

COMPANY RESULTS

UMW Holdings (UMWH MK)

2Q15: Weak Ringgit Affecting All Business Divisions

2Q15 core net profit was a disappointing RM70m (-60% qoq, -70% yoy) as weakness emerged from all divisions. This brings 1H15 core net profit to RM244m, below our and street estimates. 2H15 could be even more challenging due to the ringgit's weakness, impinging on the profitability of its automobile and equipment segments while UMW O&G rapidly loses earnings visibility. We cut 2015-17 net profit forecasts by 27-45%. Maintain SELL with a lower target price of RM7.00.

2Q15 RESULTS

Year to 31 Dec (RMm)	2QFY15	qoq % chg	1H2015	yoy % chg	Remarks
Revenue	3,485.3	7.6	6,725.7	(10.9)	
-Auto	2,732.7	36.3	4,738.2	(14.8)	2Q15 Toyota unit sales rose 38% qoq to 22,555 units (1H15: -24% yoy).
-Equipment	353.6	(45.8)	1,006.6	13.3	Komatsu lost market share in 2Q.
-Mfg & Eng	165.4	(3.3)	336.5	(9.1)	
-Oil & gas	183.4	(41.3)	495.9	14.2	Lower charter and utilisation rates. Revenue from rig assets fell to RM10m from RM63m in 2Q14.
-Others	50.2	(48.9)	148.5	(49.8)	
EBIT	177.9	(39.1)	469.9	(48.3)	
PBT	207.6	(35.1)	527.6	(41.5)	
-Auto	263.4	12.8	496.9	(39.0)	Price discounting as Toyota's market share slides 3ppts to 12%.
-Equipment	33.7	(66.1)	133.0	41.2	
-Mfg & Eng	0.4	(77.8)	2.2	(89.8)	
-Oil & gas	8.0	(81.2)	50.5	(59.5)	
-Others	(97.8)	71.4	(154.9)	0.6	
Net profit	68.4	(58.6)	233.6	(38.1)	Below expectations, expect challenging 2H15.
Core Net profit	70.4	(59.5)	244.0	(48.1)	
EBIT margin	5.1	-3.9ppt	7.0	-5.1ppt	Weak operational performance across all business divisions.

Source: UMW, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net turnover	13,951	14,959	12,819	13,170	13,440
EBITDA	1,821	1,940	1,316	1,382	1,956
Operating profit	1,496	1,561	794	832	1,381
Net profit (rep./act.)	653	658	424	458	677
Net profit (adj.)	852	791	424	458	677
EPS (sen)	73.1	67.9	36.4	39.3	58.1
PE (x)	11.6	12.5	23.3	21.6	14.6
P/B (x)	1.6	1.5	1.5	1.5	1.5
EV/EBITDA (x)	7.5	7.0	10.4	9.9	7.0
Dividend yield (%)	5.2	5.2	3.6	3.9	5.8
Net margin (%)	4.7	4.4	3.3	3.5	5.0
Net debt/(cash) to equity (%)	5.7	10.9	8.8	11.2	9.8
Interest cover (x)	99.4	n.a.	161.4	213.8	128.0
ROE (%)	11.8	11.5	7.4	8.0	11.7
Consensus net profit	-	-	752	861	928
UOBKH/Consensus (x)	-	-	0.56	0.53	0.73

Source: UMW, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	RM8.49
Target Price	RM7.00
Upside	-14.6%
(Previous TP)	RM9.00

COMPANY DESCRIPTION

Automobile assembler, with operations in equipment, engineering and O&G activities

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	9,918.8
Market cap (US\$m):	2,336.0
3-mth avg daily t'over (US\$m):	2.5

Price Performance (%)

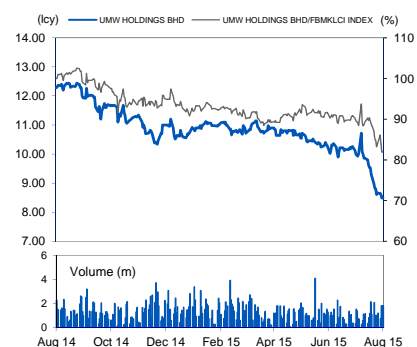
52-week high/low	RM12.44/RM8.49			
1mth	3mth	6mth	1yr	YTD
(17.3)	(20.7)	(23.1)	(31.9)	(22.5)

Major Shareholders

Skim Amanah Saham Bumiputra	41.9
EPF	10.4
Permodalan Nasional Berhad	6.1

FY15 NAV/Share (RM)	5.70
FY15 Net Debt/Share (RM)	0.50

PRICE CHART



Source: Bloomberg

ANALYST

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RESULTS

- **UMW's 2Q15 results disappointed**, with a core net profit of RM70.4m (-59.5% qoq, -70.1% yoy) and revenue of RM3,485.3m (+7.6% qoq, -12.1% yoy). The underperformance stemmed from: a) heightened competition in the automobile sector, leading to weaker margins in 2Q, b) weak demand for heavy equipment in Malaysia and Papua New Guinea and loss of market share due to increase in product prices, given the weakened ringgit against the US\$ and yen, c) lower rig charter rates and utilisation, and d) bigger forex losses. The weaker-than-expected 2Q15 performance brought 1H15 core net profit to RM244m (-48.1% yoy), against our full-year forecast of RM731m (-8% yoy).
- **2Q15 pre-tax margin fell 4ppt qoq to 5.1%** amid demand and heightened competition across all divisions. Notable weakness in pre-tax margin came from the automobile segment as higher revenue was offset by higher advertising & promotion expense. In all, UMW's 2Q pre-tax margin of 5.1% is the lowest in more than five years (2Q10: 7%).

STOCK IMPACT

- **A challenging 2H15.** We expect 2H15 automobile margins to remain depressed due to higher raw material cost arising from a weak ringgit vs the US\$. The situation will be further exacerbated by 55.7%-owned UMW O&G's (UMWOG) challenging 2H15 outlook. We gather that daily charter rates have fallen from US\$140,000-150,000 to US\$110,000 in 2Q15.

EARNINGS REVISION/RISK

- **We cut our 2015-17 net profit forecasts by 27-45%** as we adjust for: a) a weaker ringgit vs the US\$, leading to margin compression in the automobile division, b) a substantial cut in UMWOG earnings over 2015-16, and c) margin compression at the equipment division.
- **UMWOG earnings assumptions.** We project UMWOG 2015-17 net profit of RM60m, RM56m and RM105m, reflecting overall utilisation of 54%, 53% and 57%, factoring in US\$/RM of 3.80, 4.15 and 4.15 respectively. We also assume full utilisation for Naga 1 and Naga 4 but at 25% lower rates from Petronas. We assume >50% utilisation for Naga 2, Naga 5 and Naga 7 as Petronas may require Malaysian-flagged rigs for local operations. For these rigs, minimum day costs during idle times are assumed at US\$30,000, equivalent to warm-stacking costs. We assume no utilisation for Naga 3 and 9 with minimum day costs at US\$10,000, equivalent to cold-stacking.

VALUATION/RECOMMENDATION

- **Maintain SELL and cut our SOTP-based target price to RM7.00.** We are changing our valuation methodology from mean 12x PE to SOTP, taking into account UMWOG's target price of RM0.70, based on a 50% discount to current replacement cost value. At our target price, the stock would trade at 17.8x 2016F PE and 6.5x EV/EBITDA.
- The stock currently trades at a lofty 21.6x 2016F PE, at the higher end of its historical range (+1SD is 22x). Based on -0.5SD, the stock will trade at RM4.40. The stock currently offers an unconvincing dividend yield of 3.6% and 3.9% for 2015-16, as we also trim net DPS forecasts in tandem with the earnings downgrades (dividend payout remains unchanged at 85%).
- **Trough valuations for UMWOG.** Although UMWOG has breached below its 1x replacement cost of RM1.40 (based on RM4.15/US\$), we believe this does not reflect current oil prices at <US\$45/bbl, which is not likely to see a sustained major recovery in the foreseeable horizon. We note that global rig players have de-rated to 0.1-0.6x 2016F P/B but are still trading at 4-7x 2016F EV/EBITDA. Assuming a premium to global peers' valuation at 9x 2016F EV/EBITDA, UMWOG's share price could fall to RM0.30, at an implied 0.19x 2016F P/B. The weak P/B is justified by a dismal 1-2x ROE while its weak EBITDA cover of <5x is insufficient to support its asset delivery and increasing net gearing to ~0.7x. We assume its borrowings could potentially inflate to RM3.5b (2Q15: RM2.8b), partly from the Naga 8 delivery by end-15 and the US\$ appreciation.

EARNINGS REVISION

FY Dec	EPS (sen)	% chg
2015F	36.4	(41.9)
2016F	39.3	(43.4)
2017F	58.1	(23.9)

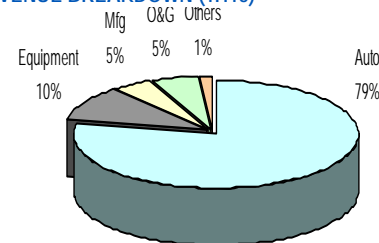
Source: UOB Kay Hian

SOTP FAIR VALUE OF RM3.00/SHARE

Segment	Stake (%)	Equity value (RMm)	% share of RNAV
Toyota	51	2,908	36%
UMW O&G	56	843	10%
Equipment	100	1,421	17%
Manufacturing	100	116	1%
Perodua	38	1,863	23%
Holding company cash/ (debt)		1,000	1.000
Total		8,151	
Target price (RM)		7.00	

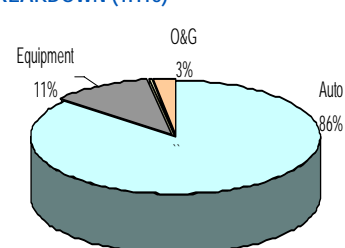
Source: UOB Kay Hian

REVENUE BREAKDOWN (1H15)



Source: UMW

PBT BREAKDOWN (1H15)



Source: UMW

SEGMENTAL EARNINGS

FY Dec (RMm)	2015F	2016F	2017F
Revenue			
Auto	8,842	8,975	9,042
Equipment	1,804	1,895	1,989
Manufacturing	739	776	815
Oil & Gas	762	853	922
Others	671	671	671
Total	12,819	13,170	13,440
Operational Profit			
Auto	739.3	760.2	1,242.2
Equipment	180.4	189.5	198.9
Manufacturing	3.7	15.5	16.3
Oil & Gas	71.0	67.2	123.3
Others	(200.0)	(200.0)	(200.0)
Total	794.4	832.5	1,380.7

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Net turnover	14,958.9	12,818.5	13,169.7	13,440.0
EBITDA	1,940.0	1,315.7	1,381.6	1,955.6
Deprec. & amort.	379.4	521.3	549.2	574.8
EBIT	1,560.6	794.4	832.5	1,380.7
Associate contributions	139.5	165.0	177.2	188.5
Net interest income/(expense)	54.5	(8.2)	(6.5)	(15.3)
Pre-tax profit	1,620.8	951.3	1,003.2	1,554.0
Tax	(409.1)	(228.3)	(240.8)	(373.0)
Minorities	(554.1)	(298.5)	(304.3)	(503.6)
Net profit	657.7	424.5	458.1	677.4
Net profit (adj.)	791.5	424.5	458.1	677.4

CASH FLOW

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Operating	1,284.0	1,228.6	976.4	1,442.5
Pre-tax profit	1,620.8	951.3	1,003.2	1,554.0
Tax	(409.1)	(228.3)	(240.8)	(373.0)
Deprec. & amort.	379.4	521.3	549.2	574.8
Associates	(139.5)	(165.0)	(177.2)	(188.5)
Working capital changes	(376.4)	284.4	(46.7)	(35.9)
Non-cash items	345.4	0.0	0.0	0.0
Other operating cashflows	(136.6)	(135.1)	(111.4)	(89.0)
Investing	(723.3)	(734.9)	(758.6)	(781.0)
Capex (maintenance)	(2,176.1)	(870.0)	(870.0)	(870.0)
Investments	1,145.9	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	307.0	135.1	111.4	89.0
Financing	235.6	(1,086.1)	(777.8)	(766.9)
Dividend payments	(947.2)	(360.8)	(389.4)	(575.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	1,178.3	(725.3)	(388.4)	(191.1)
Others/interest paid	4.5	0.0	0.0	0.0
Net cash inflow (outflow)	796.4	(592.5)	(560.1)	(105.4)
Beginning cash & cash equivalent	2,482.6	3,285.1	2,692.7	2,132.6
Changes due to forex impact	6.2	0.0	0.0	0.0
Ending cash & cash equivalent	3,285.1	2,692.7	2,132.6	2,027.1

BALANCE SHEET

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Fixed assets	5,652.6	6,001.3	6,322.1	6,617.3
Other LT assets	2,252.7	2,417.7	2,594.9	2,783.5
Cash/ST investment	3,376.4	2,784.0	2,223.9	2,118.4
Other current assets	5,157.6	4,705.3	4,779.5	4,836.6
Total assets	16,439.3	15,908.3	15,920.4	16,355.8
ST debt	2,177.5	823.0	634.6	643.5
Other current liabilities	2,709.0	2,541.2	2,568.7	2,589.9
LT debt	1,914.2	2,543.3	2,343.3	2,143.3
Other LT liabilities	196.0	196.0	196.0	196.0
Shareholders' equity	6,590.1	6,653.8	6,722.5	6,824.1
Minority interest	2,852.6	3,151.1	3,455.3	3,959.0
Total liabilities & equity	16,439.3	15,908.3	15,920.4	16,355.8

KEY METRICS

Year to 31 Dec (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	13.0	10.3	10.5	14.6
Pre-tax margin	10.8	7.4	7.6	11.6
Net margin	4.4	3.3	3.5	5.0
ROA	4.7	3.1	3.3	4.8
ROE	11.5	7.4	8.0	11.7
Growth				
Turnover	7.2	(14.3)	2.7	2.1
EBITDA	6.5	(32.2)	5.0	41.5
Pre-tax profit	12.9	(41.3)	5.5	54.9
Net profit	0.7	(35.5)	7.9	47.9
Net profit (adj.)	(7.1)	(46.4)	7.9	47.9
EPS	(7.1)	(46.4)	7.9	47.9
Leverage				
Debt to total capital	30.2	25.6	22.6	20.5
Debt to equity	62.1	50.6	44.3	40.8
Net debt/(cash) to equity	10.9	8.8	11.2	9.8
Interest cover (x)	n.a.	161.4	213.8	128.0

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