Bracing for challenges

UMW Holdings' (UMWH) 1H15 core earnings came in below our and street expectations due to lower vehicle sales from Toyota and sub-par earnings from its O&G division, partially offset by stronger growth in its equipment segment. We cut our 2015-17 EPS forecasts by 14-21%. We maintain our HOLD call with a lower SOTP-based TP of RM8.94. We think the 2015-17E dividend yields of 4-5% should limit share-price downside.

1H15 core earnings miss expectations

UMWH's 1H15 net profit eased 38% yoy to RM233.6m. After stripping out non-core asset impairments and forex losses, 1H15 core earnings dropped by 37% to RM244m. This was below expectations – meeting 36% of our estimate and 32% of the consensus figure. The deviation from our forecast was mainly due to lower vehicle sales from the automotive division, coupled with moderating earnings from UMWOG.

Automotive reports flaccid earnings

UMWH's automotive division reported a 1H15 revenue decline of 14.8% yoy and a PBT decline of 39% yoy. We attribute this to significantly lower Toyota vehicle sales (1H15: -24.1% yoy). Profitability was also impaired by significant margin compression, due to intensified competition and higher operating expenses (as a result of the appreciation of the US$ vs. the RM – which raised component costs).

O&G division disappoints

The group's oil & gas (O&G) division's 1H15 revenue ticked up 14.2% yoy on additional contributions from three new assets (NAGA 5, NAGA 6 and GAIT 6, which commenced operations in mid-2014), partially offset by lower time-charter rates and lower utilisation rates for several assets. Its 1H15 PBT, however, shed 60% yoy to close at RM50.5m (9.6% of total 1H15 PBT), dragged down by discounts on time-charter rates, lower utilisation rates and higher operating expenses from NAGA 7.

Maintain HOLD and lower SOTP-based TP to RM8.94

We cut our 2015-17 EPS estimates by 14-21% to account for the lower-than-expected results. As a result, we lower our 12-month SOTP-based TP to RM8.94 (from RM9.82). UMW is trading at an implied 2016E PER of 11x (below the stock's historical 10-year average of 15x). Overall, we maintain our cautious view on the group as two of its key businesses, namely the automotive and O&G divisions, should continue to face challenges in their respective operating environments in the near term. We maintain our HOLD call on the stock we expect 2015-17E dividend yields of 4-5% to cushion share-price downside.

Earnings & Valuation Summary

FYE Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	13,951.5	14,932.5	14,010.3	14,917.1	15,705.0
EBITDA (RMm)	1,591.4	1,795.3	1,874.4	1,548.8	2,053.6
Pretax profit (RMm)	1,435.7	1,621.5	1,415.4	1,653.3	1,672.2
Net profit (RMm)	652.9	658.3	584.7	700.6	753.3
EPS (sen)	55.9	56.3	50.0	60.0	64.5
PER (x)	15.2	15.1	17.0	14.2	13.2
Core net profit (RMm)	852.3	792.1	584.7	700.6	753.3
Core EPS (sen)	73.0	67.8	50.0	60.0	64.5
Core EPS growth (%)	(14.7)	(7.1)	(26.2)	19.8	7.5
Core PER (x)	11.6	12.5	17.0	14.2	13.2
Net DPS (sen)	44.0	41.0	36.0	46.0	47.0
Dividend Yield (%)	5.2	4.8	4.2	5.4	5.5
EV/EBITDA (x)	6.5	5.9	5.7	6.8	5.0
Chg in EPS (%)			-14.4	-21.0	-17.6
Affin/Consensus (x)			0.8	0.8	0.8

Source: Company, Affin Hwang estimates

Results Note

UMW

UMWH MK
Sector: Auto & Autoparts

RM8.49 @ 26 August 2015

HOLD (maintain)

Upside 5.3%

Price Target: RM8.94

Previous Target: RM9.82

Price Performance

	1M	3M	12M
Absolute	-17.3%	-20.7%	-31.9%
Rel to KLCI	-9.9%	-11.4%	-19.7%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	9,918.8/2,334.2
Avg daily vol - 6mth (m)	1.1
52-wk range (RM)	8.27-12.68
Est free float	34.1%
BV per share (RM)	5.65
P/BV (x)	1.50
Net cash/ (debt) (RMm) (2Q15)	(715.2)
ROE (2015E)	12.5%
Derivatives	Nil
Shariah Compliant	YES

Key Shareholders

Skim Amanah Saham Bumiputera	40.2%
EPF	16.7%
PNB	5.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	2Q15	QoQ % chg	YoY % chg	1H15	YoY % chg	Comments
Revenue	3,485.3	7.6	(12.1)	6,725.7	(10.9)	Revenue declined yoy thanks to lower contributions from the automotive (-14.8% yoy) and manufacturing & engineering (-9.3% yoy) segments, which offset the higher revenue from O&G (+14.2% yoy) and equipment (+13.3% yoy) divisions.
Op costs	(3,307)	12.2	(6.7)	(6,256)	(7.0)	
EBIT	177.9	(39.1)	(57.7)	469.9	(43.1)	
EBIT margin (%)	*5.1*	-3.9ppt	-5.5ppt	*7.0*	-3.9ppt	EBIT margin slipped qoq and yoy due to the stronger US$ and negative operating leverage from its automotive and O&G divisions.
Int expense	(27.8)	(13.8)	12.6	(60.0)	32.3	
Int and other inc	29.9	(15.3)	(15.6)	65.1	(1.2)	
Associates	(1.9)	(77.1)	(94.1)	(10.4)	13.0	
Exceptional items	29.5	(11.6)	23.9	63.0	(2.4)	EI includes forex gains/losses.
Pretax	**207.6**	(35.1)	(50.8)	**527.6**	(41.5)	
Tax	(74.3)	(11.6)	(42.0)	(158.3)	(26.5)	
Tax rate (%)	*35.8*	9.5	5.4	*30.0*	+6.1ppt	Higher effective tax rate mainly due to: i) certain subsidiaries which are loss-making; and ii) certain expenses which are not tax-deductible.
MI	(64.9)	(8.4)	(57.3)	(135.8)	(56.0)	
Net profit	**68.4**	**(58.6)**	(51.8)	**233.6**	(38.1)	
EPS (sen)	5.9	(58.6)	(51.8)	20.0	(38.1)	
Core net profit	**70.4**	**(59.5)**	(59.8)	**244.0**	(36.9)	1H15 core earnings came in below our and consensus – making up 36% and 32% of the full-year estimates, respectively.

Source: Affin Hwang, Company data

Sole bright spot for UMW: equipment division

UMW's only bright spot was its equipment division (25% of 1H15 PBT), where revenue rose 13.3% yoy and PBT rose 41.2% yoy. We attribute the gain to: i) higher demand for its equipment in 1Q15; ii) the commencement of jade mining activities in Myanmar back in Sept-14; and iii) tax incentives offered by Singapore authorities on the procurement of equipment in Singapore.

Key risks

Key downside risks to our view include: i) intensified competition from other Japanese, Korean and European marquees; and ii) weaker consumer discretionary spending. Upside risks include: i) higher-than-expected sales volume growth for *Toyota* and *Perodua*; ii) lower-than-expected competition; and iii) faster turnaround from its equipment division.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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