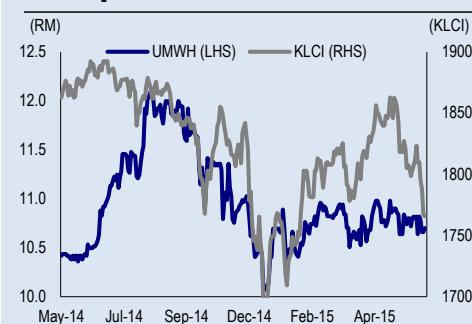


UMW (SELL ↓, EPS ↓)
INDUSTRY: NEUTRAL
EARNINGS EVALUATION
27 May 2015
Price Target: RM9.44 (↓)
Share price: RM10.70
Competitive Market in 2015

Results	<ul style="list-style-type: none"> ▪ Below Expectations - Reported core net profit of RM172.6m in 1Q15, which is only 20% of HLIB's RM865m and 19% of consensus's RM907.2m for FY15.
Deviations	<ul style="list-style-type: none"> ▪ Lower than expected contribution from automotive (Toyota) and O&G segments
Dividends	<ul style="list-style-type: none"> ▪ None.
Highlights	<ul style="list-style-type: none"> ▪ Automotive: 1Q15 revenue dropped 24.5% yoy due to lower Toyota sales volume (stiff competitions and weakened consumer sentiments). Margins further deteriorated from RM depreciation against US\$ (higher input costs), contributing to lower PATAMI contributions yoy. We expect continued stiff competitions within the sector, affecting Toyota earnings. Nevertheless, earnings downside may be partially mitigated by stronger contributions of Perodua. ▪ Equipment: 1Q15 revenue improved 50.1% yoy attributed to improved sales of industry (uptake in orders in Malaysia prior to GST and in Singapore on government's tax incentive) and heavy equipment (mainly deliveries to Myanmar jade mining), which enhanced the PATAMI by 103.4% yoy. However, we expect lower contribution for the following quarters. ▪ Oil & Gas: Despite higher revenue, 1Q15 PATAMI declined by 18.5% yoy, on discounts offered to contracted charter rates in view of the lower oil price environment. The sector is expected to remain lackluster as long as oil price below US\$80/bbl. ▪ Manufacturing & Engineering: Margins remained relatively weak in 1Q15 with PATAMI of only RM1.3m, due to intense competitions and weak demand (automotive components).
Risks	<ul style="list-style-type: none"> ▪ Prolonged tightening of banks' HP rules. ▪ Slowdown in the Malaysian economy affecting car sales. ▪ Global automotive supply chain disruption. ▪ Appreciation of US\$. ▪ Plunge in crude oil price and slowdown in O&G exploration.
Forecasts	<ul style="list-style-type: none"> ▪ We have cut our earnings for FY15-17 by 7.3-22.5% to reflect the lower contribution of automotive and O&G segments.
Rating	<p>SELL (↓)</p> <ul style="list-style-type: none"> ▪ Positives – 1) Control largest market share of Malaysia TIV with leading brand - Toyota, Lexus and Perodua; and 2) 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	<ul style="list-style-type: none"> ▪ Post the earnings cut, we downgraded the counter to SELL (from Hold) with lower target price of RM9.44 (from RM10.75) based on SOP.

Daniel Wong
kkwong@hlib.hongleong.com.my
(603) 2168 1077

KLCI	1764
Expected share price return	-11.8%
Expected dividend return	3.3%
Expected total return	-8.5%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	12,501
3-mth avg. volume ('000)	1,251
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-1.8	-3.4	-1.1
Relative	3.5	-0.3	4.7

Major shareholders

PNB	53.1%
EPF	16.3%
KWAP	1.7%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E	2017E
Turnover	14,932	13,843	15,262	15,801
EBITDA	2,024	1,565	1,910	2,104
Pre-tax Profit	1,621	1,328	1,656	1,828
Rpt. net profit	652	671	835	927
Norm. net profit	786	671	835	927
Norm. EPS (sen)	67.3	57.4	71.4	79.4
P/E (x)	15.9	18.6	15.0	13.5
Book Value (RM)	5.6	5.9	6.1	6.4
P/B (x)	1.9	1.8	1.7	1.7
Net Dvd Yield (%)	3.8	3.3	4.2	4.7
Net Gearing	12.4	15.3	23.0	27.5
ROE (%)	12.2	10.0	11.9	12.7
ROA (%)	5.2	4.1	4.9	5.2

HLIB

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	1Q14	4Q14	1Q15	QoQ (%)	YoY (%)	Comment
Revenue	3,583.4	3,711.2	3,240.4	-12.7	-9.6	Lower revenue YoY, mainly dragged by lower contribution from automotive segment (See Figures #2 and 3).
EBITDA	490.3	488.3	448.3	-8.2	-8.6	
EBITDA Margin (%)	13.7	13.2	13.8	5.1	1.1	
EBIT	417.1	376.4	335.3	-10.9	-19.6	
EBIT Margin (%)	11.6	10.1	10.3	0.2	-1.3	Overall margin deteriorated yoy due to lower car sales volume as well as depreciation of ringgit vs. US\$.
Net Finance Expense	5.4	13.2	3.1	-76.7	-42.5	
Associates	40.7	49.4	33.4	-32.3	-17.8	Lower contribution from Perodua.
EI	23.7	-102.8	-7.4			Included property disposal gains/losses, impairments, provisions, forex and fair value changes (derivatives).
Reported PBT	479.4	289.1	320.0	10.7	-33.2	
Tax	-87.3	-93.1	-84.0	-9.8	-3.8	
Reported Net Profit	392.1	196.0	236.0	20.4	-39.8	
Reported PATAMI	235.5	83.2	165.2	98.6	-29.9	
Core PATAMI	211.8	186.0	172.6	-7.2	-18.5	Excluded EIs and Forex, core PATAMI declined, on the back of disappointing sales of Toyota and weakened RM against US\$ during the quarter.
Reported EPS (Sen)	20.2	7.1	14.1	98.6	-29.9	
Core EPS (Sen)	18.1	15.9	14.8	-7.2	-18.5	

Company, HLIB

Figure #2: UMW Group Automotive Operating Statistics

Unit Sales	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Toyota (51% owned)	20,137	23,610	20,329	27,109	24,185	26,937	23,508	27,405	16,241
Lexus (51% owned)	229	287	337	483	449	367	369	416	362
Perodua (28% owned)	46,696	50,177	50,525	48,673	44,024	50,456	45,837	55,262	57,153
Total	67,062	74,074	71,191	76,265	68,658	77,760	69,714	83,083	73,756
Growth:									
YoY (%)	-0.85	-4.55	-0.72	-3.23	2.38	4.98	-2.07	8.94	7.43
QoQ (%)	-14.91	10.46	-3.89	7.13	-9.97	13.26	-10.35	19.18	-11.23

Company, HLIB

Figure #3: UMW Earnings Breakdown

	1Q14	4Q14	1Q15	QoQ	YoY	Comment
Reported Revenue						
Automotive	2,656.4	2,573.5	2,005.5	-22.1%	-24.5%	Drop in Toyota sales volume.
Equipment	434.9	445.6	653.0	46.5%	50.1%	Stronger demand for heavy and industry equipment in Malaysia (prior to GST implementation), Myanmar (resumption of jade mining) and Singapore (tax incentives).
Oil & Gas	195.6	327.7	312.5	-4.6%	59.8%	Increasing contributions from new deliveries of Jackup Rigs over the year.
Manufacturing & Engineering	181.9	173.3	171.1	-1.3%	-6.0%	Lower demand for autoparts and components, which was partially offset by higher demand for lubricants.
Others	130.7	207.0	115.9	-44.0%	-11.4%	Included dividend income and valued segment.
Intersegment	(16.2)	(15.8)	(17.6)	11.3%	8.8%	
Total Revenue	3,583.4	3,711.2	3,240.4	-12.7%	-9.6%	
Reported PATAMI						
Automotive	192.3	152.8	116.7	-23.6%	-39.3%	Declined due to lower Toyota sales (stiff competitions), weakened RM against US\$ (higher input costs) and lower contribution from Perodua (reassume car inventory from dealers prior to GST implementation).
Equipment	38.7	69.4	78.7	13.4%	103.4%	In line with stronger revenue.
Oil & Gas	29.6	39.3	17.9	-54.4%	-39.5%	Lower margins in 1Q15 due to discounts offered to existing charterers.
Manufacturing & Engineering	4.3	1.5	1.3	-12.0%	-69.4%	In line with lower revenue.
Others	(29.3)	(179.8)	(49.5)	-72.5%	68.6%	Included property disposal gains/losses, impairments, forex and fair value changes (derivatives).
Total PATAMI	235.5	83.1	165.2	98.6%	-29.9%	
Core PATAMI	211.8	186.0	172.6	-7.2%	-18.5%	

Company, HLIB

Figure #4: UMW SOP

Division	Stakes (%)	PATMI FY16 (RM m)	Valuations (RM m)	RM/Share	Basis
Automotive	Various	572.81	6,873.78	5.88	FY16 PE 12x
Equipment	Various	188.60	1,886.02	1.61	FY16 PE 10x
Oil & Gas	55.20	159.45	2,207.83	1.89	Target Price of RM1.85
Manufacturing & Engineering	Various	14.97	119.75	0.10	FY16 PE 8x
Others	Various	(101.28)	(101.28)	(0.09)	
FY13 Net Cash (Holdings)			39.95	0.03	Estimated as at end FY2014
Target Price (RM)				9.44	Implied FY15 P/E of 16.4x
* No of Shares		1,168.29			As at end FY2014

Company, HLIB

Figure #5: HLIB Forecast versus Consensus

	FY15			FY16			FY17		
	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)
Revenue (RMm)	13,843.4	15,132.0	-8.5%	15,261.8	15,890.0	-4.0%	15,801.0	16,060.0	-1.6%
EBITDA (RMm)	1,565.4	2,249.0	-30.4%	1,910.4	2,392.0	-20.1%	2,104.1	2,427.0	-13.3%
Core Profit (RMm)	670.8	906.2	-26.0%	834.6	988.2	-15.5%	927.2	995.4	-6.9%
EPS (Sen)	57.4	77.2	-25.6%	71.4	83.9	-14.9%	79.4	85.4	-7.1%

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Revenue	13,951	14,932	13,843	15,262	15,801
Operating cost	-12,125	-12,908	-12,278	-13,351	-13,697
EBITDA	1,827	2,024	1,565	1,910	2,104
Depreciation	-315	-379	-430	-452	-475
EBIT	1,512	1,645	1,135	1,458	1,629
Interest income	73	74	103	102	99
Interest expense	-88	-87	-107	-116	-126
Associates	123	124	196	212	225
Exceptionals	-183	-134	0	0	0
Pretax profit	1,436	1,621	1,328	1,656	1,828
Taxation (Inc Def Tax)	-351	-408	-284	-348	-374
Minorities	-431	-561	-373	-474	-527
Net profit	653	652	671	835	927
Core profit (Ex Def Tax)	836	786	671	835	927
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (Sen)	55.9	55.8	57.4	71.4	79.4
Core EPS (sen)	71.6	67.3	57.4	71.4	79.4

Balance sheet

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Fixed assets	3,903	5,674	6,299	6,960	7,599
Other long-term assets	2,164	2,250	2,352	2,458	2,570
Other short-term assets	2,331	1,182	1,182	1,182	1,182
Working capital	1,919	2,037	1,855	2,065	2,152
Receivables	1,518	1,618	1,500	1,654	1,712
Payables	-1,352	-1,411	-1,342	-1,460	-1,497
Inventory	1,754	1,830	1,697	1,871	1,937
Net cash	-431	-819	-1,046	-1,643	-2,060
Cash	2,558	3,371	3,507	3,317	3,308
ST debt	-1,464	-2,387	-2,387	-2,387	-2,387
LT debt	-1,524	-1,803	-2,166	-2,574	-2,981
Shareholders' funds	6,290	6,580	6,842	7,151	7,494
Share capital	584	584	584	584	584
Reserves	5,706	5,996	6,258	6,567	6,910
Minorities	2,642	2,853	2,909	2,980	3,059
Other liabilities	955	891	891	891	891

Assumption Metrics

FYE 31 Dec	2013A	2014A	2015E	2016E	2017E
GDP Growth (%)	4.5%	6.0%	4.8%	5.0%	5.0%
TIV	655,792	666,465	663,006	682,896	699,968
Growth (%)	4.5%	1.6%	-0.5%	3.0%	2.5%
Unit Sale (Unit)	288,592	299,215	299,375	308,281	314,415
Toyota (Unit)	91,185	102,035	94,942	99,689	101,683
Lexus (Unit)	1,336	1,601	1,500	1,600	1,600
Perodua (Unit)	196,071	195,579	202,933	206,992	211,132
Average Price					
UMW (RM)	104,169	100,523	90,471	94,994	94,044
Perodua (RM)	41,507	40,088	40,088	40,489	40,893

Cashflow

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
EBITDA	1,827	2,024	1,565	1,910	2,104
Net interest received	-15	-13	-3	-14	-26
Working cap changes	-424	-149	183	-210	-87
Taxation	-374	-418	-284	-348	-374
Others	-10	113	0	0	0
Operating cashflow	1,003	1,556	1,460	1,339	1,617
Capex & acquisitions	1,379	-2,298	-1,059	-1,114	-1,114
Free cashflow	2,382	-742	401	225	503
Other inv cashflow	-188	-1,826	98	106	113
Net borrowings	239	1,151	363	407	407
Share issuance	0	0	0	0	0
Dividends paid	-584	-514	-409	-526	-584
Other fin cashflow	-466	-433	-317	-403	-448
Net cashflow	1,384	-2,364	137	-190	-9
Forex translation	7	12	0	0	0
Beginning cash	2,219	1,565	2,830	2,967	2,777
Ending cash	1,565	2,830	2,967	2,777	2,768

Valuation Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Reported basic EPS (sen)	55.9	55.8	57.4	71.4	79.4
Core basic EPS (sen)	71.6	67.3	57.4	71.4	79.4
Core FD EPS (sen)	-	-	-	-	-
PER (x)	14.9	15.9	18.6	15.0	13.5
FD PER (x)	-	-	-	-	-
Net DPS (sen)	44.0	41.0	35.0	45.0	50.0
Net DY (%)	4.1	3.8	3.3	4.2	4.7
BV/ share (RM)	5.4	5.6	5.9	6.1	6.4
P/BV (x)	2.0	1.9	1.8	1.7	1.7
FCF/ share (sen)	203.9	-63.5	698.9	315.0	633.6
Market capitalization	6,250	6,250	6,250	6,250	6,250
Net cash	-431	-819	-1,046	-1,643	-2,060
Enterprise value	6,681	7,069	7,296	7,894	8,310
EV/ EBITDA (x)	3.7	3.5	4.7	4.1	3.9
ROE (%)	15.0	12.2	10.0	11.9	12.7
ROA (%)	6.6	5.2	4.1	4.9	5.2

Other Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Growth (%)					
Sales Growth	-11.8	7.0	-7.3	10.2	3.5
EBITDA Growth	-15.2	10.8	-22.7	22.0	10.1
EBIT Growth	-18.9	8.8	-31.0	28.4	11.7
PBT Growth	-28.9	12.9	-18.1	24.7	10.4
Net Profit Growth	-21.9	-6.0	-14.6	24.4	11.1
Margins (%)					
EBITDA Margin	13.1	13.6	11.3	12.5	13.3
EBIT Margin	10.8	11.0	8.2	9.6	10.3
PBT Margin	10.3	10.9	9.6	10.9	11.6
Net Profit Margin	6.0	5.3	4.8	5.5	5.9
Net Debt/Equity (%)	6.8	12.4	15.3	23.0	27.5

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 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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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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