

27 November 2015 | 3QFY15 Results Review

UMW Holdings

Earnings de-rating

- **UMW's 9M15 core earnings of RM286m disappointed, accounting for only 56% and 55% of our and consensus' FY15F EPS respectively.**
- **3Q15 core earnings fell 74%yoy, dragged by the auto (-64%yoy) and O&G (-85%yoy) divisions.**
- **We trim our FY15F/16F earnings by 28%/35% after (1) Raising our forex assumptions to 1USD/RM3.90 & 1USD/RM4.00 respectively (vs. 1USD/RM3.80 previously) (2) Revising down Perodua earnings by 22%/29% to factor in a stronger JPY, (3) Trimmed Toyota TIV by 8%/9%. We are now 28%/40% below consensus over FY15F/16F and a consensus downgrade looks imminent.**
- **Maintain NEUTRAL but cut our SOP derived TP to RM6.90/share (from RM8.60/share).**

UMW's earnings missed estimates yet again. The group reported core net profit of RM73m for its 3Q15, which brought 9M15 core earnings to RM286m. This accounted for just 56% of our estimate and 55% of consensus.

Key takeaways from the 3Q15 results: (1) Group core earnings down 64%yoy dragged by a 67%yoy fall in auto earnings and an 85%yoy fall in O&G earnings (2) Associates fell into the red – Perodua was impacted by start-up cost at its new engine plant and an 8%yoy appreciation of the JPY in 3Q15, despite a 12%yoy rise in invoiced sales (3) Jack-up rigs Naga 2 and 3 were drydocked for scheduled maintenance while Naga 7 remained idle in 3Q15.

We trim our FY15F/16F earnings by 28%/35% after: (1) Revising up our USD:MYR assumptions to 1USD/RM3.90 & 1USD/RM4.00 respectively (from 1USD/RM3.80 previously). Every 1% change in our USD assumption impacts FY16F earnings by 6% (2) Adjusting down Perodua earnings by 22%/29% to factor in a stronger JPY (3) Trimmed Toyota TIV by 8%/9% given the underperformance YTD. We now expect FY15F/16F earnings to fall 50%yoy/6%yoy.

NEUTRAL

**Adjusted Target Price (TP): RM6.90
(from RM8.60)**

RETURN STATS	
Price (19 November 2015)	RM8.28
Target Price	RM6.90
Expected Share Price Return	-16.7%
Expected Dividend Yield	+1.4 %
Expected Total Return	-15.3%

STOCK INFO	
KLCI	1683.09
Bursa / Bloomberg	4588 / UMWK MK
Board / Sector	Main/Automotive
Syariah Compliant	No
Issued shares (mil)	1168.3
Par Value (RM)	1.00
Market cap. (RM'm)	9673.5
Price over NA	1.44
52-wk price Range	RM7.41 - RM11.4
Beta (against KLCI)	1.019865
3-mth Avg Daily Vol	1.74m
3-mth Avg Daily Value	RM14.1m
Major Shareholders (%)	
SKIM AMANAH SAHAM BU	40.4
EMPLOYEES PROVIDENT	8.7
PERMODALAN NASIONAL	5.7

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	13,951.5	14,091.1	13,590.9	14,103.2	14,364.1
EBIT (RM'm)	1,296.5	2,158.5	959.7	920.7	921.3
Pre-tax Profit (RM'm)	1,501.6	2,359.6	1,098.6	1,053.9	1,055.4
Core net profit (RM'm)	960.4	926.6	371.8	353.8	356.1
FD EPS (sen)	82.2	79.3	31.8	30.3	30.5
EPS growth (%)	0.9	-3.5	-59.9	-4.8	0.6
PER (x)	10.1	10.4	26.0	27.3	27.2
Net Dividend (sen)	60.9	37.5	37.5	37.5	37.5
Net Dividend Yield (%)	4.5	3.6	1.4	1.4	1.4

Source: MIDFR

We maintain our NEUTRAL call on UMW but cut our SOP derived TP to RM6.90/share (from RM8.60/share), following the earnings downgrade in this report. Earnings outlook remains muted. Key earnings risk in the near-term will come from: (1) The weak MYR (spot at 1USD/RM4.22 vs. our FY16F assumption of 1USD/RM4.00), (2) Renewal of rig contracts (Naga 5 and 6) at unfavourable rates and (3) Weak underlying demand for autos. Our FY15F/16F earnings are now 28%/40% below consensus. A consensus earnings downgrade looks imminent, while valuations at 27x FY16F EPS is stretched (relative to historical average of 13x).



3QFY15 RESULTS REVIEW

31 Dec (RMm)	3Q14	2Q15	3Q15	YoY	QoQ	9M14	9M15	YTD
Revenue	3,702.5	3,485.3	3,533.2	-4.6%	1.4%	11,252.8	10,258.8	-8.8%
Operating Profit	383.9	176.0	66.8	-	-	1,200.2	526.3	-
Finance Cost	(12.8)	(27.8)	(24.8)	93.4%	-10.9%	(58.1)	(84.7)	45.8%
Associates	25.6	29.5	(0.3)	NA	NA	90.1	62.7	-30.5%
Investment Income	33.5	29.9	30.5	-9.0%	2.1%	99.4	95.6	-3.8%
Pretax Profit	430.3	207.6	72.2	-	-	1,331.7	599.9	-
Taxation	(100.6)	(74.3)	(44.3)			(316.0)	(202.6)	
Minorities	132.7	64.9	14.4	-89.2%	-77.8%	441.3	150.2	
Net Profit	197.0	68.4	13.5	-93.1%	-80.2%	574.5	247.1	-57.0%
Core net profit	203.4	52.5	52.5	-74.2%	0.0%	681.1	286.3	-58.0%
EPS (FD, sen)	17.4	4.5	4.5			58.3	24.5	
DPS (sen)	15.0	10.0	0.0			25.0	10.0	
Margins (%):								
Operating	10.4%	5.0%	1.9%			10.7%	5.1%	
Pretax Profit	11.6%	6.0%	2.0%			11.8%	5.8%	
Net Profit	5.5%	1.5%	1.5%			5.1%	2.4%	
Tax Rate	23.4%	35.8%	61.4%			23.7%	33.8%	
Segmental Breakdown	3Q14	2Q15	3Q15	YoY	QoQ	9M14	9M15	YTD
Automotive	2,643.4	2,732.7	2,596.1	-1.8%	-5.0%	8,204	7,334	-10.6%
Equipment	434.8	353.6	474.8	9.2%	34.3%	1,323	1,481	11.9%
Manuf & Eng	180.2	165.4	183.8	2.0%	11.1%	551	520	-5.6%

Oil & Gas	254.3	183.4	212.7	-16.4%	16.0%	689	709	2.9%
Revenue	3,513	3,435	3,467	-1.3%	0.9%	10,767	10,045	-6.7%
Automotive	343.9	263.4	113.4	-67.0%	-56.9%	1,159	610	-47.3%
Equipment	44.4	33.7	64.4	45.0%	91.2%	139	197	42.4%
Manuf & Eng	(1.5)	0.4	0.8	NA	89.9%	20	3	-85.3%
Oil & Gas	75.8	8.0	11.5	-84.9%	43.3%	200	62	-69.1%
Pretax profit	463	305	190	-59%	-38%	1,518	873	42.5%
Pretax margins								
Automotive	13.0%	9.6%	4.4%			14.1%	8.3%	
Equipment	10.2%	9.5%	13.6%			10.5%	13.3%	
Manuf & Eng	-0.8%	0.2%	0.4%			3.6%	0.6%	
Oil & Gas	29.8%	4.4%	5.4%			29.1%	8.7%	
Toyota TIV	23,508	22,555	23,301	-0.9%	3.3%	74,630	62,097	-16.8%
Average revenue/car (RM)	112,446	121,156	111,418	-0.9%	-8.0%	109,932	118,111	7.4%

UMW SUM-OF-PARTS VALUATION

Segments	FY15F net profit attributable to UMW (RMm)	PE (x)	Value (RMm)
Auto related	215	11	2,362
Equipment	164	9	1,473
O&G	252	18	4,530
M&E, Others	(276)		(276)
Total value	354		8,089
No of shares (m)			1,168
Fair value (RM)			6.92

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Syed Muhammed Kifni
Hafiz Hezry
hafiz.hezry@midf.com.my
03-2173 8392

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(Bank Pelaburan)

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.