

28 August 2014 | 2QFY14 results review

## UMW Holdings Berhad

*Dragged by non-profitable legacy businesses*

**Maintain NEUTRAL**

**Target Price (TP): RM13.15**  
(under review)

### INVESTMENT HIGHLIGHTS

- **Poor set of 2Q14 results as core earnings declined -18% over sequential and on-year periods to RM178m due to losses in the legacy O&G businesses.**
- **Auto division performed decently as earnings improvement were partially offset by higher promotional expense which diluted pretax margin.**
- **O&G division continue to see good earnings track record as all rigs are chartered out.**
- **UMW declared single-tier interim dividend of 10sen which equates the amount declared in 2Q13.**
- **Our TP and recommendation are currently under review with a downside bias.**

**Weaker 2Q earnings due to losses in legacy businesses.** The group's 2Q14 core earnings declined -18% over the sequential and on-year periods to RM178m as improvements in the auto, O&G, equipment, and M&E divisions were more than offset by widening losses in legacy O&G businesses (classified under Others division). The 2Q14 headline earnings were adjusted for a net gain from property disposal worth RM30m, derivatives net gain of RM34m, and provision for net loss in asset sale amounting to -RM93m. The 1H14 earnings were lower than expected. It declined -11%yoy to RM395m and made up 33% of ours and 42% of consensus full year forecasts.

**Auto division performed decently.** Revenue increased +9%qoq and +13%yoy to RM2.9bn. Based on MAA data, Toyota's 2Q14 unit sales grew +11%qoq and +40%yoy to 27k units. The strong on-year growth was driven by the Vios (launched in Oct 2013) and the Altis (launched in Jan 2014). Recall that Vios' 2Q13 sales were weak as stocks depleted running up to the entry of the new model. Pretax profit grew +14%yoy while margin was fairly flat due possibly to intense competition.

**Strong O&G earnings growth.** Headline pretax earnings declined by -13%yoy despite +42%yoy revenue growth but this was only due to 2Q13 pretax earnings being distorted by one-off asset disposal gain of RM30m. Excluding this, 2Q14 pretax earnings would have grown by +45%yoy to RM66m. Revenue and earnings grew +22%qoq and +14%qoq respectively although margins eased 2.1-ppts possibly due to start-up costs and early-delivery bonus for the NAGA5 which was delivered at end Apr 2014, 32 days ahead of schedule.

**Equipment earnings jumped sequentially.** Despite +4%qoq growth in 2Q14 revenue, pretax profit jumped +41%qoq to RM55m. We believe this could be explained by a one-off asset disposal worth RM30m. Profit grew +6%yoy while margin expanded 0.5ppt due possibly to higher contribution from the equipment-leasing business.

| RETURN STATS                 |               |
|------------------------------|---------------|
| Price (20 August '14)        | RM12.28       |
| Target Price                 | RM13.15       |
| Expected Share Price Return  | +7.1%         |
| Expected Dividend Yield      | +3.7%         |
| <b>Expected Total Return</b> | <b>+10.9%</b> |

| STOCK INFO              |                     |
|-------------------------|---------------------|
| KLCI                    | 1,872.38            |
| Bursa / Bloomberg       | 4588 / UMW MK       |
| Board / Sector          | Main / Consumer     |
| Syariah Compliant       | Yes                 |
| Issued shares (mil)     | 1,168.3             |
| Par Value (RM)          | 0.50                |
| Market cap. (RM'm)      | 14,346.65           |
| Price over NA           | 2.2x                |
| 52-wk price Range       | RM10.44-<br>RM13.09 |
| Beta (against KLCI)     | 1.06x               |
| 3-mth Avg Daily Vol     | 2.2m                |
| 3-mth Avg Daily Value   | RM25.1m             |
| Major Shareholders (%)* |                     |
| Amanah Saham Bumiputera | 40.72               |
| EPF                     | 16.61               |
| PNB                     | 4.81                |

\*as of Annual Report 2013

## INVESTMENT STATISTICS


| FYE Dec (RMm)                    | FY10   | FY11   | FY12   | FY13   | FY14F  |
|----------------------------------|--------|--------|--------|--------|--------|
| Revenue                          | 12,820 | 13,536 | 15,817 | 13,951 | 18,115 |
| Operating profit                 | 1,210  | 1,257  | 1,899  | 1,297  | 2,402  |
| Operating profit margin (%)      | 9.4    | 9.3    | 12.0   | 9.3    | 13.3   |
| Pre-tax profit                   | 1,313  | 1,365  | 2,020  | 1,436  | 2,589  |
| Net profit                       | 527    | 486    | 994    | 653    | 1,196  |
| Basic EPS (sen)                  | 46.3   | 41.6   | 85.1   | 55.9   | 102.4  |
| Basic EPS growth (%)             | 33.8   | -10.2  | 104.6  | -34.3  | 83.2   |
| PER (x)                          | 26.5   | 29.5   | 14.4   | 22.0   | 12.0   |
| Net DPS (sen)                    | 29.7   | 31.0   | 50.0   | 44.0   | 46.0   |
| Net dividend yield (%) @ RM12.28 | 2.4    | 2.5    | 4.1    | 3.6    | 3.7    |

Source: MIDFR

**M&E turnaround.** The division turned profitable in 2Q14 from a loss of -RM2.5m in 2Q13. The earnings recovery was mainly due to better numbers from its Indian operations as a consequence of strengthening Rupee against the US dollar which resulted in translation gain on its dollar-denominated loans.

**Others division.** Pretax losses in Others division widened by more than 10-fold to -RM120m. We were made to understand from previous engagements with UMW management that the division mainly comprises legacy O&G businesses which were excluded from the listed entity. We believe the earnings disappointments were mostly explained by problematic associate companies such as WSP Holdings in China and United Seamless Tubulaar Pvt Ltd in India.

**Dividend of 10sen declared.** UMW declared a single-tier interim dividend of 10sen per share. This matches the amount declared in 2Q13 and is payable on 8 Oct 2014.

**Recommendation and TP under review.** Our NEUTRAL recommendation and RM13.15 TP is currently under review with a downward bias to our forward earnings forecasts. 

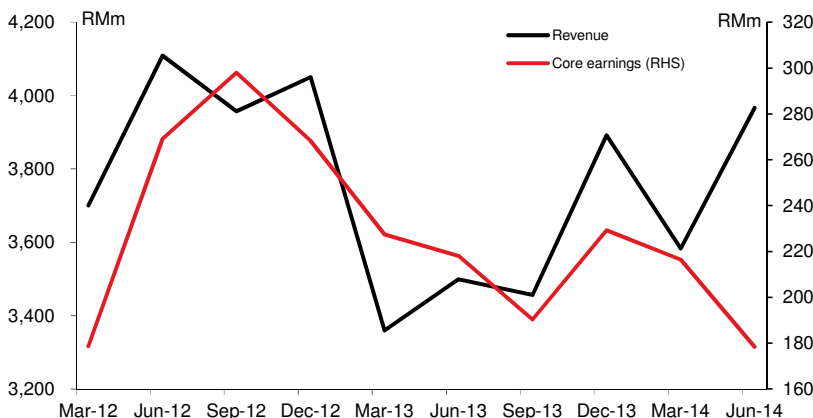
## UMW HOLDINGS: 2Q14 RESULTS SUMMARY

| FYE Dec (RM 'm)        | Quarterly Results |         |         |                 |                 | Cumulative |                 |
|------------------------|-------------------|---------|---------|-----------------|-----------------|------------|-----------------|
|                        | 2Q13              | 1Q14    | 2Q14    | %YoY            | %QoQ            | 1H14       | %YoY            |
| Revenue                | 3,499.2           | 3,583.4 | 3,966.8 | 13.4            | 10.7            | 7,550.2    | 10.1            |
| EBIT                   | 383.1             | 414.4   | 419.4   | 9.5             | 1.2             | 833.7      | 6.1             |
| Associate              | 39.4              | 40.7    | 23.8    | (39.5)          | (41.4)          | 64.5       | (17.2)          |
| Pre-tax profit         | 443.2             | 479.4   | 422.1   | (4.8)           | (12.0)          | 901.4      | 2.9             |
| Core earnings          | 218.2             | 216.6   | 178.4   | (18.2)          | (17.6)          | 395.0      | (11.4)          |
| Basic EPS (sen)        | 18.7              | 18.5    | 15.3    | (18.2)          | (17.6)          | 33.8       | (11.4)          |
| <b>Margins</b>         |                   |         |         | <b>+/- ppts</b> | <b>+/- ppts</b> |            | <b>+/- ppts</b> |
| EBIT margin (%)        | 10.9              | 11.6    | 10.6    | (0.4)           | (1.0)           | 11.0       | (0.4)           |
| Effective tax rate (%) | (25.1)            | (19.9)  | (32.2)  | (7.1)           | (12.3)          | (24.9)     | (0.8)           |

Source: MIDFR

| Segmental breakdown        | Quarterly Results |              |              |                 |                 | Cumulative   |                 |
|----------------------------|-------------------|--------------|--------------|-----------------|-----------------|--------------|-----------------|
|                            | 2Q13              | 1Q14         | 2Q14         | %YoY            | %QoQ            | 1H14         | %YoY            |
| <b>RMm</b>                 |                   |              |              |                 |                 |              |                 |
| <b>Revenue</b>             |                   |              |              |                 |                 |              |                 |
| Motor                      | 2,571             | 2,656        | 2,904        | 13.0            | 9.3             | 5,561        | 12              |
| O&G                        | 168               | 196          | 239          | 42.3            | 22.1            | 434          | 25              |
| Equipment                  | 444               | 435          | 454          | 2.1             | 4.3             | 889          | (4)             |
| Man. & Eng. (M&E)          | 188               | 182          | 189          | 0.5             | 3.8             | 371          | 2               |
| Others                     | 128               | 115          | 181          | 41.4            | 58.0            | 296          | 14              |
| <b>Total revenue</b>       | <b>3,499</b>      | <b>3,583</b> | <b>3,967</b> | <b>13.4</b>     | <b>10.7</b>     | <b>7,550</b> | <b>10</b>       |
| <b>Pretax profit</b>       |                   |              |              |                 |                 |              |                 |
| Motor                      | 358               | 407          | 409          | 14.1            | 0.5             | 815          | 12              |
| O&G                        | 46                | 58           | 66           | 44.7            | 13.6            | 125          | 80              |
| Equipment                  | 52                | 39           | 55           | 6.1             | 40.9            | 94           | (15)            |
| Man. & Eng. (M&E)          | (3)               | 10           | 12           | nm              | 24.0            | 22           | 214             |
| Others                     | (10)              | (34)         | (120)        | >100            | 250.0           | (154)        | 312             |
| <b>Total pretax profit</b> | <b>443</b>        | <b>479</b>   | <b>422</b>   | <b>(4.8)</b>    | <b>(12.0)</b>   | <b>901</b>   | <b>3</b>        |
| <b>Pretax margin (%)</b>   |                   |              |              | <b>+/- ppts</b> | <b>+/- ppts</b> |              | <b>+/- ppts</b> |
| Motor                      | 13.9              | 15.3         | 14.1         | (13.9)          | (15.3)          | 14.7         | 0.0             |
| O&G                        | 27.3              | 29.8         | 27.7         | (27.3)          | (29.8)          | 28.7         | 8.7             |
| Equipment                  | 11.7              | 9.0          | 12.1         | (11.7)          | (9.0)           | 10.6         | (1.4)           |
| Man. & Eng. (M&E)          |                   |              |              |                 |                 |              |                 |
| Others                     | (7.9)             | (29.9)       | (66.2)       | 7.9             | 29.9            | (52.1)       | (37.7)          |
| <b>Group pretax margin</b> | <b>12.7</b>       | <b>13.4</b>  | <b>10.6</b>  | <b>(12.7)</b>   | <b>(13.4)</b>   | <b>11.9</b>  | <b>(0.8)</b>    |

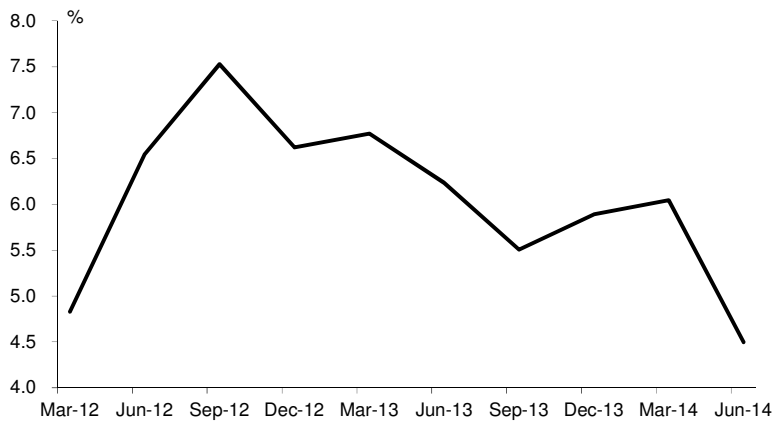
Source: MIDFR



### Revenue & earnings trend

Revenue growth was led by strong performance of the Other division and O&G.

Despite better performance by all of the main division, earnings declined due to widening losses from legacy O&G businesses



### Net margin trend

Net margin has come under pressure mainly due to excessive losses arising from the legacy businesses.

### DAILY PRICE CHART



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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

|              |  |
|--------------|--|
| BUY          | Total return is expected to be >15% over the next 12 months.   |
| TRADING BUY  | Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.  |
| NEUTRAL      | Total return is expected to be between -15% and +15% over the next 12 months.  |
| SELL         | Total return is expected to be <15% over the next 12 months.   |
| TRADING SELL | Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

### SECTOR RECOMMENDATIONS

|          |  |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months.   |
| NEUTRAL  | The sector is to perform in line with the overall market over the next 12 months.  |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |