

27 November 2014

UMW Holdings

9M14 Within Expectation

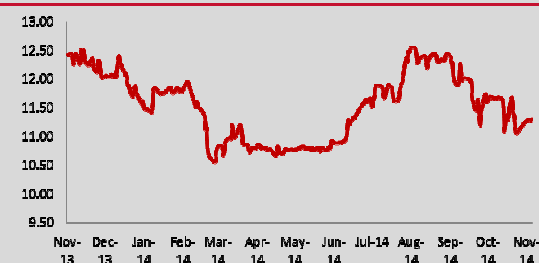
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|--------------------------------|--|
| Period | <ul style="list-style-type: none"> 3Q14/9M14 |
| Actual vs. Expectations | <ul style="list-style-type: none"> Within expectation. The group reported 3Q14 normalised PATAMI of RM175.2m, bringing its 9M normalised PATAMI to RM605.5m. The results came in within our (at 75%) but below the consensus (at 68%) full-year earnings estimates. Note that the 9M14 normalised PATAMI has been adjusted by excluding the non-core items totalling RM31.0m which consists of: (i) provision for expected loss on disposal of its Auto components companies in India amounting to RM89.6m, (ii) the gain on disposal of properties of RM30.6m, (iii) the impairment of investments of RM7.6m, and (iv) derivatives gain of RM48.7m, as well as others immaterial non-core items of -RM13.1m. |
| Dividends | <ul style="list-style-type: none"> As expected, a second interim single-tier dividend of 15.0 sen per share was declared, bringing its YTD DPS to 25.0 sen (similar to FY13). We are expecting total DPS of 50.0 sen (DPR of 74%) to be declared which implies a 4.4% net yield. |
| Key Result Highlights | <ul style="list-style-type: none"> YoY, 9M14 revenue increased by 9% due to higher revenue contributions across the Automotive and Oil & Gas segments. Meanwhile, normalised PATAMI declined by 8% to RM605.5m with lower core NP margin of 5.4% (-1.0ppts) seen, dragged down mainly by its associate (-36% YoY) and Equipment segment. QoQ, 3Q14 revenue decreased by 7% with growth in Oil & gas negated by weaker sales in Automotive, Equipment and M&E segment. However, normalised PATAMI came in flat at RM175.2m helped by lower finance cost and lower effective tax rate. QoQ, Automotive: 3Q14 revenue decreased by 9% as consumers took a wait-and-see approach in anticipation of the 2015 National Budget announcement in October 2014. Segmental PBT came down 16% with lower PBT margin seen (-1.1ppts) which we believe was partly due to more incentives given to push sales amidst fierce competition. YoY, Equipment: 9M14 revenue marginally decreased by 1% due to weaker revenue in heavy equipment moderated by higher demand for Toyota forklifts in the industrial equipment segment. With the lower operational efficiency, PBT decreased by 17%. YoY, Oil & gas: 9M14 revenue recorded a decent growth of 30% on the back of: (i) full contribution from NAGA 4 which commenced operations on April 2013, (ii) higher rig utilisation and time charter rates for NAGA 2, and (iii) higher utilisation rate for NAGA 3 and additional contribution from NAGA 5 which commenced operations in May 2014. Similarly, PBT increased by 33% to RM200.4m. YoY, M&E: 1H14 revenue came in flat at RM551.0m mainly due to stiff competition in the lubricant business and lower contributions from the local automotive component manufacturers. However, PBT recorded a two-fold jump due to higher gain from retranslation of USD term loans and improved margin from the lubricant business in China. |
| Outlook | <ul style="list-style-type: none"> For 4QFY14, the group's revenue is expected to be partly helped by its associate, Perodua with the introduction of EEV in September 2014. We are expecting margin to decline in view of the 4Q14 aggressive campaigns and promotions (typically a period to meet auto distributors' year-end targets) in Automotive segment. Moving forward into FY15, we expect its Automotive segment to register flat growth of +2.5% with the assumption of: (i) lacklustre consumer sentiment on the back of subsidy rationalisation programmes, (ii) tighter financing conditions, (iii) intense domestic competition, particularly in the B & C segments. |

MARKET PERFORM ↔

Price: RM11.30
Target Price: RM11.70 ↓

Share Price Performance



KLCI 1842.17
YTD KLCI chg -1.3%
YTD stock price chg -5.5%

Stock Information

Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	13,201.7
Issued shares	1,168.3
52-week range (H)	12.68
52-week range (L)	10.44
3-mth avg daily vol:	1,227,895
Free Float	40%
Beta	1.1

Major Shareholders

SKIM AMANAH SAHAM BU	36.4%
EMPLOYEES PROVIDENT	15.5%
PERMODALAN NASIONAL	8.0%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	14207	14906	15791
EBITDA	1301	1710	2134
PBT	1455	1702	2038
Core NP	881	793	904
Consensus (NP)	-	896	1024
Earnings Revision (%)	-	-1%	-2%
EPS (sen)	75.4	67.9	77.3
EPS growth (%)	-11.7	-9.9	13.9
DPS (sen)	44.0	50.0	50.0
BVPS (RM)	5.4	5.6	5.9
PER	15.0	16.6	14.6
Price/BV (x)	2.1	2.0	1.9
Gearing (%)	0.1	0.1	0.2
Dividend Yield (%)	3.9	4.4	4.4

27 November 2014

- Outlook (continued)**
- On the Oil and Gas segment, while the sector is currently facing headwinds with prospects of a de-rating, the downside could be partly cushioned by its two new jack-up rigs in that will see delivery in December FY14 and September FY15 which we believe should be able to secure contracts given that there are at least 17 rig contracts that are expiring from mid-2013 to 2015.
- Change to Forecasts**
- Post-results, we have trimmed our FY14-15 PATAMI forecasts by 1%-2% for house-keeping purposes.
- Rating** **Maintain MARKET PERFORM**
- Valuation**
- While there are no changes in our key earnings assumptions, our TP is reduced to RM11.70 from RM13.37 after we cut our targeted PER ascribed on the O&G business from 21.0x to 15.0x in lieu of the O&G sector-wide de-rating amidst uncertain oil price environment. Our TP of RM11.70 is based on a SoP valuation (implies 15.1x FY15 PER, at its +0.5SD above the average PER mean).
- Risks to Our Call**
- Lower-than-expected vehicle sales.

Result Highlight

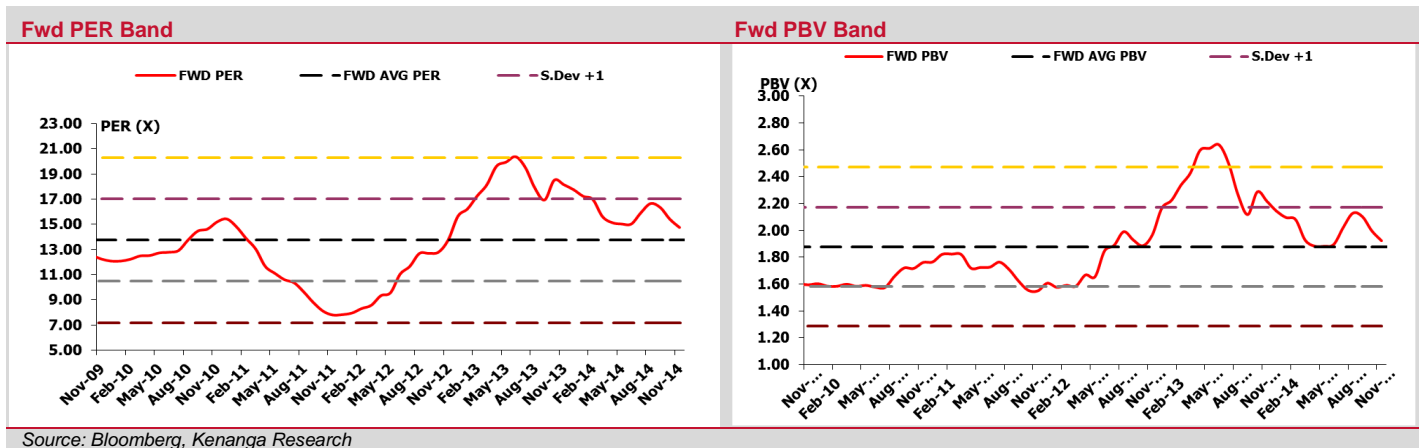
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM 'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	3702.5	3966.8	-6.7%	3456.6	7.1%	11252.8	10315.1	9.1%
EBIT	383.9	382.9	0.3%	186.3	106.1%	1200.2	997.0	20.4%
PBT/(LBT)	430.3	422.1	1.9%	245.6	75.2%	1331.7	1121.5	18.7%
Taxation	-100.6	-128.1	NM	-66.7	-50.9%	-316.0	-265.4	-19.0%
PATAMI	197.0	142.0	38.8%	101.5	94.2%	574.5	572.1	0.4%
Core PATAMI	175.2	174.9	0.2%	192.0	-8.8%	605.5	658.4	-8.0%
EPS (sen)	15.0	15.0	0.2%	16.4	-8.8%	51.8	56.4	-8.0%
DPS (sen)	15.0	10.0				25.0	25.0	
EBIT margin	10.4%	9.7%		5.4%		10.7%	9.7%	
Pretax margin	11.6%	10.6%		7.1%		11.8%	10.9%	
Core NP margin	4.7%	4.4%		5.6%		5.4%	6.4%	
Effective tax rate	-23.4%	-30.3%		-27.1%		-23.7%	-23.7%	

Source: Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Revenue								
Automotive	2643.4	2904.4	-9.0%	2,433.3	8.6%	8204.2	7,396.8	10.9%
Equipment	434.8	453.8	-4.2%	410.8	5.8%	1323.4	1334.4	-0.8%
O&G	254.3	238.8	6.5%	205.3	23.9%	688.7	530.6	29.8%
M&E	180.2	188.9	-4.6%	188.9	-4.6%	551.0	553.9	-0.5%
Other segment	189.9	181.0	4.9%	218.3	-13.0%	485.4	499.4	-2.8%
Segment PBT								
Automotive	343.9	408.5	-15.8%	294.9	16.6%	1159.1	1,021.1	13.5%
Equipment	44.4	55.1	-19.4%	55.6	-20.2%	138.6	166.6	-16.8%
O&G	75.8	66.2	14.5%	54.5	39.3%	200.4	150.9	32.8%
M&E	-1.5	11.9	-112.4%	-31.1	95.2%	20.1	-24.3	182.7%
Other segment	-32.4	-119.7	72.9%	-128.2	74.7%	-186.4	-192.7	3.3%
Segment PBT margin								
Automotive	13.0%	14.1%		12.1%		14.1%	13.8%	
Equipment	10.2%	12.1%		13.5%		10.5%	12.5%	
O&G	29.8%	27.7%		26.5%		29.1%	28.4%	
M&E	-0.8%	6.3%		-16.5%		3.6%	-4.4%	
Other segment	-17.1%	-66.2%		-58.7%		-38.4%	-38.6%	

Source: Company, Kenanga Research



Sum-of-Parts Valuation of UMW

Segment	PER (x)	FY15 PAT	FY15 PATAMI	Value (RMm)
Automotive	13.0	1085.5	674.9	8774.1
O&G (Post-listing assumption)	15.0	395.3	234.5	3517.8
Equipment	10.0 ▲	137.2	137.2	1376.5
M&E	0.0	31.6 ▲	-14.0	0.0
Others	0.0 ▲	-129.1	-129.1	0.0
Total		1520.6	903.6	13668.4
Total value				13668.4
No of shares				1168.3
Fair value		11.70		

Source: Kenanga Research

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27 November 2014

Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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