

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/SELL/RM8.28/Target: RM7.00)

3Q15: In Need Of Speed

Year to 31 Dec	3Q15 (RMm)	qoq % chg	yoy % chg	9M15 (RMm)	yoy %chg	Remarks	Year	EPS (sen)	PE (x)
Revenue	3,533.2	1.4	(4.6)	10,258.8	(8.8)	(see sales breakdown below)	2015F	36.3	22.7
-Auto	2,596.1	(5.0)	(1.8)	7,334.4	(10.6)	3Q15 Toyota sales volume flattish yoy.	2016F	39.2	21.0
-Equipment	474.8	34.3	9.2	1,481.4	11.9	Higher demand especially from Myanmar and Papua New Guinea.	2017F	58.0	14.2
-Mfg & Eng	183.8	11.1	2.0	520.3	(5.6)				
-Oil & gas	212.7	16.0	(16.4)	708.6	2.9	3Q15 sales down yoy on lower time charter rates and lower utilization of some rigs.			
-Others	82.6	18.9	(60.5)	268.0	(50.8)				
-Elimination	(16.9)	(12.5)	(12.2)	(53.8)	(9.3)				
EBIT	66.8	(76.4)	(82.6)	526.3	(56.1)				
Associates	(0.3)	(101.1)	(101.3)	62.7	(30.5)	Although Perodua recorded higher sales in 3Q15, earnings contribution were down significantly due to unfavorable forex rend.			
PBT	72.2	(65.2)	(83.2)	599.9	(55.0)				
Net profit	13.5	(80.2)	(93.1)	247.1	(57.0)				
Core net profit	109.8	1,773.2	(47.2)	310.9	(45.2)	9M15 core net profit represents 73% of our FY15 earnings after excluding: a) RM175.2m forex gain, b) derivative loss of RM241.9m and RM2.9m other non-core items.			
PBT margins (%)	(%)	(%)	ppt chg	(%)	ppt chg				
Overall	2.0	-3.9	-9.6	-2.7	-1.0				
-Auto	4.4	-5.3	-8.6	8.3	-5.8				
-Equipment	13.6	4.0	3.4	13.3	2.9				
-Mfg & Eng	0.4	0.2	1.2	0.6	-3.1				
-Oil & gas	5.4	1.0	-24.4	8.7	-20.4				

Source: UMW Holdings, UOB Kay Hian

WHAT'S NEW

- **UMW Holdings' (UMW) 3Q15 results were within expectations**, with 9M15 core net profit of RM310.9m accounting for 73% of our full-year earnings forecasts. While the equipment segment recorded a strong 45% yoy earnings growth in 3Q15, other major divisions namely the oil & gas (O&G) and auto segments continued to perform poorly, with 3Q15 PBT down 84.9% and 67% yoy respectively. We also note that UMW did not declare a second interim dividend during the quarter (3Q14: 15 sen).
- **Auto segment remained weak**. Although 3Q15 auto sales were flattish yoy, its PBT declined significantly by 67% yoy on the back of margin compression from the weakening ringgit given that: a) some of its costs of components and vehicles are denominated in US dollar, and b) higher campaign and promotion expenses. Toyota's vehicles sold in 3Q15 stood at 23,301 units (3Q14: 23,508), <1% yoy decline. Meanwhile, although its 38%-owned associate, Perodua recorded a yoy increase in units sold, earnings were down considerably due to margin compression from the weak ringgit against the US dollar.
- **O&G segment continued to be a drag**. 3Q15 oil and gas segment sales were down 16.4% yoy due to lower time charter rates and lower utilisation of some of its rigs. However, massive yoy erosion in 3Q15 margins resulted in an 84.9% yoy decline in PBT which we believe came mainly from the double whammy effects of: a) lower charter rates, and b) higher operating expenses from its uncontracted rigs.

COMMENT

- **Tough times ahead**. The upcoming price hike for Toyota and Lexus vehicles by 4-16% effective Jan 16 shall provide a slight relief. However, we believe 2016 will continue to be challenging for auto segment as stiff competition amid a saturated market, coupled with weak ringgit will continue to put pressure on its margins. In addition, we expect its 55.7%-owned UMW O&G to remain lacklustre on the back of lower charter rates and low utilisation rates of its jack-up rigs against the backdrop of the weak crude oil prices that hit industry wide players. UMW O&G currently has four out of eight rigs operating (NAGA 1, 4, 7 and 8).
- **Maintain SELL and SOTP-target price of RM7.00**, implying a 17.8x 2016F PE and 6.5x EV/EBITDA. Its 5-year mean trading PE stands at 19.5x and the stock currently trades at a lofty 21x 2016F PE (5-year +1sd trading PE of 26.4x). Its dividend yield is not specially compelling at 3.7-4.0% for 2015-16, given the downside risks to its earnings as its major divisions operate in current challenging environments.

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