

UMW Holdings

UMWH MK / UMWS.KL

▶ **Market Cap**
US\$2,336m
 RM9,919m

▶ **Avg Daily Turnover**
US\$2.69m
 RM10.28m

▶ **Free Float**
34.2%
 1,168 m shares

Current **RM8.49**
 Target **RM9.28**
 Prev. Target **RM11.04**
 Up/Downside **9.3%**

2QFY15 RESULTS NOTE

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-9.1	-10.3	-16.8
Absolute	-17.3	-20.7	-31.9
Major shareholders	% held		
Permodalan Nasional Bhd	50.1		
EPF	15.7		

Hard-braking

UMW's 1H15 core net profit came in below expectations, making up 29% of our full-year forecast and 32% of consensus. No dividend was declared, as expected. Weak performances at its automotive, oil and gas and M&E divisions pulled down the performance of the group. We cut our FY15-17 EPS forecasts by 31-42% due to the anticipated challenging outlook for these divisions. Consequently, we reduce our RNAV-based target price but maintain our Hold call on the stock. Berjaya Auto is our top pick for the sector.

Weak performance from autos, O&G and M&E divisions ▶

UMW's 2Q15 core net profit plunged 70.9% yoy to RM68.4m on the back of a 12.1% yoy decline in revenue to RM3.49bn. Year-to-date, its core net profit dropped 50.3% yoy in 1H15 to RM233.6m, with revenue shrinking 10.9% yoy to RM6.73bn. The weak results were due to the weak performances at its automotive, oil and gas and manufacturing and engineering (M&E) divisions. The auto division's 1H15 revenue dropped 14.8% yoy to RM4.74bn, resulting in a 34.1% tumble in net earnings. This was mainly due to weaker sales of Toyota vehicles as a result of stiff competition in the local auto sector, compounded by the weaker RM against the US\$, which has affected the division's margins.

M&E and O&G divisions affected by industry slowdown ▶

Net earnings in 1H15 at UMW's M&E division plunged 82.6% yoy to RM1.8m, with revenue declining 9.3% yoy to RM336.5m. This division has been affected by the lower demand for components from local OEM automotive companies, which led to lower sales by UMW's auto component manufacturers, especially for four-wheeler products. This was compounded by higher losses in its Indian operations due to lower volume take-up by customers and higher expenses. Earnings at its O&G division declined 67.8% yoy to RM20.2m in 1H15, although revenue improved 14.2%, mainly due to lower time charter rates and lower rig utilisation for some of its assets.

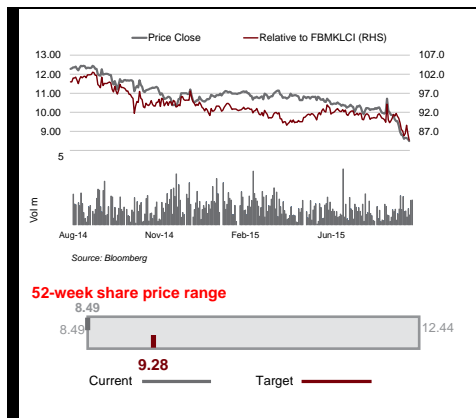
Equipment segment the only positive ▶

The equipment division was the only division that registered growth in 1H15. Net earnings grew 27.1% yoy to RM105.3m with revenue improving 13.3% yoy to RM1.0bn. This division has benefited from the higher demand for equipment, parts and services in 1Q15, resumption of jade mining activities in Myanmar in Sep 2014 and tax incentives on equipment purchases in Singapore.

Results comparison

FYE Dec (RM m)	2QFY15	2QFY14	yoy % chg	qoq % chg	2QFY15 Cum	2QFY14 Cum	yoy% chg	Prev. FY15F	Comments
Revenue	3,485.3	3,966.8	(12.1)	7.6	6,725.7	7,550.2	(10.9)	14,022.7	Lower revenue from auto and M&E divisions
Operating expenses	(3,309.3)	(3,583.9)	(7.7)	11.9	(6,266.2)	(6,734.0)	(6.9)	(12,543.0)	
EBIT	176.0	382.9	(54.0)	(37.9)	459.5	816.3	(43.7)	1,479.7	Lower profit from auto, O&G, and M&E divisions
EBIT margin (%)	5.0	9.7	(47.7)	(42.3)	6.8	10.8	(36.8)	10.6	
Interest expense	(27.8)	(20.1)	38.0	(13.8)	(60.0)	(45.3)	32.3	(146.3)	
Associates' contrib	29.5	23.8	23.9	(11.6)	63.0	64.5	(2.4)	140.0	
Investment income	29.9	35.4	(15.6)	(15.3)	65.1	65.9	(1.2)	119.5	
Exceptionals		(93.2)	n.m.	n.m.		(92.0)	n.m.		None expected
Pretax profit	207.6	422.1	(50.8)	(35.1)	527.6	901.4	(41.5)	1,592.8	Lower profit from auto, O&G, and M&E divisions
Tax	(74.3)	(128.1)	(42.0)	(11.6)	(158.3)	(215.4)	(26.5)	(398.2)	Higher tax rate as certain expenses not allowed
Tax rate (%)	41.7	32.2	29.7	42.3	34.1	25.7	32.4	27.4	for tax purpose
Minority interests	64.9	152.0	(57.3)	(8.4)	135.8	308.6	(56.0)	396.1	
Net profit	68.4	142.0	(51.8)	(58.6)	233.6	377.5	(38.1)	798.6	Below, at 29% of our full year forecast
EPS (sen)	5.86	12.15	(51.8)	(58.6)	19.99	32.31	(38.1)	68.35	
Core net profit	68.4	235.1	(70.9)	(58.6)	233.6	469.6	(50.3)	798.6	Below, at 29% of our full year forecast
Core EPS (sen)	5.86	20.13	(70.9)	(58.6)	19.99	40.19	(50.3)	68.35	

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue (RMm)	14,207	14,959	13,427	14,362	14,085
Operating EBITDA (RMm)	1,616	1,817	1,515	1,802	1,954
Net Profit (RMm)	681.2	657.7	461.8	684.9	790.8
Core EPS (RM)	0.59	0.57	0.40	0.59	0.69
Core EPS Growth	(34.8%)	(3.5%)	(29.8%)	48.3%	15.5%
FD Core P/E (x)	14.37	14.89	21.20	14.30	12.38
DPS (RM)	0.44	0.42	0.30	0.44	0.51
Dividend Yield	5.18%	5.00%	3.51%	5.21%	6.02%
EV/EBITDA (x)	7.97	7.50	7.42	5.77	5.13
P/FCFE (x)	11.72	7.89	6.17	10.48	32.90
Net Gearing	5.3%	10.4%	(9.2%)	(20.6%)	(24.2%)
P/BV (x)	1.54	1.49	1.45	1.42	1.39
ROE	12.2%	10.2%	6.9%	10.0%	11.3%
% Change In Core EPS Estimates			(42.2%)	(35.2%)	(31.3%)
CIMB/consensus EPS (x)			0.63	0.82	0.87

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Net Revenues	14,959	13,427	14,362	14,085
Gross Profit	1,817	1,515	1,802	1,954
Operating EBITDA	1,817	1,515	1,802	1,954
Depreciation And Amortisation	(390)	(478)	(497)	(506)
Operating EBIT	1,427	1,037	1,305	1,448
Financial Income/(Expense)	55	(27)	37	75
Pretax Income/(Loss) from Assoc.	140	125	150	160
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	1,621	1,135	1,492	1,684
Exceptional Items				
Pre-tax Profit	1,621	1,135	1,492	1,684
Taxation	(409)	(397)	(522)	(589)
Exceptional Income - post-tax				
Profit After Tax	1,212	738	970	1,094
Minority Interests	(554)	(276)	(285)	(304)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	658	462	685	791
Recurring Net Profit	658	462	685	791
Fully Diluted Recurring Net Profit	658	462	685	791

Balance Sheet

(RMm)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Cash And Equivalents	3,376	4,763	5,487	5,522
Total Debtors	1,925	1,162	1,243	1,219
Inventories	1,835	1,462	1,564	1,534
Total Other Current Assets	1,188	1,298	1,298	1,305
Total Current Assets	8,324	8,684	9,592	9,580
Fixed Assets	5,649	5,872	6,075	6,269
Total Investments	2,428	1,230	391	48
Intangible Assets	38	38	38	38
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	8,116	7,139	6,503	6,355
Short-term Debt	2,269	2,052	1,856	1,679
Current Portion of Long-Term Debt				
Total Creditors	2,119	1,686	1,804	1,769
Other Current Liabilities	324	934	1,050	1,084
Total Current Liabilities	4,712	4,672	4,709	4,533
Total Long-term Debt	2,088	1,880	1,692	1,522
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	165	212	230	247
Total Non-current Liabilities	2,253	2,092	1,921	1,769
Total Provisions	31	31	31	31
Total Liabilities	6,997	6,794	6,661	6,333
Shareholders' Equity	6,590	6,746	6,888	7,056
Minority Interests	2,853	2,283	2,546	2,546
Total Equity	9,443	9,029	9,434	9,602

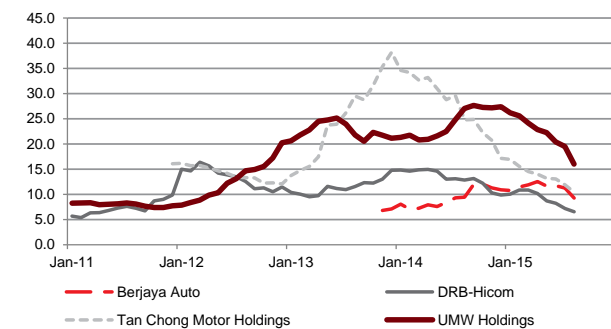
Cash Flow

(RMm)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
EBITDA	1,817	1,515	1,802	1,954
Cash Flow from Inv. & Assoc.				
Change in Working Capital	(205)	703	(65)	19
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(90)	(15)	(32)	(32)
Net Interest (Paid)/Received	(76)	(279)	(189)	(176)
Tax Paid	(409)	(409)	(397)	(522)
Cashflow From Operations	1,036	1,515	1,118	1,243
Capex	(2,176)	(700)	(700)	(700)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	1,199	1,199	900	100
Other Investing Cashflow	0	0	0	0
Cash Flow From Investing	(978)	499	200	(600)
Debt Raised/(repaid)	1,183	(427)	(384)	(346)
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	(947)	(357)	(534)	(623)
Preferred Dividends				
Other Financing Cashflow	82	148	135	122
Cash Flow From Financing	318	(636)	(784)	(847)
Total Cash Generated	376	1,378	535	(203)
Free Cashflow To Equity	1,242	1,587	934	298
Free Cashflow To Firm	141	2,160	1,450	762

Key Ratios

	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue Growth	5.3%	(10.2%)	7.0%	(1.9%)
Operating EBITDA Growth	12.4%	(16.6%)	19.0%	8.4%
Operating EBITDA Margin	12.1%	11.3%	12.5%	13.9%
Net Cash Per Share (RM)	(0.85)	0.72	1.68	2.01
BVPS (RM)	5.71	5.85	5.97	6.12
Gross Interest Cover	17.39	7.09	9.91	12.18
Effective Tax Rate	25.2%	35.0%	35.0%	35.0%
Net Dividend Payout Ratio	47.3%	42.6%	45.0%	45.1%
Accounts Receivables Days	31.17	29.61	22.49	23.41
Inventory Days	49.80	50.51	44.09	46.60
Accounts Payables Days	36.15	34.98	30.51	32.25
ROIC (%)	14.3%	9.5%	13.6%	14.8%
ROCE (%)	12.1%	8.6%	11.3%	12.7%
Return On Average Assets	10.1%	7.2%	9.2%	10.2%

12-month Forward Rolling FD P/E (x)



Key Drivers

	Dec-14A	Dec-15F	Dec-16F	Dec-17F
ASP (% chg, main prod./serv.)	0.0%	0.0%	0.0%	0.0%
Unit sales grth (% , main prod./serv.)	6.4%	-5.7%	3.7%	4.3%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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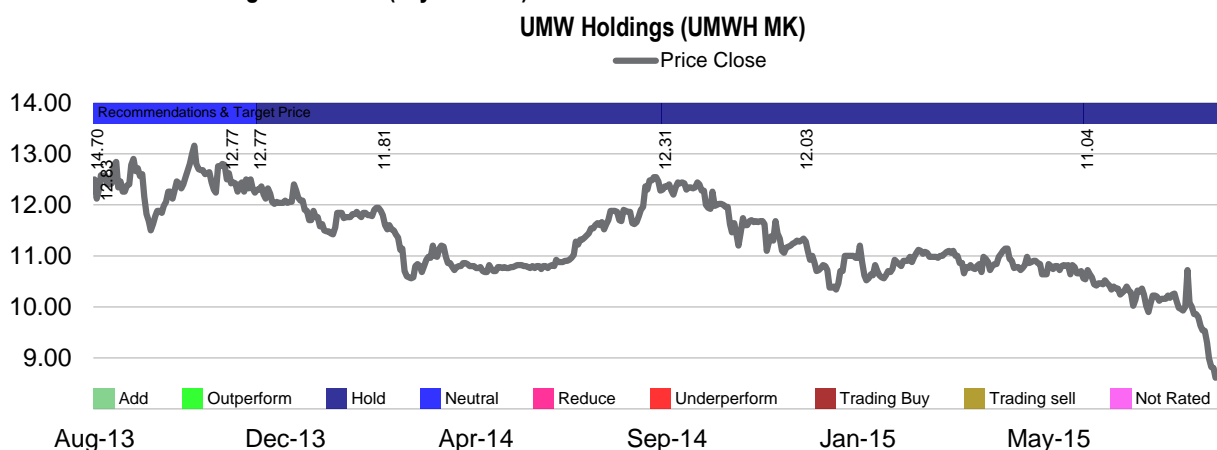
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2015		
1508 companies under coverage for quarter ended on 30 June 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	56.5%	6.7%
Hold	30.7%	4.5%
Reduce	12.6%	1.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2014.

AAV – Very Good, **ADVANC** – Very Good, **AEONTS** – not available, **AMATA** - Good, **ANAN** – Very Good, **AOT** – Very Good, **AP** - Good, **ASK** – Very Good, **ASP** – Very Good, **BANPU** – Very Good, **BAY** – Very Good, **BBL** – Very Good, **BCH** – not available, **BCP** - Excellent, **BEAUTY** – Good, **BEC** - Good, **BECL** – Very Good, **BGH** - not available, **BH** - Good, **BIGC** - Very Good, **BJC** – Good, **BLA** – Very Good, **BMCL** - Very Good, **BTS** - Excellent, **CCET** – Good, **CENTEL** – Very Good, **CHG** – not available, **CK** – Very Good, **CPALL** – not available, **CPF** – Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DEMCO** – Good, **DTAC** – Very Good, **EA** - Good, **ECL** – not available, **EGCO** - Excellent, **GFPT** - Very Good, **GLOBAL** - Good, **GLOW** - Good, **GRAMMY** - Excellent, **HANA** - Excellent, **HEMRAJ** – Very Good, **HMPRO** - Very Good, **ICHI** - not available, **INTUCH** - Excellent, **ITD** – Good, **IVL** - Excellent, **JAS** – not available, **JUBILE** – not available, **KAMART** – not available, **KBANK** - Excellent, **KCE** - Very Good, **KGI** – Good, **KKP** – Excellent, **KTB** - Excellent, **KTC** – Good, **LH** - Very Good, **LPN** – Very Good, **M** - not available, **MAJOR** - Good, **MAKRO** – Good, **MBKET** – Good, **MC** – Very Good, **MCOT** – Very Good, **MEGA** – Good, **MINT** - Excellent, **OFM** – Very Good, **OISHI** – Good, **PS** – Very Good, **PSL** - Excellent, **PTT** - Excellent, **PTTEP** - Excellent, **PTTGC** - Excellent, **QH** – Very Good, **RATCH** – Very Good, **ROBINS** – Very Good, **RS** – Very Good, **SAMART** - Excellent, **SAPPE** - not available, **SAT** – Excellent, **SAWAD** – not available, **SC** – Excellent, **SCB** - Excellent, **SCBLIF** – Good, **SCC** – Very Good, **SCCC** - Good, **SIM** - Excellent, **SIRI** - Good, **SPALI** - Excellent, **STA** – Very Good, **STEC** - Good, **SVI** – Very Good, **TASCO** – Good, **TCAP** – Very Good, **THAI** – Very Good, **THANI** – Very Good, **THCOM** – Very Good, **THRE** – not available, **THREL** – Good, **TICON** – Good, **TISCO** - Excellent, **TK** – Very Good, **TMB** - Excellent, **TOP** - Excellent, **TRUE** – Very Good, **TTW** – Very Good, **TUF** - Good, **VGI** – Very Good, **WORK** – not available.

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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