

UMW (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHT / BRIEFING

28 November 2014

Price Target: RM11.30 (↔)

Share price: RM11.34

Expecting Tough Competition in 4Q14
**Highlights/
Comments**

- FY14 sales target of 100k units (Toyota and Lexus) was maintained, despite the current highly competitive market conditions. Oct YTD, they have achieved 83.9k units (83.9% of target), with remaining 2 months to achieve 16.1k units, likely at the expense of margins due to higher marketing and promotional expenses (including discounts).
- It is also upbeat on Perodua's FY14 sales target of 193k units (Oct YTD recorded 158k units), given the strong demand for Axia. As of 24 Nov, it has achieved 54.1k orders and delivered 16.4k units. At the meantime, promotions are being offered to boost sales for MyVi and Alza. Expect stronger Perodua contribution in 4Q14.
- Equipment Earnings expected to pick-up in 4Q14, with new contribution of newly secured RM200m contracts to supply 60 units of Komatsu heavy equipment to Myanmar jade mining operation. Furthermore, domestic demand for heavy equipments in 2015 is expected to be sustainable from the on-going infrastructure projects.
- UMWOG is facing potential lower charter rates, given the current low international crude oil price (below US\$80/bbl), but remained bullish on the demand for its fleet of jack-up rigs. It also highlighted the need for Petronas to maintain oil exploration and production expenses in order to keep up oil production to finance government's budget.
- Other segment (including Valued Group Business) remained in the red in 3Q14, given the tough market conditions. The turnaround may take longer than expected. YTD, the segment reported losses of RM41m from WSP; RM24m from Oman Drilling Services; RM20m from India USTP; and RM16m from China ZBSS and SBSW. Note that UMW also provided RM93 losses for the disposal of 3 India automotive parts and components manufacturing companies in 2Q14. Nevertheless, it is guiding for lower losses in FY15.

Forecasts

- Weakening of RM.
- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting car sales.
- Global automotive supply chain disruption.

Forecasts

- Unchanged.

Rating
Hold (↔)

- 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

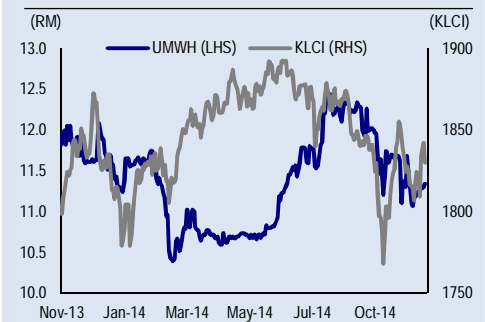
- Maintained HOLD with unchanged Target Price of RM11.30 based on SOP.

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KLCI	1830
Expected share price return	-0.4%
Expected dividend return	4.1%
Expected total return	3.7%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	13,248
3-mth avg. volume ('000)	1,219
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-2.7	-7.7	-6.7
Relative	-3.1	-5.5	-8.3

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

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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Industry rating definitions

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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.