

Malaysia Company Focus

UMW Holdings

Bloomberg: UMWK MK | Reuters: UMWS.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

26 Aug 2015

HOLD

Last Traded Price: RM8.49 (KLCI : 1,580.37)

Price Target : RM8.95 (5% upside) (Prev RM9.90)

Shariah Compliant: Yes

Reason for Report : 2Q15 Results

Where we differ: Our earnings are lower than consensus on slower car sales growth assumptions

Analyst

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Result Summary

FY Dec (RM m)	2Q 2015	2Q 2014	1Q 2015	yoy % chg	qoq % chg
P&L Items					
Turnover	3,485.3	3,966.8	3,240.4	(12.1)	7.6
Gross Profit	148.7	272.5	211.5	(45.5)	(29.7)
Opg Profit	176.0	382.9	283.5	(54.0)	(37.9)
EBITDA	176.0	382.9	283.5	(54.0)	(37.9)
Net Profit	68.4	142.0	165.2	(51.8)	(58.6)
Other Data					
Gross Margin (%)	4.3	6.9	6.5		
Opg Margin (%)	5.0	9.7	8.7		
Net Margin (%)	2.0	3.6	5.1		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	14,932	13,224	13,418	13,586
Operating Profit	1,433	1,049	1,089	1,183
EBITDA	1,812	1,428	1,468	1,561
Net Pft (Pre Ex.)	652	690	729	768
EPS (sen)	93.0	59.1	62.4	65.7
EPS Pre Ex. (sen)	55.8	59.1	62.4	65.7
EPS Gth (%)	103	(37)	6	5
EPS Gth Pre Ex (%)	0	6	6	5
Net DPS (sen)	41.0	29.5	31.2	32.9
BV Per Share (sen)	563.3	592.8	624.0	656.8
PE (X)	9.1	14.4	13.6	12.9
PE Pre Ex. (X)	15.2	14.4	13.6	12.9
EV/EBITDA (X)	7.6	9.7	9.7	9.4
Net Div Yield (%)	4.8	3.5	3.7	3.9
P/Book Value (X)	1.5	1.4	1.4	1.3
Net Debt/Equity (X)	0.1	0.1	0.1	0.1
ROAE (%)	16.9	10.2	10.3	10.3

At A Glance

Issued Capital (m shrs)	1,168
Mkt. Cap (RMm/US\$m)	9,919 / 2,352
3m Avg. Daily Val (US\$m)	2.4

ICB Industry : Consumer Goods

ICB Sector: Automobiles & Parts

Principal Business: : UMW is the sole assembler and distributor of Toyota and Lexus vehicles. This includes marketing, sales services and auto parts trading. Its other business segments are Oil & Gas (owns jack-up drilling rigs and onshore rigs), Equipment (trading of industrial heavy equipments) and Manufacturing & Engineering (trading of lubricants).

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Tough quarter

- 2Q15 net profit was below expectations
- Lower contributions from all segments
- Interim DPS was 10 sen
- Maintain HOLD with TP RM8.95

Highlights

Below expectations

- UMW's 2Q15 net profit fell 51.8% y-o-y to RM68.4m. 1H15 net profit of RM244m was below our expectations, largely due to weaker car sales and lower contribution from the oil and gas segment.

Lower earnings among segments

- Auto PBT dropped by 36% y-o-y to RM263.4m for the quarter, dragged by lower Toyota sales volume. Toyota car sales fell 15% y-o-y to 23,087 units. Besides the lower volume, aggressive campaigns and promotions, and weakening Ringgit Malaysia ate into PBT margins, which dropped from 11.6% to 9.6% q-o-q for the auto segment. Perodua managed to register 1.8% higher sales y-o-y to 51,349 units with a leading market share of 33.7%. This was backed by the popular Perodua Axia.
- Oil & gas PBT fell by a drastic 88% y-o-y, as results were hit by the idling Naga 7 which was delivered in 1Q but has yet to find work. There was also statutory maintenance activity and therefore no charter on the Naga 2 and 3 rigs as well as a general compression of charter rates across the industry.
- The Equipment segment took a hit from lower commodity prices and weak demand for heavy equipment in Malaysia and Papua New Guinea. PBT slipped by 39% y-o-y to RM33.7m from RM55.1m in 2Q14. Quiet activity in Myanmar also contributed to the lower earnings.

Dividend still rolling

- The group declared an interim dividend of 20% or 10 sen/share which is lower than previous year's 25 sen/share. For full year of 2014, the Group had declared 41 sen dividend.

Outlook

- We cut our FY15-16 net profit by 11-12% incorporating slower Toyota car sales and weaker oil & gas earnings. We expect 2H15 sales to remain difficult on intense competition amid a more challenging economic environment and weak consumer sentiment. Despite strong Perodua sales, associate contributions will not be sufficient to offset slower earnings from lower Toyota sales.
- There could be further weakness ahead for the oil & gas operations with only 3 rigs contracted in June-July. With the decline in charter rates and oversupply of jack-up rig, the oil and gas division is headed for a muted quarter ahead.

UMW Holdings

Valuation:

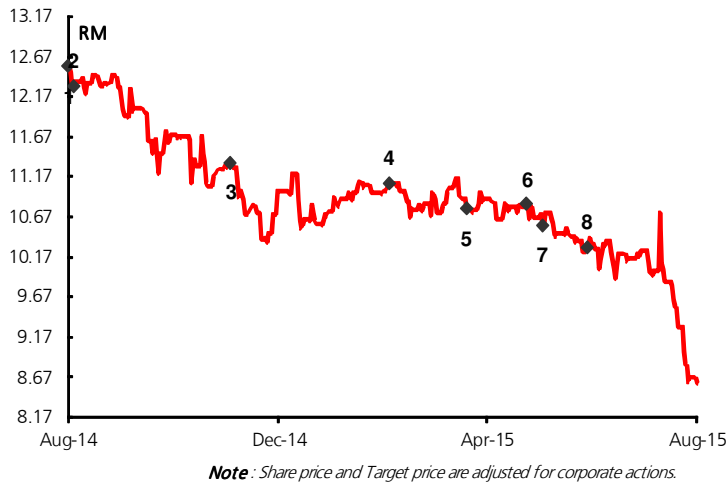
- We maintain our Hold rating for UMW with a lower TP of RM8.95 (from RM9.90) based on SOP factoring in lower earnings from the oil & gas business.

Key Risks:

Slower local automotive industry

- Total industry volume growth could continue to be capped by tightening of consumer spending, financing conditions and higher production costs.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	25 Aug 14	12.54	13.50	Hold
2:	28 Aug 14	12.30	12.80	Hold
3:	27 Nov 14	11.34	12.70	Hold
4:	27 Feb 15	11.08	12.70	Hold
5:	13 Apr 15	10.76	10.80	Hold
6:	18 May 15	10.82	10.80	Hold
7:	27 May 15	10.56	10.80	Hold
8:	22 Jun 15	10.28	9.90	Hold

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

DISCLOSURE**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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