

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/SELL/RM12.28/Target: RM10.00)

2Q14: Within Expectations

Year to 31 Dec	2Q14 (RMm)	% chg qoq	% chg yoy	6M14 (RMm)	% chg yoy		EPS (sen)	Revision (%)	PE (x)
Revenue	3,967	10.7	13.4	7,550	10.1	2014F	79.3	-	15.5
- Automotive	2,904	9.3	13.0	5,561	12.0	2015F	84.3	-	14.6
- Equipment	454	4.3	2.1	889	(3.8)	2016F	88.6	-	13.9
- O&G	239	22.1	42.3	434	25.4				
- Manufacturing	189	3.8	0.5	371	1.6				
- Others	181	58.0	21.3	296	5.1				
EBIT	492	15.9	19.9	916	13.5				
PBT	422	(12.0)	-4.8	901	2.9				
- Automotive	409	0.5	14.1	815	12.2				
- Equipment	55	40.9	6.1	94	(15.1)				
- O&G	66	13.6	(12.6)	125	25.5				
- Manufacturing	12	24.0	n.a.	22	214.5				
- Others	(120)	n.a.	n.a.	(154)	n.a.				
Net Profit	142	(39.7)	(43.6)	378	(19.9)				
Net Profit ex-provisions/impairments	251	10.6	1.4	478	1.8				
Toyota Sales (units)	27,992	7.7	15.1	53,992	20.8				
Perodua Sale (units)	50,456	14.1	0.6	94,660	(2.3)				

Source: UMW Holdings, Uob Kay Hian

COMMENTS

- 2Q14 core net profit in line.** UMWH's 2Q14 reported net profit of RM142m (-34.2% qoq, -39.7% yoy) included about RM109m in provisions (mainly for the expected loss from the proposed disposal of its investment in the automotive component companies in India) as well as a forex gain at its manufacturing and engineering division arising from the strengthening of the Indian Rupee. Excluding the provisions, core net profit of RM251m (+10.6% qoq) brings 1H14 net profit to RM478m - slightly above expectations, making up 52% of our full year core net profit forecast. The O&G division continued to be the key earnings driver.
- The automobile segment delivered 13.0% yoy revenue growth** as Toyota unit sales rose 12.1% yoy to 27,992 units (based on Malaysian Automotive Association data), lifted by sales of the Vios and Altis, which we reckon is commendable considering competitive pressure from Honda. Pretax margins held steady at 14.1% (+0.2ppt yoy; -1.2ppt qoq), with pretax profit for the segment at RM408.5m (+14.1% yoy; +0.5% qoq).
- The O&G division (UMWOG) delivered 13.6% qoq pre-tax growth to RM66m**, reflecting the maiden contribution (since May 14) from its fifth and premium NAGA 5 jack-up rig. UMWOG still promises the strongest prospective growth in 2015, with the expected deployment of another two new jack-up rigs (NAGA 6 and NAGA 7) which it is taking delivery in Sep 14 and Dec 14 respectively.
- 2H14 earnings could be weaker** amid domestic consumption slowdown (dampened particularly by demand for high-ticket items such as automobile) and weaker equipment sales (indirectly impacted by weaker commodity prices), although much of the downside would be buffered by the ringgit's strength (ie lower costs of imported automobile components) and growth at its O&G division (higher contribution from NAGA 5).
- Maintain SELL**, which reflects its historically higher valuation and our anticipation of weak automobile demand. Jack-up rig charter spot rates may also soften by end-15 as many speculative jack-up rigs may start entering the market. We maintain target price of RM10.00, based on its historical mean of 12x 2015F PE.

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