UMW Holdings

1H14 Below Expectations

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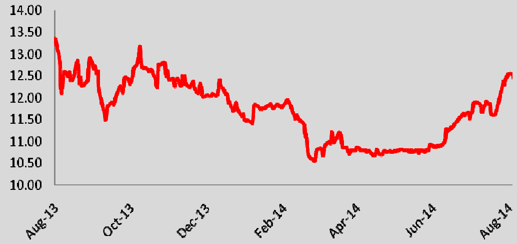
MARKET PERFORM ↔

Price: RM12.28

Target Price: RM13.37 ↓

Period	▪ 2Q14/1H14
Actual vs. Expectations	▪ Below expectations. The group reported 2Q14 normalised PATAMI of RM174.9m, bringing its 1H normalised PATAMI to RM386.7m which made up only 41% of our and the consensus full year earnings estimates, respectively. ▪ Note that the 2Q14 normalised PATAMI has been adjusted by excluding the non-core items totalling -RM32.9m which consists of: (i) provision for expected loss on disposal of its Auto components companies in India amounting to RM93.2m, (ii) the gain on disposal of properties of RM29.6m, (iii) the impairment of investments of RM9.2m, and (iv) derivatives gain of RM34.3m, as well as others non-core items of RM5.5m. ▪ The negative deviations were: (i) lower-than-expected margins in Automotive segment due to higher discounts given fierce competition in the 2Q14, (ii) lower than expected earnings contribution from its associate (Perodua), and (iii) higher than expected tax rate in 2Q14.
Dividends	▪ As expected, an interim single-tier dividend of 10.0 sen per share was declared. We are projecting total DPS of 50.0 sen (DPR of 62%) which implies a 4% net yield.
Key Result Highlights	▪ **YoY,** 1H14 revenue increased by 10% due to higher revenue contributions across the Automotive and Oil & Gas segments. Meanwhile, normalised PATAMI declined by 14% to record at RM386.7m with lower core NP margin of 5.1% (-1.5ppts) seen, dragged down mainly by its associate (-17% YoY at associate level) and Equipment segment. ▪ **QoQ,** 2Q14 revenue improved by 11% with growth seen across all segments. However, normalised PATAMI was lower at RM174.9m (-17%) on the back of lower profitability in its Automotive and O&G segments. ▪ **QoQ, Automotive:** 2Q14 revenue increased by 9% due to the higher Toyota vehicles sales which were mainly driven by the overwhelming response for the newly launched Vios and Corolla Altis. However, its segmental PBT recorded a flat growth on the back of lower PBT margin (-1.2ppts) mainly due to more incentives given to push sales amidst fierce competition. ▪ **YoY, Equipment:** 1H14 revenue weakened by 4% dragged down by the continued drop in commodity prices in Papua New Guinea and the prolonged suspension of mining activities in Myanmar. Coupled with the lower operational efficiency, PBT decreased by 15%. ▪ **YoY, Oil & gas:** 1H14 revenue recorded a decent growth of 34% on the back of: (i) full contribution from NAGA 4 which commenced operations on April 2013, (ii) higher daily operating rates for NAGA 2, and (iii) higher operating days for NAGA 1 and additional contribution from NAGA 5 which commenced operations in May 2014. Similarly, PBT increased by 29% to RM124.5m. ▪ **YoY, M&E:** 1H14 revenue inched up by 2% mainly due to the stable overall demand in the lubricants and automotive business. However, PBT recorded a three-fold jump due to higher gain from retranslation of USD term loans.
Outlook	▪ For FY14, the group had in the last quarter forecasted combined total sales at 295.4k units (+3%), a similar quantum of forecast shared by us (295.9k, +3%). Despite a higher sales forecast, we expect margin to decline in view of cost-push factors as well as the stiff competition, particularly in the B & C segment.

Share Price Performance



KLCI	1872.38
YTD KLCI chg	0.3%
YTD stock price chg	2.7%

Stock Information

Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	14,346.6
Issued shares	1,168.3
52-week range (H)	13.09
52-week range (L)	10.44
3-mth avg daily vol:	2,197,047
Free Float	41%
Beta	1.1

Major Shareholders

SKIM AMANAH SAHAM BU	38.8%
EMPLOYEES PROVIDENT	14.0%
YAYASAN PELABURAN BU	5.9%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	14207	15038	15956
EBITDA	1301	1769	2210
PBT	1455	1765	2127
Core NP	881	807	927
Consensus (NP)	-	944	1057
Earnings Revision (%)	-	-15%	-10%
EPS (sen)	75.4	69.1	79.3
EPS growth (%)	-11.7	-8.4	14.9
DPS (sen)	44.0	50.0	50.0
BVPS (RM)	5.4	5.6	5.9
PER	16.3	17.8	15.5
Price/BV (x)	2.3	2.2	2.1
Gearing (%)	0.1	0.1	0.2
Dividend Yield (%)	3.6	4.1	4.1

Outlook (continued)

- On the Oil and Gas segment, it is worth noting that UMWOG is set to receive 3 new jack-up rigs in FY14 which we believe should be able to secure contracts given that there are at least 17 rig contracts that are expiring from mid-2013 to 2015. Note that we have already factored these into our estimates.

Change to Forecasts

- Post-results, we have cut our FY14-15 PATAMI forecasts by 10% to 15% to mainly account for: (i) lower EBIT margin assumption in the Automotive segment assuming higher A&P expense and discounts in light of the stiff competition from other players, and (ii) lower earnings contribution from its associate.

Rating

Maintain MARKET PERFORM

Valuation

- Post our earnings revision, our TP is reduced to RM13.37 (from RM13.93) which is based on a SoP valuation (implies 16.8x FY15 PER, at its +1SD above the average PER mean).

Risks to Our Call

- Lower-than-expected vehicle sales.

Result Highlight

FYE: Dec (RM 'm)	2Q FY14	1Q FY14	QoQ Chg	2Q FY13	YoY Chg	6M FY14	6M FY13	YoY Chg
Turnover	**3966.8**	**3583.4**	**10.7%**	**3499.2**	**13.4%**	**7550.2**	**6858.5**	**10.1%**
EBIT	382.9	433.3	-11.6%	415.9	-7.9%	816.3	810.7	0.7%
PBT/(LBT)	422.1	479.4	-12.0%	443.2	-4.8%	901.4	875.9	2.9%
Taxation	-128.1	-87.3	NM	-101.2	-26.6%	-215.4	-198.7	-8.4%
PATAMI	**142.0**	**235.5**	**-39.7%**	**251.0**	**-43.4%**	**377.5**	**470.7**	**-19.8%**
Core PATAMI	**174.9**	**211.8**	**-17.4%**	**220.4**	**-20.7%**	**386.7**	**450.2**	**-14.1%**
EPS (sen)	15.0	18.1	-17.4%	18.9	-20.7%	33.1	38.5	-14.1%
DPS (sen)	10.0	0.0		10.0		10.0	10.0	
EBIT margin	9.7%	12.1%		11.9%		10.8%	11.8%	
Pretax margin	10.6%	13.4%		12.7%		11.9%	12.8%	
Core NP margin	4.4%	5.9%		6.3%		5.1%	6.6%	
Effective tax rate	-30.3%	-18.2%		-22.8%		-23.9%	-22.7%	

****Restated***

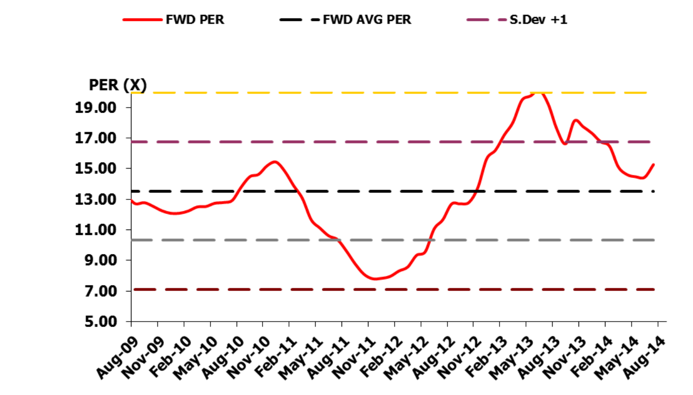
Source: Kenanga Research

Segmental Breakdown

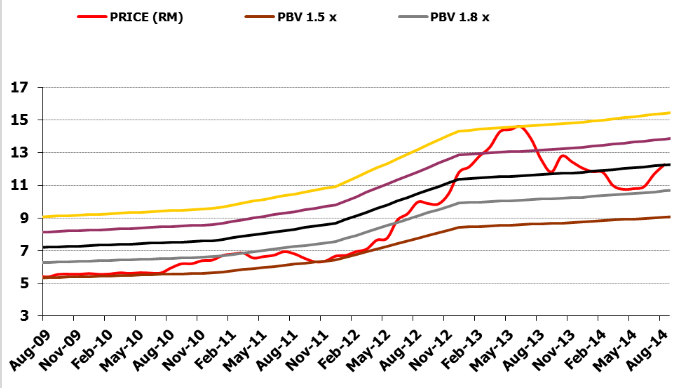
FYE Dec (RM'm)	2Q FY14	1Q FY14	QoQ Chg	2Q FY13	YoY Chg	6M FY14	6M FY13	YoY Chg
Revenue								
Automotive	2904.4	2656.4	9.3%	2,571.4	13.0%	5560.9	4,963.5	12.0%
Equipment	453.8	434.9	4.3%	444.2	2.1%	888.7	923.6	-3.8%
O&G	238.8	195.6	22.1%	167.8	42.3%	434.3	325.3	33.5%
M&E	188.9	181.9	3.8%	187.9	0.5%	370.8	365.0	1.6%
Other segment	181.0	114.5	58.0%	128.0	41.4%	295.5	281.1	5.1%
Segment PBT								
Automotive	408.5	406.6	0.5%	358.1	14.1%	815.1	726.2	12.2%
Equipment	55.1	39.1	40.9%	51.9	6.1%	94.2	111.0	-15.1%
O&G	66.2	58.3	13.6%	75.8	-12.6%	124.5	96.4	29.2%
M&E	11.9	9.6	24.0%	-2.5	570.3%	21.5	6.9	214.5%
Other segment	-119.7	-34.2	-250.0%	-40.1	-198.7%	-154.0	-64.5	-138.6%
Segment PBT margin								
Automotive	14.1%	15.3%		13.9%		14.7%	14.6%	
Equipment	12.1%	9.0%		11.7%		10.6%	12.0%	
O&G	27.7%	29.8%		45.2%		28.7%	29.6%	
M&E	6.3%	5.3%		-1.3%		5.8%	1.9%	
Other segment	-66.2%	-29.9%		-31.3%		-52.1%	-23.0%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



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% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

Published and printed by:

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