

Company Focus

UMW Holdings

Bloomberg: UMWK MK | Reuters: UMWS.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 Nov 2014

HOLD RM11.30 KLCI : 1,842.17

Price Target : 12-Month RM 12.70 (Prev RM 12.80)

Shariah Compliance: Yes

Reason for Report : 3Q14 results

Where we differ: Neutral on long-term outlook

Analyst

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Result Summary

FY Dec (RM m)	3Q 2014	3Q 2013	2Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	3,702.5	3,456.6	3,966.8	7.1	(6.7)
Gross Profit	358.4	102.1	272.5	250.9	31.5
Opg Profit	383.9	382.9	220.6	74.1	0.3
Net Profit	197.0	101.5	142.0	94.2	38.8
Other Data					
Gross Margin (%)	9.7	3.0	6.9		
Opg Margin (%)	10.4	6.4	9.7		
Net Margin (%)	5.3	2.9	3.6		

Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	13,951	15,531	16,706	17,774
Operating Profit	1,296	1,852	2,222	2,433
EBITDA	1,622	2,178	2,547	2,758
Net Pft (Pre Ex.)	653	876	1,022	1,118
EPS (sen)	66.0	74.9	87.5	95.7
EPS Pre Ex. (sen)	55.9	74.9	87.5	95.7
EPS Gth (%)	(22)	14	17	9
EPS Gth Pre Ex (%)	(36)	34	17	9
Net DPS (sen)	27.9	37.5	43.7	47.9
BV Per Share (sen)	538.4	575.9	619.6	667.5
PE (X)	17.1	15.1	12.9	11.8
PE Pre Ex. (X)	20.2	15.1	12.9	11.8
EV/EBITDA (X)	10.0	7.5	6.6	6.2
Net Div Yield (%)	2.5	3.3	3.9	4.2
P/Book Value (X)	2.1	2.0	1.8	1.7
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	13.8	13.5	14.6	14.9

At A Glance

Issued Capital (m shrs)	1,168
Mkt. Cap (RMm/US\$m)	13,202 / 3,950
Avg. Daily Vol.('000)	1,193

ICB Industry : Consumer Goods

ICB Sector: Automobiles & Parts

Principal Business: UMW is the sole assembler and distributor of Toyota and Lexus vehicles. This includes marketing, sales services and auto parts trading. Its other business segments are Oil & Gas (owns jack-up drilling rigs and onshore rigs), Equipment (trading of industrial heavy equipments) and Manufacturing & Engineering (trading of lubricants).

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Weaker equipment profit

- 3Q14 net profit of RM205m is below expectation
- Stronger sales of new Toyota models, but Equipment segment profit remains muted
- Cut FY14-16 EPS by 1-4%
- Maintain HOLD, RM12.70 TP; declared 2nd interim net DPS of 15 sen

Highlights

Below expectation

- 3Q14 core net profit grew 51% y-o-y to RM205m, taking 9M14 core profit to RM592m (flat y-o-y) or only 65% of our full-year estimate. The quarter's strong y-o-y earnings growth was largely inflated by exceptionally-low automotive profit in 3Q13 as they ran down the older Vios model.

Commendable automotive and O&G earnings

- 3Q14 Automotive PBT grew 17% y-o-y to RM344m, led by higher unit sales of new models. But this was partly offset by lower associate contribution from Perodua, which only launched the new Axia model in mid-September.
- O&G PBT grew 39% y-o-y to RM76m, driven by: i) additional contribution from Naga 5, ii) higher rig utilisation at Naga 3, and iii) higher Naga 2 charter rates.
- Equipment segment 3Q14 PBT fell 20% y-o-y to RM44m, dragged by weaker profitability at the Heavy Equipment segment. Meanwhile, Manufacturing & Engineering segment pretax losses narrowed to RM1.5m (vs. RM31.1m pretax losses in 3Q13).

Cut FY14-16 EPS by 1-4%

- We cut FY14F/15F/16F EPS by 3.9%/1.6%/1.5% to 74.9/87.5/95.7 sen after imputing lower Automotive profit and larger losses for 'Others' segment.

Outlook

Near-term earnings supported by Automotive and O&G

- Near-term earnings are likely to be driven by higher Perodua profit contribution led by the new Axia model, and additional earnings from Naga 6 and Naga 7.

Valuation

- We have a Hold rating for UMW, and RM12.70 target price based on sum-of-parts valuation (FY14F PE): a) Automotive 12x, b) Oil & Gas 24x, c) Equipment 10x, and d) Manufacturing & Engineering 10x.

UMW Holdings

Risks

Slower local automotive industry

- Total Industry Volume growth could continue to be capped by unfavourable regulations, tightening of consumer spending, and higher production costs.

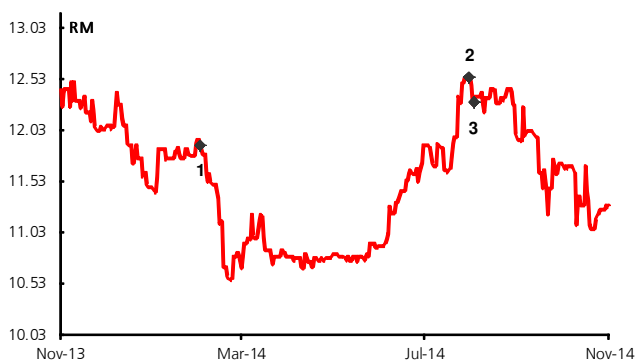
Segmental breakdown

(RMm)	3Q14	3Q13	2Q14	% Chg y-o-y	% Chg q-o-q	3Q14 Comments*
Segment revenue						
Automotive	2,643.4	2,433.3	2,904.4	8.6	(9.0)	Driven by better sales of new models
Equipment	434.8	410.8	453.8	5.8	(4.2)	Construction and mining sectors remain favorable
Manufacturing & Engineering	180.2	188.9	188.9	(4.6)	(4.6)	Malaysian and Indian operations struggled with low demand
Oil & Gas	254.3	205.3	238.8	23.9	6.5	Additional profit contribution from Naga 2, 3 and 5
Others	189.9	218.3	181.0			
Total	3,702.5	3,456.6	3,966.8	7.1	(6.7)	
Segment pretax profit						
Automotive	343.9	294.9	408.5	16.6	(15.8)	Stronger Toyota profit partly offset by lower contribution from Perodua
Equipment	44.4	55.6	55.1	(20.2)	(19.4)	Dragged by Heavy Equipment segment which was affected by continued suspension of mining operations in Myanmar
Manufacturing & Engineering	(1.5)	(31.1)	11.9	n.m	n.m	In line with weaker Malaysian and Indian operations
Oil & Gas	75.8	54.5	66.2	39.3	14.5	Supported by higher rigs contribution
Others	(32.4)	(128.2)	(119.7)			
Total	430.3	245.6	422.1	75.2	1.9	

* Based on y-o-y unless stated otherwise

Source: Company, DBS Vickers

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	27 Feb 14	11.88	13.45	Hold
2:	25 Aug 14	12.54	13.50	Hold
3:	28 Aug 14	12.30	12.80	Hold

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

DISCLOSURE**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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