

UMW (UMWH MK)

Consumer Cyclical - Auto & Autoparts

Market Cap: USD3,938m

Neutral (Maintained)

Target Price: MYR11.00

Price: MYR11.30

Few Re-rating Catalysts

Macro	◆◆◆
Risks	◆◆
Growth	◆
Value	◆



Source: Bloomberg

Avg Turnover (MYR/USD)	13.6m/4.17m
Cons. Upside (%)	13.3
Upside (%)	-2.7
52-wk Price low/high (MYR)	10.6 - 12.5
Free float (%)	35
Share outstanding (m)	1,168
Shareholders (%)	
PNB Funds	50.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.3)	(3.4)	(9.3)	4.6	(9.0)
Relative	(4.8)	(4.5)	(8.0)	5.9	(11.2)

Shariah compliant

 Alexander Chia +603 9207 7621
alexander.chia@rhbgroup.com

We maintain our NEUTRAL rating on the stock but trim our TP to MYR11.00 (2.7% downside) after UMW reported relatively soft 3Q14 earnings that fell below expectations. UMWOG's earnings are expected to grow in tandem with the deployment of new drilling assets while hopes are high for higher equipment sales to Myanmar. The stock looks close to being fairly valued given the recent de-rating of its O&G assets.

- ◆ **A softer 3Q14.** UMW reported a relatively weak 3Q14. While O&G earnings were broadly in line, the other three main divisions all disappointed. The non-core division reported a stable pre-tax loss of MYR32.4m for the quarter. Cumulative 9M14 earnings only reached 62% of our and consensus estimates respectively. No significant non-recurring charges were incurred during the quarter. A second interim DPS of 15 sen was declared, bringing the cumulative DPS to 25 sen.
- ◆ **UMWOG in line.** UMW Oil & Gas UMWOG's 9M14 revenue grew 29.8% on the back of higher rig utilisation and rates for NAGA-2, higher utilisation for NAGA-3, full contributions from NAGA-4 and a full quarter's contribution from MAGA-5 which commenced operations in May 2014.
- ◆ **Other business divisions were weaker.** Toyota sales for the quarter fell 12.6% sequentially owing to competition from new Honda models although cumulative Toyota sales are still 16.8% higher YoY from the introduction of the new Altis and Vios models in early 2014. The equipment business was flat as the ban on jade mining activities was only lifted on 1 Sep, while softer commodity prices adversely affected sales in Papua New Guinea. The mechanical and engineering unit reported a small cumulative profit compared with a loss in 9M13 from asset impairment charges.
- ◆ **Risks and forecasts.** The main risks are unfavourable exchange rates and weaker auto sales. After updating our assumptions, we trim our 2014-2015 earnings estimates by 4.9% and 4.3% respectively. We also introduce our 2016 forecasts.
- ◆ **Maintain NEUTRAL** We maintain our NEUTRAL call on the stock but cut our SOP-derived TP to MYR11.00 (from MYR12.40) mainly to reflect the recent de-rating of the O&G sector after the plunge in crude oil prices (see Figure 5). We see few re-rating catalysts for the stock, with modest growth expected at its key automotive division.

Forecasts and Valuations	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total turnover (MYRm)	15,817	14,207	15,095	15,938	14,207
Reported net profit (MYRm)	994	681	877	999	1,064
Recurring net profit (MYRm)	994	881	877	999	1,064
Recurring net profit growth (%)	172.5	(11.4)	(0.5)	13.9	6.6
Recurring EPS (MYR)	0.85	0.75	0.75	0.85	0.91
Recurring P/E (x)	13.3	15.0	15.1	13.2	12.4
P/B (x)	2.72	2.07	2.17	2.23	2.31
P/CF (x)	11.2	14.7	9.3	7.3	7.3
EV/EBITDA (x)	5.76	9.52	8.82	8.60	8.85
Return on average equity (%)	21.9	12.2	14.1	16.6	18.3
Net debt to equity (%)	2.5	4.6	15.4	17.0	20.7
Our vs consensus EPS (adjusted) (%)			(4.1)	(4.6)	(7.8)

Source: Company data, RHB

Figure 1: Earnings review

FYE Dec (MYRm)	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	YTD 9M13	YTD 9M14	YoY (%)	Comments
Revenue	3,456.6	3,966.8	3,702.5	(6.7)	7.1	10,315.1	11,252.8	9.1	Revenues were broadly in line with expectations
EBIT	186.3	382.9	383.9	0.3	106.1	997.0	1,200.2	20.4	Margins improved sequentially due mainly to a MYR93m provision in the preceding quarter in relation to the proposed sale of investments in India.
<i>EBIT margin (%)</i>	<i>5.4</i>	<i>9.7</i>	<i>10.4</i>			<i>9.7</i>	<i>10.7</i>		
Finance costs	(21.5)	(20.1)	(12.8)	(36.4)	(40.4)	(69.9)	(58.1)	(16.9)	Associate contributions were soft due to the transitional quarter for Perodua.
Associates	62.2	23.8	25.6	7.4	(58.8)	140.1	90.1	(35.7)	
Investmt income	18.6	35.4	33.5	(5.3)	80.2	54.3	99.4	83.0	
Pretax Profit	245.6	422.1	430.3	1.9	75.2	1,121.5	1,331.7	18.7	
<i>Pretax margin (%)</i>	<i>7.1</i>	<i>10.6</i>	<i>11.6</i>			<i>10.9</i>	<i>11.8</i>		
Tax	(66.7)	(128.1)	(100.6)	(21.5)	50.9	(265.4)	(316.0)	19.0	Effective tax rates were in line.
<i>Eff tax rate (%)</i>	<i>(27.1)</i>	<i>(30.3)</i>	<i>(23.4)</i>			<i>(23.7)</i>	<i>(23.7)</i>		
MI	(77.5)	(152.0)	(132.7)	(12.7)	71.2	(284.0)	(441.3)	55.4	
Net Profit	101.5	142.0	197.0	38.8	94.2	572.1	574.5	0.4	
<i>Net Margin (%)</i>	<i>2.9</i>	<i>3.6</i>	<i>5.3</i>			<i>5.5</i>	<i>5.1</i>		

Source: Company data, RHB

Figure 2: Earnings review - segmental breakdown

FYE Dec (MYRm)	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	YTD 9M13	YTD 9M14	YoY (%)	Comments
Automotive	2,433.3	2,904.4	2,643.4	(9.0)	8.6	7,396.8	8,204.2	10.9	Automotive revenues were softer QoQ due to lower Toyota sales. Cumulative sales were higher on the back of the 16.8% YoY increase in Toyota sales volumes from the introduction of the Vios and Altis models in early 2014.
Oil & Gas	205.3	238.8	254.3	6.5	23.9	530.6	688.7	29.8	Revenues grew on the back of increased drilling assets.
Equipment	410.8	453.8	434.8	(4.2)	5.8	1,334.4	1,323.4	(0.8)	Revenues were flat due to the mining ban in Myanmar and weaker demand from PNG from lower commodity prices, offset by strong industrial equipment sales.
Mfg & Eng	188.9	188.9	180.2	(4.6)	(4.6)	553.9	551.0	(0.5)	
Others	233.9	204.9	209.1	2.1	(10.6)	563.8	544.7	(3.4)	
Revenue	3,456.6	3,966.8	3,702.5	(6.7)	7.1	10,379.5	11,312.1	9.0	
Automotive	294.9	408.5	343.9	(15.8)	16.6	1,021.1	1,159.1	13.5	Automotive earnings for the quarter declined sequentially due to lower sales during the quarter.
Oil & Gas	54.5	66.2	75.8	14.5	39.3	150.9	200.4	32.8	
Equipment	55.6	55.1	44.4	(19.4)	(20.2)	166.6	138.6	(16.8)	
Mfg & Eng	(31.1)	11.9	(1.5)	(112.4)	(95.2)	(24.3)	20.1	(182.7)	
Others	(128.2)	(119.7)	(32.4)	(72.9)	(74.7)	(192.7)	(186.4)	(3.3)	A MYR93m provision was made in 2Q14 from the proposed sale of some India automotive component investments.
PBT	245.6	422.1	430.3	1.9	75.2	1,121.5	1,331.7	18.7	
PBT Margins									
Automotive	12.1	14.1	13.0			13.8	14.1		
Oil & Gas	26.5	27.7	29.8			28.4	29.1		
Equipment	13.5	12.1	10.2			12.5	10.5		
Mfg & Eng	(16.5)	6.3	(0.8)			(4.4)	3.6		
Others	(54.8)	(58.4)	(15.5)			(34.2)	(34.2)		
	7.1	10.6	11.6			10.8	11.8		
Automotive	153.0	182.8	154.1	(15.7)	0.7	493.1	529.3	7.3	
Oil & Gas	51.4	33.3	36.4	9.5	(29.1)	139.4	99.3	(28.8)	
Equipment	45.1	44.1	36.9	(16.3)	(18.1)	132.3	119.8	(9.5)	
Mfg & Eng	(32.9)	5.8	(1.6)	(126.7)	(95.3)	(30.0)	8.5	(128.5)	
Others	(115.1)	(124.1)	(28.9)	(76.7)	(74.9)	(162.7)	(182.4)	12.1	
NP	101.5	142.0	197.0	38.8	94.2	572.1	574.5	0.4	
NP Margins									
Automotive	6.3	6.3	5.8			6.7	6.5		
Oil & Gas	25.0	13.9	14.3			26.3	14.4		
Equipment	11.0	9.7	8.5			9.9	9.1		
Mfg & Eng	(17.4)	3.1	(0.9)			(5.4)	1.6		
Others	(49.2)	(60.6)	(13.8)			(28.9)	(33.5)		
	2.9	3.6	5.3			5.5	5.1		

Source: Company data, RHB

Figure 3: Summary of UMW's vehicle sales

FYE Dec (units)	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	1H13	9M14	YoY (%)
Toyota	20,666	27,304	23,877	(12.6)	15.5	64,929	75,815	16.8
- Passenger	12,980	20,187	17,074	(15.4)	31.5	42,984	55,586	29.3
- Commercial	7,686	7,117	6,803	(4.4)	(11.5)	21,945	20,229	(7.8)
Perodua	50,525	50,456	45,837	(9.2)	(9.3)	147,398	140,317	(4.8)
- Passenger	50,525	50,456	45,837	(9.2)	(9.3)	147,398	140,317	(4.8)
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	71,191	77,760	69,714	(10.3)	(2.1)	212,327	216,132	1.8

Source: MAA

Figure 4: Forecast assumptions

FYE Dec	2013	2014F	2015F	2016F
Toyota / Lexus (units)	92,521	100,000	102,000	103,000
Perodua (units)	196,071	194,000	220,000	225,000
Forex (JPY/MYR)*	3.30	3.15	2.80	2.80
Forex (USD/MYR)*	3.20	3.25	3.30	3.30
*average rate				

Source: RHB

Figure 5: SOP valuation

	P/E (x)	Valuation (MYR)	Stake (%)	Discount (%)	Per UMW share (MYR)
UMWOG		MYR 3.50	55.15	10	3.21
Auto	12.0				7.56
Other	9.0				0.20
					10.97

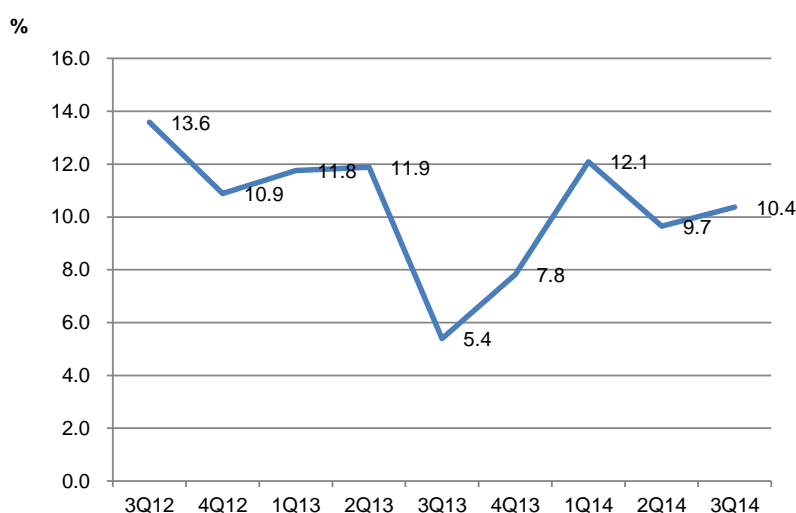
Source: RHB

Figure 6: Historical quarterly earnings

FYE Dec (MYRm)	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Revenue	4,050.4	3,359.3	3,499.2	3,456.6	3,891.8	3,583.4	3,966.8	3,702.5
Growth QoQ (%)	2.3	-17.1	4.2	-1.2	12.6	-7.9	10.7	-6.7
Growth YoY (%)			-14.8	-12.7	-3.9	6.7	13.4	7.1
EBIT	441.1	394.8	415.9	186.3	304.1	433.3	382.9	383.9
<i>EBIT Margin (%)</i>	<i>10.9</i>	<i>11.8</i>	<i>11.9</i>	<i>5.4</i>	<i>7.8</i>	<i>12.1</i>	<i>9.7</i>	<i>10.4</i>
Interest expense	(21.7)	(19.6)	(28.8)	(21.5)	(32.2)	(25.2)	(20.1)	(12.8)
Interest income	19.8	19.1	16.6	18.6	28.1	30.5	35.4	33.5
Associates	31.9	38.5	39.4	62.2	33.6	40.7	23.8	25.6
EI/Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax profit	471.0	432.7	443.2	245.6	333.7	479.4	422.1	430.3
<i>Pretax Margin (%)</i>	<i>11.6</i>	<i>12.9</i>	<i>12.7</i>	<i>7.1</i>	<i>8.6</i>	<i>13.4</i>	<i>10.6</i>	<i>11.6</i>
Tax	(86.1)	(97.5)	(101.2)	(66.7)	(104.0)	(87.3)	(128.1)	(100.6)
<i>Effective tax rate (%)</i>	<i>18.3</i>	<i>22.5</i>	<i>22.8</i>	<i>27.1</i>	<i>31.2</i>	<i>18.2</i>	<i>30.3</i>	<i>23.4</i>
Minority Interest	(134.0)	(115.5)	(91.0)	(77.5)	(120.6)	(156.5)	(152.0)	(132.7)
Net Profit	250.9	219.7	251.0	101.5	109.1	235.5	142.0	197.0
Core Profit	250.9	219.7	251.0	101.5	109.1	235.5	142.0	197.0
<i>Net Margin (%)</i>	<i>6.2</i>	<i>6.5</i>	<i>7.2</i>	<i>2.9</i>	<i>2.8</i>	<i>6.6</i>	<i>3.6</i>	<i>5.3</i>

Source: RHB

Figure 7: EBIT margin trend



Source: RHB, Company data

Financial Exhibits

Profit & Loss (MYRm)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total turnover	15,817	14,207	15,095	15,938	14,207
Cost of sales	(11,531)	(10,314)	(10,944)	(11,555)	(10,300)
Gross profit	4,286	3,893	4,151	4,383	3,907
Gen & admin expenses	(1,173)	(1,278)	(1,393)	(1,519)	(1,655)
Selling expenses	(522)	(453)	(489)	(499)	(504)
Other operating costs	(693)	(861)	(572)	(463)	288
Operating profit	1,899	1,301	1,697	1,902	2,036
Operating EBITDA	2,197	1,616	1,992	2,205	2,344
Depreciation of fixed assets	(298)	(315)	(295)	(303)	(308)
Operating EBIT	1,899	1,301	1,697	1,902	2,036
Net income from investments	126	174	124	175	175
Interest income	79	82	131	120	106
Interest expense	(83)	(102)	(77)	(86)	(102)
Pre-tax profit	2,020	1,455	1,875	2,112	2,215
Taxation	(431)	(369)	(410)	(486)	(509)
Minority interests	(595)	(405)	(588)	(627)	(641)
Profit after tax & minorities	994	681	877	999	1,064
Reported net profit	994	681	877	999	1,064
Recurring net profit	994	881	877	999	1,064

Source: Company data, RHB

Cash flow (MYRm)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Operating profit	1,899	1,301	1,697	1,902	2,036
Depreciation & amortisation	298	315	295	303	308
Change in working capital	(403)	(414)	(36)	186	80
Other operating cash flow	(90)	172	(56)	-	-
Operating cash flow	1,704	1,374	1,899	2,391	2,424
Interest paid	(101)	(95)	(77)	(86)	(102)
Tax paid	(424)	(381)	(410)	(486)	(509)
Cash flow from operations	1,179	898	1,412	1,819	1,813
Capex	(419)	(950)	(1,482)	(1,000)	(1,100)
Other new investments	(258)	(217)	(5)	-	-
Other investing cash flow	249	1,055	131	120	106
Cash flow from investing activities	(428)	(111)	(1,357)	(880)	(994)
Proceeds from issue of shares	12	1	-	-	-
Increase in debt	382	308	1,014	30	-
Other financing cash flow	(864)	(1,052)	(1,073)	(1,164)	(1,271)
Cash flow from financing activities	(470)	(743)	(59)	(1,134)	(1,271)
Cash at beginning of period	2,219	2,493	2,544	2,540	2,345
Total cash generated	281	44	(3)	(195)	(453)
Forex effects	(7)	7	-	-	-
Implied cash at end of period	2,493	2,544	2,540	2,345	1,892

Source: Company data, RHB

Financial Exhibits

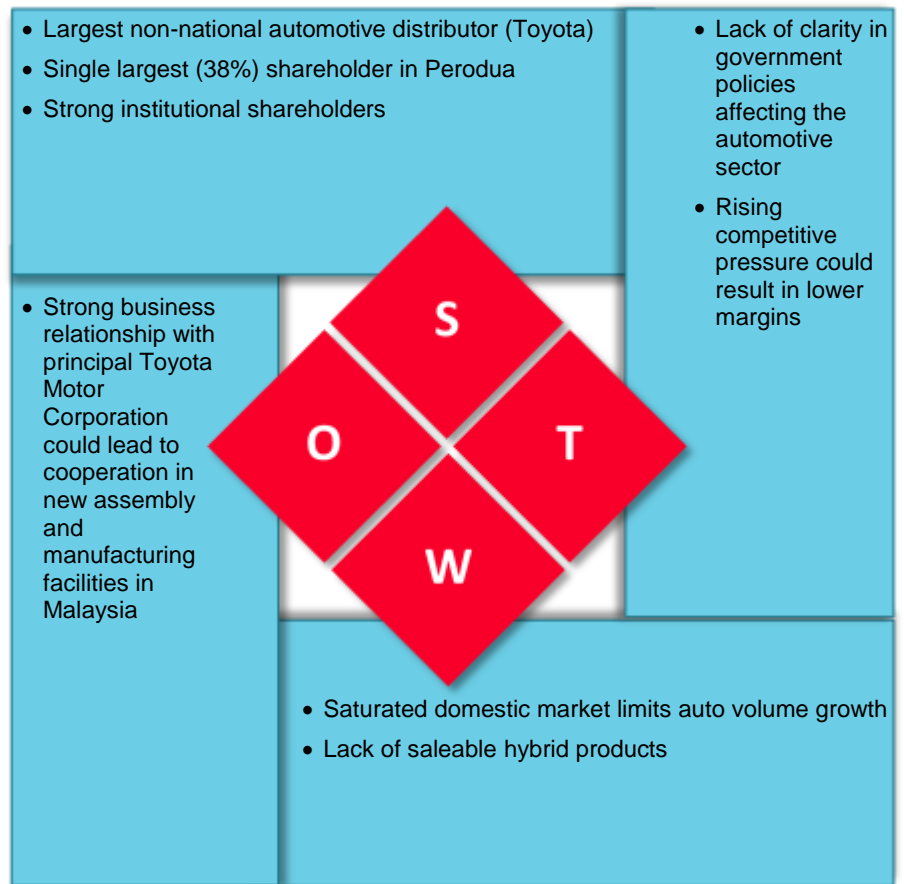
Balance Sheet (MYRm)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total cash and equivalents	2,493	2,544	2,540	2,345	1,892
Inventories	1,769	1,752	1,654	1,965	1,752
Accounts receivable	1,079	1,229	1,137	1,092	973
Other current assets	968	3,207	3,042	3,010	3,018
Total current assets	6,308	8,731	8,373	8,411	7,635
Total investments	1,685	1,827	1,956	2,132	2,307
Tangible fixed assets	2,997	3,893	5,081	5,778	6,569
Intangible assets	138	38	38	38	38
Total other assets	366	317	317	317	317
Total non-current assets	5,187	6,075	7,392	8,265	9,231
Total assets	11,495	14,807	15,766	16,676	16,866
Short-term debt	1,014	1,354	2,100	2,100	2,100
Accounts payable	750	1,186	1,049	1,108	988
Other current liabilities	1,695	1,516	1,289	1,649	1,525
Total current liabilities	3,459	4,055	4,438	4,857	4,613
Total long-term debt	1,634	1,602	1,870	1,900	1,900
Other liabilities	104	172	172	172	172
Total non-current liabilities	1,738	1,775	2,042	2,072	2,072
Total liabilities	5,197	5,830	6,481	6,929	6,685
Share capital	584	584	584	584	584
Retained earnings reserve	3,511	4,924	4,644	4,479	4,272
Other reserves	753	854	854	854	854
Shareholders' equity	4,848	6,363	6,083	5,917	5,711
Minority interests	1,450	2,614	3,202	3,829	4,471
Total equity	6,298	8,977	9,285	9,747	10,181
Total liabilities & equity	11,495	14,807	15,766	16,676	16,866

Source: Company data, RHB

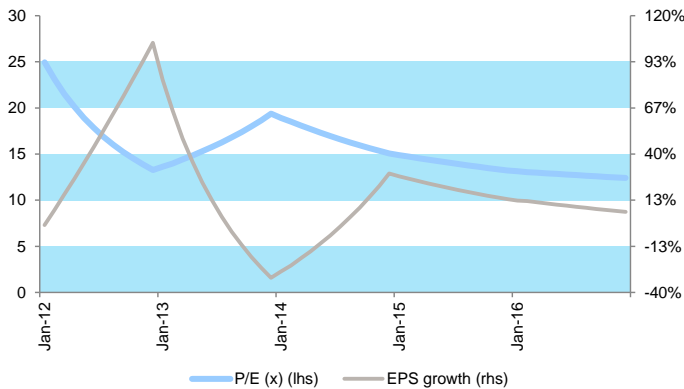
Key Ratios (MYR)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Revenue growth (%)	16.9	(10.2)	6.2	5.6	(10.9)
Operating profit growth (%)	51.1	(31.5)	30.4	12.1	7.0
Net profit growth (%)	104.7	(31.5)	28.7	13.9	6.6
EPS growth (%)	104.3	(31.5)	28.7	13.9	6.6
Bv per share growth (%)	14.1	31.2	(4.4)	(2.7)	(3.5)
Operating margin (%)	12.0	9.2	11.2	11.9	14.3
Net profit margin (%)	6.3	4.8	5.8	6.3	7.5
Return on average assets (%)	9.0	5.2	5.7	6.2	6.3
Return on average equity (%)	21.9	12.2	14.1	16.6	18.3
Net debt to equity (%)	2.5	4.6	15.4	17.0	20.7
Recurrent cash flow per share	1.01	0.77	1.21	1.56	1.55

Source: Company data, RHB

SWOT Analysis

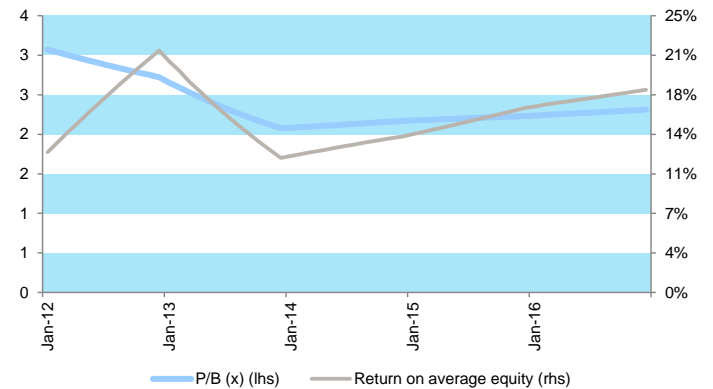


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

UMW is the largest company in the automotive sector and is a component stock of the FBM KLCI. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. UMW owns a 55% stake in listed UMW Oil & Gas.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-08-28	Neutral	12.4	12.3
2014-05-25	Neutral	11.3	10.8
2014-04-29	Neutral	11.3	10.8
2013-03-20	Neutral	12.9	13.3
2013-02-28	Neutral	12.9	12.8
2013-02-27	Neutral	12.9	12.3
2013-02-26	Neutral	13.1	12.1
2013-01-25	Neutral	13.1	12.1
2013-01-18	NEUTRAL	13.1	12.6
2012-12-27	BUY	12.4	11.9

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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