

Company Focus

UMW Holdings

Bloomberg: UMWK MK | Reuters: UMWS.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 Nov 2015

HOLD

Last Traded Price: RM8.28 (KLCI : 1,683.09)

Price Target : RM7.40 (-11% downside) (Prev RM7.95)

Shariah Compliant: Yes

Reason for Report : 3Q15

Where we differ: Our earnings are lower than consensus on slower car sales growth assumptions

Analyst

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Result Summary

FY Dec (RMm)	3Q 2015	3Q 2014	2Q 2015	yoy % chg	qoq % chg
P&L Items					
Turnover	3,533	3,703	3,485	(4.6)	1.4
Gross Profit	(97.4)	358	149	nm	nm
Opg Profit	66.8	384	176	(82.6)	(62.0)
EBITDA	66.8	384	176	(82.6)	(62.0)
Net Profit	13.5	197	68.4	(93.1)	(80.2)
Other Data					
Gross Margin (%)	(2.8)	9.7	4.3		
Opg Margin (%)	1.9	10.4	5.0		
Net Margin (%)	0.4	5.3	2.0		

Financial Summary

FY Dec (RMm)	2014A	2015F	2016F	2017F
Revenue	14,932	12,918	13,243	13,464
Operating Profit	1,433	708	945	1,045
EBITDA	1,812	1,068	1,287	1,370
Net Pft (Pre Ex.)	652	404	522	567
EPS Pre Ex. (sen)	93.0	34.6	44.6	48.5
EPS Pre Ex. (sen)	55.8	34.6	44.6	48.5
EPS Gth (%)	103	(63)	29	9
EPS Gth Pre Ex (%)	0	(38)	29	9
Net DPS (sen)	41.0	17.3	22.3	24.3
BV Per Share (sen)	563	581	603	627
PE (X)	8.9	24.0	18.5	17.1
PE Pre Ex. (X)	14.8	24.0	18.5	17.1
EV/EBITDA (X)	7.5	12.8	11.0	10.7
Net Div Yield (%)	5.0	2.1	2.7	2.9
P/Book Value (X)	1.5	1.4	1.4	1.3
Net Debt/Equity (X)	0.1	0.1	0.1	0.1
ROAE (%)	16.9	6.0	7.5	7.9

At A Glance

Issued Capital (m shrs)	1,168
Mkt. Cap (RMm/US\$m)	9,673 / 2,297
3m Avg. Daily Val (US\$m)	3.3

ICB Industry : Consumer Goods

ICB Sector: Automobiles & Parts

Principal Business: : UMW is the sole assembler and distributor of Toyota and Lexus vehicles. This includes marketing, sales services and auto parts trading. Its other business segments are Oil & Gas (owns jack-up drilling rigs and onshore rigs), Equipment (trading of industrial heavy equipment) and Manufacturing & Engineering (trading of lubricants).

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Difficult times

- **3Q15 net profit was below expectations**
- **Lower contribution from auto segment; sharp margin contraction**
- **Cut FY15-16 net profit by 10-25%**
- **Maintain HOLD with lower TP RM7.40**

Highlights

Below expectation

- UMW's 3Q15 net profit fell 93.1% y-o-y to RM13.5m. YTD net profit of RM247.1m was below our and consensus expectations largely due to weaker auto segment profits, lower contribution from the oil and gas segment and higher losses from the "others" segment.

Lower contribution from segments

- Auto pretax profit dropped 67% y-o-y to RM113.4m for the quarter dragged by lower margins and sales. The aggressive promotions and road shows on top of the weakening of Ringgit Malaysia caused pre-tax profit margins to drop q-o-q to 4.4% from 9.6% (in 2Q15). Toyota car sales fell by 0.4% y-o-y to 23,773 units. Perodua recorded lower sales q-o-q but managed to increase by 7% y-o-y backed by higher volumes from Perodua Axia.
- Oil and gas pre-tax profit took a hit and fell 84.9% y-o-y. 3Q15 results was dragged down by lower fleet utilisation as 4 rigs were idle and the group had to take delivery of Naga 8 during the quarter which incurred mobilisation expenses. Lower charter rates are also affecting profitability. Charter rates have fallen to USD110-120k/day from more than USD170k/day a year ago.
- Equipment segment recorded higher revenue by 9.2% due to higher demand from operations in Myanmar and Papua New Guinea. Pretax profit for this division jumped by 45% y-o-y to RM64.4m.

Cut FY15-16 net profit by 25%/10%

- We cut our FY15/16 net profit by 25%/10% incorporating lower auto sales and larger losses for "others" segment.

Outlook

Near term earnings pressured

- Auto players are aggressively launching year end campaigns and promotions to meet their year-end sales targets. This includes rebates and free instalments. The intense competition will pressure near term earnings.

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- Some auto players have announced price hikes starting January 2016 due to the weakening Ringgit which has led to escalating costs. This includes Honda (+2-3%), Toyota (+4-16%) and Mitsubishi (+2-7%). While we expect Toyota sales may pick up in 4Q15 from buying activities ahead of price hike in 2016, it may be minimal given tough competition.
- There could be further weakness ahead for the oil & gas operations as most of its drilling rigs are on short-term charters. With the decline in charter rates and oversupply of jack-up rig, we expect that recovery in the drilling market will take another 2-3 years.

Valuation:

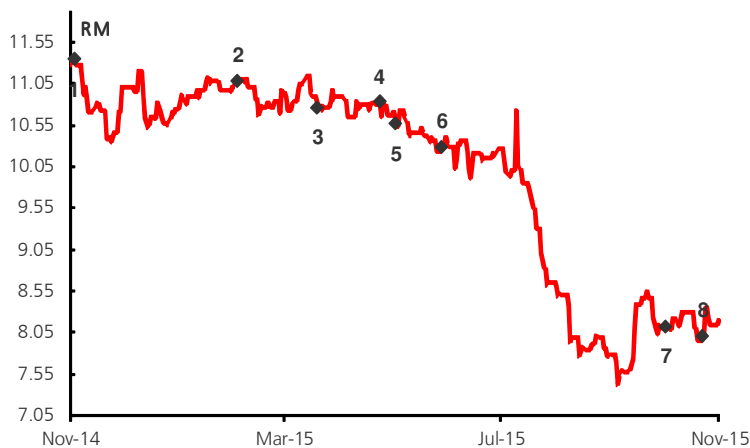
We maintain our Hold rating for UMW with a lower TP of RM7.40 (from RM7.95) based on SOP valuation factoring in lower earnings from the auto sales and others segment.

Key Risks:

Sharp recovery in auto sales. Significantly stronger Toyota vehicle unit sales could revive earnings and re-rate the stock.

Higher cost. The increase in car prices will help manufacturers cover part of the increase in imported cost (arising from the Ringgit's depreciation). However, further weakening of the Ringgit would be a risk for the manufacturers.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	27 Nov 14	11.34	12.70	HOLD
2:	27 Feb 15	11.08	12.70	HOLD
3:	13 Apr 15	10.76	10.80	HOLD
4:	18 May 15	10.82	10.80	HOLD
5:	27 May 15	10.56	10.80	HOLD
6:	22 Jun 15	10.28	9.90	HOLD
7:	26 Oct 15	8.12	7.95	HOLD
8:	16 Nov 15	8.00	7.95	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

DISCLOSURE**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Published and Printed by
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