

Company Result

27 August 2015

UMW Holdings

HOLD

Another disappointing quarter

Maintained

Share Price	RM 8.49
Target Price	RM 8.22

Result

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	9918.82
52-week price Range	RM8.27 – 12.68
Beta (against KLCI)	1.02
3-m Average Daily Volume	1.04m
3-m Average Daily Value [^]	RM10.43m

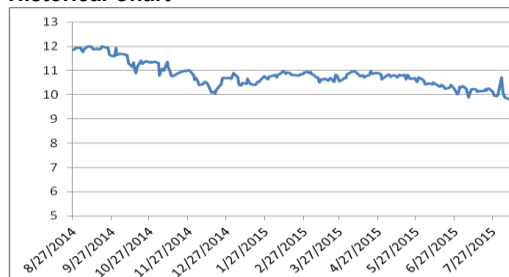
Share Performance

	1m	3m	12m
Absolute (%)	-16.11	-16.27	-30.86
Relative (%-pts)	-9.24	-10.72	-18.09

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	40.23
EMPLOYEES PROVIDENT FUND	16.75
PERMODALAN NASIONAL BERHAD	5.65
AMANAH SAHAM WAWASAN 2020	2.32

Historical Chart



Source: Bloomberg

Team Coverage

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- **UMW reported net profit of RM68.44mill for its 2Q15.** The quarterly net profit plunged by 58.6% q-o-q and 51.8% y-o-y. However, revenue climbed 7.6% q-o-q while declined 12.1% y-o-y.
- **As for 1H15, the reported net earnings were RM233.59mill, declined by 38.1% y-o-y.** Meanwhile, revenue decreased by 10.9% to RM6752.66mill.
- **Below expectations** – 1H15 net profit was below our expectation and market consensus by accounting only 29% and 31% of full year estimates respectively. The lower-than-expected net profit was dented by lackluster performance of automotive, oil & gas and M&E divisions.

Comment

- **Auto division remained weak** – Auto division's 1H15 PBT recorded a decline of 14.8% to RM4738.22mill, dented by slowdown in economic conditions with lower 1H15 Total Industry Volume (TIV), which eased by 3.3% as compared to 1H14. Toyota failed to increase its market share by recording 12.7% market share in 1H15 against 15.8% a year ago.
- **However, 2Q15 segmental PBT increased by 12.8% q-o-q** thanks to the higher demand for facelift Camry and the new Camry 2.5 Hybrid that launched in April'15 coupled with the continued strong orders for Vios and Hilux. Meanwhile, PBT declined by 35.5% y-o-y affected by weaker ringgit against USD coupled with weaker Toyota sales (declined by 16.3% y-o-y) as compared to 2Q14.
- **Perodua maintained its pole position** – Perodua managed to maintain its leading position with the largest market share of 33.7% in 1H15. The higher orders for the Perodua Axia contributed to the sales increase, +1.8% y-o-y. Perodua plans to export its Perodua Axia to Brunei, Mauritius and Sri Lanka starting 3Q15.
- **Equipment division recorded a positive performance in 1H15**– The equipment division recorded a growth of 41.2% y-o-y in its PBT to RM132.98mill thanks to strong demand for equipment, parts and services in 1Q15. Meanwhile, resumption of the jade mining activities in Myanmar in September 2014 plus tax incentive given by the authority on the purchase of equipment in Singapore also aided the higher growth for 1H15.
- **However, for 2Q15, the PBT decreased by 66.1% q-o-q and 38.9% y-o-y** following a lower revenue from both heavy and industrial equipment sub-segments due to the slowing down in construction and mining sectors.

- **O&G division endured its bad performance** – Another contraction recorded by Oil & Gas segment in 1H15 as PBT plunged by 59.5% y-o-y to RM50.46mill. The weaker profit contribution by its operations in Labuan and China dented the performance of its Oilfield Services segment while higher operating expenses from its new offshore premium jack-up rig, UMW NAGA 7 weighed on Drilling Services segment.
- **For 2Q15, the PBT decreased by 81.2% q-o-q and 87.9% y-o-y** following lower time charter rates received and lower utilisation of some of its assets in 2Q15.
- **Disheartening performance of M&E division in 1H15.** Manufacturing & Engineering's PBT declined by 89.8% y-o-y to RM2.2mill. The low export orders for KAYABA 4-wheeler products, Original Equipment Market products and power steering pumps during 1H15 caused the negative performance.
- **New business venture.** To recap, on 12 August 2015, UMW signed a 25 year agreement with Rolls-Royce Plc to manufacture and assemble fan cases for Rolls-Royce's Trent 1000 aero engines. The Group's will build a new production facility for the venture with an estimated investment of RM830m. We are positive on the group's strategy to diversify its business and penetrate into high-value manufacturing business. However, the new business will not yield any immediate earnings to the Group as the facility is targeted to commence production by 4Q17.
- **Dividend declared.** The Group has declared an interim net dividend of 10 sen per share, to be paid on 8th October 2015.

Earnings Outlook/Revision

- **As 1H15 results came far below from our expectation, we trim our earnings forecast for FY15 and FY16 by 31% and 22% respectively** to factor in the weaker car sales in 2015. We also lower the topline forecast for oil and gas division for both FY15 and FY16 by 33% and 15% respectively in view of slowdown in O&G sector in respect of drilling segment.

Valuation & Recommendation

- **Maintain HOLD call on UMW with lower target price of RM8.22 (previous TP: RM9.64).** We roll over our valuation to FY16F, pegging at 14x FY2016F PE (-1 standard deviation below mean PER) based on EPS of 59 sen.
- **Another challenging outlook for all the segments.** We envisage that Auto division will continue facing a competitive environment coupled with slower growth of car sales as Malaysian Automotive Association (MAA) lowered its forecast for Total industry volume (TIV) for this year. For equipment division, we expect the operating environment remains tough due to weak commodity prices which will impact its operations in Papua New Guinea.

- Meanwhile, M&E division will continue to be dented by competitive business atmosphere for the domestic lubricants and auto components markets. Besides, the outlook for oil & gas division will also remain challenging due to weaker drilling market with oil and gas majors lower its drilling budgets and even defer drilling plans with prevailing low day rates for its drilling rigs.

Figure 1: Quarterly Figures

Year to 31 Dec	2Q15 (RMm)	1Q15 (RMm)	2Q14 (RMm)	QoQ % chg	YoY % chg	6M15 (RMm)	6M14 (RMm)	YoY % chg
Revenue	3485.29	3240.37	3966.83	7.56%	-12.14%	6725.667	7550.233	-10.9%
Operating Profit	175.98	283.51	382.94	-37.93%	-54.04%	459.492	816.282	-43.7%
Pre-tax Profit	207.62	320.02	422.06	-35.12%	-50.81%	527.641	901.434	-41.5%
Profit After Tax	133.36	236.01	293.97	-43.50%	-54.64%	369.368	686.061	-46.2%
Net Profit	68.44	165.15	141.96	-58.56%	-51.79%	233.592	377.505	-38.1%
Operating Margin (%)	5.05%	8.75%	9.65%	-3.70ppt	-4.60ppt	6.8%	10.8%	-4.0ppt
PBT Margin (%)	5.96%	9.88%	10.64%	-3.92ppt	-4.68ppt	7.8%	11.9%	-4.1ppt

Figure 2: Segmental Breakdown

2015	2Q15 (RMm)	1Q15 (RMm)	2Q14 (RMm)	Q-O-Q (%)	y-O-y (%)	6M15 (RMm)	6M14 (RMm)	y-O-y (%)
Segmental Revenue								
Automotive	2732.67	2005.55	2904.42	36.26%	-5.91%	4738.22	5560.85	-14.79%
Equipment	353.64	652.99	453.76	-45.84%	-22.06%	652.99	888.70	-26.52%
Oil & Gas	183.37	312.50	238.78	-41.32%	-23.20%	495.87	434.35	14.16%
M & E	165.40	171.06	188.89	-3.31%	-12.43%	336.46	370.80	-9.26%
Others	69.52	115.866	204.873	-40.00%	-66.07%	185.39	335.59	-44.76%
Elimination	-19.32	-17.596	-23.884	9.79%	-19.12%	-36.91	-40.06	-7.86%
Total Revenue	3485.294	3240.373	3966.828	7.56%	-12.14%	6372.023	7550.233	-15.60%
Segmental PBT								
Automotive	263.37	233.52	408.55	12.78%	-35.53%	496.89	815.11	-39.04%
Equipment	33.68	99.30	55.09	-66.08%	-38.86%	132.98	94.19	41.19%
Oil & Gas	8.00	42.46	66.24	-81.17%	-87.93%	50.46	124.54	-59.49%
M & E	0.40	1.80	11.93	-78.04%	-96.68%	2.20	21.55	-89.79%
Total PBT	305.442	377.088	541.799	-19.00%	-30.40%	682.53	1055.388	-35.33%
Segmental Margin								
Automotive	9.64%	11.64%	14.07%	-2.01ppt	-4.43 ppt	10.49%	14.66%	-4.17 ppt
Equipment	9.52%	15.21%	12.14%	-5.68 ppt	-2.62 ppt	20.36%	10.60%	9.77 ppt
Oil & Gas	4.36%	13.59%	27.74%	-9.23 ppt	-23.38 ppt	10.18%	28.67%	-18.50 ppt
M & E	0.24%	1.05%	6.31%	-0.81 ppt	-6.07 ppt	0.65%	5.81%	-5.16 ppt

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2011	2012	2013	2014	2015F	2016F
Revenue	13,535.80	15,863.62	13,951.46	14,958.91	12,286.17	13,962.34
Operating profit	1,273.18	1,869.75	1,296.46	1,426.78	1,290.05	1,396.23
PBT	1,381.50	2,009.69	1,435.67	1,620.83	1,437.49	1,685.67
Net profit	502.10	994.30	679.61	657.67	553.15	686.07
EPS (sen)	0.43	0.85	0.58	0.56	0.47	0.59
P/BV (x)	1.78	1.58	1.10	1.05	0.99	0.94
P/E (x)	19.75	9.98	14.59	15.08	17.93	14.46
DPS (sen)	0.31	0.50	0.44	0.41	0.35	0.50
Dividend yield (%)	3.65%	5.89%	5.18%	4.83%	4.12%	5.89%
Operating margin (%)	9.41%	11.79%	9.29%	9.54%	10.50%	10.00%
PBT margin (%)	10.21%	12.67%	10.29%	10.84%	11.70%	12.07%
Net profit margin (%)	3.71%	6.27%	4.87%	4.40%	4.50%	4.91%
Net Gearing Ratio(x)	0.49	0.48	0.37	0.38	0.46	0.57
ROE (%)	9.00%	15.84%	7.57%	6.96%	5.53%	6.49%
ROA (%)	4.76%	8.43%	4.59%	4.00%	2.80%	2.88%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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