q14.
<b>Total</b>	<b>443.2</b>	<b>479.4</b>	<b>422.1</b>	<b>-12.0%</b>	<b>-4.8%</b>	

Company, HLIB

Figure #4: UMW SOP

Division	Stakes (%)	PATMI (RM m)	Valuations (RM m)	RM/Share	Basis
Automotive	Various	638.93	7,667.16	6.56	FY15 PE 12x
Equipment	Various	171.18	1,711.77	1.47	FY15 PE 10x
Oil & Gas	55.2%	244.75	4,916.91	4.21	Target Price of RM4.12
Manufacturing & Engineering	Various	10.46	83.70	0.07	FY15 PE 8x
Others	Various	(130.78)	(130.78)	(0.11)	
FY13 Net Cash (Holdings)			100.00	0.09	Estimated as at end FY2014
<b>Target Price (RM)</b>				<b>12.28</b>	Implied FY15 P/E of 15.4x
* No of Shares		1,168.3			As at end FY2013

Company, HLIB

Figure #5: HLIB Forecast versus Consensus

	FY14		Difference	FY15		Difference	FY16		Difference
	HLIB	Consensus	(%)	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue (RMm)	14,871.5	15,011.0	-0.9%	15,731.8	15,912.0	-1.1%	16,713.7	16,584.0	0.8%
EBITDA (RMm)	1,808.2	2,160.0	-16.3%	2,171.9	2,467.0	-12.0%	2,463.7	2,614.0	-5.8%
Core Profit (RMm)	804.7	945.3	-14.9%	985.0	1,059.0	-7.0%	1,132.1	1,160.0	-2.4%
EPS (Sen)	68.9	81.2	-15.2%	84.3	91.2	-7.6%	96.9	99.8	-2.9%

Bloomberg, HLIB

## Financial Projections

### Income statement

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
<b>Revenue</b>	<b>15,817</b>	<b>13,951</b>	<b>15,384</b>	<b>15,818</b>	<b>16,632</b>
Operating cost	-13,608	-12,125	-13,404	-13,583	-14,104
<b>EBITDA</b>	<b>2,209</b>	<b>1,827</b>	<b>1,980</b>	<b>2,234</b>	<b>2,528</b>
Depreciation	-290	-315	-375	-425	-449
<b>EBIT</b>	<b>1,918</b>	<b>1,512</b>	<b>1,605</b>	<b>1,809</b>	<b>2,079</b>
Interest income	72	73	71	62	59
Interest expense	-89	-88	-109	-139	-162
Associates	122	123	164	197	216
Exceptionals	-3	-183	0	0	0
<b>Pretax profit</b>	<b>2,020</b>	<b>1,436</b>	<b>1,730</b>	<b>1,929</b>	<b>2,193</b>
Taxation (Inc Def Tax)	-431	-350	-383	-376	-409
Minorities	-466	-431	-576	-618	-699
<b>Net profit</b>	<b>1,122</b>	<b>654</b>	<b>772</b>	<b>935</b>	<b>1,085</b>
<b>Core profit (Ex Def Tax)</b>	<b>1,125</b>	<b>837</b>	<b>772</b>	<b>935</b>	<b>1,085</b>
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (Sen)	96.1	56.0	66.0	80.0	92.9
<b>Core EPS (sen)</b>	<b>96.3</b>	<b>71.7</b>	<b>66.0</b>	<b>80.0</b>	<b>92.9</b>

### Balance sheet

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
Fixed assets	3,007	3,902	5,368	6,793	7,494
Other long-term assets	2,180	2,173	2,264	2,362	2,470
Other short-term assets	490	2,331	2,331	2,331	2,331
<b>Working capital</b>	<b>2,098</b>	<b>1,795</b>	<b>1,976</b>	<b>2,051</b>	<b>2,174</b>
Receivables	1,079	1,229	1,355	1,393	1,465
Payables	-750	-1,186	-1,311	-1,328	-1,379
Inventory	1,769	1,752	1,932	1,986	2,088
<b>Net cash</b>	<b>-215</b>	<b>-476</b>	<b>-1,857</b>	<b>-3,036</b>	<b>-3,483</b>
Cash	2,493	2,544	2,159	1,976	1,965
ST debt	-1,074	-1,417	-1,417	-1,417	-1,417
LT debt	-1,634	-1,602	-2,598	-3,595	-4,031
<b>Shareholders' funds</b>	<b>4,848</b>	<b>6,363</b>	<b>6,633</b>	<b>6,960</b>	<b>7,340</b>
Share capital	584	584	584	584	584
Reserves	4,264	5,779	6,049	6,376	6,755
Minorities	1,450	2,614	2,700	2,793	2,898
Other liabilities	1,261	749	749	749	749

### Assumption Metrics

FYE 31 Dec	2012A	2013A	2014E	2015E	2016E
GDP Growth (%)	5.6%	4.5%	5.0%	5.0%	5.0%
TIV	627,753	655,792	678,978	685,767	706,340
Growth (%)	4.6%	4.5%	3.5%	1.0%	3.0%
Unit Sale (Unit)	295,759	288,592	298,824	299,899	304,891
Toyota (Unit)	105,151	91,185	99,392	95,416	98,278
Lexus (Unit)	1,471	1,336	1,400	1,500	1,600
Perodua (Unit)	189,137	196,071	198,032	202,983	205,013
Average Price					
UMW (RM)	102,127	104,169	102,607	103,633	103,633
Perodua (RM)	43,648	41,507	40,677	41,084	41,495

### Cashflow

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
EBITDA	2,209	1,827	1,980	2,234	2,528
Net interest received	-17	-15	-38	-77	-102
Working cap changes	-209	-427	-181	-75	-123
Taxation	-309	-366	-383	-376	-409
Others	-510	-10	0	0	0
<b>Operating cashflow</b>	<b>1,163</b>	<b>1,009</b>	<b>1,378</b>	<b>1,706</b>	<b>1,894</b>
Capex & acquisitions	-514	-1,166	-1,850	-1,850	-1,150
<b>Free cashflow</b>	<b>649</b>	<b>-158</b>	<b>-472</b>	<b>-144</b>	<b>744</b>
Other inv cashflow	11	320	82	99	108
Net borrowings	245	308	996	996	436
Share issuance	22	1	0	0	0
Dividends paid	-362	-380	-502	-607	-705
Other fin cashflow	-504	-467	-490	-526	-594
<b>Net cashflow</b>	<b>61</b>	<b>-376</b>	<b>-385</b>	<b>-182</b>	<b>-11</b>
Forex translation	16	16	0	0	0
<b>Beginning cash</b>	<b>2,146</b>	<b>2,301</b>	<b>2,869</b>	<b>2,484</b>	<b>2,302</b>
<b>Ending cash</b>	<b>2,301</b>	<b>2,869</b>	<b>2,484</b>	<b>2,302</b>	<b>2,290</b>

### Valuation Ratios

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
Reported basic EPS (sen)	96.1	56.0	66.0	80.0	92.9
Core basic EPS (sen)	96.3	71.7	66.0	80.0	92.9
Core FD EPS (sen)	-	-	-	-	-
<b>PER (x)</b>	<b>12.8</b>	<b>17.1</b>	<b>18.6</b>	<b>15.4</b>	<b>13.2</b>
FD PER (x)	-	-	-	-	-
Net DPS (sen)	50.0	44.0	42.9	52.0	60.4
Net DY (%)	4.1	3.6	3.5	4.2	4.9
<b>BV/ share (RM)</b>	<b>4.1</b>	<b>5.4</b>	<b>5.7</b>	<b>6.0</b>	<b>6.3</b>
P/BV (x)	3.0	2.3	2.2	2.1	2.0
FCF/ share (sen)	55.6	-13.5	-40.4	-180.2	801.1
<b>Market capitalization</b>	<b>7,173</b>	<b>7,173</b>	<b>7,173</b>	<b>7,173</b>	<b>7,173</b>
Net cash	-215	-476	-1,857	-3,036	-3,483
Enterprise value	7,388	7,649	9,030	10,209	10,656
EV/ EBITDA (x)	3.3	4.2	4.6	4.6	4.2
<b>ROE (%)</b>	<b>24.7</b>	<b>14.9</b>	<b>11.9</b>	<b>13.8</b>	<b>15.2</b>
<b>ROA (%)</b>	<b>10.6</b>	<b>6.7</b>	<b>5.3</b>	<b>5.8</b>	<b>6.3</b>

### Other Ratios

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
<b>Growth (%)</b>					
Sales Growth	16.9	-11.8	10.3	2.8	5.1
EBITDA Growth	15.7	-17.3	8.4	12.8	13.2
EBIT Growth	19.0	-21.2	6.2	12.7	14.9
PBT Growth	46.2	-28.9	20.5	11.5	13.7
Net Profit Growth	34.9	-25.6	-7.8	21.1	16.1
<b>Margins (%)</b>					
EBITDA Margin	14.0	13.1	12.9	14.1	15.2
EBIT Margin	12.1	10.8	10.4	11.4	12.5
PBT Margin	12.8	10.3	11.2	12.2	13.2
Net Profit Margin	7.1	6.0	5.0	5.9	6.5
<b>Net Debt/Equity (%)</b>	<b>4.4</b>	<b>7.5</b>	<b>28.0</b>	<b>43.6</b>	<b>47.5</b>

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## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.