


AmResearch
Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

27 Nov 2014

Tough quarter, incoming headwind from strong USD
HOLD

Hafriz Hezry

hafriz-hezry@ambankgroup.com

03-2036 2280

Price: RM11.28

Fair Value: RM12.20

Rationale for report: Company result

YE to Dec	FY13	FY14F	FY15F	FY16F
FD Core EPS (sen)	82.2	79.4	79.8	80.8
PE (x)	13.7	14.2	14.1	14.0

Source: AmResearch

- **UMW reported core net profit of RM203mil for its 3Q14, which brought 9M14 earnings to RM681mil. This is within expectations, accounting for 73% of our estimate and 76% of consensus. Group net profit was down 13% QoQ driven by softer auto and equipment division earnings, but rose 17% YoY from a weak base.**
- **Auto division: Toyota TIV fell 13% QoQ (+16% YoY) given the Raya festivities and the absence of the typical pre-Raya sales rush this year. Revenue fell 9% QoQ while pretax margins fell to 13% (from 14% in 2Q14) resulting in a 16% fall in auto division pretax profit. The YoY rise in revenue and volume are not surprising as 3Q13 was impacted by the run-down of the old Vios ahead of the new model in 4Q13. However, a stronger USD is a significant dampener to earnings going forward as UMW Toyota imports entirely in USD. Additionally, competitive pressure is likely to increase as players de-stock ahead of uncertainties in 2015, which may impact margins negatively in 4Q14. Our forecast has already factored in USD:MYR at 3.25 (for FY15F onwards) vs. spot rate of 3.3. Every 1% rise in USD impacts UMW bottomline by 2%.**
- **Oil & Gas division: Naga 6 will be operational in Nov 2014 while Naga 7 will be delivered in Dec 2014 which will boost 4Q14. However, a number of contracts (foreign mainly) are expiring in FY15F – the weakness in the sector may adversely impact renewal rates in the near term.**
- **Equipment division: 3Q14 earnings (-19% QoQ, -20% YoY) were hit by a slowdown in the heavy equipment sub-division arising from suspension of mining activities in Myanmar and drop in commodity prices in PNG. However, the sanction in Myanmar has been uplifted in Sep 2014, which will support a recovery from 4Q14.**
- **Maintain HOLD on UMW at an unchanged fair value of RM12.20/share given a lack of catalyst other than growth at its oil & gas division. Auto, which anchors group earnings, is still expected to perform poorly given a stronger USD and expectation of exceptionally stiff competition in 4Q14, while 1H15 is shrouded with market uncertainties. Nonetheless, our FY15F already implies flattish EPS growth. Share price has fallen sharply and we are starting to see trading opportunity in the stock.**

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AmResearch Sdn Bhd (335015-P)
 (A member of the AmInvestment Bank Group)
 15th Floor Bangunan AmBank Group
 55 Jalan Raja Chulan
 50200 Kuala Lumpur
 Tel: (03)2070-2444 (research)
 Fax: (03)2078-3162

Printed by

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For AmResearch Sdn Bhd

Benny Chew
 Managing Director

TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
Revenue (RM mil)	13,862.0	13,951.5	13,921.6	14,852.3	15,122.8
Core net profit (RM mil)	951.7	960.4	927.5	932.4	943.8
FD Core EPS (sen)	81.5	82.2	79.4	79.8	80.8
FD Core EPS growth (%)	63.0	0.9	(3.4)	0.5	1.2
Consensus Net Profit (RM mil)	-	-	896.5	1,031.9	1,141.6
DPS (sen)	40.7	50.0	39.7	39.9	40.4
PE (x)	13.8	13.7	14.2	14.1	14.0
EV/EBITDA (x)	6.3	8.4	5.1	4.5	4.1
Div yield (%)	3.7	4.5	3.6	3.6	3.6
ROE (%)	21.1	12.9	14.1	13.3	12.6
Net Gearing (%)	22.7	8.2	0.6	nm	nm

Source: Company, AmResearch estimates

EXHIBIT 1: UMW 3Q14 RESULT SUMMARY

31 Dec (RMm)	3Q13	2Q14	3Q14	YoY	QoQ	9M13	9M14	YTD
Revenue	3,456.6	3,966.8	3,702.5	7.1%	-6.7%	10,315.1	11,252.8	9.1%
Operating Profit	186.3	382.9	383.9	106.1%	0.3%	997.0	1,200.2	20.4%
Finance Cost	(21.5)	(20.1)	(12.8)	-40.4%	-36.4%	(69.9)	(58.1)	-16.9%
Associates	62.2	23.8	25.6	-58.8%	7.4%	140.1	90.1	-35.7%
Investment Income	18.6	35.4	33.5	80.2%	-5.3%	54.3	99.4	83.0%
Pretax Profit	245.6	422.1	430.3	75.2%	1.9%	1,121.5	1,331.7	18.7%
Taxation	(66.7)	(128.1)	(100.6)			(265.4)	(316.0)	
Minorities	77.5	152.0	132.7	71.2%	-12.7%	284.0	441.3	
Net Profit	101.5	142.0	197.0	94.2%	38.8%	572.1	574.5	0.4%
Core net profit	173.7	235.0	203.4	17.1%	-13.4%	639.1	681.1	6.6%
EPS (FD, sen)	14.9	20.1	17.4			59.3	63.2	
DPS (sen)	15.0	10.0	15.0			25.0	25.0	
Margins (%):								
Operating	5.4%	9.7%	10.4%			9.7%	10.7%	
Pretax Profit	7.1%	10.6%	11.6%			10.9%	11.8%	
Net Profit	5.0%	5.9%	5.5%			5.5%	5.1%	
Tax Rate	27.1%	30.3%	23.4%			23.7%	23.7%	
Segmental Breakdown	3Q13	2Q14	3Q14	YoY	QoQ	9M13	9M14	YTD
Automotive	2,433	2,904	2,643	8.6%	-9.0%	7,397	8,204	10.9%
Equipment	411	454	435	5.8%	-4.2%	1,334	1,323	-0.8%
Manuf & Eng	189	189	180	-4.6%	-4.6%	554	551	-0.5%
Oil & Gas	205	239	254	23.9%	6.5%	531	689	29.8%
Others				NA	NA			NA
Elimination				NA	NA			NA
Revenue	3,238	3,786	3,513	8.5%	-7.2%	9,816	10,767	9.7%
Automotive	295	409	344	16.6%	-15.8%	1,021	1,159	13.5%
Equipment	56	55	44	-20.2%	-19.4%	167	139	-16.8%
Manuf & Eng	(31)	12	(1)	-95.2%	-112.4%	(24)	20	-182.7%
Oil & Gas	54	66	76	39.3%	14.5%	151	200	32.8%
Others & Elimination				NA	NA			NA
Pretax profit	374	542	463	24%	-15%	1,314	1,518	15.5%
Pretax margins								
Automotive	12.1%	14.1%	13.0%			13.8%	14.1%	
Equipment	13.5%	12.1%	10.2%			12.5%	10.5%	
Manuf & Eng	-16.5%	6.3%	-0.8%			-4.4%	3.6%	
Oil & Gas	26.5%	27.7%	29.8%			28.4%	29.1%	

Source: Company, AmResearch