

27 August 2015

Hold

Price
RM8.49

Target price
RM9.57

Bloomberg Code
UMWH MK

Equity | Malaysia | Autos

Flashnote

UMW Holdings

Challenging outlook

UMW's 1H15 normalised pretax profit declined by 43% largely due to weaker contribution from the auto division and UMW-OG. We currently have a Hold call. We think outlook for the company continues to be challenging due to both the weaker ringgit and drop in oil prices.

- Despite a sequential pickup in the automotive division, the improvement failed to offset the weaker performance from the other divisions. As a result, UMW's 2Q15 normalised pretax profit fell 34% qoq. On a yoy basis, all divisions declined and UMW's normalised pretax profit fell by 55%. For the first half period, only the equipment division reported improvement in contribution and overall normalised pretax profit declined by 43%.
- Pretax profit for the automotive division declined by 36% yoy and 39% for the 1H15 period. While there was an improvement in Perodua sales, it was offset by the decline in Toyota volumes and the business was also impacted by the weaker ringgit. Toyota sales were down 16% yoy and 24% for the 1H15 period due to the lack of new models and competition from other players. The 1H15 pretax profit made up 50% of our full year estimates.
- The Oil & Gas division's 2Q15 pretax profit declined by 81% qoq, 88% yoy and 59% for the 1H15 period. The weaker contribution overall is due to lower utilisation rates as well as lower charter rates. Overall, the 1H15 numbers only made up 33% of our full year estimates.
- The equipment division's pretax profit declined 66% qoq and 39% yoy. We believe the sequential decline could be due to a slowdown after pre-GST buying. For the 1H15 period, pretax profit improved by 41% and made up 43% of our estimates. The improvement is on the back of the lifting of the suspension of jade mining activities in Myanmar in September and tax incentive given by the Singapore authority on purchase of equipment.
- Overall, the 1H15 normalised pretax profit made up 41% of our estimates. The main shortfall was due to the 'others' segment which is the non core Oil & Gas business and to a lesser extent UMW-OG as well as the equipment business. After stabilising in the first quarter, non-core losses have increased again by 86% qoq. We think there could be further pressure on earnings given the weaker ringgit which might impact the auto division. We also do not expect a pickup for UMW-OG given that there have been no updates on new contracts and there is limited visibility on the non core Oil & Gas business.
- We currently have a Hold recommendation on the stock. The encouraging thing is that despite the weaker performance, the company maintained its first interim dividend of 10 sen per share. The stock offers a decent yield of 4.8%

Analyst

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Table 1 : Quarterly earnings

(RMm) FYE 31 Dec	Quarter								% chg		Cumulative			KAF	
	Sep-13	Dec-13	Mar-14	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15	qoq	yoy	1H14	1H15	% chg	2015F	6M/F
Turnover	3,457	3,636	3,583	3,967	3,703	3,706	3,240	3,485	8	(12)	7,550	6,726	(11)	13,149	51
EBIT	291	405	423	420	393	315	271	177	(35)	(58)	843	448	(47)	1,068	42
Margin (%)	8.4%	11.1%	11.8%	10.6%	10.6%	8.5%	8.4%	5.1%	(39)	(52)	11.2%	6.7%		8.1%	
Net interest income	(3)	(4)	5	15	21	13	12	2	(83)	(86)	21	14	(31)	34	42
Exceptional	(105)	(120)	20	(37)	(8)	(89)	3	(1)	(122)	(98)	(17)	2	nm	0	nm
Associates	62	34	31	24	26	49	33	30	(12)	24	54	63	16	178	35
Pretax profit	246	314	479	422	431	289	320	208	(35)	(51)	901	528	(41)	1,280	41
Tax	(67)	(86)	(87)	(128)	(101)	(93)	(84)	(74)	(12)	(42)	(215)	(158)	(27)	(285)	56
Minorities	(78)	(147)	(157)	(152)	(133)	(113)	(71)	(65)	(8)	(57)	(309)	(136)	(56)	(348)	39
Net profit	101	81	236	142	197	83	165	68	(59)	(52)	378	234	(38)	647	36
Normalised net earnings	206	201	215	179	206	172	162	69	(57)	(61)	394	231	(41)	647	36
Normalised pretax profit	351	434	459	459	439	378	317	208	(34)	(55)	918	525	(43)	1,280	41

Source: Company, KAF

Table 2 : Quarterly sales trend

Reported sales (units)	Quarter								% chg		Cumulative			KAF	
	Sep-13	Dec-13	Mar-14	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15	qoq	yoy	1H14	1H15	% chg	2015F	6M/F
Toyota															
Cars	8,063	14,546	14,516	15,653	12,756	14,689	7,947	12,282	55	(22)	30,169	20,229	(33)	39,727	51
Commercial	3,986	3,841	2,808	3,612	3,304	4,034	2,451	3,036	24	(16)	6,420	5,487	(15)	10,834	51
FWD	8,280	8,496	6,861	7,672	7,448	8,682	5,843	7,237	24	(6)	14,533	13,080	(10)	22,997	57
Total units	20,329	26,883	24,185	26,937	23,508	27,405	16,241	22,555	39	(16)	51,122	38,796	(24)	73,559	53
Perodua															
Cars	37,761	38,380	35,489	33,813	32,975	42,954	46,530	42,837	(8)	27	69,302	89,367	29	161,296	55
Commercial	12,764	10,293	11,207	16,643	12,862	12,308	10,623	8,512	(20)	(49)	27,850	19,135	(31)	51,449	37
Total units	50,525	48,673	46,696	50,456	45,837	55,262	57,153	51,349	(10)	2	97,152	108,502	12	212,745	51

Source: Company, KAF

Table 3 : Segmental breakdown

(RMm) FYE 31 Dec	Quarter						% chg		Cumulative			KAF	
	Mar-14	Jun-14	Sept-14	Dec-14	Mar-15	Jun-15	qoq	yoy	1H14	1H15	% chg	2015F	6M/F
Revenue													
Motor	2,656	2,904	2,643	2,574	2,006	2,733	36	(6)	5,561	4,738	(15)	8,598	55%
O&G	196	239	254	328	312	183	(41)	(23)	434	496	14	1,139	44%
Equipment	434	454	435	446	653	354	(46)	(22)	888	1,007	13	1,986	51%
M&E	182	189	180	173	171	165	(3)	(12)	371	336	(9)	707	48%
Others	115	181	190	266	98	50	(49)	(72)	296	148	(50)	720	21%
Group	3,583	3,967	3,703	3,706	3,240	3,485	8	(12)	7,550	6,726	(11)	13,149	51%
PBT													
Motor	407	409	344	313	234	263	13	(36)	815	497	(39)	1,001	50%
O&G	58	66	76	86	42	8	(81)	(88)	125	50	(59)	154	33%
Equipment	39	55	44	79	99	34	(66)	(39)	94	133	41	312	43%
M&E	10	12	(1)	(4)	2	0	(78)	(97)	22	2	(90)	14	16%
Others	(34)	(120)	(32)	(184)	(57)	(98)	71	(18)	(154)	(155)	1	(201)	77%
Group	479	422	431	289	320	208	(35)	(51)	901	528	(41)	1,280	41%

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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