

27 November 2015

## Hold

Price  
RM8.28

Target price  
RM8.10

Bloomberg Code  
UMWH MK

# UMW Holdings

## Stalled

**UMWH's 9M15 normalised net earnings were down by 42% yoy. The main drag came from the auto division, which saw PBT decline by 47% ytd. We remain cautious given the group's exposure to weaker consumer sentiment and forex in the auto business, coupled with current low oil prices dampening its O&G business. We currently have a Hold on the stock with a TP of RM8.10.**

- After excluding the following exceptional items: 1) RM181m net loss on derivatives, 2) RM133m net forex gain, 3) RM58m in net impairment losses and 4) disposal gains of RM0.3m, UMWH registered 3Q15 normalised net earnings of RM119m up 73% qoq but down 42% yoy. The sequential improvement was largely due to higher earnings from the Equipment segment as well as lower taxes and minorities. The weaker yoy performance was due to lower earnings from the Motor and Oil & Gas segments. Cumulatively, normalised net earnings were RM351m down 42% yoy and made up 83% of our full year forecasts.
- The Motor division's PBT was down 57% qoq, 67% yoy and 47% ytd. We think the overall weak performance was largely due to higher discounting given stiff competition in the automotive market and weak consumer sentiment.
- The Oil & Gas division's PBT was up 43% qoq but down 85% yoy and 69% ytd. The qoq improvement was due to higher revenues from the drilling segment, which was lifted by 1) additional revenue contribution from UMW NAGA 6, 2) higher utilisation by an offshore rig and 3) translation gains given the stronger greenback. Yoy and cumulative decline was due to lower term charter rates and lower utilisation of rigs given the weak crude oil price environment.
- The Equipment division's PBT was up 91% qoq, 45% yoy and 42% ytd. The significantly better performance was driven by the heavy-equipment sub-segment, which recorded higher sales in Myanmar and Papua New Guinea.
- The Manufacturing and Engineering (M&E) division's PBT improved from breakeven in 2Q15 and RM1m loss in 3Q14 to a RM1 profit. This was mainly due to improvement from the Lubricant's business, cost cutting measures and a forex translation gain. However, for the 9M period, PBT significantly declined by 85% due to lower orders for its KABAYA 4-wheeler products, OEM products and power steering pumps.
- The "Others" division saw PBT losses widen to RM118m from RM98m in 2Q15 and RM32m in 3Q14. On a cumulative basis, PBT losses widened to RM273m from RM186m in 9M14. No explanation was given for the weaker performance of this segment, however, we believe it is largely due to losses from its overseas oil and gas related ventures that are also reeling from the impact of lower oil prices.
- We currently have a Hold recommendation on the stock and RM8.10 TP.

### Analyst

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## UMWH quarterly trends

RMm FYE 31 Dec	Quarter							% chg		Cumulative			KAF	
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	qoq	yoy	9M14	9M15	% chg	2015F	9M/F
Turnover	3,583	3,967	3,703	3,706	3,240	3,485	3,533	1	(5)	11,253	10,259	(9)	13,552	76
<b>EBIT</b>	<b>423</b>	<b>420</b>	<b>393</b>	<b>315</b>	<b>271</b>	<b>177</b>	<b>173</b>	<b>(2)</b>	<b>(56)</b>	<b>1,236</b>	<b>621</b>	<b>(50)</b>	<b>729</b>	<b>85</b>
Net interest income	5	15	21	13	12	2	6	174	(72)	41	20	(52)	34	59
Exceptional	20	(37)	(8)	(89)	3	(1)	(106)	nm	nm	(25)	(103)	nm	0	nm
Associates	31	24	26	49	33	30	(0)	nm	nm	80	63	(22)	155	40
<b>Pretax profit</b>	<b>479</b>	<b>422</b>	<b>431</b>	<b>289</b>	<b>320</b>	<b>208</b>	<b>72</b>	<b>(65)</b>	<b>(83)</b>	<b>1,332</b>	<b>600</b>	<b>(55)</b>	<b>918</b>	<b>65</b>
Tax	(87)	(128)	(101)	(93)	(84)	(74)	(44)	(40)	(56)	(316)	(203)	(36)	(250)	81
Minorities	(157)	(152)	(133)	(113)	(71)	(65)	(14)	(78)	(89)	(441)	(150)	(66)	(244)	62
<b>Net earnings</b>	<b>236</b>	<b>142</b>	<b>197</b>	<b>83</b>	<b>165</b>	<b>68</b>	<b>14</b>	<b>(80)</b>	<b>(93)</b>	<b>575</b>	<b>247</b>	<b>(57)</b>	<b>423</b>	<b>58</b>
<b>Normalised net earnings</b>	<b>215</b>	<b>179</b>	<b>206</b>	<b>172</b>	<b>162</b>	<b>69</b>	<b>119</b>	<b>73</b>	<b>(42)</b>	<b>600</b>	<b>351</b>	<b>(42)</b>	<b>423</b>	<b>83</b>
<b>Normalised pretax profit</b>	<b>459</b>	<b>459</b>	<b>439</b>	<b>378</b>	<b>317</b>	<b>208</b>	<b>178</b>	<b>(14)</b>	<b>(59)</b>	<b>1,357</b>	<b>703</b>	<b>(48)</b>	<b>918</b>	<b>77</b>

Source: Company, KAF

## UMWH segmental trends

RMm FYE 31 Dec	Quarter							% chg		Cumulative			KAF	
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	qoq	yoy	9M14	9M15	% chg	2014F	9M/F
<b>Revenue</b>														
Motor	2,656	2,904	2,643	2,574	2,006	2,733	2,596	(5)	(2)	8,204	7,334	(11)	9,536	77
O&G	196	239	254	328	312	183	213	16	(16)	689	709	3	871	81
Equipment	434	454	435	446	653	354	475	34	9	1,323	1,481	12	2,078	71
M&E	182	189	180	173	171	165	184	11	2	551	520	(6)	707	74
Others	115	181	190	266	98	50	66	31	(65)	486	214	(56)	360	59
<b>Group</b>	<b>3,583</b>	<b>3,967</b>	<b>3,703</b>	<b>3,706</b>	<b>3,240</b>	<b>3,485</b>	<b>3,533</b>	<b>1</b>	<b>(5)</b>	<b>11,253</b>	<b>10,259</b>	<b>(9)</b>	<b>13,552</b>	<b>76</b>
<b>PBT</b>														
Motor	407	409	344	313	234	263	113	(57)	(67)	1,159	610	(47)	913	67
O&G	58	66	76	86	42	8	11	43	(85)	200	62	(69)	(43)	nm
Equipment	39	55	44	79	99	34	64	91	45	139	197	42	317	62
M&E	10	12	(1)	(4)	2	0	1	88	nm	20	3	(85)	10	29
Others	(34)	(120)	(32)	(184)	(57)	(98)	(118)	20	267	(186)	(273)	47	(279)	98
<b>Group</b>	<b>479</b>	<b>422</b>	<b>431</b>	<b>289</b>	<b>320</b>	<b>208</b>	<b>72</b>	<b>(65)</b>	<b>(83)</b>	<b>1,332</b>	<b>600</b>	<b>(55)</b>	<b>918</b>	<b>65</b>
<b>PATAMI</b>														
Motor	192	183	154	153	117	131	59	(54)	(61)	529	307	(42)	461	67
O&G	30	33	36	39	18	2	0	(95)	(100)	99	20	(79)	(33)	nm
Equipment	39	44	37	69	79	27	51	93	39	120	157	31	269	58
M&E	4	6	(2)	1	1	0	(0)	nm	(98)	9	2	(80)	6	28
Others	(29)	(124)	(29)	(180)	(49)	(92)	(97)	6	237	(182)	(238)	31	(279)	85
<b>Group</b>	<b>236</b>	<b>142</b>	<b>197</b>	<b>83</b>	<b>165</b>	<b>68</b>	<b>14</b>	<b>(80)</b>	<b>(93)</b>	<b>575</b>	<b>247</b>	<b>(57)</b>	<b>423</b>	<b>58</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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