Results Note

UMW

UMWH MK
Sector: Auto & Autoparts

No catalysts in sight

UMW Holdings' (UMHW) 9M15 core net profit missed our and consensus expectations on the back of weaker vehicle sales from Toyota and moderating earnings from its O&G segment. While the equipment division continues to do well, the group's auto division remains a drag for UMW. We trim our 2015-17E estimates by 6-13%. Maintain our HOLD call with lower SOTP-based TP of RM7.80.

9M15 core net profit dropped 35.1% yoy

The group's 9M15 reported net profit moderated 57% yoy to RM247.1m. After excluding the forex gains, losses on derivatives and non-core items, UMW's 9M15 core net profit dropped by a smaller quantum of 35.1% yoy to RM373.8m. This was below our but within street expectations, reaching 64% and 72% of the full-year figures. The variation from our forecast was mostly attributed to the weaker vehicle sales from Toyota and disappointing numbers from UMW Oil & Gas (UMWOG MK, SELL, TP: RM0.89).

Flailing auto division

UMWH's automotive segment registered 9M15 revenue and PBT decline of 10.6% and 47.4% yoy to RM7.3bn and RM610.3m, respectively. This was mostly driven by decreasing Toyota car sales (9M15 sales volume: -16.8% yoy). Meanwhile, margins were also hit by increased competition in the automotive space and higher operating costs due to the depreciating RM vs. US$, which has in turn elevated component costs.

O&G division disappoints

Despite UMWOG's 9M15 revenue growth of 2.9% yoy to RM708.6m, mainly driven by the additions of new assets (NAGA 5, 6 and GAIT 6), core PBT dropped 69.1% yoy to RM61.9m (making up 10.3% of UMWH's PBT). This was mainly due to softer time-charter rates, additional pre-operating expenses from new jack-up rig NAGA 7 and 8 and weaker utilisation rates.

Maintain HOLD at SOTP-based TP of RM7.80

After incorporating in lower earnings estimates for the automotive and O&G divisions, our 2015-17E EPS estimates are lowered by 6-13%. As such our SOTP-based TP is lowered to RM7.80 (from RM8.94). The group is currently trading at an implied 12-month PER of 15.8x (below the stock's historical 5-year average PE of 16.5x). We are still cautious on the UMWH's outlook given the respective headwinds faced in both of its key businesses. We keep our HOLD call on the stock in view of its supportive dividend yields of 4-5%.

Earnings & Valuation Summary

FYE Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	13,951.5	14,932.5	13,884.6	14,800.6	15,582.2
EBITDA (RMm)	1,467.4	1,607.5	1,859.3	1,743.0	2,044.5
Pretax profit (RMm)	1,435.7	1,621.5	1,286.6	1,447.7	1,647.7
Net profit (RMm)	652.9	658.3	510.4	611.7	708.8
EPS (sen)	55.9	56.3	43.7	52.4	60.7
PER (x)	14.8	14.7	19.0	15.8	13.6
Core net profit (RMm)	852.3	792.1	510.4	611.7	708.8
Core EPS (sen)	73.0	67.8	43.7	52.4	60.7
Core EPS growth (%)	(14.7)	(7.1)	(35.6)	19.8	15.9
Core PER (x)	11.3	12.2	19.0	15.8	13.6
Net DPS (sen)	44.0	41.0	36.0	46.0	47.0
Dividend Yield (%)	5.3	5.0	4.3	5.6	5.7
EV/EBITDA (x)	6.9	6.5	5.6	5.9	4.9
Chg in EPS (%)			-12.7	-12.7	-5.9
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

RM8.28 @ 26 November 2015

HOLD (maintain)

Downside 5.8%

Price Target: RM7.80

Previous Target: RM8.94

Price Performance

	1M	3M	12M
Absolute	+2.0%	-2.5%	-26.7%
Rel to KLCI	+3.4%	-8.4%	-19.8%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	9,673.5/2,291.6
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	7.41-11.44
Est free float	33.9%
BV per share (RM)	5.75
P/BV (x)	1.44
Net cash/ (debt) (RMm) (3Q15)	(3,304.3)
ROE (2015E)	12.0%
Derivatives	Nil
Shariah Compliant	YES

Key Shareholders

Skim Amanah Saham Bumiputera	40.1%
EPF	17.0%
PNB	5.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Dec (RMm)	3Q15	QoQ % chg	YoY % chg	9M15	YoY % chg	Comments
Revenue	3,533.2	1.4	(4.6)	10,258.8	(8.8)	Revenue decreased yoy due to lower contributions from the group's automotive (-10.6% yoy) and manufacturing & engineering (-5.6% yoy), which offset the positive revenues from its equipment (+11.9% yoy) and O&G (+2.9% yoy) divisions.
Op costs	(3,350)	1.3	0.6	(9,606)	(4.3)	
EBIT	183.1	2.9	(50.8)	653.0	(46.3)	
EBIT margin (%)	*5.2*	+0.1ppt	-4.8ppt	*6.4*	*-4.4ppt*	EBIT margin contracted yoy due to the higher operating costs as a result of the strong US$ and negative operating leverage from its O&G division
Int expense	(24.8)	(10.9)	93.4	(84.7)	35.2	
Int and other inc	30.5	2.1	(9.0)	95.6	(3.8)	
Associates	(116.3)	n.m.	n.m.	(126.7)	7,605.1	
Exceptional items	(0.3)	(101.1)	(101.3)	62.7	(21.7)	EI includes forex gains, derivatives and non-core items
Pretax	**72.2**	**(65.2)**	**(83.2)**	**599.9**	**(55.0)**	
Tax	(44.3)	(40.3)	(55.9)	(202.6)	(35.9)	
Tax rate (%)	*61.4*	+25.5ppt	+37.9ppt	*33.8*	*+10.0ppt*	Higher effective tax rate mainly due to: i) certain subsidiaries which are in a loss position; and ii) certain expenses which are not tax-deductible.
MI	(14.4)	(77.8)	(89.2)	(150.2)	(66.0)	
Net profit	**13.5**	**(80.2)**	**(93.1)**	**247.1**	**(57.0)**	
EPS (sen)	1.2	(80.2)	(93.1)	21.15	(57.0)	
Core net profit	**129.8**	**84.5**	**(47.0)**	**373.8**	**(35.1)**	9M15 net profit came in below our but within street expectations

Source: Affin Hwang, Company data

Key risks

Key downside risks to our view include: i) intensified competition from other Japanese, Korean and European marquees; and ii) weaker consumer discretionary spending. Upside risks include: i) higher-than-expected sales volume growth for *Toyota* and *Perodua*; ii) lower-than-expected competition; and iii) faster turnaround from its equipment division.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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