

UMW (UMWH MK)

Consumer Cyclical - Auto & Autoparts

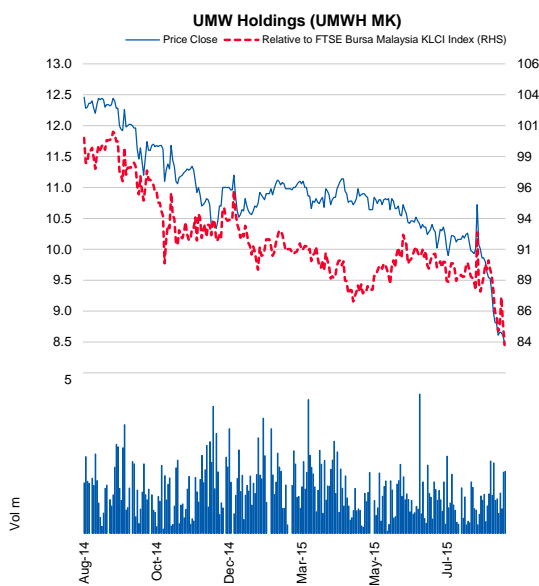
Market Cap: USD2,336m

Sell (Maintained)

 Target Price: **MYR5.35**

 Price: **MYR8.49**

The Worst Is Yet To Come

 Macro ◆◆◆
 Risks ◆◆
 Growth ◆
 Value ◆


Source: Bloomberg

Avg Turnover (MYR/USD)	10.3m/2.69m
Cons. Upside (%)	15.0
Upside (%)	-37.0
52-wk Price low/high (MYR)	8.49 - 12.4
Free float (%)	35
Share outstanding (m)	1,168
Shareholders (%)	
PNB Funds	50.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.5)	(17.3)	(20.7)	(23.1)	(31.9)
Relative	(12.2)	(9.1)	(10.3)	(9.9)	(16.8)

Shariah compliant

 Alexander Chia +603 9207 7621
alexander.chia@rhbgroup.com

UMW's 1H15 results disappointed, underwhelming both our and consensus estimates. We reiterate our SELL call and slash our TP to MYR5.35 (37% downside). While its automotive business achieved a sequential improvement during the quarter, all its other divisions fared poorly. The earnings outlook in 2H15 will likely be worse given the strong USD, low commodity prices and lower asset utilisation rates.

- ◆ **1H15 earnings a letdown.** UMW's 1H15 earnings disappointed, only reaching 34% of our previous 2015 forecast and 30% of the consensus estimate. Although the automotive division did better, earnings at UMW Oil and Gas (UNWOG MK, NR) plunged in the quarter under review, while equipment sales were sharply lower along with higher losses at the "Others" division, comprising mainly non-core legacy oil and gas businesses. A first interim DPS of 10 sen was declared (1H14: 10 sen).
- ◆ **Toyota sales rise in 2Q15.** Toyota sales rose 39.1% QoQ in 2Q15, but did not offset the poor 1Q15, and led to a 23.6% YoY decline in 1H15. The strong USD and lower sales led to a severe margin squeeze, and pretax margins fell to 10.5% in 1H15 (1H14: 14.7%). Oil & gas (O&G) earnings fell 59.5% YoY to MYR50.5m in 1H15, on lower daily charter rates and lower asset utilisation. NAGA-2, NAGA-3 and NAGA-7 are now idle. NAGA-6 is only contracted until Oct 2015, and NAGA-8 set to be delivered in early September. Equipment sales slowed sharply in 2Q15 from weaker demand from the construction and mining sectors.
- ◆ **Forecasts and risks.** We slash our 2015F-2017F earnings by 39.9%, 43.2% and 35.9% respectively after updating our FX assumptions, cutting O&G earnings and imputing higher losses at the Others division. Competition in the auto industry remains intense. A weaker USD, stronger consumer sentiment and higher oil prices are the main risks.
- ◆ **Maintain SELL.** UMW's P/E and P/BV metrics remain inflated and consensus estimates need decrease significantly. UMW Oil & Gas will likely begin booking losses from 3Q15 onwards unless it manages to lease out its drilling rigs, which looks like a demanding task in the next 6-12 months given the cut back in O&G spending. We cut our SOP-based TP to MYR5.35 (from MYR8.65), valuing UMWOG at market price (P/BV of 0.59x) and its other divisions at 11x (from 12x). At our TP, the implied P/BV of 0.97x is comparable to its historical trough P/BV valuation.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	13,951	14,959	12,867	13,191	13,987
Reported net profit (MYRm)	653	658	409	443	532
Recurring net profit (MYRm)	853	802	409	443	532
Recurring net profit growth (%)	(14.2)	(6.0)	(49.0)	8.4	20.0
Recurring EPS (MYR)	0.73	0.69	0.35	0.38	0.46
DPS (MYR)	0.44	0.41	0.24	0.27	0.32
Recurring P/E (x)	11.6	12.4	24.3	22.4	18.7
P/B (x)	1.56	1.51	1.54	1.57	1.61
P/CF (x)	11.0	9.4	13.8	8.5	10.9
Dividend Yield (%)	5.2	4.8	2.9	3.1	3.8
EV/EBITDA (x)	6.3	5.9	10.2	10.6	9.7
Return on average equity (%)	11.6	10.2	6.3	7.0	8.5
Net debt to equity (%)	4.6	7.6	21.1	26.1	34.6
Our vs consensus EPS (adjusted) (%)			(47.4)	(50.0)	(43.1)

Figure 1: Earnings review

FYE Dec (MYRm)	2Q14	1Q15	2Q15	QoQ (%)	YoY (%)	1H14	1H15	YoY (%)	Comments
Revenue	3,966.8	3,240.4	3,485.3	7.6	(12.1)	7,550.2	6,725.7	(10.9)	Toyota ceded its non-national automotive crown to Honda on the back of a weaker model line-up
EBIT	382.9	283.5	176.0	(37.9)	(54.0)	816.3	459.5	(43.7)	Margins contracted due to negative operating leverage and unfavourable FX rates
<i>EBIT margin (%)</i>	<i>9.7</i>	<i>8.7</i>	<i>5.0</i>			<i>10.8</i>	<i>6.8</i>		
Finance costs	(20.1)	(32.2)	(27.8)	(13.8)	38.0	(45.3)	(60.0)	32.3	Perodua contributions were within expectations
Associates	23.8	33.4	29.5	(11.6)	23.9	64.5	63.0	(2.4)	
Investmt income	35.4	35.3	29.9	(15.3)	(15.6)	65.9	65.1	(1.2)	
Pretax Profit	422.1	320.0	207.6	(35.1)	(50.8)	901.4	527.6	(41.5)	
<i>Pretax margin (%)</i>	<i>10.6</i>	<i>9.9</i>	<i>6.0</i>			<i>11.9</i>	<i>7.8</i>		
Tax	(128.1)	(84.0)	(74.3)	(11.6)	(42.0)	(215.4)	(158.3)	(26.5)	
<i>Eff tax rate (%)</i>	<i>(30.3)</i>	<i>(26.3)</i>	<i>(35.8)</i>			<i>(23.9)</i>	<i>(30.0)</i>		
MI	(152.0)	(70.9)	(64.9)	(8.4)	(57.3)	(308.6)	(135.8)	(56.0)	
Net Profit	142.0	165.2	68.4	(58.6)	(51.8)	377.5	233.6	(38.1)	Earnings were below expectations
<i>Net Margin (%)</i>	<i>3.6</i>	<i>5.1</i>	<i>2.0</i>			<i>5.0</i>	<i>3.5</i>		

Source: Company data, RHB

Figure 2: Earnings review - segmental breakdown

FYE Dec (MYRm)	2Q14	1Q15	2Q15	QoQ (%)	YoY (%)	1H14	1H15	YoY (%)	Comments
Automotive	2,904.4	2,005.5	2,726.7	36.0	(6.1)	5,560.9	4,732.2	(14.9)	An improvement in 2Q15 sales volumes failed to redress the exceptionally poor 1Q15
Oil & Gas	238.8	312.5	183.4	(41.3)	(23.2)	434.3	495.9	14.2	NAGA-2 was only revenue generating for one month this quarter. NAGA-2, NAGA-3 and NAGA-7 are currently idle, while NAGA-6 is only contracted until Oct 2015
Equipment	453.8	653.0	353.6	(45.8)	(22.1)	888.7	1,006.6	13.3	Lower demand from construction and mining sectors
Mfg & Eng	188.9	171.1	165.4	(3.3)	(12.4)	370.8	336.5	(9.3)	
Others	181.0	98.3	50.2	(48.9)	(72.3)	295.5	148.5	(49.8)	
Revenue	3,966.8	3,240.4	3,479.3	7.4	(12.3)	7,550.2	6,719.7	(11.0)	
Automotive	408.5	233.5	263.4	12.8	(35.5)	815.1	496.9	(39.0)	An improvement in the product mix failed to offset weaker margins arising from the stronger USD
Oil & Gas	66.2	42.5	8.0	(81.2)	(87.9)	124.5	50.5	(59.5)	
Equipment	55.1	99.3	33.7	(66.1)	(38.9)	94.2	133.0	41.2	Negative operating leverage
Mfg & Eng	11.9	1.8	0.4	(77.8)	(96.6)	21.5	2.2	(89.8)	
Others	(119.7)	(57.1)	(97.8)	71.4	(18.3)	(154.0)	(154.9)	0.6	
PBT	422.1	320.0	207.6	(35.1)	(50.8)	901.4	527.6	(41.5)	
PBT Margins									
Automotive	14.1	11.6	9.7			14.7	10.5		
Oil & Gas	27.7	13.6	4.4			28.7	10.2		
Equipment	12.1	15.2	9.5			10.6	13.2		
Mfg & Eng	6.3	1.1	0.2			5.8	0.7		
Others	(66.2)	(58.1)	(194.8)			(52.1)	(104.3)		
Automotive	182.8	116.7	130.6	11.9	(28.6)	375.1	247.3	(34.1)	
Oil & Gas	33.3	17.9	2.3	(87.0)	(93.0)	62.9	20.2	(67.8)	
Equipment	44.1	78.7	26.6	(66.3)	(39.8)	82.8	105.3	27.1	
Mfg & Eng	5.8	1.3	0.5	(65.0)	(92.2)	10.1	1.8	(82.6)	
Others	(124.1)	(49.5)	(91.5)	85.0	(26.2)	(153.5)	(141.0)	(8.1)	
NP	142.0	165.2	68.4	(58.6)	(51.8)	377.5	233.6	(38.1)	
NP Margins									
Automotive	6.3	5.8	4.8			6.7	5.2		
Oil & Gas	13.9	5.7	1.3			14.5	4.1		
Equipment	9.7	12.1	7.5			9.3	10.5		
Mfg & Eng	3.1	0.8	0.3			2.7	0.5		
Others	(68.6)	(50.4)	(182.3)			(51.9)	(95.0)		
	3.6	5.1	2.0			5.0	3.5		

Source: Company data, RHB

Figure 3: Summary of UMW's vehicle sales

FYE Dec (units)	2Q14	1Q15	2Q15	QoQ (%)	YoY (%)	1H14	1H15	YoY (%)
Toyota	27,304	16,603	23,087	39.1	(15.4)	51,938	39,690	(23.6)
- Passenger	20,187	11,084	16,257	46.7	(19.5)	38,512	27,341	(29.0)
- Commercial	7,117	5,519	6,830	23.8	(4.0)	13,426	12,349	(8.0)
Perodua	50,456	57,153	51,349	(10.2)	1.8	94,480	108,502	14.8
- Passenger	50,456	57,153	51,349	(10.2)	1.8	94,480	108,502	14.8
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	77,760	73,756	74,436	0.9	(4.3)	146,418	148,192	1.2

Source: MAA

Figure 4: Forecast assumptions

FYE Dec	2014	2015F	2016F	2017F
Toyota / Lexus (units)	103,636	80,000	85,000	90,000
Perodua (units)	195,579	208,000	210,000	211,000
Forex (JPY/MYR)*	3.15	3.10	3.35	3.35
Forex (USD/MYR)*	3.25	3.80	4.00	4.00
*average rate				

Source: RHB

Figure 5: SOP valuation

	P/E (x)	Valuation (MYR)	Stake (%)	Discount (%)	Per UMW share (MYR)
UMWOG		MYR 0.93	55.15	10	0.85
Other businesses	11.0				4.49
					5.35

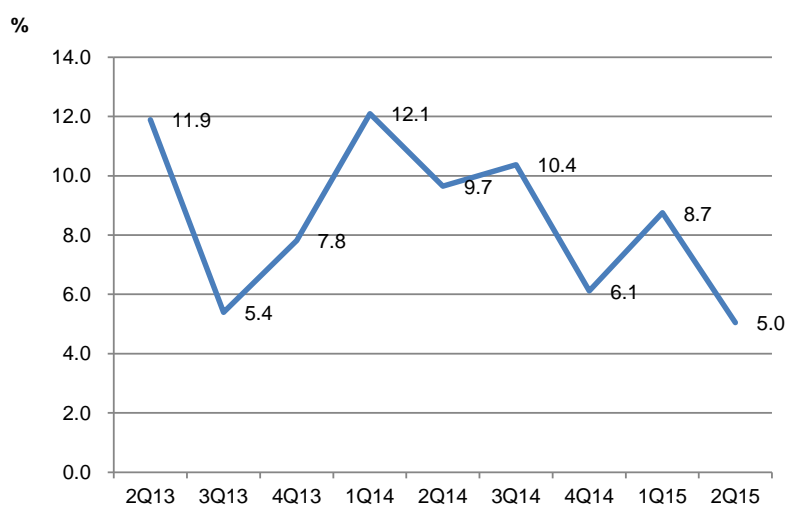
Source: RHB estimates

Figure 6: Historical quarterly earnings

FYE Dec (MYRm)	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Revenue	3,456.6	3,891.8	3,583.4	3,966.8	3,702.5	3,706.1	3,240.4	3,485.3
Growth q-o-q (%)	-1.2	12.6	-7.9	10.7	-6.7	0.1	-12.6	7.6
Growth y-o-y (%)	-12.7	-3.9	6.7	13.4	7.1	-4.8	-9.6	-12.1
EBIT	186.3	304.1	433.3	382.9	383.9	226.5	283.5	176.0
<i>EBIT Margin (%)</i>	<i>5.4</i>	<i>7.8</i>	<i>12.1</i>	<i>9.7</i>	<i>10.4</i>	<i>6.1</i>	<i>8.7</i>	<i>5.0</i>
Interest expense	(21.5)	(32.2)	(25.2)	(20.1)	(12.8)	(23.9)	(32.2)	(27.8)
Interest income	18.6	28.1	30.5	35.4	33.5	37.1	35.3	29.9
Associates	62.2	33.6	40.7	23.8	25.6	49.4	33.4	29.5
EI/Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Pretax profit	245.6	333.7	479.4	422.1	430.3	289.1	320.0	207.6
<i>Pretax Margin (%)</i>	<i>7.1</i>	<i>8.6</i>	<i>13.4</i>	<i>10.6</i>	<i>11.6</i>	<i>7.8</i>	<i>9.9</i>	<i>6.0</i>
Tax	(66.7)	(104.0)	(87.3)	(128.1)	(100.6)	(93.1)	(84.0)	(74.3)
<i>Effective tax rate (%)</i>	<i>27.1</i>	<i>31.2</i>	<i>18.2</i>	<i>30.3</i>	<i>23.4</i>	<i>32.2</i>	<i>26.3</i>	<i>35.8</i>
Minority Interest	(77.5)	(120.6)	(156.5)	(152.0)	(132.7)	(112.8)	(70.9)	(64.9)
Net Profit	101.5	109.1	235.5	142.0	197.0	83.2	165.2	68.4
Core Profit	101.5	109.1	235.5	142.0	197.0	83.2	165.2	67.4
<i>Net Margin (%)</i>	<i>2.9</i>	<i>2.8</i>	<i>6.6</i>	<i>3.6</i>	<i>5.3</i>	<i>2.2</i>	<i>5.1</i>	<i>1.9</i>

Source: RHB

Figure 7: EBIT margin trend



Source: RHB, Company data

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	13,951	14,959	12,867	13,191	13,987
Cost of sales	(10,129)	(10,845)	(9,328)	(9,564)	(10,141)
Gross profit	3,823	4,114	3,538	3,628	3,846
Gen & admin expenses	(1,278)	(1,393)	(1,519)	(1,655)	(1,804)
Selling expenses	(453)	(507)	(391)	(416)	(440)
Other operating costs	(795)	(787)	(874)	(809)	(665)
Operating profit	1,296	1,427	755	747	937
Operating EBITDA	1,612	1,806	1,172	1,170	1,357
Depreciation of fixed assets	(315)	(379)	(417)	(422)	(420)
Operating EBIT	1,296	1,427	755	747	937
Net income from investments	158	140	127	134	146
Interest income	81	137	126	106	79
Interest expense	(99)	(82)	(119)	(130)	(130)
Pre-tax profit	1,436	1,621	888	858	1,033
Taxation	(351)	(409)	(222)	(206)	(248)
Minority interests	(431)	(554)	(258)	(209)	(253)
Profit after tax & minorities	653	658	409	443	532
Reported net profit	653	658	409	443	532
Recurring net profit	853	802	409	443	532

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	1,296	1,427	755	747	937
Depreciation & amortisation	315	379	417	422	420
Change in working capital	(414)	(205)	(114)	338	(68)
Other operating cash flow	176	(43)	-	-	-
Operating cash flow	1,374	1,558	1,058	1,508	1,289
Interest paid	(95)	(90)	(119)	(130)	(130)
Tax paid	(381)	(409)	(222)	(206)	(248)
Cash flow from operations	898	1,059	716	1,172	911
Capex	(950)	(2,080)	(1,550)	(1,200)	(1,200)
Other new investments	(217)	(44)	-	-	0
Other investing cash flow	1,055	1,400	126	106	79
Cash flow from investing activities	(111)	(723)	(1,424)	(1,094)	(1,121)
Dividends paid	(584)	(514)	(479)	(286)	(310)
Proceeds from issue of shares	1	-	-	-	-
Increase in debt	308	1,183	808	-	-
Other financing cash flow	(1,052)	(1,023)	(570)	(574)	(652)
Cash flow from financing activities	(1,327)	(354)	(240)	(860)	(962)
Cash at beginning of period	2,493	2,544	3,376	2,886	2,390
Total cash generated	(540)	(19)	(948)	(781)	(1,172)
Forex effects	591	851	457	286	310
Implied cash at end of period	2,544	3,376	2,886	2,390	1,529

Source: Company data, RHB

Financial Exhibits

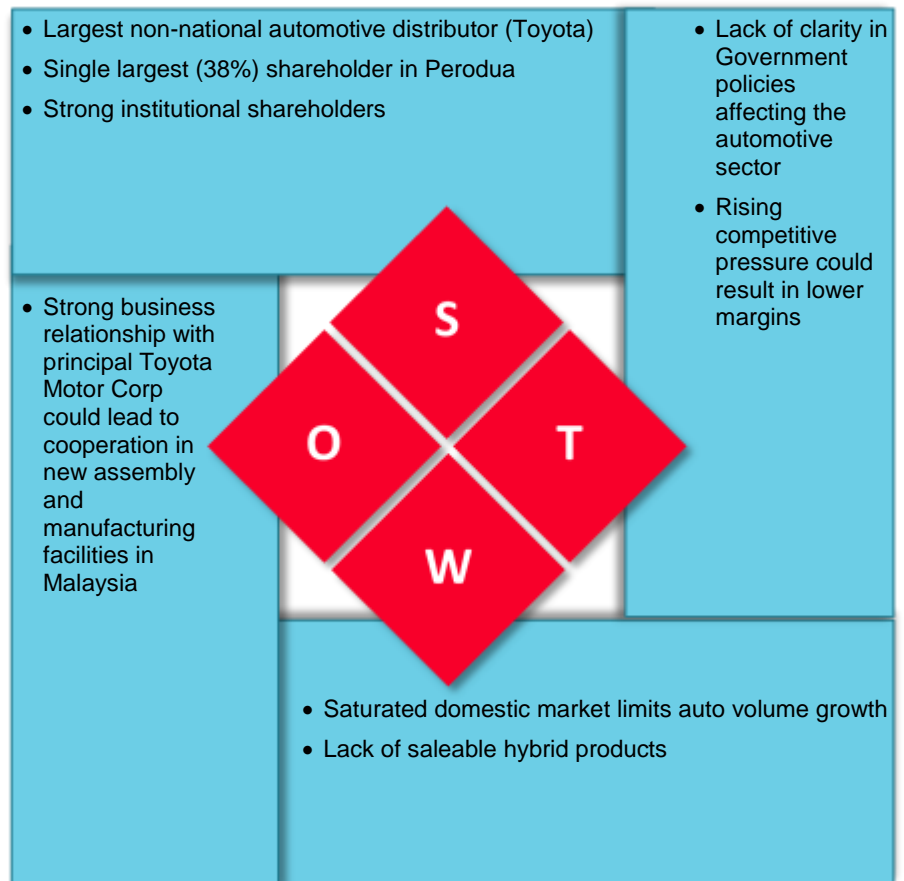
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	2,544	3,376	2,886	2,390	1,529
Inventories	1,752	1,835	1,622	1,626	1,724
Accounts receivable	1,229	1,326	1,022	976	1,035
Other current assets	3,207	1,997	2,068	2,073	2,096
Total current assets	8,731	8,534	7,597	7,065	6,384
Total investments	1,827	1,878	2,005	2,139	2,285
Tangible fixed assets	3,893	5,646	6,779	7,557	8,337
Intangible assets	38	38	38	38	38
Total other assets	317	344	344	344	344
Total non-current assets	6,075	7,905	9,166	10,077	11,004
Total assets	14,807	16,439	16,763	17,142	17,388
Short-term debt	1,354	2,177	3,000	3,000	3,000
Accounts payable	1,186	1,173	843	917	972
Other current liabilities	1,516	1,536	1,284	1,512	1,569
Total current liabilities	4,055	4,886	5,127	5,429	5,541
Total long-term debt	1,602	1,914	1,900	1,900	1,900
Other liabilities	172	196	196	196	196
Total non-current liabilities	1,775	2,110	2,096	2,096	2,096
Total liabilities	5,830	6,997	7,223	7,525	7,637
Share capital	584	584	584	584	584
Retained earnings reserve	4,924	5,116	4,956	4,824	4,704
Other reserves	854	890	890	890	890
Shareholders' equity	6,363	6,590	6,429	6,298	6,178
Minority interests	2,614	2,853	3,110	3,319	3,573
Total equity	8,977	9,443	9,539	9,618	9,751
Total liabilities & equity	14,807	16,439	16,763	17,142	17,388

Source: Company data, RHB

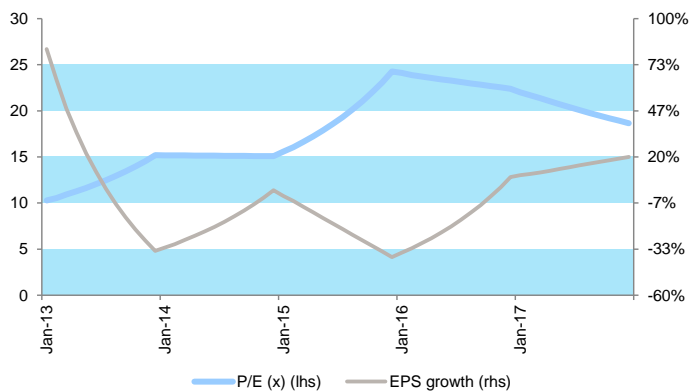
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(11.8)	7.2	(14.0)	2.5	6.0
Operating profit growth (%)	(31.7)	10.1	(47.1)	(1.0)	25.4
Net profit growth (%)	(34.3)	0.7	(37.8)	8.4	20.0
EPS growth (%)	(34.3)	0.7	(37.8)	8.4	20.0
BVPS growth (%)	31.2	3.6	(2.4)	(2.0)	(1.9)
Operating margin (%)	9.3	9.5	5.9	5.7	6.7
Net profit margin (%)	4.7	4.4	3.2	3.4	3.8
Return on average assets (%)	5.0	4.2	2.5	2.6	3.1
Return on average equity (%)	11.6	10.2	6.3	7.0	8.5
Net debt to equity (%)	4.6	7.6	21.1	26.1	34.6
DPS	0.44	0.41	0.24	0.27	0.32
Recurrent cash flow per share	0.77	0.91	0.61	1.00	0.78

Source: Company data, RHB

SWOT Analysis

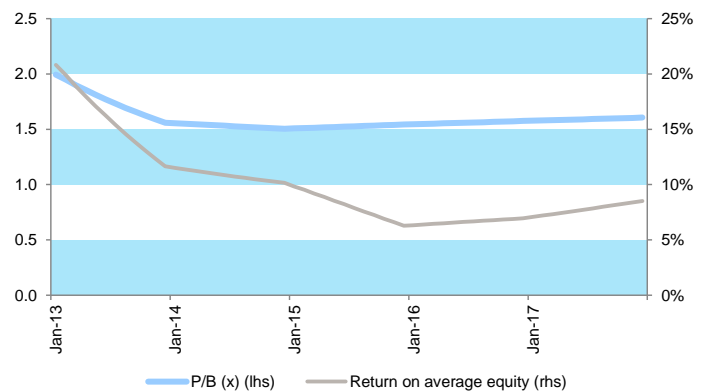


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

UMW is the largest company in the automotive sector and is a component stock of the FBM KLCI. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. UMW owns a 55% stake in listed UMW Oil & Gas.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-05-26	Sell	8.7	10.7
2015-02-27	Sell	9.7	11.1
2014-11-27	Neutral	11.0	11.3
2014-08-28	Neutral	12.4	12.3
2014-05-25	Neutral	11.3	10.8
2014-04-29	Neutral	11.3	10.8
2013-03-20	Neutral	12.9	13.3
2013-02-28	Neutral	12.9	12.8
2013-02-27	Neutral	12.9	12.3
2013-02-26	Neutral	13.1	12.1

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB OSK Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

RHB Research Institute Singapore Pte Ltd (formerly known as DMG & Partners Research Pte Ltd)
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB OSK Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jend. Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB OSK (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Phnom Penh

RHB OSK Indochina Securities Limited
No. 1-3, Street 271
Sangkat Toeuk Thla, Khan Sen Sok
Phnom Penh
Cambodia
Tel: +(855) 23 969 161
Fax: +(855) 23 969 171

Bangkok

RHB OSK Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799