

# Company Focus

# UMW Holdings

Bloomberg: UMWH MK | Reuters: UMWS.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 May 2015

**HOLD RM10.70** KLCI : 1,764.07

Price Target : 12-Month RM 9.90 (Prev RM 10.80)

Shariah Compliant: Yes

Reason for Report : 1Q15 Results, TP revision

Where we differ: Our earnings are lower than consensus on slower car sales growth assumptions

#### Analyst

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#### Result Summary

FY Dec (RM m)	1Q 2015	1Q 2014	4Q 2014	yoy % chg	qoq % chg
<b>P&amp;L Items</b>					
Turnover	3,240.4	3,583.4	3,706.1	(9.6)	(12.6)
Gross Profit	211.5	409.4	195.0	(48.3)	8.5
Opg Profit	283.5	433.3	226.5	(34.6)	25.1
EBITDA	283.5	433.3	226.5	(34.6)	25.1
Net Profit	165.2	235.5	83.2	(29.9)	98.6
<b>Other Data</b>					
Gross Margin (%)	6.5	11.4	5.3		
Opg Margin (%)	8.7	12.1	6.1		
Net Margin (%)	5.1	6.6	2.2		

#### Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	14,932	13,213	13,467	13,620
Operating Profit	1,433	1,240	1,270	1,353
EBITDA	1,812	1,618	1,648	1,732
Net Pft (Pre Ex.)	1078	783	822	857
EPS (sen)	55.8	67.0	70.4	73.4
EPS Pre Ex. (sen)	93.0	67.0	70.4	73.4
EPS Gth (%)	103	(28)	5	4
EPS Gth Pre Ex (%)	0	20	5	4
Net DPS (sen)	41.0	33.5	35.2	36.7
BV Per Share (sen)	563.3	596.8	631.9	668.6
PE (X)	19.2	16.0	15.2	14.6
PE Pre Ex. (X)	11.5	16.0	15.2	14.6
EV/EBITDA (X)	9.0	10.1	10.2	9.9
Net Div Yield (%)	3.8	3.1	3.3	3.4
P/Book Value (X)	1.9	1.8	1.7	1.6
Net Debt/Equity (X)	0.1	0.1	0.1	0.0
ROAE (%)	16.9	11.6	11.5	11.3

#### At A Glance

Issued Capital (m shrs)	1,168
Mkt. Cap (RMm/US\$m)	12,501 / 3,459
Avg. Daily Vol. ('000)	1,259

ICB Industry: Consumer Goods

ICB Sector: Automobiles & Parts

**Principal Business** : UMW is the sole assembler and distributor of Toyota and Lexus vehicles. This includes marketing, sales services and auto parts trading. Its other business segments are Oil & Gas (owns jack-up drilling rigs and onshore rigs), Equipment (trading of industrial heavy equipments) and Manufacturing & Engineering (trading of lubricants).

Source: Company, AllianceDBS, Bloomberg Finance L.P.

## Dragged by weaker car sales

- 1Q15 net profit was below expectations
- Hit by lower auto and oil & gas contributions, but partly offset by stronger equipment earnings
- Maintain HOLD with lower RM9.90 TP

#### Highlights

##### Below expectations

- UMW's 1Q15 core net profit fell 18% y-o-y to RM174m. This was below our and consensus expectations, largely due to lower auto and oil & gas contributions that was partly offset by stronger equipment earnings.

##### Lower auto and O&G earnings partly offset by higher equipment contribution

- Auto PBT fell 43% y-o-y to RM233.5m for the quarter, dragged by lower Toyota sales volume. Toyota car sales dropped 33% y-o-y to 16,241 units. The lower Toyota volumes were partly buffered by Perodua sales (+30% y-o-y to 57,133 units on strong orders for Perodua Axia).
- Oil & gas PBT fell 27% y-o-y as initial delivery costs for NAGA7 ate into profits. In addition, the Group registered lower charter rates on higher discounts given to clients in view of lower oil prices.
- The Equipment segment performed well. PBT jumped 2.5x y-o-y to RM99.3m on higher demand for heavy equipment in Malaysia and Myanmar (lifted by resumption of jade mining).

#### Outlook

- We cut our FY15-16 net profit by 8-9% incorporating slower Toyota car sales and weaker oil & gas earnings. Toyota sales may continue to be weighed down by stiff competition.
- There could be further weakness ahead for the oil & gas operations. NAGA2 and NAGA3 rigs will be on maintenance for a month. The sluggish jack-up drilling market may be prolonged even after crude oil prices recover due to ample supply.
- The equipment division should continue to benefit from resumption of mining activities in Myanmar.

#### Valuation

We maintain our Hold rating for UMW. With the earnings cut, we reduce our sum-of-parts target price to RM9.90 from RM10.80.

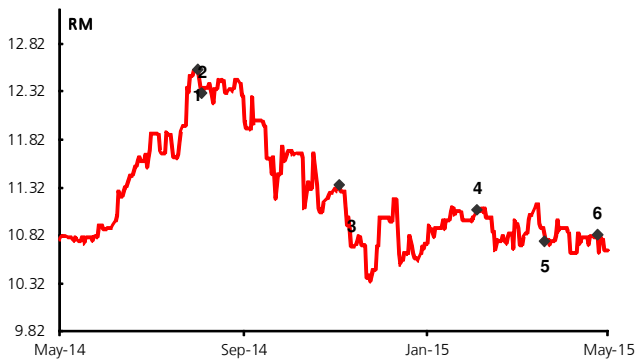
**UMW Holdings**

**Risks**

**Slower local automotive industry**

- Total industry volume growth could continue to be capped by tightening of consumer spending, financing conditions and higher production costs.

**Target Price & Ratings History**



S.No.	Date	Closing Price	Target Price	Rating
1:	25 Aug 14	12.54	13.50	Hold
2:	28 Aug 14	12.30	12.80	Hold
3:	27 Nov 14	11.34	12.70	Hold
4:	27 Feb 15	11.08	12.70	Hold
5:	13 Apr 15	10.76	10.80	Hold
6:	18 May 15	10.82	10.80	Hold

*Note: Share price and Target price are adjusted for corporate actions.*

Source: AllianceDBS

**DISCLOSURE****Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

**Commonly used abbreviations**

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

**DISCLAIMER**

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