

UMW (UMWH MK)

Consumer Cyclical - Auto & Autoparts

Market Cap: USD4,560m

Neutral (Maintained)

Target Price: MYR12.40

Price: MYR12.28

An Improving Outlook

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	24.3m/7.62m
Cons. Upside (%)	-0.8
Upside (%)	1.0
52-wk Price low/high (MYR)	10.6 - 13.2
Free float (%)	35
Share outstanding (m)	1,168
Shareholders (%)	
PNB Funds	50.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.8	3.4	13.5	3.4	(1.8)
Relative	2.1	4.2	13.8	1.8	(11.2)

Shariah compliant

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The operating environment for UMW's auto and equipment divisions is looking brighter, helped by the steady domestic economic growth, coupled with the resumption of jade mining in Myanmar. UMW Oil & Gas is also building scale with the delivery of new drilling assets. We believe the improved prospects in 2015 are already in the price and that a NEUTRAL call is appropriate. FV is MYR12.40 up from MYR11.30.

- ◆ **Reported earnings weighted down by non-recurring loss.** UMW's 1H14 reported net profit of MYR377.5m declined 19.8% y-o-y and only reached 43% of our previous 2014 estimate. The main deviation was the provision for an expected loss of MYR93m arising from the proposed disposal of investments in automotive component companies in India. Adjusting for the non-recurring loss, core earnings were slightly ahead of our forecasts but broadly in line with consensus estimates. An interim DPS of 10 sen was declared (1H13: 10 sen).
- ◆ **Core margins stable.** 1H14 revenue rose 10.1% y-o-y to MYR7.55bn with the growth coming mainly from the automotive and oil and gas (O&G) businesses. Automotive revenue rose 12.0% y-o-y on the back of a 17.3% y-o-y increase in Toyota's sales volumes, following the launch of the new *Vios* and *Altis* models. O&G revenue was up 33.5% y-o-y, helped by the full contributions from NAGA 4, higher daily charter rates, higher utilisation and contributions from NAGA 5 from May. The equipment division was hampered by tough industry conditions. The manufacturing & engineering (M&E) division reported stronger earnings arising from forex translation gains. Associate contributions declined 17.2% y-o-y due to continued losses at WSP, USTPL and its China pipe businesses, but supported by stable earnings at Perodua. Management expects Toyota's sales to be stable in 2H14 and show modest growth in 2015 despite severe competition from Honda. The O&G segment may also grow from the delivery of more drilling assets, while the equipment business should benefit from the resumption of jade mining in Myanmar.
- ◆ **Forecasts and risks.** We raise our 2014-15 recurring net profit by 5.4% and 10% respectively. Key risks to our recommendation are weaker consumer sentiment and unfavourable forex fluctuations.
- ◆ **NEUTRAL.** We retain our NEUTRAL call but raise our SOP-derived FV to MYR12.40 (from MYR11.30) after updating our valuation parameters. While 2015 is looking like a better year for UMW, we remain concerned about the lack of clarity on management's plans to turn around the loss-making "Others" division.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	13,536	15,817	14,207	15,287	16,246
Reported net profit (MYRm)	486	994	681	923	1,044
Recurring net profit (MYRm)	365	994	881	923	1,044
Recurring net profit growth (%)	(30.7)	172.5	(11.4)	4.7	13.2
Recurring EPS (MYR)	0.31	0.85	0.75	0.79	0.89
Recurring P/E (x)	39.3	14.4	16.3	15.6	13.7
P/B (x)	3.38	2.96	2.25	2.35	2.41
P/CF (x)	10.9	12.2	16.0	7.7	8.9
EV/EBITDA (x)	8.9	6.3	10.2	8.6	8.5
Return on average equity (%)	11.7	21.9	12.2	14.8	17.3
Net debt to equity (%)	5.4	2.5	4.6	11.0	15.5
Our vs consensus EPS (adjusted) (%)				(0.8)	0.5

Source: Company data, RHB

An Improving Outlook

Figure 1: Earnings review

FYE Dec (MYRm)	2Q13	1Q14	2Q14	q-o-q (%)	y-o-y (%)	1H13	1H14	y-o-y (%)	Comments
Revenue	3,499.2	3,583.4	3,966.8	10.7	13.4	6,858.5	7,550.2	10.1	Higher revenue mainly from automotive and O&G businesses.
EBIT	415.9	433.3	382.9	(11.6)	(7.9)	810.7	816.3	0.7	Reported margin was crimped by the expected loss on disposal of some M&E businesses in India, but was otherwise stable.
<i>EBIT margin (%)</i>	11.9	12.1	9.7			11.8	10.8		
Finance costs	(28.8)	(25.2)	(20.1)	(20.1)	(30.1)	(48.5)	(45.3)	(6.5)	
Associates	39.4	40.7	23.8	(41.4)	(39.5)	77.9	64.5	(17.2)	Associate contribution was lower-than-expected from higher losses at WSP, USTPL and Chinese pipe businesses.
Investment income	16.6	30.5	35.4	15.9	112.6	35.7	65.9	84.5	
Pretax Profit	443.2	479.4	422.1	(12.0)	(4.8)	875.9	901.4	2.9	
<i>Pretax margin (%)</i>	12.7	13.4	10.6			12.8	11.9		
Tax	(101.2)	(87.3)	(128.1)	46.7	26.6	(198.7)	(215.4)	8.4	In line
<i>Eff tax rate (%)</i>	(22.8)	(18.2)	(30.3)			(22.7)	(23.9)		
MI	(91.0)	(156.5)	(152.0)	(2.9)	67.0	(206.5)	(308.6)	49.4	
Net Profit	251.0	235.5	142.0	(39.7)	(43.4)	470.7	377.5	(19.8)	
<i>Net Margin (%)</i>	7.2	6.6	3.6			6.9	5.0		

Source: Company data, RHB

Figure 2: Earnings review - segmental breakdown

FYE Dec (MYRm)	2Q13	1Q14	2Q14	q-o-q (%)	y-o-y (%)	1H13	1H14	y-o-y (%)	Comments
Automotive	2,571.4	2,656.4	2,904.4	9.3	13.0	4,963.5	5,560.9	12.0	Higher revenue from the launch of the all new <i>Vios</i> and <i>Altis</i> models
Oil & Gas	167.8	195.6	238.8	22.1	42.3	325.3	434.3	33.5	Higher contribution from NAGA 4, higher charter rates for NAGA 2, higher operating days for NAGA 1 and new contributions from NAGA 5.
Equipment	444.2	434.9	453.8	4.3	2.1	923.6	888.7	(3.8)	Challenging industry conditions during 1H14 crimped demand.
Mfg & Eng	187.9	181.9	188.9	3.8	0.5	365.0	370.8	1.6	
Others	128.0	114.5	181.0	58.0	NM	281.1	295.5	5.1	
Revenue	3,499.2	3,583.4	3,966.8	10.7	13.4	6,858.5	7,550.2	10.1	
Automotive	358.1	406.6	408.5	0.5	14.1	726.2	815.1	12.2	Higher earnings in tandem with higher automotive volumes.
Oil & Gas	75.8	58.3	66.2	13.6	(12.6)	96.4	124.5	29.2	From the improved business scale.
Equipment	51.9	39.1	55.1	40.9	6.1	111.0	94.2	(15.1)	Weaker operating leverage from lower sales volumes.
Mfg & Eng	(2.5)	9.6	11.9	24.0	(570.3)	6.9	21.5	214.5	Mainly from forex translation gains.
Others	(40.1)	(34.2)	(119.7)	250.0	198.7	(64.5)	(154.0)	138.6	Other losses included the expected loss from the sales of M&E businesses in India.
PBT	443.2	479.4	422.1	(12.0)	(4.8)	875.9	901.4	2.9	
PBT Margins									
Automotive	13.9	15.3	14.1			14.6	14.7		
Oil & Gas	45.2	29.8	27.7			29.6	28.7		
Equipment	11.7	9.0	12.1			12.0	10.6		
Mfg & Eng	(1.3)	5.3	6.3			1.9	5.8		
Others	(31.3)	(29.9)	(66.2)			(23.0)	(52.1)		
	12.7	13.4	10.6			12.8	11.9		
Automotive	166.9	192.3	182.8	(4.9)	9.5	340.1	375.1	10.3	
Oil & Gas	70.6	29.6	33.3	12.3	(52.9)	88.0	62.9	(28.5)	
Equipment	39.6	38.7	44.1	14.0	11.4	87.2	82.8	(5.0)	
Mfg & Eng	(2.1)	4.3	5.8	36.7	(384.7)	3.0	10.1	239.4	
Others	(24.1)	(29.3)	(124.1)	323.0	414.9	(47.6)	(153.5)	222.6	
NP	251.0	235.5	142.0	(39.7)	(43.4)	470.7	377.5	(19.8)	
NP Margins									
Automotive	6.5	7.2	6.3			6.9	6.7		
Oil & Gas	42.1	15.1	13.9			27.0	14.5		
Equipment	8.9	8.9	9.7			9.4	9.3		
Mfg & Eng	(1.1)	2.3	3.1			0.8	2.7		
Others	(18.8)	(25.6)	(68.6)			(16.9)	(51.9)		
	7.2	6.6	3.6			6.9	5.0		

Source: Company data, RHB

Figure 3: Summary of UMW's vehicle sales

FYE Dec (units)	2Q13	1Q14	2Q14	q-o-q (%)	y-o-y (%)	1H13	1H14	y-o-y (%)
Toyota	23,897	24,634	27,304	10.8	14.3	44,263	51,938	17.3
- Passenger	16,672	18,325	20,187	10.2	21.1	30,004	38,512	28.4
- Commercial	7,225	6,309	7,117	12.8	(1.5)	14,259	13,426	(5.8)
Perodua	50,177	44,024	50,456	14.6	0.6	96,873	94,480	(2.5)
- Passenger	50,177	44,024	50,456	14.6	0.6	96,873	94,480	(2.5)
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	74,074	68,658	77,760	13.3	5.0	141,136	146,418	3.7

Source: MAA

Figure 4: Forecast assumptions

FYE Dec	2013	2014F	2015F
Toyota / Lexus (units)	92,521	100,000	102,000
Perodua (units)	196,071	194,000	220,000
Forex (JPY/MYR)*	3.30	3.20	3.20
Forex (USD/MYR)*	3.20	3.25	3.20
*average rate			

Source: RHB

Figure 5: Sum-of-parts valuation

	PER (x)	Valuation (MYR)	Stake (%)	Discount (%)	Per UMW share (MYR)
UMWOG		MYR 4.50	55.15	10	4.13
Auto	12.0				7.87
Other	9.0				0.37
					12.37

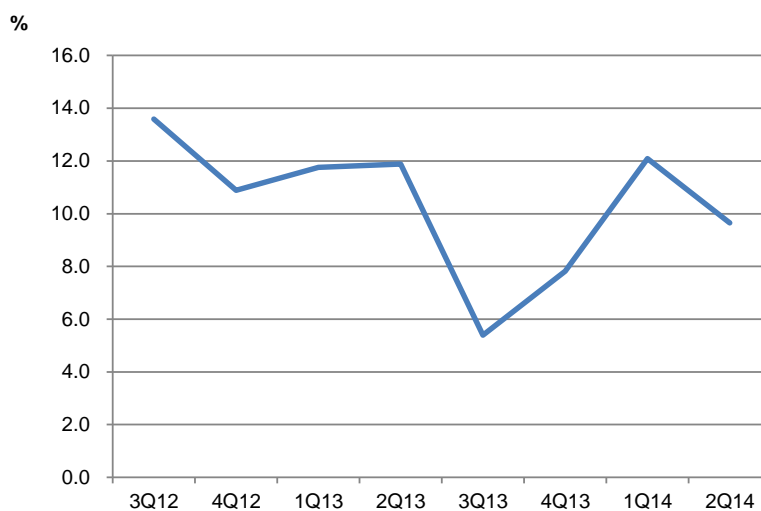
Source: RHB

Figure 6: Historical quarterly earnings

FYE Dec (MYRm)	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	3,957.5	4,050.4	3,359.3	3,499.2	3,456.6	3,891.8	3,583.4	3,966.8
Growth q-o-q (%)	-3.7	2.3	-17.1	4.2	-1.2	12.6	-7.9	10.7
Growth y-o-y (%)				-14.8	-12.7	-3.9	6.7	13.4
EBIT	537.8	441.1	394.8	415.9	186.3	304.1	433.3	382.9
<i>EBIT Margin (%)</i>	<i>13.6</i>	<i>10.9</i>	<i>11.8</i>	<i>11.9</i>	<i>5.4</i>	<i>7.8</i>	<i>12.1</i>	<i>9.7</i>
Interest expense	(20.8)	(21.7)	(19.6)	(28.8)	(21.5)	(32.2)	(25.2)	(20.1)
Interest income	21.8	19.8	19.1	16.6	18.6	28.1	30.5	35.4
Associates	56.9	31.9	38.5	39.4	62.2	33.6	40.7	23.8
EI/Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Pretax profit	595.8	471.0	432.7	443.2	245.6	333.7	479.4	422.1
<i>Pretax Margin (%)</i>	<i>15.1</i>	<i>11.6</i>	<i>12.9</i>	<i>12.7</i>	<i>7.1</i>	<i>8.6</i>	<i>13.4</i>	<i>10.6</i>
Tax	(122.4)	(86.1)	(97.5)	(101.2)	(66.7)	(104.0)	(87.3)	(128.1)
<i>Effective tax rate (%)</i>	<i>20.6</i>	<i>18.3</i>	<i>22.5</i>	<i>22.8</i>	<i>27.1</i>	<i>31.2</i>	<i>18.2</i>	<i>30.3</i>
Minority Interest	(174.2)	(134.0)	(115.5)	(91.0)	(77.5)	(120.6)	(156.5)	(152.0)
Net Profit	299.1	250.9	219.7	251.0	101.5	109.1	235.5	142.0
Core Profit	299.1	250.9	219.7	251.0	101.5	109.1	235.5	141.0
<i>Net Margin (%)</i>	<i>7.6</i>	<i>6.2</i>	<i>6.5</i>	<i>7.2</i>	<i>2.9</i>	<i>2.8</i>	<i>6.6</i>	<i>3.6</i>

Source: RHB

Figure 7: EBIT margin trend



Source: RHB, Company data

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	13,536	15,817	14,207	15,287	16,246
Cost of sales	(9,910)	(11,531)	(10,314)	(11,083)	(11,778)
Gross profit	3,626	4,286	3,893	4,204	4,468
Gen & admin expenses	(1,076)	(1,173)	(1,278)	(1,393)	(1,519)
Selling expenses	(434)	(522)	(453)	(489)	(499)
Other operating costs	(860)	(693)	(861)	(476)	(369)
Operating profit	1,257	1,899	1,301	1,846	2,081
Operating EBITDA	1,554	2,197	1,616	2,141	2,384
Depreciation of fixed assets	(297)	(298)	(315)	(295)	(303)
Operating EBIT	1,257	1,899	1,301	1,846	2,081
Net income from investments	121	126	174	123	175
Interest income	78	79	82	105	96
Interest expense	(90)	(83)	(102)	(110)	(120)
Pre-tax profit	1,365	2,020	1,455	1,963	2,231
Taxation	(412)	(431)	(369)	(430)	(513)
Minority interests	(467)	(595)	(405)	(610)	(674)
Profit after tax & minorities	486	994	681	923	1,044
Reported net profit	486	994	681	923	1,044
Recurring net profit	365	994	881	923	1,044

Source: Company data, RHB

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	1,257	1,899	1,301	1,846	2,081
Depreciation & amortisation	297	298	315	295	303
Change in working capital	(69)	(403)	(414)	318	(135)
Other operating cash flow	366	(90)	172	(56)	-
Operating cash flow	1,851	1,704	1,374	2,402	2,249
Interest paid	(89)	(101)	(95)	(110)	(120)
Tax paid	(445)	(424)	(381)	(430)	(513)
Cash flow from operations	1,317	1,179	898	1,862	1,615
Capex	(589)	(419)	(950)	(1,482)	(1,000)
Other new investments	(537)	(258)	(217)	(5)	-
Other investing cash flow	607	249	1,055	105	96
Cash flow from investing activities	(518)	(428)	(111)	(1,383)	(904)
Proceeds from issue of shares	82	12	1	-	-
Increase in debt	(171)	382	308	644	-
Other financing cash flow	(704)	(864)	(1,052)	(1,092)	(1,212)
Cash flow from financing activities	(793)	(470)	(743)	(448)	(1,212)
Cash at beginning of period	2,195	2,219	2,493	2,544	2,575
Total cash generated	6	281	44	31	(501)
Forex effects	18	(7)	7	-	-
Implied cash at end of period	2,219	2,493	2,544	2,575	2,074

Source: Company data, RHB

Financial Exhibits

Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	2,219	2,493	2,544	2,575	2,074
Inventories	1,519	1,769	1,752	1,885	2,003
Accounts receivable	892	1,079	1,229	1,047	1,113
Other current assets	727	968	3,207	2,874	2,960
Total current assets	5,357	6,308	8,731	8,380	8,150
Total investments	1,557	1,685	1,827	1,955	2,130
Tangible fixed assets	3,077	2,997	3,893	5,081	5,778
Intangible assets	199	138	38	38	38
Total other assets	350	366	317	317	317
Total non-current assets	5,184	5,187	6,075	7,391	8,263
Total assets	10,541	11,495	14,807	15,771	16,412
Short-term debt	777	1,014	1,354	2,100	2,100
Accounts payable	790	750	1,186	1,063	1,129
Other current liabilities	1,530	1,695	1,516	1,602	1,671
Total current liabilities	3,097	3,459	4,055	4,765	4,900
Total long-term debt	1,743	1,634	1,602	1,500	1,500
Other liabilities	123	104	172	172	172
Total non-current liabilities	1,866	1,738	1,775	1,672	1,672
Total liabilities	4,963	5,197	5,830	6,437	6,573
Share capital	584	584	584	584	584
Retained earnings reserve	2,896	3,511	4,924	4,671	4,503
Other reserves	769	753	854	854	854
Shareholders' equity	4,249	4,848	6,363	6,109	5,941
Minority interests	1,329	1,450	2,614	3,224	3,898
Total equity	5,578	6,298	8,977	9,333	9,840
Total liabilities & equity	10,541	11,495	14,807	15,771	16,412

Source: Company data, RHB

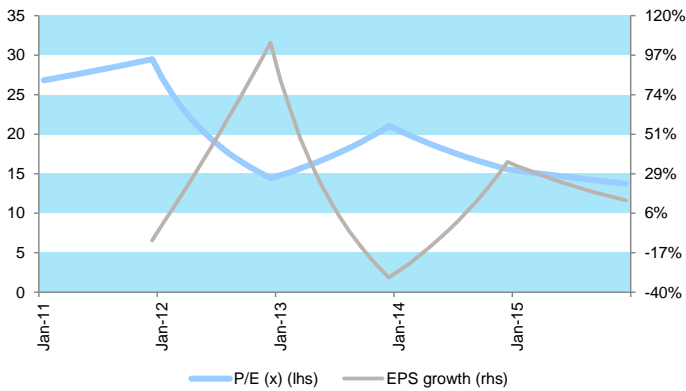
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	5.6	16.9	(10.2)	7.6	6.3
Operating profit growth (%)	3.9	51.1	(31.5)	41.9	12.7
Net profit growth (%)	(7.8)	104.7	(31.5)	35.4	13.2
EPS growth (%)	(10.0)	104.3	(31.5)	35.4	13.2
Bv per share growth (%)	3.7	14.1	31.2	(4.0)	(2.7)
Operating margin (%)	9.3	12.0	9.2	12.1	12.8
Net profit margin (%)	3.6	6.3	4.8	6.0	6.4
Return on average assets (%)	4.7	9.0	5.2	6.0	6.5
Return on average equity (%)	11.7	21.9	12.2	14.8	17.3
Net debt to equity (%)	5.4	2.5	4.6	11.0	15.5
Recurrent cash flow per share	1.13	1.01	0.77	1.59	1.38

Source: Company data, RHB

SWOT Analysis

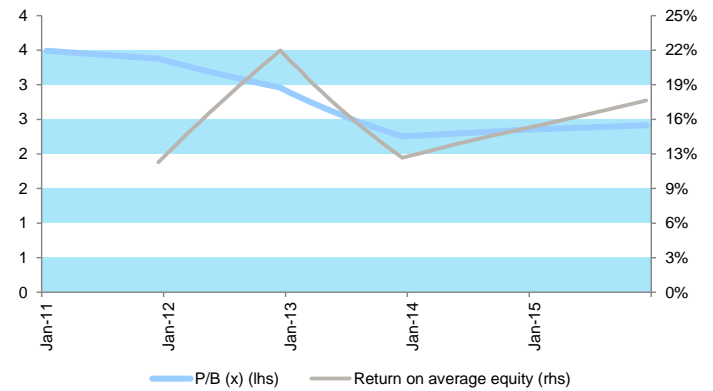


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

UMW is the largest company in the automotive sector and is a component stock of the FBM KLCI. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. UMW owns a 55% stake in listed UMW Oil & Gas.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-05-25	Neutral	11.3	10.8
2014-04-29	Neutral	11.3	10.8
2013-03-20	Neutral	12.9	13.3
2013-02-28	Neutral	12.9	12.8
2013-02-27	Neutral	12.9	12.3
2013-02-26	Neutral	13.1	12.1
2013-01-25	Neutral	13.1	12.1
2013-01-18	NEUTRAL	13.1	12.6
2012-12-27	BUY	12.4	11.9
2012-12-19	BUY	12.4	12.0

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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