

**Company Result**

**28 August 2014**

**UMW Holdings**

**1H14 : So far, so good**

**HOLD  
Maintained**

<b>Share Price</b>	<b>RM12.28</b>
<b>Target Price</b>	<b>RM13.16</b>

**Company Description**

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

**Stock Data**

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	14,346.65
52-week price Range	RM10.44– 13.09
Beta (against KLCI)	1.06
3-m Average Daily Volume	2.22m
3-m Average Daily Value <sup>^</sup>	RM25.40m

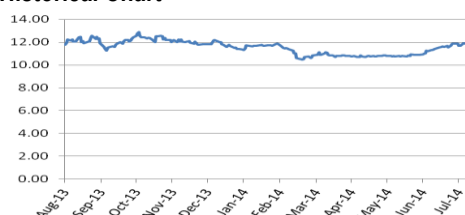
**Share Performance**

	1m	3m	12m
Absolute (%)	3.37	12.45	2.15
Relative (%-pts)	3.64	13.45	-8.01

**Major Shareholders**

	%
SKIM AMANAH SAHAM BUMIPUTERA	38.77
EMPLOYEES PROVIDENT FUND	13.97
YAYASAN PELABURAN BUMIPUTRA	5.85
KUMPULAN WANG PERSARAAN	5.04

**Historical Chart**



Source: Bloomberg

**Team Coverage**

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**Result**

- **UMW reported 2Q14 net earnings of RM142m dropped 39.7% qoq and 43.4% yoy.** Meanwhile, revenue stood at RM3,966.8m, rose 10.7% qoq and 13.4 yoy.
- **The lower qoq and yoy reported net profit was mainly due to** provision for the expected loss of RM93 million on the proposed disposal of investment in the automotive component companies in India.
- **As for 1H14, the reported net earnings were RM377.5m, declined by 19.8%.** Meanwhile, revenue increased by 10.1% to RM7, 550.2m.
- **Broadly in line** – Excluding the above mentioned provision, the Group achieved core net profit of RM469.5m in 1H14 results which were in line with our and market expectations, accounting for 50% of full-year estimates.

**Comment**

- **Auto division a star performer.** Auto division's 1H14 PBT recorded a double-digit growth of 12.25% to RM815.11mill, lifted by its new Toyota Vios and Corolla Altis. Toyota managed to increase their market share to 15.8% in 1H14, compared to 14.4% a year ago.

As for lexus, the sales were increased in 2Q by 27.9% yoy to 367 units. However, compared to 1Q14, the sales dropped by 18.3%.

Perodua managed to maintain their position with the largest market share of 29.1%. The launched of new Myvi Variant and bonus cash offered on Viva, managed to increase the sales marginally by 0.6%yoy to 50,456 units in 2Q14.

- **Disheartening Equipment division in 1H14** – The equipment division recorded a decline of 15.15% in its PBT to RM94.19mill. The dismay performance was dragged by lower revenue contributed by their foreign operation which is due to continued dropped in commodity prices in Papua New Guinea and continued suspension of their mining activities in Myanmar.

**However, we seen some turnaround in 2Q14 as this division recorded an increase in its PBT by 40.90% qoq and 6.10% yoy,** lifted by higher sales in parts and services.

- **Double-digit growth by O&G division.** Oil & Gas segment's 1H14 PBT was RM66.24mill, higher by 25.48% as compared to last year. The performance of O&G division was mainly contributed by revenue from: 1) Full

contribution from NAGA 4 which commenced operations in April 2013; 2) Higher daily operating rates for NAGA 2; 3) Higher operating days for NAGA 1; 4) Additional contribution from NAGA 5, which commenced operations in May 2014.

- **Stellar performance of M&E division.** Manufacturing & Engineering's PBT for 1H14 jumped massively by 214.46% to RM21.55mill. The excellent performance was due to favorable exchange rate. The strengthening Rupee was led to higher gains from their USD loans for Indian subsidiaries. The improved lubricants business in China also helped to boost the division PBT.
- **The group has declared an interim single-tier dividend of 10 sen per share.**

### Earnings Outlook/Revision

- **No change to our net profit forecasts of RM931.95m for 2014F (+36.8% y-o-y) and RM1,094.27m (+17.4% y-o-y) for 2015F.**
- **We foresee better earnings in 2H14 banking on:** 1) the suspended of jade mining in Myanmar have been lifted beginning Sept'14. Hence, this will help to improve the Equipment division's revenue. Furthermore, the group has been awarded a contract worth RM200mill to supply more than 60 units of Komatsu equipment in Myanmar and is expected to commence in Oct'14.

### Valuation & Recommendation

- **Maintain HOLD call on UMW with higher target price of RM13.16 after we rolled over our valuation to 2015F.** We pegged our target price at 14x FY2015F PE based on EPS of 94 sen.

#### **Potential catalysts to drive the share price include:**

1) Better car sales due to Hari Raya promotion and introduction of new model. The new Perodua's Axia which offers an affordable price range is expected to sustain the auto division's revenue.

2) Continued strong performance posted by Oil & Gas division.

Figure 1: Quarterly Figures

Year to 31 Dec	2QFY14 (RMm)	1QFY14 (RMm)	2QFY13 (RMm)	QoQ % chg	YoY % chg	6M14 (RMm)	6M13 (RMm)	YoY % chg
<b>Revenue</b>	3,966.8	3,583.4	3,499.2	10.7%	13.4%	7,550.2	6,858.5	10.1%
<b>Operating Profit</b>	382.9	433.3	415.9	-11.6%	-7.9%	816.3	810.7	0.7%
<b>Pre-tax Profit</b>	422.1	479.4	443.2	-12.0%	-4.8%	901.4	875.9	2.9%
<b>Profit After Tax</b>	294.0	392.1	342.0	-25.0%	-14.0%	686.1	677.2	1.3%
<b>Net Profit</b>	142.0	235.5	251.0	-39.7%	-43.4%	377.5	470.7	-19.8%
<b>Operating Margin (%)</b>	9.7%	12.1%	11.9%	-2.4%	-2.2%	10.8%	11.8%	-1.0%
<b>Profit Before Tax Margin (%)</b>	10.6%	13.4%	12.7%	-2.7%	-2.0%	11.9%	12.8%	-0.8%

Figure 2: Segmental Breakdown

FY14	2Q14 (RMm)	1Q13 (RMm)	2Q13 (RMm)	Q-O-Q (%)	y-O-y (%)	6M14 (RMm)	6M13 (RMm)	y-O-y (%)
<b>Segmental Revenue</b>								
Automotive	2904.419	2,656.44	2,571.36	9.34%	12.95%	5560.85	4963.45	12.04%
Equipment	453.758	434.94	444.23	4.33%	2.14%	888.70	923.62	-3.78%
Oil & Gas	238.776	195.57	167.76	22.09%	42.34%	434.35	346.50	25.35%
Manufacturing & Engineering	188.886	181.92	187.86	3.83%	0.54%	370.80	364.99	1.59%
Others	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Elimination	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Revenue</b>	<b>3785.839</b>	<b>3468.864</b>	<b>3371.214</b>	<b>9.14%</b>	<b>2.90%</b>	<b>7254.703</b>	<b>6598.564</b>	<b>0.099437</b>
<b>Segmental PBT</b>								
Automotive	408.55	406.57	358.11	0.49%	14.08%	815.11	726.17	12.25%
Equipment	55.09	39.10	51.92	40.90%	6.10%	94.19	111.00	-15.15%
Oil & Gas	66.24	58.30	75.78	13.61%	-12.59%	124.54	99.25	25.48%
Manufacturing & Engineering	11.93	9.62	-2.54	23.96%	n.a.	21.55	6.85	214.46%
Others	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total PBT</b>	<b>541.799</b>	<b>513.589</b>	<b>483.275</b>	<b>5.49%</b>	<b>6.27%</b>	<b>1055.388</b>	<b>943.264</b>	<b>0.118868</b>
<b>Segmental Margin</b>								
Automotive	14.07%	15.30%	13.93%	-1.24ppt	0.14ppt	14.66%	14.63%	0.03%
Equipment	12.14%	8.99%	11.69%	3.15ppt	0.45ppt	10.60%	12.02%	-1.42%
Oil & Gas	27.74%	29.81%	45.17%	-2.07ppt	-17.43ppt	28.67%	28.64%	0.03%
Manufacturing & Engineering	6.31%	5.29%	-1.35%	1.03ppt	7.66ppt	5.81%	1.88%	3.93ppt
Others	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Figure 3: Financial Summary**

Year to 31 Dec (RMm)	2011	2012	2013	2014F	2015F
Revenue	13,535.80	15,863.62	14,206.87	14,381.69	15,564.19
Operating profit	1,273.18	1,869.75	1,301.12	1,725.80	2,023.34
PBT	1,381.50	2,009.69	1,455.22	1,972.37	2,315.92
Net profit	502.10	994.30	681.21	931.95	1,094.27
EPS (sen)	0.43	0.85	0.58	0.80	0.94
P/BV (x)	2.26	2.01	1.40	1.28	1.16
P/E (x)	25.08	12.67	18.49	13.51	11.51
DPS (sen)	0.31	0.50	0.44	0.48	0.50
Dividend yield (%)	2.88%	4.64%	4.08%	4.45%	4.64%
Operating margin (%)	9.41%	11.79%	9.16%	12.00%	13.00%
PBT margin (%)	10.21%	12.67%	10.24%	13.71%	14.88%
Net profit margin (%)	3.71%	6.27%	4.79%	6.48%	7.03%
Net Gearing Ratio(x)	0.49	0.48	0.37	0.34	0.33
ROE (%)	9.00%	15.84%	7.59%	9.44%	10.07%
ROA (%)	4.76%	8.43%	4.60%	5.90%	6.50%

	2011	2012	2013	2014F	2015F
Cash	2,219.43	2,495.31	2,543.84	2,574.36	2,607.83
Current Assets	3,129.82	3,906.93	6,187.60	6,837.30	7,521.03
Non-Current Assets	5,191.71	5,390.17	6,075.22	6,378.98	6,697.92
<b>Total Assets</b>	<b>10,540.96</b>	<b>11,792.41</b>	<b>14,806.65</b>	<b>15,790.64</b>	<b>16,826.78</b>
Current Liabilities	3,096.57	3,679.25	4,055.36	4,258.13	4,488.06
Non-Current Liabilities	1,866.32	1,835.56	1,774.67	1,721.43	1,678.40
Shareholders' Funds	5,578.07	6,277.60	8,976.62	9,874.28	10,861.71
<b>Total Equity &amp; Liabilities</b>	<b>10,540.96</b>	<b>11,792.41</b>	<b>14,806.65</b>	<b>15,790.64</b>	<b>16,826.78</b>

Source: Company, JF Apex

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### JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

#### STOCK RECOMMENDATIONS

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

#### SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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