


**AmResearch**
**Company report**

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

26 May 2015

*A weak start to a very tough year*
**HOLD**

(Maintained)

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**Rationale for report: Company result**

Price **RM10.70**  
 Fair Value **RM10.70**  
 52-week High/Low **RM12.68/RM10.00**

**Key Changes**

Fair value **↓**  
 EPS **↓**

YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	14,958.9	14,364.1	14,927.4	15,165.5
Core net profit (RM mil)	842.5	780.9	821.1	909.0
FD Core EPS (sen)	72.1	66.8	70.3	77.8
FD Core EPS growth (%)	(12.3)	(7.3)	5.1	10.7
Consensus Net Profit (RM mil)	-	896.5	1,031.9	1,141.6
DPS (sen)	39.7	33.4	35.1	38.9
PE (x)	14.8	16.0	15.2	13.8
EV/EBITDA (x)	6.7	4.8	4.4	3.7
Div yield (%)	3.7	3.1	3.3	3.6
ROE (%)	10.2	11.4	11.1	11.6
Net Gearing (%)	nm	nm	nm	nm

**Stock and Financial Data**

Shares Outstanding (million) 1,168.3  
 Market Cap (RMmil) 12,500.8  
 Book Value (RM/share) 5.64  
 P/BV (x) 1.9  
 ROE (%) 10.2  
 Net Gearing (%) -

Major Shareholders Skim ASB (36.0%)  
 EPF (15.0%)

Free Float 25.0  
 Avg Daily Value (RMmil) 13.7

Price performance	3mth	6mth	12mth
Absolute (%)	(3.1)	(5.3)	(0.9)
Relative (%)	-	(1.1)	4.6


**Investment Highlights**

- We maintain our HOLD call on UMW with a lower fair value of RM10.70/share (vs. RM11.40/share previously) following earnings cuts in this report.
- UMW reported core net profit of RM182mil for its 1Q15, which was within our expectation but below consensus, accounting for 22% and 20% of estimates respectively. Group earnings were down 23% YoY, dragged mainly by the automotive and O&G divisions.
- Automotive: Toyota TIV declined 33% YoY and 41% QoQ. Pretax earnings were down 43% YoY (-25% QoQ) as margins (-3.7ppts to 12%) were impacted by:- (1) the stronger USD; and (2) diseconomies of scale given lower manufacturing volumes.
- Toyota TIV was impacted by stiff competition and new launches from Honda, Mazda and Nissan as well as the lack of volume model launches from Toyota this year. New launches in FY15F are focused on mid-to-higher priced models i.e. the new Camry/Hybrid and the new Hilux. We think the Camry (launched Apr 2015) could drive improvements in underlying margins, but 2Q15 will also reflect a further climb in USD to the 3.5-3.7 levels, which will likely offset the positive impact.
- O&G: 1Q15 earnings (-27% YoY, -51% QoQ) and margins were impacted by:- (1) discounts on charter rates given to existing clients given the drop in oil price; and (2) additional opex for Naga 7 which saw its contract with Frontier Oil terminated. This is despite higher revenues (+60% YoY) driven by full-quarter contribution of Naga 5 and 6, improved operating efficiency for Naga 2 and 3, and translation gains from the stronger USD.
- Though UMW's results were broadly in line (albeit at the lower end of our estimates), we trim our FY15F/16F/17F by 8%/7%/3% as YTD USD:MYR levels is still elevated at 3.62 in relative to our FY15F assumption of 3.40 previously (3.45 post-revision).
- Additionally, we trim our rate assumptions for selective jack-up rig contracts that are nearing expiry given a depressed outlook in the near-term, on top of higher cost for Naga 7 which saw its contract with Frontier Oil terminated. This results in a 6%/3% reduction in the O&G division FY15F/16F earnings (which is reflected in the earnings cut for the larger group).
- At 18% net gearing, balance sheet is pretty underutilised and proceeds from the listing of UMWOG in FY13 (~RM536mil unutilised yet) remain a wildcard for acquisitive growth. Immediate-term fundamentals however, remain lackluster and will drag share price performance.

## EXHIBIT 1: UMW 1Q15 RESULT SUMMARY

31 Dec (RMm)	1Q14	4Q14	1Q15	YoY	QoQ
<b>Revenue</b>	<b>3,583.4</b>	<b>3,706.1</b>	<b>3,240.4</b>	<b>-9.6%</b>	<b>-12.6%</b>
<b>Operating Profit</b>	<b>433.3</b>	<b>226.5</b>	<b>283.5</b>	<b>-34.6%</b>	<b>25.1%</b>
Finance Cost	(25.2)	(23.9)	(32.1)	27.7%	34.4%
Associates	40.7	49.4	33.4	-17.8%	-32.3%
Investment Income	30.5	37.1	35.3	15.5%	-5.0%
<b>Pretax Profit</b>	<b>479.4</b>	<b>289.1</b>	<b>320.1</b>	<b>-33.2%</b>	<b>10.7%</b>
Taxation	(87.3)	(93.1)	(84.0)		
Minorities	156.5	112.8	70.9	-54.7%	-37.2%
Net Profit	235.5	83.2	165.2	-29.9%	98.6%
<b>Core net profit</b>	<b>235.5</b>	<b>161.4</b>	<b>181.9</b>	<b>-22.8%</b>	<b>12.7%</b>
EPS (FD, sen)	20.2	13.8	15.6		
DPS (sen)	0.0	16.0	0.0		
<b>Margins (%):</b>					
Operating	12.1%	6.1%	8.7%		
Pretax Profit	13.4%	7.8%	9.9%		
Net Profit	6.6%	4.4%	5.6%		
Tax Rate	18.2%	32.2%	26.2%		
<b>Segmental Breakdown</b>	<b>1Q14</b>	<b>4Q14</b>	<b>1Q15</b>	<b>YoY</b>	<b>QoQ</b>
Automotive	2,656	2,574	2,006	-24.5%	-22.1%
Equipment	435	446	653	50.1%	46.5%
Manuf & Eng	182	173	171	-6.0%	-1.3%
Oil & Gas	196	328	312	59.8%	-4.6%
Others	131		116	NA	NA
Elimination	(16)		(18)	NA	NA
<b>Revenue</b>	<b>3,583.4</b>	<b>3,520</b>	<b>3,240</b>	<b>-9.6%</b>	<b>-7.9%</b>
Automotive	407	313	234	-42.6%	-25.4%
Equipment	39	79	99	154.0%	26.2%
Manuf & Eng	10	(4)	2	-81.3%	-141.0%
Oil & Gas	58	86	42	-27.2%	-50.5%
Others & Elimination	(34)	(184)	(57)	NA	NA
<b>Pretax profit</b>	<b>479</b>	<b>289</b>	<b>320</b>	<b>-33%</b>	<b>11%</b>
<b>Pretax margins</b>					
Automotive	15.3%	12.2%	11.6%		
Equipment	9.0%	17.7%	15.2%		
Manuf & Eng	5.3%	-2.5%	1.1%		
Oil & Gas	29.8%	26.2%	13.6%		
Toyota TV	24,185	27,405	16,241	-32.8%	-40.7%

Source: Company, MAA, AmResearch

EXHIBIT 2: PB BAND CHART

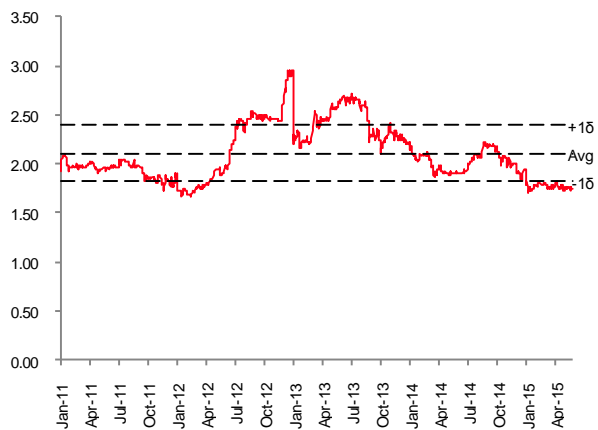
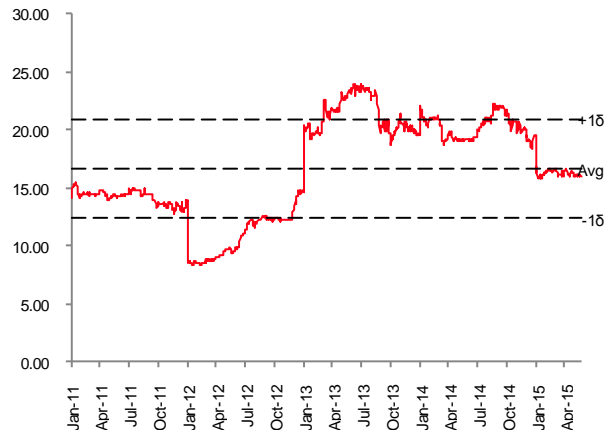


EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	13,951.5	14,958.9	14,364.1	14,927.4	15,165.5
EBITDA	1,621.7	1,806.2	2,415.6	2,431.4	2,578.6
Depreciation/Amortisation	(325.3)	(379.4)	(561.2)	(521.0)	(486.0)
Operating income (EBIT)	1,296.5	1,426.8	1,854.4	1,910.4	2,092.6
Other income & associates	223.5	276.1	209.5	224.4	241.6
Net interest	(18.3)	(82.0)	(3.3)	(2.9)	(2.6)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>1,501.6</b>	<b>1,620.8</b>	<b>2,060.7</b>	<b>2,131.8</b>	<b>2,331.6</b>
Taxation	(351.5)	(409.1)	(462.8)	(476.9)	(522.5)
Minorities/pref dividends	(431.3)	(554.1)	(817.0)	(833.8)	(900.1)
<b>Net profit</b>	<b>718.9</b>	<b>657.7</b>	<b>780.9</b>	<b>821.1</b>	<b>909.0</b>
Core net profit	960.4	842.5	780.9	821.1	909.0
Balance Sheet (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	3,893.3	4,317.0	4,007.8	3,738.8	3,504.7
Intangible assets	37.9	37.9	37.9	37.9	37.9
Other long-term assets	2,144.1	3,550.5	2,553.9	2,778.3	3,019.8
<b>Total non-current assets</b>	<b>6,075.2</b>	<b>7,905.3</b>	<b>6,599.5</b>	<b>6,554.9</b>	<b>6,562.4</b>
Cash & equivalent	2,543.8	3,376.4	3,826.8	4,696.9	5,640.7
Stock	1,754.2	1,837.0	1,872.5	1,946.0	1,977.0
Trade debtors	1,855.1	1,942.6	1,980.2	2,057.9	2,090.7
Other current assets	2,578.4	1,378.0	2,351.8	2,351.8	2,351.8
<b>Total current assets</b>	<b>8,731.4</b>	<b>8,534.0</b>	<b>10,031.4</b>	<b>11,052.6</b>	<b>12,060.2</b>
Trade creditors	2,070.1	2,167.8	2,209.8	2,296.5	2,333.1
Short-term borrowings	1,464.3	1,464.3	1,464.3	1,464.3	1,464.3
Other current liabilities	520.9	1,254.3	543.2	548.9	564.9
<b>Total current liabilities</b>	<b>4,055.4</b>	<b>4,886.5</b>	<b>4,217.4</b>	<b>4,309.7</b>	<b>4,362.3</b>
Long-term borrowings	1,602.2	1,474.2	1,424.2	1,374.2	1,324.2
Other long-term liabilities	172.4	635.9	152.5	152.5	152.5
<b>Total long-term liabilities</b>	<b>1,774.7</b>	<b>2,110.1</b>	<b>1,576.6</b>	<b>1,526.6</b>	<b>1,476.6</b>
<b>Shareholders' funds</b>	<b>6,362.7</b>	<b>6,590.1</b>	<b>7,164.8</b>	<b>7,592.9</b>	<b>8,068.0</b>
Minority interests	2,613.9	2,852.6	3,672.1	4,178.3	4,715.7
BV/share (RM)	5.45	5.64	6.13	6.50	6.91
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	1,501.6	1,620.8	2,060.7	2,131.8	2,331.6
Depreciation/Amortisation	325.3	379.4	561.2	521.0	486.0
Net change in working capital	(423.7)	60.1	(55.1)	(58.7)	(11.3)
Others	(508.6)	(776.3)	(672.3)	(701.2)	(764.1)
<b>Cash flow from operations</b>	<b>894.6</b>	<b>1,284.0</b>	<b>1,894.4</b>	<b>1,892.9</b>	<b>2,042.3</b>
Capital expenditure	(999.9)	(1,073.0)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	117.9	125.4	131.1	135.3	138.5
Others	770.8	224.3	-	-	-
<b>Cash flow from investing</b>	<b>(111.2)</b>	<b>(723.3)</b>	<b>(268.9)</b>	<b>(264.7)</b>	<b>(261.5)</b>
Debt raised/(repaid)	240.7	(50.0)	(50.0)	(50.0)	(50.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,050.3)	(947.2)	(702.1)	(738.2)	(817.2)
Others	66.9	1,232.8	30.2	30.2	30.2
<b>Cash flow from financing</b>	<b>(742.7)</b>	<b>235.6</b>	<b>(721.9)</b>	<b>(758.1)</b>	<b>(837.1)</b>
<b>Net cash flow</b>	<b>40.7</b>	<b>796.4</b>	<b>903.6</b>	<b>870.1</b>	<b>943.7</b>
<b>Net cash/(debt) b/f</b>	<b>1,547.7</b>	<b>1,492.3</b>	<b>2,221.0</b>	<b>3,075.8</b>	<b>3,891.2</b>
<b>Net cash/(debt) c/f</b>	<b>1,588.3</b>	<b>2,288.7</b>	<b>3,124.6</b>	<b>3,945.9</b>	<b>4,834.9</b>
Key Ratios (YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	0.6	7.2	(4.0)	3.9	1.6
EBITDA growth (%)	(28.5)	11.4	33.7	0.7	6.1
Pretax margin (%)	10.8	10.8	14.3	14.3	15.4
Net profit margin (%)	5.2	4.4	5.4	5.5	6.0
Interest cover (x)	70.8	17.4	569.0	655.0	814.1
Effective tax rate (%)	23.4	25.2	22.5	22.4	22.4
Dividend payout (%)	60.9	52.8	37.5	37.5	37.5
Debtors turnover (days)	42	46	50	49	50
Stock turnover (days)	45	44	47	47	47
Creditors turnover (days)	47	52	56	55	56

Source: Company, AmResearch estimates

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