

UMW Holdings

Dismal 2Q15

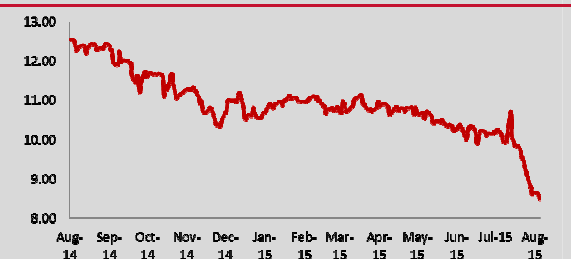
By **Desmond Chong** | cwchong@kenanga.com.my

- | | |
|--------------------------------|--|
| Period | <ul style="list-style-type: none"> 2Q15/ 1H15 |
| Actual vs. Expectations | <ul style="list-style-type: none"> Below expectations. The group reported 2Q15 normalised PATAMI of RM70.4m (-60% QoQ and YoY), bringing 1H15 core PATAMI to RM244.0m (-37%) which made up only 32% of both our and the consensus full-year earnings estimates. Note that the 1H15 normalised PATAMI has been adjusted by excluding the non-core items totalling -RM10.4m which consists of: (i) impairment losses of receivables amounting to RM5.7m, (ii) provision for write down of inventories amounting of RM7.0m, (iii) reversal of impairment of assets/investments amounting to RM21.1m, as well as others non-core items of RM18.7m. The negative deviations were lower-than-expected earnings mainly from: (i) the Automotive segment (weaker margins from higher CKD costs and aggressive A&P activities), (ii) the Oil & Gas segment (discounted charter rates and lower rig utilisation in the 2Q15), and (iii) greater losses from Other segment (which we believed to be non-core O&G). |
| Dividends | <ul style="list-style-type: none"> As expected, an interim single-tier dividend of 10.0 sen per share was declared. |
| Key Result Highlights | <ul style="list-style-type: none"> YoY, 1H15 revenue decreased by 11% owing to lower revenue contributions from the Automotive, M&E segment and other segment (which we believe to be non-core O&G). Compounded with lower EBIT margins of 6.8% (-4.0ppts) which was dragged mainly by higher costs arising from unfavourable forex in Automotive segments and discounts on time charter rates and additional opex (of NAGA 7) in Oil & Gas segment, EBIT declined by 44%. QoQ, despite weakness seen across Equipment, O&G, M&E and other segment, revenue still climbed up by 8% with Automotive segment being the saving grace (+36% thanks to its aggressive marketing programmes). PBT, however, dropped by 35% with gains from Automotive segment (+13%) negated by slimmer PBT across Equipment, O&G, M&E and higher losses in others segment (which we believe dragged by non-core O&G segment). YoY, Automotive: 1H15 revenue decreased by 15% as Toyota's prime position in the passenger vehicle segment lost ground to Honda due to the latter's attractive model launches, particularly in the B segment. Meanwhile, segmental PBT dropped steeper by 39% with PBT margin corroded by 4.2ppts which we believe was mainly due to: (i) higher discounts given to clear stock prior to GST implementation in 1Q15, and (ii) higher imported CKD costs on unfavourable forex. YoY, Equipment: 1H15 revenue jumped by 13% boosted by pent-up demand for equipment, parts and services pre-GST implementation in 1Q15 as well as the resumption of jade mining activities in Myanmar. With better operational efficiency coupled with tax incentive given by the authority to purchase equipment in Singapore, PBT soared by 41%. YoY, Oil & gas: 2Q15 revenue decreased by 23% owing to lower time charter rates and lower rig utilisation amid the sluggish Oil & Gas segment in the low oil price environment. Coupled with the lower operational efficiency, PBT dropped by 88%. YoY, M&E: 2Q15 revenue came in weaker at RM165.4m (-12%) mainly due to lower sales from the auto-component manufacturers, especially on the four wheelers products. At the PBT level, with the lower plant utilisation coupled with the higher expenses from the Indian operations, segment PBT merely breakeven at RM0.4m (vs RM11.9m a year ago). |

MARKET PERFORM ↔

Price: RM8.49
Target Price: RM8.93 ↓

Share Price Performance



KLCI	1580.37
YTD KLCI chg	-10.3%
YTD stock price chg	-22.5%

Stock Information

Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	9,918.8
Issued shares	1,168.3
52-week range (H)	12.68
52-week range (L)	8.27
3-mth avg daily vol:	1,039,053
Free Float	39%
Beta	1.0

Major Shareholders

SKIM AMANAH SAHAM BU	36.9%
EMPLOYEES PROVIDENT	15.9%
PERMODALAN NASIONAL	8.3%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	14959	12981	13691
EBITDA	1427	796	1130
PBT	1621	1054	1405
Core NP	792	462	650
Consensus (NP)	-	752	861
Earnings Revision (%)	-	-38%	-25%
EPS (sen)	67.7	39.5	55.6
EPS growth (%)	-7.1	-41.6	40.6
DPS (sen)	41.0	23.7	33.4
BVPS (RM)	5.6	5.8	6.0
PER	12.5	21.5	15.3
Price/BV (x)	1.5	1.5	1.4
Gearing (%)	0.1	0.0	0.1
Dividend Yield (%)	4.8	2.8	3.9

27 August 2015

Outlook

- For FY15, we are expecting its Automotive segment to register a lower combined total sales (Perodua, UMW Toyota) of 293k units (-2% YoY), vs. management's forecast of 298k units with unchanged sales volume assumptions from Perodua (205k units, mainly driven by Perodua Axia and MyVi) and UMW Toyota (lowered to 88k units) amidst the lack of new attractive models as well as the weaker sales performance in 1Q15.
- On the Oil and Gas segment, we expect headwinds in the Oil & Gas segment with oil prices envisaged to remain soft. With major oil companies implementing cost-cutting measures and delaying the capital expenditure, we expect continual downward pressure on the charter rates at least in the medium-term. Moreover, four rigs (Naga 2, 3, 5 and 6) are expected to run out of charter contracts in FY15, exerting further downward pressure on the groups near-term earnings.

Change to Forecasts

- Post-results, we have reduced our FY15E-FY16E PATAMI by 25%-38% to account mainly for: (i) lower EBITDA margin (to account for higher costs in FY15) for Automotive segment, (ii) lower earnings from Oil & Gas segment (reduction on average rig utilisation to 50%/69% in FY15E/FY16E from 64%/73% previously and lower average charter rate of USD104,229/day from USD135,000/day previously in view on lower rig count by oil majors expected coupled with oversupply in the Jack up rig market), and (iii) greater losses from other non-core O&G Segment.

Rating

Maintain MARKET PERFORM

Valuation

- Post-earnings revision, our SoP-derived TP has been reduced to RM8.93 from RM11.17 (which implies 16.0 FY16 PER, which is close to its -1SD below its 3-year PER mean) together with lower PER ascribed on Automotive (from 13x to 11x which is now being the sector forward PER) and Oil & Gas segment (from 13x to 10x which is the average forward PER of big cap Oil & Gas stocks).

Risks to Our Call

- Higher-than-expected vehicle sales.
- Earlier than expected recovery in Oil & Gas segment.
- Better than expected drilling margins.

Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE: Dec (RM 'm)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
Turnover	3485.3	3240.4	7.6%	3966.8	-12.1%	6725.7	7550.2	-10.9%
EBIT	176.0	283.5	-37.9%	382.9	-54.0%	459.5	816.3	-43.7%
PBT/(LBT)	207.6	320.0	-35.1%	422.1	-50.8%	527.6	901.4	-41.5%
Taxation	-74.3	-84.0	11.6%	-128.1	42.0%	-158.3	-215.4	26.5%
PATAMI	68.4	165.2	-58.6%	142.0	-51.8%	233.6	377.5	-38.1%
Core PATAMI	70.4	173.6	-59.5%	174.9	-59.8%	244.0	386.7	-36.9%
EPS (sen)	6.0	14.9	-59.5%	15.0	-59.8%	20.9	33.1	-36.9%
DPS (sen)	10.0	0.0		10.0		10.0	10.0	
EBIT margin	5.0%	8.7%		9.7%		6.8%	10.8%	
Pretax margin	6.0%	9.9%		10.6%		7.8%	11.9%	
Core NP margin	2.0%	5.4%		4.4%		3.6%	5.1%	
Effective tax rate	-35.8%	-26.3%		-30.3%		-30.0%	-23.9%	

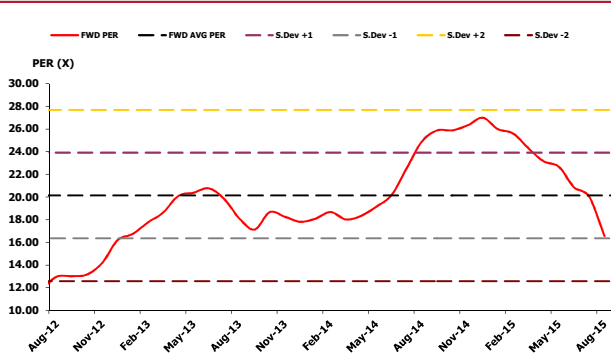
Source: Kenanga Research

Segmental Breakdown

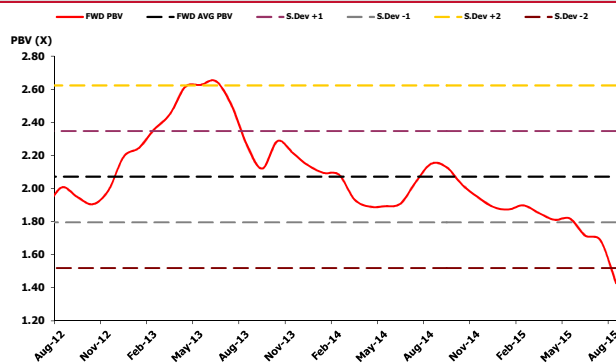
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
Revenue								
Automotive	2732.7	2005.5	36.3%	2,904.4	-5.9%	4738.2	5,560.9	-14.8%
Equipment	353.6	653.0	-45.8%	453.8	-22.1%	1006.6	888.7	13.3%
O&G	183.4	312.5	-41.3%	238.8	-23.2%	495.9	434.3	14.2%
M&E	165.4	171.1	-3.3%	188.9	-12.4%	336.5	370.8	-9.3%
Other segment	50.2	98.3	-48.9%	181.0	-72.3%	148.5	295.5	-49.8%
Segment PBT								
Automotive	263.4	233.5	12.8%	408.5	-35.5%	496.9	815.1	-39.0%
Equipment	33.7	99.3	-66.1%	55.1	-38.9%	133.0	94.2	41.2%
O&G	8.0	42.5	-81.2%	66.2	-87.9%	50.5	124.5	-59.5%
M&E	0.4	1.8	-77.8%	11.9	-96.6%	2.2	21.5	-89.8%
Other segment	-97.8	-57.1	-71.4%	-119.7	18.3%	-154.9	-154.0	-0.6%
Segment PBT margin								
Automotive	9.6%	11.6%		14.1%		10.5%	14.7%	
Equipment	9.5%	15.2%		12.1%		13.2%	10.6%	
O&G	4.4%	13.6%		27.7%		10.2%	28.7%	
M&E	0.2%	1.1%		6.3%		0.7%	5.8%	
Other segment	-194.8%	-58.1%		-66.2%		-104.3%	-52.1%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Sum-of-Parts Valuation of UMW

Sum-of-Parts Valuation of UMW		FY16	
Segment	PER (x)	FY16 PATAMI	Value (RMm)
Automotive	11.0	629.2	6921.1
O&G (Post-listing assumption)	10.0	92.7	927.4
Equipment	10.0	257.6	2584.1
M&E	0.0	-66.4	0.0
Others	0.0	-263.5	0.0
Total		649.6	10432.6
Total value			10432.6
No of shares			1168.3
Fair value			8.93

Source: Kenanga Research

This section is intentionally left blank

27 August 2015

Malaysian Automotive Peers Comparison

NAME	Price @ 26/08/15	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Hist. ROE (%)	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd			Actual	1 Yr Fwd	2 Yr Fwd				
DRB-HICOM BHD	1.32	2551.8	10.0	12.6	9.2	4.5%	6.3%	255.4	202.8	277.7	-20.6%	36.9%	1.81	MP
MBM RESOURCES BERHAD	2.71	1058.8	9.3	9.5	8.3	4.1%	7.7%	114.2	111.1	128.3	-2.7%	15.5%	3.26	MP
TAN CHONG MOTOR HOLDINGS BHD	2.48	1618.9	24.0	14.9	11.0	3.6%	2.5%	67.6	109.0	146.9	61.3%	34.7%	2.87	UP
UMW HOLDINGS BHD	8.49	9918.9	12.5	21.5	15.3	2.8%	10.2%	791.5	461.9	649.6	-41.6%	40.6%	8.93	MP
BERJAYA AUTO BHD	2.14	1724.6	11.4	9.2	8.3	6.8%	43.5%	215.4	266.7	297.7	23.8%	11.6%	3.14	OP

Source: Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research

