

UMW (HOLD ↔, EPS ↑)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

27 November 2014

Price Target: RM11.30 (↓)

Share price: RM11.30

Competitive Market Ahead in 4Q14

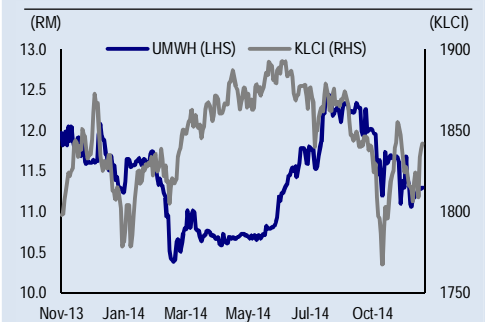
Results	<ul style="list-style-type: none"> Reported core net profit of RM218.8m in 3Q14 and RM605.5m in 9M14, in line with HLIB's RM771.5m (78.5%), but below consensus RM898.7m (67.4%). We expect weaker earnings in 4Q14 from automotive division.
Deviations	<ul style="list-style-type: none"> None.
Dividends	<ul style="list-style-type: none"> Announced second interim single tier dividend of 15 sen/share.
Highlights	<ul style="list-style-type: none"> Automotive: 3Q14 revenue improved 8.6% yoy due to higher Toyota sales volume (Vios was only launched in 4Q13 and Altis in 1Q14), contributing to higher PBT contributions yoy. However, we expect stiff competitive market in 4Q14, which may affect Toyota's margin. Stronger contribution from Perodua Axia is expected to partly offset the decline in earnings from Toyota. Equipment: 3Q14 PBT dropped 20.2% yoy due to lower sales mix of heavy equipments, as demand was affected by suspension in mining activities in Myanmar and drop in commodity prices in Papua New Guinea. Oil & Gas: 3Q14 revenue improved 23.9% yoy and 6.5% qoq from contributions of new jack-up rigs (Naga 4 and Naga 5), resulting in stronger earnings contributions. We expect continued earnings growth in 4Q14 from the deliveries of Naga 6 and Naga 7. Manufacturing & Engineering: 3Q14 reported lower losses before tax yoy mainly due to impairments in the previous corresponding 3Q13 (estimated at RM50m). Losses in 3Q14 was mainly due to CCD interest expenses by India subsidiaries and lower local sales volume (automotive parts and components).
Risks	<ul style="list-style-type: none"> Prolonged tightening of banks' HP rules. Slowdown in the Malaysian economy affecting car sales. Global automotive supply chain disruption. Appreciation of US\$. Plunge in crude oil price and slowdown in O&G exploration.
Forecasts	<ul style="list-style-type: none"> We have fine-tuned our model by adjusting earnings for FY14-16 by +2.7%, -0.8% and -2.1% respectively.
Rating	HOLD (↔) <ul style="list-style-type: none"> Positives – 1) Control largest market share of Malaysia TIV with leading brand - Toyota, Lexus and Perodua; 2) Strong growth of Oil & Gas division; and 3) Expanding reach of Manufacturing & Engineering division into fast growing China and India. Negatives – 1) Slump in crude oil prices affecting demand and charter rates for jack-up rigs; 2) Tightening of bank's lending rules; and 3) Intense competition from rival automotive marques.
Valuation	<ul style="list-style-type: none"> Post earnings adjustments, we cut our target price to RM11.30 (previously RM11.43) based on SOP, with unchanged Hold recommendation.

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KLCI	1842
Expected share price return	0.0%
Expected dividend return	4.1%
Expected total return	4.1%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	13,202
3-mth avg. volume ('000)	1,228

Price Performance	1M	3M	12M
Absolute	-3.4	-9.3	-8.3
Relative	-4.6	-8.3	-10.5

Major shareholders

PNB	53.3%
EPF	15.5%
KWAP	5.0%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E	2016E
Turnover	13,951	15,384	15,769	16,582
EBITDA	1,827	2,048	2,248	2,515
Pre-tax Profit	1,436	1,798	1,943	2,179
Rpt. net profit	654	792	927	1,062
Norm. net profit	837	792	927	1,062
Norm. EPS (sen)	71.7	67.8	79.4	90.9
P/E (x)	15.8	16.7	14.2	12.4
Book Value (RM)	5.4	5.7	6.0	6.3
P/B (x)	2.1	2.0	1.9	1.8
Net Dvd Yield (%)	3.9	3.9	4.6	5.2
Net Gearing	7.5	27.9	43.5	47.5
ROE (%)	14.9	12.2	13.6	14.9
ROA (%)	6.7	5.4	5.8	6.1

HLIB

Figure #1: Quarterly Result Comparison

FYE Dec (Rm)	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	Comment
Revenue	3,456.6	3,966.8	3,697.4	-6.8	7.0	Lower revenue QoQ mainly due to lower car sales by Toyota (See Figure #3).
EBITDA	366.0	498.3	503.0	0.9	37.4	
EBITDA Margin (%)	10.6	12.6	13.6	8.3	28.5	
EBIT	283.5	417.7	389.4	-6.8	37.3	
EBIT Margin (%)	8.2	10.5	10.5	0.0	2.3	EBIT margin sustained QoQ.
Net Finance Expense	-2.9	15.3	20.7	35.6	-820.9	Lower net borrowings, post listing of UMWOG in 4Q13.
Associates	62.2	23.8	25.6	7.4	-58.8	
EI	-90.6	-32.9	-21.8			Included property disposal gains/losses, impairments, provisions and fair value changes (derivatives).
Reported PBT	245.6	422.1	430.3	1.9	75.2	
Tax	-66.7	-128.1	-100.6	-21.5	50.9	Lower effective tax QoQ due to lower non-taxable expenses and higher tax rates for overseas subsidiaries.
Reported Net Profit	179.0	294.0	329.7	12.2	84.2	
Reported PATAMI	101.5	142.0	197.0	38.8	94.2	
Core PATAMI	192.0	174.9	218.8	25.1	13.9	Excluded EIs and Forex.
Reported EPS (Sen)	8.7	12.2	16.9	38.8	94.2	
Core EPS (Sen)	16.4	15.0	18.7	25.1	13.9	

Company, HLIB

Figure #2: Cumulative Result Comparison

FYE Dec (Rm)	9M13	9M14	YoY (%)	HLIB FY14	vs HLIB (%)	Comment
Revenue	10,315.1	11,247.7	9.0	15,384.1	73.1	Growth YoY driven by automotive (higher car sales) and O&G (commencement of Naga 4 and 5, and higher charter rates).
EBITDA	1,319.2	1,491.6	13.1	1,979.9	75.3	
EBITDA Margin (%)	12.8	13.3	0.5	12.9	0.4	EBITDA margin improved YoY on higher car sales volume (note that new Vios was only launched in 4Q13) was and stronger contributions of UMWOG.
EBIT	1,095.4	1,224.1	11.8	1,604.9	76.3	
EBIT Margin (%)	10.6	10.9	0.3	10.4	0.5	Filtered through higher EBITDA margin.
Net Finance Expense	-15.6	41.3	-365.2	-38.1	-108.4	Lower net borrowings, post listing of UMWOG in 4Q13.
Associates	140.1	90.1	-35.7	163.7	55.1	Lower contribution from oversea ventures (Manufacturing and valued segments).
EI	-70.2	-31.0		0.0		Net Impairments, Forex and Gains on disposals.
Reported PBT	1,121.5	1,331.7	18.7	1,730.5	77.0	
Tax	-265.4	-316.0	19.0	-382.8	82.5	
Reported Net Profit	856.1	1,015.8	18.6	1,347.6	75.4	
Reported PATAMI	572.1	574.5	0.4	771.5	74.5	
Core PATAMI	642.3	605.5	-5.7	771.5	78.5	Within HLIB's forecast, as we expect weaker earnings in 4Q14, mainly from deteriorating margins for automotive segment.
Reported EPS (Sen)	49.0	49.2	0.4	66.0	74.5	
Core EPS (Sen)	55.0	51.8	-5.7	66.0	78.5	

Company, HLIB

Figure #3: UMW Group Automotive Operating Statistics

Unit Sales	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Toyota (51% owned)	20,137	23,610	20,329	27,109	24,185	26,937	23,508
Lexus (51% owned)	229	287	337	483	449	367	369
Perodua (28% owned)	46,696	50,177	50,525	48,673	44,024	50,456	45,837
Total	67,062	74,074	71,191	76,265	68,658	77,760	69,714
Growth:							
YoY (%)	-0.85	-4.55	-0.72	-3.23	2.38	4.98	-2.07
QoQ (%)	-14.91	10.46	-3.89	7.13	-9.97	13.26	-10.35

Company, HLIB

Figure #4: UMW Earnings Breakdown

	3Q13	2Q14	3Q14	QoQ	YoY	Comment
Reported Revenue						
Automotive	2,433.3	2,904.4	2,643.4	-9.0%	8.6%	QoQ decline due to lower Toyota sales.
Equipment	410.8	453.8	434.8	-4.2%	5.8%	Sustaining sales for the segment.
Oil & Gas	205.3	238.8	254.3	6.5%	23.9%	QoQ growth from full contributions of NAGA 5 (commencement in early-May 2014).
Manufacturing & Engineering	188.9	188.9	180.2	-4.6%	-4.6%	Malaysia market was affected by the lower total industrial production volume (especially Perodua and Proton) in 3Q14.
Others	233.9	204.9	209.1	2.1%	-10.6%	Included dividend income and valued segment.
Intersegment	(15.7)	(23.9)	(24.3)	1.9%	55.4%	
Total	3,456.6	3,966.8	3,697.4	-6.8%	7.0%	
Reported PBT						
Automotive	294.9	408.5	343.9	-15.8%	16.6%	QoQ decline due to lower car sales volume and intense competitions.
Equipment	55.6	55.1	44.4	-19.4%	-20.2%	QoQ decline on lower revenue and lower margins.
Oil & Gas	54.5	66.2	75.8	14.5%	39.3%	In line with improved revenue.
Manufacturing & Engineering	(31.1)	11.9	(1.5)	-112.4%	-95.2%	QoQ decline due to lower revenue, from CCD interest expenses related to India subsidiaries and margin compression for the local automotive component and parts manufacturing (lower volumes).
Others	(128.2)	(119.7)	(32.4)	-72.9%	-74.7%	Included property disposal gains/losses, impairments and fair value changes (derivatives).
Total	245.6	422.1	430.3	1.9%	75.2%	

Company, HLIB

Figure #4: UMW SOP

Division	Stakes (%)	PATMI (RM m)	Valuations (RM m)	RM/Share	Basis
Automotive	Various	655.29	7,863.49	6.73	FY15 PE 12x
Equipment	Various	182.91	1,829.11	1.57	FY15 PE 10x
Oil & Gas	55.2%	209.55	3,460.93	2.96	Target Price of RM2.90
Manufacturing & Engineering	Various	10.46	83.70	0.07	FY15 PE 8x
Others	Various	(130.78)	(130.78)	(0.11)	
FY13 Net Cash (Holdings)			100.00	0.09	Estimated as at end FY2014
Target Price (RM)				11.30	Implied FY15 P/E of 14.3x
* No of Shares		1,168.3			As at end FY2013

Company, HLIB

Figure #5: HLIB Forecast versus Consensus

	FY14			FY15			FY16		
	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)
Revenue (RMm)	15,384.1	15,081.0	2.0%	15,768.6	16,049.0	-1.7%	16,582.3	16,873.0	-1.7%
EBITDA (RMm)	2,047.6	2,196.0	-6.8%	2,248.3	2,529.0	-11.1%	2,514.6	2,738.0	-8.2%
Core Profit (RMm)	792.2	898.7	-11.8%	927.4	1,033.0	-10.2%	1,062.2	1,135.0	-6.4%
EPS (Sen)	67.8	78.8	-13.9%	79.4	89.3	-11.1%	90.9	98.2	-7.4%

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
Revenue	15,817	13,951	15,384	15,769	16,582
Operating cost	-13,608	-12,125	-13,337	-13,520	-14,068
EBITDA	2,209	1,827	2,048	2,248	2,515
Depreciation	-290	-315	-375	-426	-449
EBIT	1,918	1,512	1,673	1,823	2,065
Interest income	72	73	71	62	59
Interest expense	-89	-88	-109	-139	-162
Associates	122	123	164	197	216
Exceptionals	-3	-183	0	0	0
Pretax profit	2,020	1,436	1,798	1,943	2,179
Taxation (Inc Def Tax)	-431	-350	-421	-410	-441
Minorities	-466	-431	-585	-605	-676
Net profit	1,122	654	792	927	1,062
Core profit (Ex Def Tax)	1,125	837	792	927	1,062
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (Sen)	96.1	56.0	67.8	79.4	90.9
Core EPS (sen)	96.3	71.7	67.8	79.4	90.9

Balance sheet

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
Fixed assets	3,007	3,902	5,368	6,793	7,493
Other long-term assets	2,180	2,173	2,264	2,362	2,470
Other short-term assets	490	2,331	2,331	2,331	2,331
Working capital	2,098	1,795	1,982	2,047	2,167
Receivables	1,079	1,229	1,355	1,389	1,461
Payables	-750	-1,186	-1,304	-1,322	-1,376
Inventory	1,769	1,752	1,932	1,980	2,082
Net cash	-215	-476	-1,855	-3,027	-3,483
Cash	2,493	2,544	2,161	1,985	1,965
ST debt	-1,074	-1,417	-1,417	-1,417	-1,417
LT debt	-1,634	-1,602	-2,598	-3,595	-4,031
Shareholders' funds	4,848	6,363	6,640	6,965	7,336
Share capital	584	584	584	584	584
Reserves	4,264	5,779	6,056	6,380	6,752
Minorities	1,450	2,614	2,702	2,792	2,894
Other liabilities	1,261	749	749	749	749

Assumption Metrics

FYE 31 Dec	2012A	2013A	2014E	2015E	2016E
GDP Growth (%)	5.6%	4.5%	6.0%	5.0%	5.0%
TIV	627,753	655,792	678,978	685,767	706,340
Growth (%)	4.6%	4.5%	3.5%	1.0%	3.0%
Unit Sale (Unit)	295,759	288,592	298,824	299,899	304,891
Toyota (Unit)	105,151	91,185	99,392	95,416	98,278
Lexus (Unit)	1,471	1,336	1,400	1,500	1,600
Perodua (Unit)	189,137	196,071	198,032	202,983	205,013
Average Price					
UMW (RM)	102,127	104,169	102,607	103,633	103,633
Perodua (RM)	43,648	41,507	40,677	41,084	41,495

Cashflow

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
EBITDA	2,209	1,827	2,048	2,248	2,515
Net interest received	-17	-15	-38	-77	-102
Working cap changes	-209	-427	-188	-64	-120
Taxation	-309	-366	-421	-410	-441
Others	-510	-10	0	0	0
Operating cashflow	1,163	1,009	1,401	1,697	1,851
Capex & acquisitions	-514	-1,166	-1,850	-1,850	-1,150
Free cashflow	649	-158	-449	-153	701
Other inv cashflow	11	320	82	99	108
Net borrowings	245	308	996	996	436
Share issuance	22	1	0	0	0
Dividends paid	-362	-380	-515	-603	-690
Other fin cashflow	-504	-467	-497	-514	-574
Net cashflow	61	-376	-383	-176	-20
Forex translation	16	16	0	0	0
Beginning cash	2,146	2,301	2,869	2,486	2,310
Ending cash	2,301	2,869	2,486	2,310	2,291

Valuation Ratios

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
Reported basic EPS (sen)	96.1	56.0	67.8	79.4	90.9
Core basic EPS (sen)	96.3	71.7	67.8	79.4	90.9
Core FD EPS (sen)	-	-	-	-	-
PER (x)	11.7	15.8	16.7	14.2	12.4
FD PER (x)	-	-	-	-	-
Net DPS (sen)	50.0	44.0	44.1	51.6	59.1
Net DY (%)	4.4	3.9	3.9	4.6	5.2
BV/ share (RM)	4.1	5.4	5.7	6.0	6.3
P/BV (x)	2.7	2.1	2.0	1.9	1.8
FCF/ share (sen)	55.6	-13.5	-38.4	-192.8	770.6
Market capitalization	6,601	6,601	6,601	6,601	6,601
Net cash	-215	-476	-1,855	-3,027	-3,483
Enterprise value	6,816	7,077	8,456	9,628	10,084
EV/ EBITDA (x)	3.1	3.9	4.1	4.3	4.0
ROE (%)	24.7	14.9	12.2	13.6	14.9
ROA (%)	10.6	6.7	5.4	5.8	6.1

Other Ratios

FYE 31 Dec (RMm)	2012A	2013A	2014E	2015E	2016E
Growth (%)					
Sales Growth	16.9	-11.8	10.3	2.5	5.2
EBITDA Growth	15.7	-17.3	12.1	9.8	11.8
EBIT Growth	19.0	-21.2	10.7	9.0	13.3
PBT Growth	46.2	-28.9	25.2	8.0	12.2
Net Profit Growth	34.9	-25.6	-5.4	17.1	14.5
Margins (%)					
EBITDA Margin	14.0	13.1	13.3	14.3	15.2
EBIT Margin	12.1	10.8	10.9	11.6	12.5
PBT Margin	12.8	10.3	11.7	12.3	13.1
Net Profit Margin	7.1	6.0	5.1	5.9	6.4
Net Debt/Equity (%)	4.4	7.5	27.9	43.5	47.5

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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