

**Company Result**

**27 May 2015**

**UMW Holdings**

*Bracing for headwinds*

**HOLD  
Maintained**

<b>Share Price</b>	<b>RM10.70</b>
<b>Target Price</b>	<b>RM 9.64</b>

**Company Description**

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

**Stock Data**

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	12,500.75
52-week price Range	RM10.00– 12.68
Beta (against KLCI)	1.04
3-m Average Daily Volume	1.25m
3-m Average Daily Value <sup>^</sup>	RM13.57m

**Share Performance**

	1m	3m	12m
Absolute (%)	-1.83	-1.29	-1.11
Relative (%-pts)	-3.48	-0.30	4.69

**Major Shareholders**

	%
SKIM AMANAH SAHAM BUMIPUTERA	36.38
EMPLOYEES PROVIDENT FUND	16.26
PERMODALAN NASIONAL BERHAD	9.07
AMANAH SAHAM WAWASAN 2020	3.07

**Historical Chart**



Source: Bloomberg

**Team Coverage**

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**Result**

- **UMW reported 1Q15 net profit of RM165.15mill**, decreased 30% y-o-y while surged 98% q-o-q. Revenue stood at RM3240.3mill, declined 9.6% y-o-y and 12.6% q-o-q.
- **Below expectations** – 1Q15 net profit was below our expectation and market consensus by accounting for 17% and 18% of full year estimates respectively. The lower-than-expected net profit was mainly due to sluggish performance of auto and M&E divisions.

**Comment**

- **Dismay performance of Toyota sales dented the auto division earnings.** Auto division's PBT plunged by of 42.6% y-o-y and 25.4% q-o-q mainly due to intense competition among car makers coupled with the depreciation of Ringgit Malaysia. Toyota sales units decreased by 32.8% y-o-y by recording 16,241 units sold in 1Q15 compared with 24,185 units sold in 1Q14.
- On quarterly basis, Toyota sales declined by 40.7% attributed to higher sales recorded in Dec'14 that resulted in low order in Jan'15 coupled with fierce competition from other brand of new models by major competitors i.e. Honda, Nissan and Mazda.
- **Perodua maintained its positive growth** – Perodua sales units increased by 29.8% y-o-y and 3.4% q-o-q. Positive growth was aided by higher orders for the Perodua Axia, Malaysia's first energy-efficient vehicle (EEV) and the launch of All-New Myvi in January.
- **Equipment division showed better performance** – Equipment segment's PBT expanded by 154% y-o-y to RM99.3mill thanks to heavy equipment segment that contributed more than 50% of the Equipment Division's revenue and profit. Higher demand for equipment, parts and services in anticipation of Goods and Services Tax implementation contributed to positive growth for the division.
- For quarterly basis, the PBT increased by 26.2% lifted by operations in Myanmar, biggest contributor to this division pursuant to the resumption of jade mining activities in September'14. Elsewhere, the Group's operation in Papua New Guinea managed to record strong profit on the back of improved revenue despite the low commodity prices.
- **Moving forward, we expect the equipment division will continue to boost the Group's earnings** mainly supported by its heavy equipment segment, with its Komatsu franchise having strong presence in Myanmar,

and pick up of mining activities locally benefiting from construction sector.

- **Disheartening performance from O&G division** – Oil & Gas segment's PBT fell by 27.2% y-o-y to RM42.46mill due to: 1) Discounts on time charter rates given to existing clients in view of the significant drop in oil prices; 2) Lower utilisation rate recorded by UMW NAGA 5 due to early completion of its contract in February; 3) Additional operating expenses from Group's new offshore premium jack-up rig, UMW NAGA 7 due to contract termination.
- **We reckon that it will be a challenging year for the O&G division** as slowdown in drilling activities, coupled with difficulty in securing high day rates for its drilling rigs and lower fleet utilization rates are expected to further dampen the Group's earnings. Worse still, the earnings from the segment will be lower as most of the contracts will expiry by 3Q15 (NAGA 3, 5, 6) while NAGA 7 still bidding for contracts.
- **M&E division failed to maintain growth trajectory.** Manufacturing & Engineering's PBT declined by 81.3% y-o-y but increased to RM1.8mill q-o-q. The sluggish performance on yearly basis was mainly due to weaker sales for its auto component manufacturers especially on the 4 wheelers products. However, positive performance from the lubricant business partly mitigated the sharp fall of the division.
- **Softer growth expected for M&E Division.** We foresee this year will be a tough year for automotive component industry as affected by competitive environment for lubricants and auto components, and OEM drive for cost reduction also eroded the profit margin.

### Earnings Outlook/Revision

- **We cut our net earnings forecast for FY15 and FY16 by 16% and 15% to RM804.69mill (Previously RM956.85mill) and RM881.82.09mill (Previously RM1044.88mill)** respectively as we lowered our car sales forecast from 322,483 units to 302,983 units for 2015F and 337,545 units to 318,132 units for 2016F due to slower growth in automotive sector. We also lowered the topline growth forecast for oil and gas division to 18.07% and 17.6% for FY15 and FY16 respectively.

### Valuation & Recommendation

- **Maintain HOLD call on UMW with lower target price of RM 9.64 (previous TP: RM11.47).** We pegged our target price at 14x FY2015F PE (-1 standard deviation below mean PER) based on EPS of 69 sen (Previous: 82 Sen).
- **Challenging outlook for its automotive division.** We foresee the Group's automotive division will record a slower growth for this year due to reduction of consumer spending on big-ticket items with implementation of GST, heightening competition in the industry coupled with no new model launching for this year.

Figure 1: Quarterly Figures

Year to 31 Dec	1Q15 (RMm)	4Q14 (RMm)	1Q14 (RMm)	QoQ % chg	YoY % chg
Revenue	3240.37	3706.15	3583.41	-12.57%	-9.57%
Operating Profit	283.51	226.55	433.34	25.14%	-34.58%
Pre-tax Profit	320.02	289.13	479.38	10.68%	-33.24%
Profit After Tax	236.01	195.99	392.09	20.42%	-39.81%
Net Profit	165.15	83.17	235.55	98.58%	-29.88%
Operating Margin (%)	8.75%	6.11%	12.09%	2.64%	-3.34%
PBT Margin (%)	9.88%	7.80%	13.38%	2.07%	-3.50%

Figure 2: Segmental Breakdown

2015	1Q15 (RMm)	4Q14 (RMm)	1Q14 (RMm)	Q-O-Q (%)	y-O-y (%)
<b>Segmental Revenue</b>					
Automotive	2005.55	2573.51	2656.44	-22.07%	-24.50%
Equipment	652.99	445.63	434.94	46.53%	50.13%
Oil & Gas	312.50	327.66	195.57	-4.63%	59.78%
Manufacturing & Engineering	171.06	173.28	181.92	-1.28%	-5.96%
<b>Total Revenue</b>	<b>3142.10</b>	<b>3520.08</b>	<b>3468.86</b>	<b>-10.7%</b>	<b>1.48%</b>
<b>Segmental PBT</b>					
Automotive	233.52	313.18	406.57	-25.42%	-42.56%
Equipment	99.30	78.69	39.10	26.19%	153.98%
Oil & Gas	42.46	85.80	58.30	-50.51%	-27.7%
Manufacturing & Engineering	1.80	-4.40	9.62	N/A	-81.26%
<b>Total PBT</b>	<b>377.088</b>	<b>473.212</b>	<b>513.589</b>	<b>-20.31%</b>	<b>-7.86%</b>
<b>Segmental Margin</b>					
Automotive	11.64%	12.17%	15.30%	-0.52ppt	-3.66ppt
Equipment	15.21%	17.66%	8.99%	-2.45ppt	6.22ppt
Oil & Gas	13.59%	26.19%	29.81%	-12.60ppt	-16.22ppt
Manufacturing & Engineering	1.05%	-2.54%	5.29%	N/A	-4.23ppt

**Figure 3: Financial Summary**

<b>Year to 31 Dec (RMm)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>
Revenue	13,535.80	15,863.62	13,951.46	14,958.91	14,492.53	15,495.46
Operating profit	1,273.18	1,869.75	1,296.46	1,426.78	1,521.72	1,549.55
PBT	1,381.50	2,009.69	1,435.67	1,620.83	1,672.96	1,833.31
Net profit	502.10	994.30	679.61	657.67	804.69	881.82
EPS (sen)	0.43	0.85	0.58	0.56	0.69	0.75
P/BV (x)	2.24	1.99	1.39	1.32	1.25	1.18
P/E (x)	24.90	12.57	18.39	19.01	15.53	14.18
DPS (sen)	0.31	0.50	0.44	0.41	0.50	0.50
Dividend yield (%)	2.90%	4.67%	4.11%	3.83%	4.67%	4.67%
Operating margin (%)	9.41%	11.79%	9.29%	9.54%	10.50%	10.00%
PBT margin (%)	10.21%	12.67%	10.29%	10.84%	11.54%	11.83%
Net profit margin (%)	3.71%	6.27%	4.87%	4.40%	5.55%	5.69%
Net Gearing Ratio(x)	0.49	0.48	0.37	0.38	0.46	0.57
ROE (%)	9.00%	15.84%	7.57%	6.96%	8.04%	8.34%
ROA (%)	4.76%	8.43%	4.59%	4.00%	4.08%	3.71%

Source: Company, JF Apex

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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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