

27 May 2015

Hold

Price
RM10.70

Target price
RM11.63

Bloomberg Code
UMWH MK

UMW Holdings

Multiple headwinds

Although contribution from the equipment division improved significantly, it was offset by weaker Toyota sales as well as lower contribution from UMW-OG. As a result, UMW's 1Q15 normalised earnings declined by 6% qoq and 25% yoy, making up 18% of our full year estimate. We currently have a Hold on the stock.

- Revenue for the auto division in 1Q15 declined by 22% qoq and 25% yoy while pretax profit declined by 25% and 43%, respectively. This was a result of weaker Toyota sales as well as a weaker ringgit. Toyota sales in 1Q15 declined sharply by 41% qoq and 33% yoy due to a lack of new models. While Perodua's sales improved by 3% qoq and 30% yoy, it was insufficient to offset the decline from Toyota.
- UMW-OG's revenue's declined by 5% qoq but improved 60% yoy. The yoy improvement was due to additional contribution from Naga 5 and 6 which commenced operations in May and Oct 2014, respectively. However, pretax profit declined by 51% qoq and 27% yoy due to discounts on charter rates resulting in lower margins, higher depreciation charges and interest expense on the back of additional rigs. Naga 7, which is currently dry docked, would also incur additional operating expense without any revenue contribution.
- The bright spot was the equipment division whereby pretax profit in 1Q15 improved significantly by 26% qoq and >100% yoy. Both the domestic and overseas operation contributed to better yoy performance. The overseas operation benefitted from the resumption of jade mining activities in September 2014 as well as tax incentive given by the Singapore authority on the purchase of equipment. Locally, there was a surge in purchases ahead of GST implementation.
- Overall, 1Q15 core earnings made up 18% of our full year net profit estimate. There could be downside risk to our earnings as we expect contributions for the auto division to be lacklustre given the continued weak ringgit trend coupled with the lack of high volume new models for Toyota. It will be exacerbated by UMW-OG which could face further pressure on earnings given that contracts for Naga 2 and 3 have already expired. In view of the risks, we will be reviewing our forecasts.

Analyst

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Table 1: Quarterly earnings trend

| (RMm) | Quarter | | | | | | | | % chg | | KAF | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|--------------|------------|
| FYE 31 Dec | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | qoq | yoy | 2015F | 3M/F |
| Turnover | 3,359 | 3,499 | 3,457 | 3,636 | 3,583 | 3,967 | 3,703 | 3,706 | 3,240 | (13) | (10) | 15,479 | 21% |
| EBIT | 403 | 383 | 291 | 405 | 423 | 420 | 393 | 315 | 271 | (14) | (36) | 1,698 | 16% |
| EBIT margin (%) | 12.0% | 10.9% | 8.4% | 11.1% | 11.8% | 10.6% | 10.6% | 8.5% | 8.4% | (2) | (29) | 11.0% | |
| Net interest income | (1) | (12) | (3) | (4) | 5 | 15 | 21 | 13 | 12 | (8) | 127 | (18) | (69)% |
| Exceptional | (8) | 33 | (105) | (120) | 20 | (37) | (8) | (89) | 3 | (104) | (84) | 0 | Nm |
| Associates | 38 | 39 | 62 | 34 | 31 | 24 | 26 | 49 | 33 | (32) | 9 | 138 | 24% |
| Pretax profit | 433 | 443 | 246 | 314 | 479 | 422 | 431 | 289 | 320 | 11 | (33) | 1,818 | 18% |
| Tax | (98) | (101) | (67) | (86) | (87) | (128) | (101) | (93) | (84) | (10) | (4) | (357) | 24% |
| Minorities | (116) | (91) | (78) | (147) | (157) | (152) | (133) | (113) | (71) | (37) | (55) | (569) | 12% |
| Net earnings | 220 | 251 | 101 | 81 | 236 | 142 | 197 | 83 | 165 | 99 | (30) | 891 | 19% |
| Normalised net earnings | 227 | 218 | 206 | 201 | 215 | 179 | 206 | 172 | 162 | (6) | (25) | 891 | 18% |
| Normalised pretax profit | 440 | 410 | 351 | 434 | 459 | 459 | 439 | 378 | 317 | (16) | (31) | 1,818 | 17% |

Source: Company, KAF

Table 2 : Quarterly sales trend

| Reported sales (units) | Quarter | | | | | | | | % change | | KAF | | |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|----------------|-----------|
| | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | qoq | yoy | 2015F | 3M/F |
| Toyota | | | | | | | | | | | | | |
| Cars | 9,052 | 11,188 | 8,063 | 14,546 | 14,516 | 15,653 | 12,756 | 14,689 | 7,947 | (46) | (45) | 48,070 | 17 |
| Commercial | 3,451 | 4,390 | 3,986 | 3,841 | 2,808 | 3,612 | 3,304 | 4,034 | 2,451 | (39) | (13) | 13,070 | 19 |
| FWD | 7,634 | 8,032 | 8,280 | 8,496 | 6,861 | 7,672 | 7,448 | 8,682 | 5,843 | (33) | (15) | 31,890 | 18 |
| Total units | 20,137 | 23,610 | 20,329 | 26,883 | 24,185 | 26,937 | 23,508 | 27,405 | 16,241 | (41) | (33) | 93,030 | 17 |
| Perodua | | | | | | | | | | | | | |
| Cars | 35,489 | 38,419 | 37,761 | 38,380 | 30,515 | 33,813 | 32,975 | 42,954 | 46,530 | 8 | 52 | 145,867 | 32 |
| Commercial | 11,207 | 11,812 | 12,764 | 10,293 | 13,509 | 16,643 | 12,862 | 12,308 | 10,623 | (14) | (21) | 57,535 | 18 |
| Total units | 46,696 | 50,231 | 50,525 | 48,673 | 44,024 | 50,456 | 45,837 | 55,262 | 57,153 | 3 | 30 | 203,402 | 28 |

Source: MAA

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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