

## UOBKH HIGHLIGHTS

### UMW Holdings (UMWH MK/SELL/RM10.70/Target: RM9.00)

#### 1Q15: Weak Earnings Trend

Year end 31 Dec	1QFY15 (RMm)	4QFY14 (RMm)	qoq % chg	yoy % chg	Year	EPS (sen)	PE (x)
<b>Revenue</b>	<b>3,240.4</b>	<b>3,706.1</b>	<b>(12.6)</b>	<b>(9.6)</b>	<b>2015F</b>	62.7	17.1
EBIT	292.0	329.4	(11.4)	(32.6)	<b>2016F</b>	69.3	15.4
Interest expense	(32.2)	(23.9)	34.5	27.8	<b>2017F</b>	76.3	14.0
Investment income	35.3	37.1	(5.0)	15.5			
Associates	33.4	49.4	(32.3)	(17.8)			
<b>PBT</b>	<b>320.0</b>	<b>289.1</b>	<b>10.7</b>	<b>(33.2)</b>			
Tax	(84.0)	(93.1)	(9.8)	(3.8)			
MI	(70.9)	(112.8)	(37.2)	(54.7)			
<b>Net Profit</b>	<b>165.2</b>	<b>83.2</b>	<b>98.6</b>	<b>(29.9)</b>			
Core Net Profit	173.6	186.0	(6.7)	(26.3)			
Toyota unit sales	16,241	27,405	(40.7)	(32.8)			
Perodua unit sales	57,153	55,262	3.4	29.8			
<b>PBT Margins (%)</b>			<b>qoq bp chg</b>	<b>yoy bp chg</b>			
Automobile	11.6	12.2	-0.5	-3.7			
Equipment	15.2	17.7	-2.5	6.2			
Mfg & Eng	1.1	-2.5	3.6	-4.2			
Oil & Gas	13.6	26.2	-12.6	-16.2			
Group PBT margin	9.0	8.9	0.1	-3.1			

Source: UMW Holdings, UOB Kay Hian

#### COMMENT

- **Below expectations.** 1Q15 core net profit fell 26% yoy and 7% qoq to RM173.6m. Annualised, the earnings were 27% and 24% below house and street estimates respectively. The discrepancy stems largely from: a) weaker-than-expected Toyota unit sales, b) accompanying automobile margin compression in the absence of economies of scale and more promotions in 1Q15, and c) initial signs of a slowdown in O&G activities.
- **A weak start to 2015.** Group revenue fell 10% yoy and 13% qoq to RM3,240.4m, reflecting a 33% yoy and 41% qoq drop in Toyota sales to 16,241 units. Sequentially, O&G revenue dipped 5% yoy as oil prices slumped to US\$50-60/ barrel. We believe these are initial signs of a further slowdown in O&G activities into the rest of 2015.
- **1Q15 PBT margin fell 3ppt to 9%.** The lower revenue base was further exacerbated by: a) high fixed overheads in the automobile and manufacturing divisions, b) costlier raw material costs as the ringgit weakened against the US\$ yoy and qoq, c) higher promotional cost to defend Toyota's unit sales, and d) weak O&G rig margins. Together with lower associate contribution and a higher effective tax rate, core net profit fell to RM173.6m. Weak associate profits, mostly from Perodua, was due to a delay in dealer restocking during the transition towards the implementation of GST on 1 Apr 15. Additionally, we gather that some Perodua dealers have reversed unsold inventories back to Perodua to avoid paying the 10% sales tax on unsold stocks, prior to GST. We do not expect the low inventory levels to persist into 2Q15.

#### RECOMMENDATION

- **Dim 2015 outlook.** We believe UMW houses a good franchise (Toyota, Perodua, Komatsu) and asset base (automobile plant, O&G rigs). That said, 2015 outlook is dim on: a) a weak Toyota product pipeline, b) a challenging automobile landscape with players actively introducing new models, c) rising inflationary pressure, and d) 5 out of 7 rigs likely to be renewed this year – with management alluding to slow take-up of rig contract renewal.
- **Cut 2015-16 core net profit forecasts by 23% and 18% to RM731m and RM809m respectively.** We made the following changes to our assumptions: a) reduce Toyota unit sales from 94,300 to 78,900 units for 2015, b) lower automobile PBT margin by 2ppt, and c) lower day charter rates for the group's O&G rigs by 15% from US\$145,000/day to US\$125,000/day.
- **Maintain SELL** with a lower SOTP-based target price of RM9.00 in tandem with the earnings downgrade. The stock is trading at 15x 2016F PE. We opine valuation is expensive as the group manoeuvres within a choppy 2015.

## Disclosures/Disclaimers

This report is prepared and/or distributed by UOB Kay Hian Pte Ltd ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not intended for distribution, publication or use by any person in any jurisdiction outside Singapore or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report in any event accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

**IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES**

Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that

receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

#### **Analyst Certification/Regulation AC**

As noted above, each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

#### **UOB Kay Hian (Malaysia) Holdings Sdn Bhd (210102-T)**

Suite 19-02, 19th Floor, Menara Keck Seng, 203 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.  
Tel: (603) 2147 1988, Fax: (603) 2147 1983

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W

Copyright 2015, UOB Kay Hian Pte Ltd. All rights reserved.