

UMW (UMWH MK)

Consumer Cyclical - Auto & Autoparts

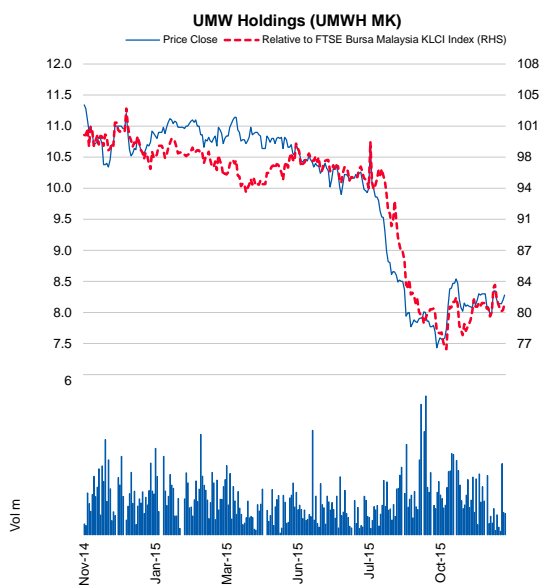
Market Cap: USD2,291m

Sell (Maintained)

 Target Price: **MYR5.00**

 Price: **MYR8.28**

Another Dismal Quarter

 Macro ◆◆
 Risks ◆◆
 Growth ◆
 Value ◆


Source: Bloomberg

Avg Turnover (MYR/USD)	13.0m/3.06m
Cons. Upside (%)	-5.4
Upside (%)	-39.6
52-wk Price low/high (MYR)	7.43 - 11.3
Free float (%)	35
Share outstanding (m)	1,168
Shareholders (%)	
PNB Funds	50.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.5)	2.0	(2.5)	(22.6)	(26.7)
Relative	(20.1)	3.4	(9.0)	(18.0)	(18.1)

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UMW's 9M15 earnings fell short of expectations. With the exception of the equipment division, its other business segments disappointed while impairment provisions and derivative losses added salt to its wounds. UMW also opted not to declare a second interim dividend. With 2016 looking increasingly difficult for the group, we reiterate our SELL call and MYR5.00 TP (40% downside).

- ◆ **Below expectations.** UMW reported 9M15 earnings that only reached 57% and 49% of our and consensus estimates respectively. The main variances were weaker automotive margins, a collapse in associate contributions, lower oil & gas (O&G) earnings and derivative losses, and impairments offset by forex gains amounting to MYR105m. The equipment division performed better than expected. No interim dividend was declared (9M14: 15 sen).
- ◆ **Equipment division the only bright spot.** The unit did better than expected, helped by higher sales to Myanmar (jade mining) and Papua New Guinea. Higher revenue (YTD +11.9% YoY) helped to lift segment margins. Automotive revenues declined in tandem with lower sales volumes and increased discounts, reflecting the competitive market. Associate contributions from 38%-owned associate Perodua were adversely affected by a weaker sales mix and price discounting. Along with the weaker MYR, automotive profits fell 47.3% YoY. O&G earnings plunged 69.1% YoY on lower charter rates and lower utilisation rates, with four of its eight rigs currently idle. Losses at its Others division rose 46.3%, exacerbated by impairment provisions and derivative losses.
- ◆ **Forecasts and risks.** We cut our 2015F-2017F earnings by 4.4-13.2% after fine-tuning our assumptions. Key risks to our recommendation and TP include a weaker USD, stronger consumer sentiment and higher oil prices.
- ◆ **SELL.** We see few re-rating catalysts for the stock, with 2016 looking increasingly like a difficult year with significant headwinds affecting all its segments. We think UMW's share price does not adequately reflect the weak earnings prospects, with street estimates likely to move lower. Its impending removal from the FBM KLCI is one less reason to own the stock. Our SOP-derived TP of MYR5.00 is unchanged. Maintain SELL.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	13,951	14,959	14,560	13,915	14,010
Reported net profit (MYRm)	653	658	407	370	426
Recurring net profit (MYRm)	853	802	407	370	426
Recurring net profit growth (%)	(14.2)	(6.0)	(49.2)	(9.2)	15.1
Recurring EPS (MYR)	0.73	0.69	0.35	0.32	0.36
DPS (MYR)	0.44	0.41	0.24	0.22	0.26
Recurring P/E (x)	11.3	12.1	23.7	26.2	22.7
P/B (x)	1.52	1.47	1.51	1.53	1.55
P/CF (x)	10.8	9.1	21.2	8.0	12.1
Dividend Yield (%)	5.3	5.0	2.9	2.7	3.1
EV/EBITDA (x)	6.2	5.8	10.3	12.1	11.8
Return on average equity (%)	11.6	10.2	6.3	5.8	6.8
Net debt to equity (%)	4.6	7.6	24.1	28.0	37.0
Our vs consensus EPS (adjusted) (%)			(18.9)	(42.6)	(40.4)

Source: Company data, RHB

Figure 1: Earnings review

FYE Dec (MYRm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Revenue	3,702.5	3,485.3	3,533.2	1.4	(4.6)	11,252.8	10,258.8	(8.8)	Mainly due to lower Toyota sales volumes
EBIT	383.9	176.0	66.8	(62.0)	(82.6)	1,200.2	526.3	(56.1)	Margins were impacted by provisions, lower revenue and unfavourable forex trends
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>5.0</i>	<i>1.9</i>			<i>10.7</i>	<i>5.1</i>		
Finance costs	(12.8)	(27.8)	(24.8)	(10.9)	93.4	(58.1)	(84.7)	45.8	Associate contributions were hit by weaker Perodua profitability and losses at its China and India associates.
Associates	25.6	29.5	(0.3)	(101.1)	(101.3)	90.1	62.7	(30.5)	
Investmt income	33.5	29.9	30.5	2.1	(9.0)	99.4	95.6	(3.8)	
Pretax Profit	430.3	207.6	72.2	(65.2)	(83.2)	1,331.7	599.9	(55.0)	
<i>Pretax margin (%)</i>	<i>11.6</i>	<i>6.0</i>	<i>2.0</i>			<i>11.8</i>	<i>5.8</i>		
Tax	(100.6)	(74.3)	(44.3)	(40.3)	(55.9)	(316.0)	(202.6)	(35.9)	
<i>Eff tax rate (%)</i>	<i>(23.4)</i>	<i>(35.8)</i>	<i>(61.4)</i>			<i>(23.7)</i>	<i>(33.8)</i>		
MI	(132.7)	(64.9)	(14.4)	(77.8)	(89.2)	(441.3)	(150.2)	(66.0)	
Net Profit	197.0	68.4	13.5	(80.2)	(93.1)	574.5	247.1	(57.0)	
<i>Net Margin (%)</i>	<i>5.3</i>	<i>2.0</i>	<i>0.4</i>			<i>5.1</i>	<i>2.4</i>		

Source: Company data, RHB

Figure 2: Earnings review - segmental breakdown

FYE Dec (MYRm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Automotive	2,643.4	2,732.7	2,596.1	(5.0)	(1.8)	8,204.2	7,334.4	(10.6)	Weaker consumer discretionary spending patterns hit Toyota sales
Oil & Gas	254.3	183.4	212.7	16.0	(16.4)	688.7	708.6	2.9	
Equipment	434.8	353.6	474.8	34.3	9.2	1,323.4	1,481.4	11.9	Higher sales to Myanmar and PNG
Mfg & Eng	180.2	165.4	183.8	11.1	2.0	551.0	520.3	(5.6)	
Others	189.9	50.2	65.7	31.0	(65.4)	485.4	214.2	(55.9)	
Revenue	3,702.5	3,485.3	3,533.2	1.4	(4.6)	11,252.8	10,258.8	(8.8)	
Automotive	343.9	263.4	113.4	(56.9)	(67.0)	1,159.1	610.3	(47.3)	Hit by unfavourable forex, negative operating leverage and price discounting
Oil & Gas	75.8	8.0	11.5	43.3	(84.9)	200.4	61.9	(69.1)	Lower DCR and asset utilisation
Equipment	44.4	33.7	64.4	91.2	45.0	138.6	197.4	42.4	Stronger demand from jade mining sector
Mfg & Eng	(1.5)	0.4	0.8	88.0	(150.7)	20.1	3.0	(85.3)	
Others	(32.4)	(97.8)	(117.7)	20.4	263.1	(186.4)	(272.6)	46.3	
PBT	430.3	207.6	72.2	(65.2)	(83.2)	1,331.7	599.9	(55.0)	
PBT Margins									
Automotive	13.0	9.7	4.4			14.1	8.3		
Oil & Gas	29.8	4.4	5.4			29.1	8.7		
Equipment	10.2	9.5	13.6			10.5	13.3		
Mfg & Eng	(0.8)	0.2	0.4			3.6	0.6		
Others	(17.1)	(194.8)	(179.1)			(38.4)	(127.3)		
	11.6	6.0	2.0			11.8	5.8		
Automotive	154.1	130.6	59.5	(54.5)	(61.4)	529.3	306.8	(42.0)	
Oil & Gas	36.4	2.3	0.1	(94.7)	(99.7)	99.3	20.4	(79.5)	
Equipment	36.9	26.6	51.4	93.3	39.0	119.8	156.7	30.8	
Mfg & Eng	(1.6)	0.5	(0.0)	(107.7)	(97.8)	8.5	1.7	(79.8)	
Others	(28.9)	(91.5)	(97.4)	6.4	236.8	(182.4)	(238.4)	30.7	
NP	197.0	68.4	13.5	(80.2)	(93.1)	574.5	247.1	(57.0)	
NP Margins									
Automotive	5.8	4.8	2.3			6.5	4.2		
Oil & Gas	14.3	1.3	0.1			14.4	2.9		
Equipment	8.5	7.5	10.8			9.1	10.6		
Mfg & Eng	(0.9)	0.3	(0.0)			1.6	0.3		
Others	(15.2)	(182.3)	(148.2)			(37.6)	(111.3)		
	5.3	2.0	0.4			5.1	2.4		

Source: Company data, RHB

Figure 3: Summary of UMW's vehicle sales

FYE Dec (units)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)
Toyota	23,877	23,087	23,773	3.0	(0.4)	75,815	63,463	(16.3)
- Passenger	17,074	16,257	16,553	1.8	(3.1)	55,586	43,894	(21.0)
- Commercial	6,803	6,830	7,220	5.7	6.1	20,229	19,569	(3.3)
Perodua	45,837	51,349	49,025	(4.5)	7.0	140,317	157,527	12.3
- Passenger	45,837	51,349	49,025	(4.5)	7.0	140,317	157,527	12.3
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	69,714	74,436	72,798	(2.2)	4.4	216,132	220,990	2.2

Source: MAA

Figure 4: Forecast assumptions

FYE Dec	2014	2015F	2016F	2017F
Toyota / Lexus (units)	103,636	92,000	85,000	86,000
Perodua (units)	195,579	208,000	210,000	211,000
Forex (JPY/MYR)*	3.15	3.25	3.60	3.60
Forex (USD/MYR)*	3.25	3.90	4.25	4.20
*average rate				

Source: RHB

Figure 5: SOP valuation

	P/E (x)	Valuation (MYR)	Stake (%)	Discount (%)	Per UMW share (MYR)
UMWOG		MYR1.24	55.15	10	1.14
Other businesses	11.0				3.83
					4.97

Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	13,951	14,959	14,560	13,915	14,010
Cost of sales	(10,129)	(10,845)	(10,556)	(10,088)	(10,157)
Gross profit	3,823	4,114	4,004	3,827	3,853
Gen & admin expenses	(1,278)	(1,393)	(1,519)	(1,655)	(1,804)
Selling expenses	(453)	(507)	(450)	(416)	(421)
Other operating costs	(795)	(787)	(1,280)	(1,156)	(933)
Operating profit	1,296	1,427	755	599	694
Operating EBITDA	1,612	1,806	1,172	1,022	1,114
Depreciation of fixed assets	(315)	(379)	(417)	(422)	(420)
Operating EBIT	1,296	1,427	755	599	694
Net income from investments	158	140	81	67	74
Interest income	81	137	120	98	74
Interest expense	(99)	(82)	(119)	(130)	(130)
Pre-tax profit	1,436	1,621	837	635	713
Taxation	(351)	(409)	(251)	(172)	(193)
Minority interests	(431)	(554)	(179)	(94)	(95)
Profit after tax & minorities	653	658	407	370	426
Reported net profit	653	658	407	370	426
Recurring net profit	853	802	407	370	426

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	1,296	1,427	755	599	694
Depreciation & amortisation	315	379	417	422	420
Change in working capital	(414)	(205)	(345)	491	7
Other operating cash flow	176	(43)	-	-	0
Operating cash flow	1,374	1,558	827	1,513	1,121
Interest paid	(95)	(90)	(119)	(130)	(130)
Tax paid	(381)	(409)	(251)	(172)	(193)
Cash flow from operations	898	1,059	457	1,212	799
Capex	(950)	(2,080)	(1,550)	(1,200)	(1,200)
Other new investments	(217)	(44)	0	(0)	-
Other investing cash flow	1,055	1,400	120	98	74
Cash flow from investing activities	(111)	(723)	(1,430)	(1,102)	(1,126)
Dividends paid	(584)	(514)	(479)	(285)	(259)
Proceeds from issue of shares	1	-	-	-	-
Increase in debt	308	1,183	808	-	-
Other financing cash flow	(1,052)	(1,023)	(573)	(474)	(524)
Cash flow from financing activities	(1,327)	(354)	(244)	(759)	(782)
Cash at beginning of period	2,493	2,544	3,376	2,617	2,253
Total cash generated	(540)	(19)	(1,217)	(649)	(1,110)
Forex effects	591	851	457	285	259
Implied cash at end of period	2,544	3,376	2,617	2,253	1,402

Source: Company data, RHB

Financial Exhibits

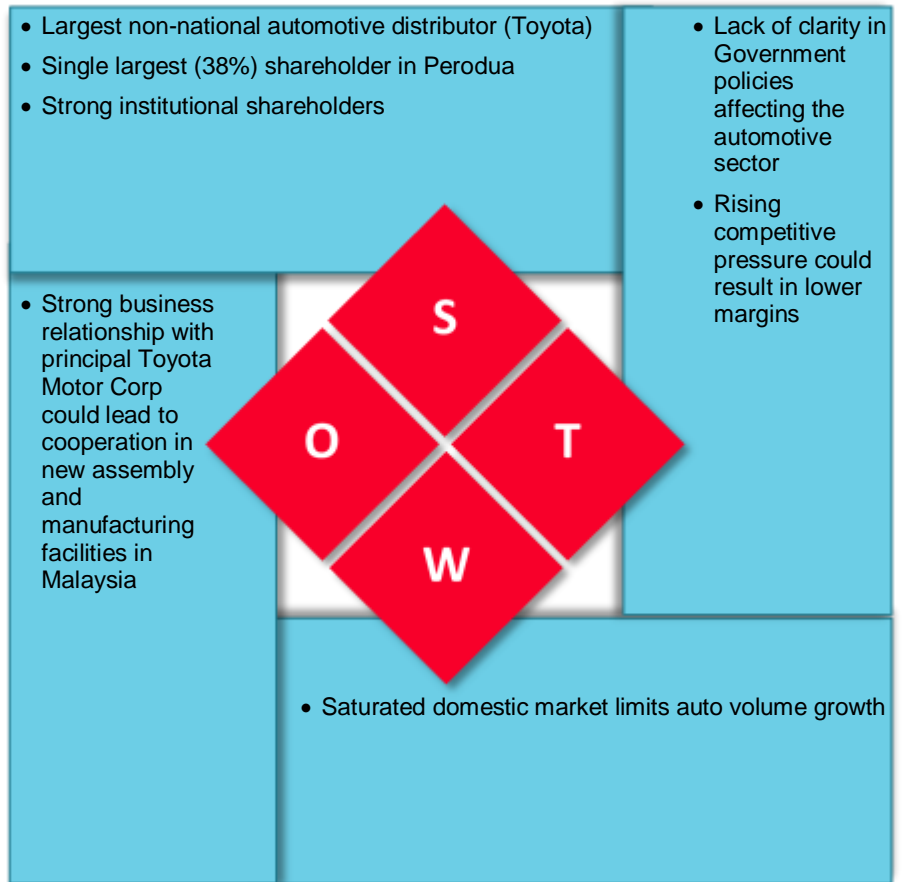
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	2,544	3,376	2,617	2,253	1,402
Inventories	1,752	1,835	1,835	1,716	1,727
Accounts receivable	1,229	1,326	1,157	1,029	1,036
Other current assets	3,207	1,997	2,156	2,110	2,098
Total current assets	8,731	8,534	7,765	7,108	6,264
Total investments	1,827	1,878	1,959	2,026	2,100
Tangible fixed assets	3,893	5,646	6,779	7,557	8,337
Intangible assets	38	38	38	38	38
Total other assets	317	344	344	344	344
Total non-current assets	6,075	7,905	9,119	9,964	10,819
Total assets	14,807	16,439	16,884	17,072	17,082
Short-term debt	1,354	2,177	3,000	3,000	3,000
Accounts payable	1,186	1,173	954	967	974
Other current liabilities	1,516	1,536	1,378	1,563	1,570
Total current liabilities	4,055	4,886	5,333	5,531	5,544
Total long-term debt	1,602	1,914	1,900	1,900	1,900
Other liabilities	172	196	196	196	196
Total non-current liabilities	1,775	2,110	2,096	2,096	2,096
Total liabilities	5,830	6,997	7,429	7,627	7,640
Share capital	584	584	584	584	584
Retained earnings reserve	4,924	5,116	4,951	4,846	4,749
Other reserves	854	890	890	890	890
Shareholders' equity	6,363	6,590	6,424	6,320	6,222
Minority interests	2,614	2,853	3,031	3,125	3,220
Total equity	8,977	9,443	9,456	9,445	9,442
Total liabilities & equity	14,807	16,439	16,884	17,072	17,082

Source: Company data, RHB

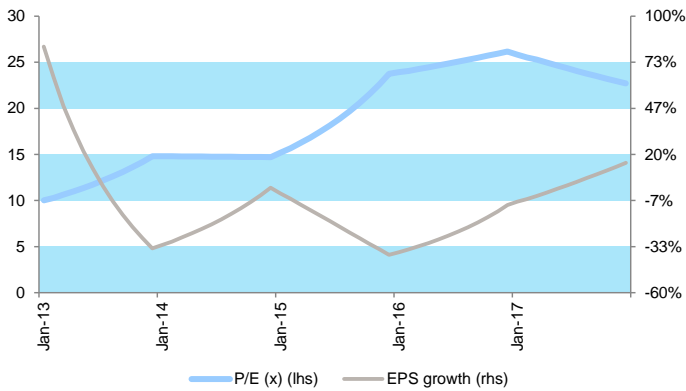
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(11.8)	7.2	(2.7)	(4.4)	0.7
Operating profit growth (%)	(31.7)	10.1	(47.1)	(20.6)	15.9
Net profit growth (%)	(34.3)	0.7	(38.1)	(9.2)	15.1
EPS growth (%)	(34.3)	0.7	(38.1)	(9.2)	15.1
BVPS growth (%)	31.2	3.6	(2.5)	(1.6)	(1.5)
Operating margin (%)	9.3	9.5	5.2	4.3	5.0
Net profit margin (%)	4.7	4.4	2.8	2.7	3.0
Return on average assets (%)	5.0	4.2	2.4	2.2	2.5
Return on average equity (%)	11.6	10.2	6.3	5.8	6.8
Net debt to equity (%)	4.6	7.6	24.1	28.0	37.0
DPS	0.44	0.41	0.24	0.22	0.26
Recurrent cash flow per share	0.77	0.91	0.39	1.04	0.68

Source: Company data, RHB

SWOT Analysis

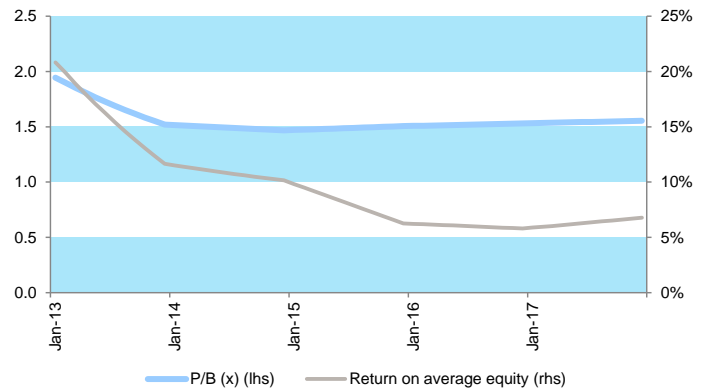


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

UMW is the largest company in the automotive sector and is a component stock of the FBM KLCI. Its 51%-owned subsidiary UMW-Toyota imports, assembles and distributes Toyota and Lexus vehicles in Malaysia. UMW owns a 55% stake in listed UMW Oil & Gas.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-10-06	Sell	5.0	7.6
2015-08-27	Sell	5.4	8.5
2015-05-26	Sell	8.7	10.7
2015-02-27	Sell	9.7	11.1
2014-11-27	Neutral	11.0	11.3
2014-08-28	Neutral	12.4	12.3
2014-05-25	Neutral	11.3	10.8
2014-04-29	Neutral	11.3	10.8
2013-03-20	Neutral	12.9	13.3
2013-02-28	Neutral	12.9	12.8

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

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