Still facing headwinds

UMW Holdings' (UMWH) 1Q15 results were largely in line with expectations. While the automotive, O&G and M&E segments disappointed, equipment (~20% of revenue) surprised on the upside. We retain our HOLD call and RNAV-derived TP of RM11.55. Estimated dividend yields of ~6% should provide share-price support.

1Q15 core net profit within expectations

UMWH's 1Q15 headline net profit declined 31% yoy to RM165.2m. After stripping out the forex losses and non-core asset impairments, 1Q15 core net profit fell by a smaller 19.5% yoy to RM173.6m. This was largely in line with our estimate but below street expectations, accounting for 21% and 19% of full-year estimates, respectively.

Automotive division disappoints as Toyota loses market share

Automotive division revenue fell by 24.5% yoy to RM2bn and PBT fell by 42.6% yoy to RM233.5m in 1Q15. This was mainly attributed to lower sales volume of Toyota vehicles in 1Q15 (-33% yoy) and was exacerbated by Toyota margin compression (thanks to escalating competition and a stronger US$ vs. the RM).

O&G segment not so rosy

Meanwhile, oil and gas (O&G) revenue jumped 60% yoy to RM312.5m because of the full contributions from NAGA 5 (started in May-14) and NAGA 6 (started in Oct-14) and new revenue from the hydraulic workover unit (GAIT 6 was not operational in 1Q14). Nevertheless, PBT fell 27.2% yoy on lower daily charter rates (DCRs) as well as the termination of the contract of NAGA 7 with Frontier Oil Corporation (FOC).

Still a HOLD with an unchanged TP of RM11.55

We remain cautious on the group's medium-term outlook as we believe its core businesses will continue to face headwinds in their respective operating environments. We maintain our cautious stance on the auto division outlook as we expect fierce competition for the group's best-selling car, the Toyota *Vios* (vs. *Honda City*, *Nissan Almera*, *Mazda 2*). Nevertheless, improved sales from associate Perodua could help cushion slower Toyota vehicle sales. We also expect O&G earnings to improve gradually on higher asset utilisation. No change to our earnings forecasts. We keep our HOLD call with an unchanged 12-month RNAV-derived TP of RM11.55. Estimated dividend yields of ~6% could provide downside support for the share price.

Earnings & Valuation Summary

FYE Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	13,951.4	14,958.9	16,278.1	17,220.5	18,044.5
EBITDA (RMm)	1,821.1	1,940.0	2,299.0	2,322.6	2,377.0
Pretax profit (RMm)	1,435.7	1,620.8	1,880.8	1,870.9	1,921.6
Net profit (RMm)	652.9	657.7	831.4	857.8	884.1
EPS (sen)	56.0	56.4	71.3	73.5	75.8
PER (x)	19.1	19.0	15.0	14.6	14.1
Core net profit (RMm)	852.3	791.5	831.4	857.8	884.1
Core EPS (sen)	73.1	67.9	71.3	73.5	75.8
Core EPS growth (%)	(14.5)	(7.1)	5.0	3.2	3.1
Core PER (x)	14.6	15.8	15.0	14.6	14.1
Net DPS (sen)	44.0	41.0	65.0	65.0	70.0
Dividend Yield (%)	4.1	3.8	6.1	6.1	6.5
EV/EBITDA (x)	7.1	6.8	5.9	5.8	5.6
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Affin Hwang estimates

Results Note

UMW

UMWH MK
Sector: Auto & Autoparts

RM10.70 @ 26 May 2015

HOLD (maintain)

Upside 4.6%

Price Target: RM11.55

Previous Target: RM11.55

Price Performance

	1M	3M	12M
Absolute	-1.8%	-3.1%	-0.9%
Rel to KLCI	+3.6%	0.0%	+4.6%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	12,500.7/3,445.3
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	10.00-12.68
Est free float	37.2%
BV per share (RM)	5.63
P/BV (x)	1.90
Net cash/ (debt) (RMm) (1Q15)	(715.2)
ROE (2015E)	12.5%
Derivatives	Nil
Shariah Compliant	YES

Key Shareholders

Skim Amanah Saham Bumiputera	36.4%
EPF	15.5%
PNB	8.0%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	1Q15	QoQ % chg	YoY % chg	Comments
Revenue	3240.4	*(12.6)*	*(9.6)*	1Q15 revenue dipped on a 24.5% yoy decrease in revenue at the auto division and a 6% yoy decline at the manufacturing and engineering (M&E) division, which offset higher revenue from O&G (+60% yoy) and equipment (+50.1% yoy).
Op costs	(2948.4)	*(15.5)*	*(6.8)*	
EBIT	292.0	*35.9*	*(30.4)*	EBIT margins contracted yoy due to higher operating expenses.
EBIT margin (%)	*9.0*	*+3.2ppt*	*-2.7ppt*	
Int expense	(32.2)	*34.5*	*27.8*	
Int and other inc	35.3	*(5.0)*	*15.5*	
Associates	33.4	*(32.3)*	*9.5*	
Exceptional items	(8.4)	*(172.6)*	*(135.6)*	
Pretax	**320.0**	***10.7***	***(33.2)***	
Tax	(84.0)	*(9.8)*	*(3.8)*	
Tax rate (%)	*26.3*	*-6.0ppt*	*+8.0ppt*	Higher effective tax rate yoy because certain expenses are now allowed for tax purposes and some subsidiaries are in a loss position.
MI	(70.9)	*(37.2)*	*(53.6)*	
Net profit	**165.2**	***98.6***	***(31.0)***	
EPS (sen)	14.2	*98.6*	*(31.0)*	
Core net profit	**173.6**	***83.1***	***(19.5)***	Core net profit was largely in line with our estimate but was below consensus expectations, making up 21% and 19% of the full-year forecasts, respectively.

Source: Affin Hwang, Company data

Equipment division PBT increases >100% yoy

In the group's equipment division (~20% of revenue), 1Q15 revenue rose 50.1% yoy to RM653m and PBT rose >100% yoy to RM99.3m. This was mostly attributed to an increase in both the heavy (up 78.1% yoy) and industrial equipment (up 29.6% yoy) sub-segments. On the domestic front, revenue improved on higher demand from the pre-implementation goods and services tax (GST) buying, while overseas operations improved due to the resumption of jade-mining activities in Myanmar back in Sept-14 coupled with tax incentives by Singapore authorities on purchases of equipment in Singapore.

Key risks

Key downside risks to our view include: i) intensified competition from other Japanese, Korean and European marquees; and ii) weaker consumer discretionary spending, particularly post the GST implementation in Apr-15. Upside risks include: i) higher-than-expected sales volume growth for *Toyota* and *Perodua*; and ii) lower-than-expected competition.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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