

Company Result

27 November 2015

UMW Holdings

Striving hard to ride out the storm

HOLD

Maintained

Share Price	RM8.28
Target Price	RM7.68

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	9673.47
52-week price Range	RM7.41– 11.42
Beta (against KLCI)	1.02
3-m Average Daily Volume	1.74m
3-m Average Daily Value [^]	RM14.10m

Share Performance

	1m	3m	12m
Absolute (%)	2.2	10.1	-27.0
Relative (%-pts)	3.1	-7.5	-20.6

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	40.14
EMPLOYEES PROVIDENT FUND	16.97
PERMODALAN NASIONAL BERHAD	5.72
AMANAH SAHAM WAWASAN 2020	2.32

Historical Chart



Source: Bloomberg

Team Coverage

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Result

- **UMW reported 3Q15 net earnings of RM13.5mill, tumbling 80.2% qoq and 93.1% yoy.** Meanwhile, revenue stood at RM3533.2mill, marginally up by 1.4% qoq while dropped 4.6% yoy.
- **As for 9M15, the reported net earnings were RM247.1mill, declining 57% y-o-y.** Similarly, revenue decreased by 8.8% y-o-y.
- **Below expectations** – 9M15 net profit was below our expectation and market consensus by accounting for a mere 45% and 47% of full year estimates respectively. The lower-than-expected net profit mainly caused by lackluster performance of automotive, oil & gas and M&E divisions.

Comment

- **Auto division was still sluggish**– 9M15 Auto division recorded a decline in both topline and bottomline mainly due to weak consumer sentiment towards big-ticket items with lower 9M15 Total Industry Volume (TIV), declining by 16.3% y-o-y. The intense competition among car makers coupled with higher campaign and promotion spending further impacted the segment's performance.
- **Perodua maintained as the growth driver**– Perodua posted another strong growth by maintaining its largest market share of 32.5%. The continued higher orders for the Perodua Axia contributed to the YTD sales (+12.3% y-o-y). Recently, Perodua has launched the new model variants – Alza S and Myvi Premium XS 1.3 litre.
- **Equipment division stayed positive in 9M15**– The equipment division recorded a positive yearly growth for its 9M15 PBT, aided by strong demand for equipment, parts and services in 1Q15. Meanwhile, resumption of the jade mining activities in Myanmar in September 2014 and higher parts and services revenue in Papua New Guinea also supported the better growth for 9M15.
- **Lackluster O&G division**– Oil & Gas segment posted another contraction in 9M15 as PBT plunged by 69% y-o-y mainly due to lower time charter rates and rig utilisation rates, additional operating expenses from the uncontracted UMW NAGA 7 which was delivered in January 2015. However, the better revenue growth for its 9M15 performance supported by full contribution from UMW NAGA 5, UMW GAIT 6 and UMW NAGA 6 which commenced operations in May, August and October 2014, respectively and higher utilisation of UMW GAIT 3 which has been income-generating from mid-March 2014.

- **However, for 3Q15, the PBT and revenue improved q-o-q** mainly due to low base recorded in 2Q15 owing to the weaker profit contribution by its operations in Labuan and China that dented the performance of its Oilfield Services segment.
- **We envisage that oil & gas division continues to be affected by its drilling services segment (DSS)** which is expected to see lower levels of asset utilisation, while its oilfield services segment (OSS) would continue to see the unfavourable impact of low oil prices. Hence, we expect that overall financial performance for oil & gas division in FY15 to remain lackluster.
- **Disappointing M&E division.** For 9M15, Manufacturing & Engineering's PBT decreased by 3.1% y-o-y amid its subdued topline growth. The low export orders for KAYABA 4-wheeler products, Original Equipment Market products and power steering pumps during 1H15 caused the negative performance.
- **However, its 3Q15 PBT managed to turn positive as compared to 3Q14** following the improvement in the lubricant business as well as cost cutting measures undertaken by the group.

Earnings Outlook/Revision

- **We cut our net earnings forecast for FY15 and FY16 by 36% and 24%** respectively due to lower-than-expected result recorded in this quarter. The revisions are mainly attributable to lower earnings contribution from Automotive, M&E and O&G segments.
- **Auto Division to pick up in 4Q.** To recap, UMW Toyota Motor has announced that the prices of Toyota and Lexus vehicles will go up from 4% to 16% due to the sharp depreciation of the Malaysian ringgit against the US dollar. The price increase will only come effective January 2016. We reckon that this early announcement could trigger more buyers to rush for purchase. Furthermore, the traditional year-end sales promotion for the purpose of stock clearance, such as cash rebates of between RM3,800 and RM13,200 for Toyota models, including the Vios, Camry, Altis and Avanza will inarguably push the car sales higher.

Valuation & Recommendation

- **Maintain HOLD call on UMW with lower target price of RM7.68 (previous TP: RM8.22) following our earnings cut.** We pegged our revised target price at 17x FY2016F PE (-1 standard deviation below mean PER) based on EPS of 45 sen (Previous: 59 Sen).

Figure 1: Quarterly Figures

Year to 31 Dec	3Q15 (RMm)	2Q15 (RMm)	3Q14 (RMm)	QoQ % chg	YoY % chg	9M15 (RMm)	9M14 (RMm)	YoY % chg
Revenue	3533.18	3485.29	3702.53	1.37%	-4.57%	10258.85	11252.76	-8.8%
Operating Profit	66.82	175.98	383.95	-62.03%	-82.60%	526.308	1200.23	-56.1%
Pre-tax Profit	72.24	207.62	430.27	-65.21%	-83.21%	599.88	1331.705	-55.0%
Profit After Tax	27.91	133.36	329.69	-79.07%	-91.53%	397.28	1015.754	-60.9%
Net Profit	13.52	68.44	197.00	-80.24%	-93.14%	247.115	574.501	-57.0%
Operating Margin (%)	1.89%	5.05%	10.37%	-3.16%	-8.48%	5.1%	10.7%	-5.5%
PBT Margin (%)	2.04%	5.96%	11.62%	-3.91%	-9.58%	5.8%	11.8%	-6.0%

Figure 2: Segmental Breakdown

2015	3Q15 (RMm)	2Q15 (RMm)	3Q14 (RMm)	Q-O-Q (%)	y-O-y (%)	9M15 (RMm)	9M14 (RMm)	y-O-y (%)
Segmental Revenue								
Automotive	2596.14	2732.67	2643.37	-5.00%	-1.79%	7334.36	8204.23	-10.60%
Equipment	474.78	353.64	434.75	34.25%	9.21%	1481.42	1323.45	11.94%
Oil & Gas	212.70	183.37	254.32	15.99%	-16.37%	708.57	688.67	2.89%
M & E	183.81	165.40	180.21	11.13%	2.00%	520.27	551.01	-5.58%
Others	82.65	69.523	209.127	18.88%	-60.48%	268.04	544.72	-50.79%
Elimination	-16.90	-19.318	-19.248	-12.52%	-12.20%	-53.81	-59.31	-9.27%
Total Revenue	3533.179	3485.294	3702.528	1.37%	-4.57%	10258.846	11252.761	-8.83%
Segmental PBT								
Automotive	113.39	263.37	343.94	-56.95%	-67.03%	610.29	1159.06	-47.35%
Equipment	64.38	33.68	44.39	91.15%	45.04%	197.36	138.58	42.42%
Oil & Gas	11.45	8.00	75.85	43.26%	-84.90%	61.91	200.39	-69.10%
M & E	0.75	0.40	-1.48	89.90%	N/A	2.95	20.06	-85.29%
Total PBT	189.981	305.442	462.695	-37.80%	-33.99%	872.511	1518.083	-42.53%
Segmental Margin								
Automotive	4.37%	9.64%	13.01%	-5.27%	-8.64%	8.32%	14.13%	-5.81%
Equipment	13.56%	9.52%	10.21%	4.04%	3.35%	13.32%	10.47%	2.85%
Oil & Gas	5.39%	4.36%	29.82%	1.03%	-24.44%	8.74%	29.10%	-20.36%
M & E	0.41%	0.24%	-0.82%	0.17%	1.23%	0.57%	3.64%	-3.07%

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2011	2012	2013	2014	2015F	2016F
Revenue	13,535.80	15,863.62	13,951.46	14,958.91	8,455.27	9,987.99
Operating profit	1,273.18	1,869.75	1,296.46	1,426.78	760.97	998.80
PBT	1,381.50	2,009.69	1,435.67	1,620.83	908.42	1,288.24
Net profit	502.10	994.30	679.61	657.67	349.56	524.31
EPS (sen)	0.43	0.85	0.58	0.56	0.30	0.45
P/BV (x)	1.73	1.54	1.08	1.02	0.97	0.92
P/E (x)	19.27	9.73	14.23	14.71	27.67	18.45
DPS (sen)	0.31	0.50	0.44	0.41	0.35	0.50
Dividend yield (%)	3.74%	6.04%	5.31%	4.95%	4.23%	6.04%
Operating margin (%)	9.41%	11.79%	9.29%	9.54%	9.00%	10.00%
PBT margin (%)	10.21%	12.67%	10.29%	10.84%	10.74%	12.90%
Net profit margin (%)	3.71%	6.27%	4.87%	4.40%	4.13%	5.25%
Net Gearing Ratio(x)	0.49	0.48	0.37	0.38	0.46	0.57
ROE (%)	9.00%	15.84%	7.57%	6.96%	3.49%	4.96%
ROA (%)	4.76%	8.43%	4.59%	4.00%	1.77%	2.20%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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