

UMW (SELL ↔, EPS ↓)

INDUSTRY: UNDERWEIGHT

EARNINGS EVALUATION

27 November 2015

Price Target: RM6.55 (↓)

Share price: RM8.28

Tough Market 2015

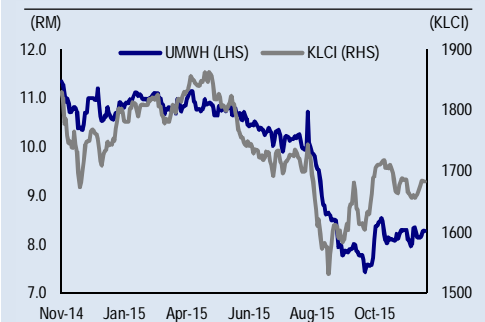
Results	<ul style="list-style-type: none"> ▪ Below Expectation - Reported core net profit of RM71.1m in 3Q15 and RM314.1m in 9M15, achieved only 75.9% of HLIB's FY15 expectation and 60.8% of consensus. We expect continued worsen business environment for automotive and O&G segments in 4Q15.
Deviations	<ul style="list-style-type: none"> ▪ Mainly dragged by lower margins on lower sales volume (automotive and manufacturing divisions), lower charter rates and utilization rates (O&G), and higher operational costs (inputs and marketing expenses).
Dividends	<ul style="list-style-type: none"> ▪ None. As expected given the deteriorated automotive outlook.
Highlights	<ul style="list-style-type: none"> ▪ Automotive: 3Q15 earnings deteriorated further qoq on lower sales volume and higher input costs (weakened MYR) and sales and promotional expenses to boost sales volume for Toyota on the back of stiff competition environments. Perodua contributions during the quarter also deteriorated on higher imported CKD costs on weakened MYR. ▪ Equipment: 3Q15 earnings improved on higher demand for heavy equipment from Myanmar and Papua New Guinea. Overall earnings improved on higher sales volume, margins and higher translated US\$ denominated transactions. ▪ Oil & Gas: 3Q15 earnings reflect the downturn of demand for jack-up rigs. UMWOG suffered from depressed utilization rates and time charter rates as well as higher expenses from Naga 7. Excluding forex gain of RM36.4m, the segment to contribute losses in 3Q15. ▪ Manufacturing & Engineering: Barely breakeven in 3Q15, due to lower demand for autoparts and lubricants in view of slowdown in automotive sector in Malaysia and China. ▪ Others: Continued losses, indicating longer than expected turnaround, given drop in crude oil prices.
Risks	<ul style="list-style-type: none"> ▪ Prolonged tightening of banks' HP rules. ▪ Slowdown in the Malaysian economy affecting car sales. ▪ Global automotive supply chain disruption. ▪ Appreciation of US\$. ▪ Plunge in crude oil price and slowdown in O&G exploration.
Forecasts	<ul style="list-style-type: none"> ▪ We have cut earnings for FY15-17 by 6.4-16.8% in view of the weaker market demand and higher costs structures.
Rating	<p>SELL (↔)</p> <ul style="list-style-type: none"> ▪ Positives – 1) Control largest market share of Malaysia TIV with leading brand - Toyota, Lexus and Perodua; and 2) Investing into new business segment. ▪ Negatives – 1) Slump in crude oil prices affecting demand and charter rates for jack-up rigs; 2) Tightening of bank's lending rules; and 3) Intense competition from rival automotive marques.
Valuation	<ul style="list-style-type: none"> ▪ Maintained SELL recommendation with lower SOP based TP: RM6.55 (from RM6.85) after cutting earnings estimates and lowered P/E multiples on weakened market sentiment.

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KLCI	1683
Expected share price return	-20.9%
Expected dividend return	3.0%
Expected total return	-17.9%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	9,673
3-mth avg. volume ('000)	1,745
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	2.2	-2.8	-27.0
Relative	3.7	-8.7	-20.1

Major shareholders

PNB	50.9%
EPF	17.0%
KWAP	2.2%

Summary Earnings Table

FYE Dec (RM m)	FY14A	FY15E	FY16E	FY17E
Turnover	14,932	12,510	13,250	14,089
EBITDA	2,024	1,255	1,356	1,590
Pre-tax Profit	1,621	862	969	1,187
Rpt. net profit	652	387	441	555
Norm. net profit	786	387	441	555
Norm. EPS (sen)	67.3	33.2	37.7	47.5
P/E (x)	12.3	25.0	21.9	17.4
Book Value (RM)	5.6	5.6	5.7	5.9
P/B (x)	1.5	1.5	1.4	1.4
Net Dvd Yield (%)	6.9	3.0	3.6	4.6
Net Gearing	12.4	15.9	24.1	31.1
ROE (%)	12.2	5.9	6.7	8.2
ROA (%)	5.1	2.3	2.6	3.1

Consensus:

EPS (sen)	44.6	53.6	61.1
% Diff	-25.7	-29.6	-22.2

HLIB

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	Comment
Revenue	3,697.4	3,485.3	3,533.2	1.4	-4.4	Revenue declined yoy on lower contribution from Automotive (lower Toyota sales), O&G (lower rigs utilization and charter rates) and others (disposal of businesses).
EBITDA	519.4	283.3	326.5	15.2	-37.1	
EBITDA Margin (%)	14.0	8.1	9.2	13.7	-34.2	EBITDA margin declined yoy on lower rigs utilization as well as lower margins on automotive sector due to higher cost structures.
EBIT	405.8	177.9	183.1	2.9	-54.9	
EBIT Margin (%)	11.0	5.1	5.2	0.1	-5.8	Filtered through lower EBITDA margin yoy.
Net Finance Expense	20.7	2.1	5.7	174.0	-72.3	
Associates	25.6	29.5	-0.3	-101.1	-101.3	Losses incurred in 3Q15 likely due to drag on valued business segment. Note that Perodua still making contribute profits in 3Q15 albeit lower qoq and yoy due to forex losses (partially unrealized).
Eis	-21.8	-1.9	-116.3			Related to derivatives, forex, impairments and provisions.
Reported PBT	430.3	207.6	72.2	-65.2	-83.2	
Tax	-100.6	-74.3	-44.3	-40.3	-55.9	
Reported Net Profit	329.7	133.4	27.9	-79.1	-91.5	
Reported PATAMI	197.0	68.4	13.5	-80.2	-93.1	
Core PATAMI	218.8	70.4	71.1	1.1	-67.5	Core PATAMI declined 67.5% yoy on lower contribution across all segments.
Reported EPS (Sen)	16.9	5.9	1.2	-80.2	-93.1	
Core EPS (Sen)	18.7	6.0	6.1	1.1	-67.5	

Company, HLIB

Figure #2: Cumulative Result Comparison

FYE Dec (RMm)	9M14	9M15	YoY (%)	FY15E	Dif (%)	Comment
Revenue	11,247.7	10,258.8	-8.8	12,320.5	83.3	Revenue declined yoy on lower contribution from Automotive (lower Toyota sales), O&G (lower rigs utilization and charter rates) and others (disposal of businesses).
EBITDA	1,498.7	1,013.8	-32.4	1,190.3	85.2	
EBITDA Margin (%)	13.3	9.9	-3.4	9.7	0.2	EBITDA margin declined yoy on lower rigs utilization as well as lower margins on automotive sector due to higher cost structures.
EBIT	1,231.2	652.0	-47.0	752.1	86.7	
EBIT Margin (%)	10.9	6.4	-4.6	6.1	0.3	Filtered through lower EBITDA margin.
Net Finance Expense	41.3	10.9	-73.6	6.1	178.7	
Associates	90.1	62.7	-30.5	157.1	39.9	Lower associates contribution on losses from valued business segments in 3Q15 and lower contribution from Perodua on forex impact (partially due to unrealised forex losses).
EI	-31.0	-125.7		0.0		Related to derivatives, forex, impairments and provisions.
Reported PBT	1,331.7	599.9	-55.0	915.4	65.5	
Tax	-316.0	-202.6	-35.9	-229.8	88.2	
Reported Net Profit	1,015.8	397.3	-60.9	685.6	57.9	
Reported PATAMI	574.5	247.1	-57.0	413.8	59.7	
Core PATAMI	605.5	314.1	-48.1	413.8	75.9	Core PATAMI declined 48.1% yoy, mainly dragged down by Automotive and O&G segments. 9M15 core earnings below HLIB's expectations.
Reported EPS (Sen)	49.2	21.2	-57.0	35.4	59.7	
Core EPS (Sen)	51.8	26.9	-48.1	35.4	75.9	

Company, HLIB

Figure #3: UMW Group Automotive Sales Statistics

Unit Sales	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	9M14	9M15
Toyota (51% ownership)	24,185	26,937	23,508	27,405	16,241	22,555	23,301	74,630	62,097
Lexus (51% ownership)	449	367	369	416	362	532	472	1,185	1,366
Perodua (38% ownership)	44,024	50,456	45,837	55,262	57,153	51,349	49,025	140,317	157,527
Total	68,658	77,760	69,714	83,083	73,756	74,436	72,798	216,132	220,990
Growth YoY (%)	2.38	4.98	-2.07	8.94	7.43	-4.27	4.42		2.25

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Figure #4: UMW Earnings Breakdown

	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,643.4	2,732.7	2,596.1	-5.0	-1.8	Mainly due to unfavorable product mix and higher discounts given to boost sales volume.
Equipment	434.8	353.6	474.8	34.3	9.2	Higher sales in 3Q15 driven by demand for heavy equipment in Myanmar and Papua New Guinea.
Oil & Gas	254.3	183.4	212.7	16.0	(16.4)	Lower time charter rates and utilization rate for the rigs.
Manufacturing & Engineering	180.2	165.4	183.8	11.1	2.0	Stable.
Others	209.1	69.5	82.6	18.9	(60.5)	Business disposals.
Intersegment	(24.3)	(19.3)	(16.9)	(12.5)	(30.5)	
Total	3,697.4	3,485.3	3,533.2	1.4	-4.4	

Reported PATAMI

Automotive	154.1	130.6	59.5	(54.5)	(61.4)	Lower margins due to higher input cost (due to unfavorable forex movement) and operational costs – sales and distributional costs.
Equipment	36.9	26.6	51.4	93.3	39.0	Improved in tandem with higher revenue.
Oil & Gas	36.4	2.5	2.7	9.5	(92.5)	Attributed to forex gain in 3Q15.
Manufacturing & Engineering	(1.6)	0.5	(0.0)	(107.7)	(97.8)	
Others	(28.9)	(91.5)	(97.4)	6.4	236.8	
Total	197.0	68.6	16.1	-76.5	-91.8	Affected by derivatives losses, forex movements and impairments.
Core PATAMI	218.8	70.4	71.1	1.1	-67.5	

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Figure #5: UMW SOP

Division	Stakes (%)	FY16 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	484.2	4,841.5	4.14	FY16 PE 10x
Equipment	Various	214.3	2,143.2	1.83	FY16 PE 10x
Oil & Gas	55.20	(15.1)	823.5	0.70	Target Price of RM0.69
Manufacturing & Engineering	Various	4.8	38.4	0.03	FY16 PE 8x
Others	Various	(247.3)	(247.3)	(0.21)	

FY14 Net Cash (Holdings)	40.0	0.03	Estimated as at end FY2014
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Target Price (RM)	6.55	Implied FY15 P/E of 13.7x
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* No of Shares	1,168.3	As at end FY2014
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Company, HLIB

Figure #6: HLIB Forecast versus Consensus

	FY15			FY16			FY17		
	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)
Revenue (RMm)	12,509.6	13,388.0	-6.6%	13,250.4	14,234.0	-6.9%	14,088.7	14,977.0	-5.9%
EBITDA (RMm)	1,255.2	1,359.0	-7.6%	1,356.4	1,527.0	-11.2%	1,590.4	1,779.0	-10.6%
Core Profit (RMm)	387.4	516.8	-25.0%	440.9	590.2	-25.3%	555.5	714.2	-22.2%
EPS (Sen)	33.2	44.6	-25.7%	37.7	53.6	-29.6%	47.5	61.1	-22.2%

Bloomberg, HLIB

Figure #7: Peers Comparison

Peers	Market Cap (RMm)	Recommendation	PE-15 (x)	PE-16 (x)	PB-15 (x)	ROE-15 (%)	DY-15 (%)
MBM	1,090.1	Hold	15.7	11.0	0.8	5.3	2.9
DRB	2,435.9	Buy	22.5	7.9	0.3	1.4	2.4
UMW	9,673.5	Sell	25.0	21.9	1.5	5.9	3.0
TCM	1,847.0	Sell	31.9	24.5	0.7	2.1	1.4
BAUTO	2,485.1	N.A	10.4	9.5	4.4	44.5	4.8
Average			21.1	15.0	1.5	11.8	2.9

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	13,951	14,932	12,510	13,250	14,089
Operating cost	-12,125	-12,908	-11,254	-11,894	-12,498
EBITDA	1,827	2,024	1,255	1,356	1,590
Depreciation	-315	-379	-513	-521	-533
EBIT	1,512	1,645	742	835	1,057
Interest income	73	74	120	119	114
Interest expense	-88	-87	-113	-123	-133
Associates	123	124	113	138	150
Exceptionals	-183	-134	0	0	0
Pretax profit	1,436	1,621	862	969	1,187
Taxation	-351	-408	-238	-263	-300
Minorities	-431	-561	-236	-265	-332
Net profit	653	652	387	441	555
Core PATAMI	836	786	387	441	555
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	55.9	55.8	33.2	37.7	47.5
FD Core EPS (sen)	71.6	67.3	33.2	37.7	47.5

Balance sheet

FYE 31 Dec (RMm)	FY13A	FY14A	FY15E	FY16E	FY17E
Fixed assets	3,903	5,674	6,219	6,812	7,393
Other assets	4,862	4,027	4,083	4,152	4,227
Working capital	1,919	2,037	1,659	1,760	1,887
Receivables	1,518	1,618	1,356	1,436	1,527
Payables	-1,352	-1,411	-1,230	-1,300	-1,366
Inventory	1,754	1,830	1,533	1,624	1,727
Net cash	-431	-819	-1,040	-1,614	-2,143
Cash	2,558	3,371	3,497	3,314	3,177
ST debt	-1,464	-2,387	-2,387	-2,387	-2,387
LT debt	-1,524	-1,803	-2,150	-2,541	-2,933
Equity	6,290	6,580	6,547	6,696	6,901
Share capital	584	584	584	584	584
Reserves	5,706	5,996	5,963	6,112	6,317
Minorities	2,642	2,853	2,888	2,928	2,978
Other liabilities	1,322	1,486	1,486	1,486	1,486

Assumption Metrics

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
GDP Growth (%)	4.5%	6.0%	5.0%	5.0%	5.0%
TIV ('000)	655.8	666.5	649.8	666.1	682.7
Growth (%)	4.5%	1.6%	-2.5%	2.5%	2.5%
Unit Sale (Unit)	288.6	299.2	302.0	307.5	315.4
Toyota ('000)	91.2	102.0	83.7	87.0	90.5
Lexus ('000)	1.3	1.6	1.8	1.8	1.8
Perodua ('000)	196.1	195.6	216.6	218.7	223.1
Average Price					
UMW (RM '000)	104.2	100.5	95.5	98.4	98.4
Perodua (RM '000)	41.5	40.7	40.7	41.1	41.5

Cashflow

FYE 31 Dec (RMm)	FY13A	FY14A	FY15E	FY16E	FY17E
EBITDA	1,827	2,024	1,255	1,356	1,590
Net interest	-15	-13	7	-4	-20
WCap changes	-424	-149	379	-101	-128
Taxation	-374	-418	-238	-263	-300
Others	7	53	0	0	0
Opex cashflow	1,021	1,496	1,403	988	1,143
Capex & acq.	1,546	-2,191	-1,059	-1,114	-1,114
Free cashflow	2,567	-695	344	-126	29
Other inv cashflow	-2,418	1,745	56	69	75
Net borrowings	239	1,151	347	391	391
Share issuance	0	0	0	0	0
Dividends paid	-584	-514	-421	-292	-350
Other fin cashflow	-466	-433	-201	-225	-282
Net cashflow	-661	1,254	126	-183	-137
Forex translation	7	12	0	0	0
Beginning cash	2,219	1,565	2,830	2,956	2,773
Ending cash	1,565	2,830	2,956	2,773	2,636

Valuation ratios

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Rep. EPS (sen)	55.9	55.8	33.2	37.7	47.5
FD Core EPS (sen)	71.6	67.3	33.2	37.7	47.5
PER (x)	14.8	14.8	25.0	21.9	17.4
FD PER (x)	14.8	14.8	25.0	21.9	17.4
Net DPS (sen)	44.0	57.0	25.0	30.0	38.0
Net DY (%)	5.3	6.9	3.0	3.6	4.6
BV/ share (RM)	5.4	5.6	5.6	5.7	5.9
P/BV (x)	1.5	1.5	1.5	1.4	1.4
FCF/share (sen)	219.7	-59.5	29.4	-10.8	2.5
Market Cap	9,673	9,673	9,673	9,673	9,673
Net cash	-431	-819	-1,040	-1,614	-2,143
Enterprise value	10,104	10,493	10,714	11,288	11,816
EV/EBITDA (x)	5.5	5.2	8.5	8.3	7.4
ROE (%)	15.0	12.2	5.9	6.7	8.2
ROA (%)	6.4	5.1	2.3	2.6	3.1

Other Ratios

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Growth (%)					
Sales	-11.8	7.0	-16.2	5.9	6.3
EBITDA	-15.2	10.8	-38.0	8.1	17.2
EBIT	-18.9	8.8	-54.9	12.6	26.6
PBT	-28.9	12.9	-46.9	12.5	22.5
Core PATAMI	-21.9	-6.0	-50.7	13.8	26.0
Margins (%)					
EBITDA	13.1	13.6	10.0	10.2	11.3
EBIT	10.8	11.0	5.9	6.3	7.5
PBT	10.3	10.9	6.9	7.3	8.4
Core PATAMI	6.0	5.3	3.1	3.3	3.9
Net Gearing (%)	6.8	12.4	15.9	24.1	31.1

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.