

Company Result

26 February 2016

UMW Holdings

More headwinds ahead

HOLD

Maintained

Share Price	RM6.95
Target Price	RM6.30

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)	8119.64
52-week price Range	RM6.50– 11.30
Beta (against KLCI)	1.09
3-m Average Daily Volume	0.98m
3-m Average Daily Value [^]	RM7.30m

Share Performance

	1m	3m	12m
Absolute (%)	4.5	-11.7	-37.0
Relative (%-pts)	2.5	-14.8	30.9

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	40.77
EMPLOYEES PROVIDENT FUND	17.61
PERMODALAN NASIONAL BHD	5.72
KUMPULAN WANG PERSARAAN	2.18

Historical Chart



Source: Bloomberg

Team Coverage

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Result

- **UMW reported a net loss of RM286.04Mmill in 4Q15 as compared to net earnings of RM13.52mill in last quarter and RM83.17mill a year ago.** In contrast, topline stood at RM4160.9mil, climbed 17.7% q-o-q and 12.27% y-o-y.
- **As for full year 2015, the Group reported a net loss of RM38.9m** mainly due to assets and goodwill impairment in the Oil & Gas segment for 4Q15. Similarly, revenue decreased by 3.6% y-o-y to RM14419.75mill.
- However, after stripping out the impairment, the Group reported core net profit of RM214.35mill in 2015, declining by 67.4% y-o-y whilst still reported a net loss of RM32.75mill in 4Q15.
- **Below expectations** – The core earnings came below expectation by only reaching 61% and 53% of our full year earnings forecast and market consensus respectively mainly due to lackluster performance of automotive as well as oil & gas divisions.

Comment

- **Auto division failed to shine in 2015.** Dismay performance of Toyota sales continued to dent the auto division earnings in 2015 that recorded a decline in both topline and bottomline. Total car sales for the Group declined by 7.5% y-o-y resulted in lower market share of 14.4% against 15.6% a year ago.
- **However, 4Q15 segmental PBT jumped by 118.6% q-o-q** thanks to the higher car sales in Dec'15 as more buyers rushed for purchase since UMW Toyota Motor had announced that the prices of Toyota and Lexus vehicles will go up from 4% to 16% in Jan'16 due to the sharp depreciation of the Malaysian ringgit against the US dollar. In addition, the traditional year-end sales promotion for the purpose of stock clearance also pushed the car sales higher.
- **Perodua managed to maintain its pole position with the largest market share of 32% since 2006.** The continued higher orders for the Perodua Axia, which is Malaysia's first energy-efficient vehicle (EEV) contributed to the YTD sales (+9.1% y-o-y).
- **Equipment division maintained growth for 2015** – The equipment division in 12M2015 recorded a yoy PBT increase of 3.5% on the back of strong demand for equipment, parts and services in 1Q15 thanks to heavy equipment segment. Meanwhile, resumption of the jade mining activities in Myanmar in September 2014 plus tax

incentive given by the authority on the purchase of equipment in Singapore also aided the higher growth for 2015.

- **However, for 4Q15, the PBT declined by 57.23% qoq and 65% yoy** due to high base in 3Q15 and 4Q14 following higher demand for heavy equipment in Myanmar. The demand was subsequently normalised in 4Q15.
- **Bad year for O&G division.** Oil & Gas segment's 2015 revenue down 17.4% y-o-y. The lower revenue attributable to the declining time charter rates as well as lower rig utilisation rates for some of the assets. Similarly, its PBT for 12M15 turned into net loss of RM349.4mill owing to high operating cost from the non-operating and under-utilised rig assets as well as asset impairment on the rig assets. Meanwhile, the segment recorded a loss before taxation of RM11.7mill after stripping out the asset and goodwill impairment caused by weaker profit contribution by its operations in Labuan, Thailand and China which dented the performance of its Oilfield Services segment.
- **For 4Q15, the PBT reported a net loss of RM73.6mill** before provisioning for asset and goodwill impairment. The sluggish performance was caused by lower revenue contributions from both the Drilling Services and the Oilfield Services segments due to persistent depressed in oil prices.
- **M&E division acted as a star performer for the year.** M&E segmental PBT for 2015 increased by 10.5% y-o-y. The better performance was due to higher demand for lubricants and absorbers as well as successful disposal of the loss-making auto components manufacturing companies in India in Nov'15.
- **Similarly, its 4Q15 PBT managed to maintain its positive momentum** following the better performance by the lubricant segment and cost cutting measures undertaken by the Group.
- **The Group has declared a single-tier final dividend of 10 sen** to be paid on 10 March 2016, translating into total dividend payout of 20 sen per share for 2015 which is 21 sen lower than 2014.

Earnings Outlook/Revision

- **We cut our net earnings forecast for FY16 by 20%** to RM420.57mill (Previously: RM524.31mill) as we lowered the earnings contribution from Automotive, Equipment and O&G segments.
- We also take this opportunity to introduce our earnings forecast for FY17F, which implies a net profit growth of 19% as we reckon that automotive sector will recover in 2017, albeit at a moderate pace, as consumer will finally adapt to the new car prices in a longer run. Also, we expect the gradual recovery in oil prices to salvage the drop in oil & gas division. In addition, we have imputed 3% of earnings contribution from its manufacturing contract with Rolls-Royce for aero engine fan cases as UMW is on track to deliver its first Trent 1000 fan case in October

2017, whilst full year contribution is only expected from FY18F onwards.

Valuation & Recommendation

- **Maintain HOLD call on UMW with a lower target price of RM6.30 (Previous: RM7.68).** We pegged our target price at 17x FY2016F PE (-1 standard deviation below mean PER) based on EPS of 36 sen (Previous: 45 Sen).
- **Worst is not over yet.** We foresee another hard time for the Group's main earnings drivers which are auto and O&G divisions in 2016. The auto division will face an intense competition from other automakers coupled with a weak consumer sentiment as Malaysian Automotive Association (MAA) projected a lower TIV, anticipating a slump of 2.5% y-o-y in 2016. Meanwhile, Oil & Gas division will also face strong headwinds should the oil prices continue to hover at the current low level affecting its Drilling Services Segment (DSS) for both exploration and development of new oil and gas fields.

Figure 1: Quarterly Figures

Year to 31 Dec	4Q15 (RMm)	3Q15 (RMm)	4Q14 (RMm)	QoQ % chg	YoY % chg	12M15 (RMm)	12M14 (RMm)	YoY % chg
Revenue	4160.90	3533.18	3706.15	17.77%	12.27%	14419.75	14958.91	-3.6%
Operating Profit	-359.67	66.82	226.55	N/A	N/A	166.64	1426.776	-88.3%
Pre-tax Profit	-334.52	72.24	289.13	N/A	NA	265.36	1620.833	-83.6%
Profit After Tax	-391.57	27.91	195.99	N/A	N/A	5.709	1211.739	-99.5%
Net Profit	-286.04	13.52	83.17	N/A	N/A	-38.925	657.67	N/A
Operating Margin (%)	-8.64%	1.89%	6.11%	-10.54%	-14.76%	1.2%	9.5%	-8.4%
PBT Margin (%)	-8.04%	2.04%	7.80%	-10.08%	-15.84%	1.8%	10.8%	-9.0%

Figure 2: Segmental Breakdown

2015	4Q15	3Q15	4Q14	Q-O-Q	y-O-y	12M15	12M14	y-O-y
	(RMm)	(RMm)	(RMm)	(%)	(%)	(RMm)	(RMm)	(%)
Segmental Revenue								
Automotive	3375.86	2596.14	2573.51	30.03%	31.18%	10710.22	10777.73	-0.63%
Equipment	402.88	474.78	445.63	-15.14%	-9.59%	1884.30	1769.08	6.51%
Oil & Gas	130.96	212.70	327.66	-38.43%	-60.03%	839.53	1016.33	-17.40%
M & E	182.40	183.81	173.28	-0.77%	5.26%	702.67	725.08	-3.09%
Others	94.75	82.648	206.962	14.65%	-54.22%	362.79	751.68	-51.74%
Elimination	-25.94	-16.899	-20.894	53.48%	24.13%	-79.75	-80.20	-0.57%
Total Revenue	4160.905	3533.179	3706.145	17.77%	12.27%	14419.751	14959.695	-3.61%
Segmental PBT								
Automotive	247.88	113.39	313.13	118.60%	-20.84%	858.17	1472.18	-41.71%
Equipment	27.54	64.38	78.69	-57.23%	-65.00%	224.90	217.27	3.51%
Oil & Gas	-411.31	11.45	85.80	N/A	N/A	-349.40	286.18	N/A
M & E	13.39	0.75	-4.40	1680.32%	N/A	16.34	14.79	10.47%
Total PBT	-122.497	189.981	473.212	-164.48%	-59.85%	750.014	1990.424	-62.32%
Segmental Margin								
Automotive	7.34%	4.37%	12.17%	2.98ppt	-4.82ppt	8.01%	13.66%	-5.65ppt
Equipment	6.84%	13.56%	17.66%	-6.73ppt	-10.82ppt	11.94%	12.28%	-0.35ppt
Oil & Gas	-314.07%	5.39%	26.19%	-319.46ppt	-340.26ppt	-41.62%	28.16%	-69.78ppt
M & E	7.34%	0.41%	-2.54%	6.93ppt	9.88ppt	2.33%	2.04%	0.29ppt

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2012	2013	2014	2015	2016F	2017F
Revenue	15,863.62	13,951.46	14,958.91	14,419.75	12,659.95	13,394.99
Operating profit	1,869.75	1,296.46	1,426.78	166.64	797.58	1,151.97
PBT	2,009.69	1,435.67	1,620.83	265.36	983.78	1,240.45
Net profit	994.30	679.61	657.67	-38.93	420.57	504.86
Core net profit	994.30	679.61	657.67	214.35	420.57	504.86
EPS (sen)	0.85	0.58	0.56	-0.03	0.36	0.43
P/BV (x)	1.29	0.90	0.86	0.88	0.83	0.75
P/E (x)	8.17	11.95	12.35	-208.60	19.31	16.08
DPS (sen)	0.50	0.44	0.41	0.20	0.35	0.42
Dividend yield (%)	7.19%	6.33%	5.90%	2.88%	5.04%	6.04%
Operating margin (%)	11.79%	9.29%	9.54%	1.16%	6.30%	8.60%
PBT margin (%)	12.67%	10.29%	10.84%	1.84%	7.77%	9.26%
Net profit margin (%)	6.27%	4.87%	4.40%	-0.27%	3.32%	3.77%
Net Gearing Ratio(x)	0.48	0.37	0.38	0.66	0.79	0.83
ROE (%)	15.84%	7.57%	6.96%	-0.42%	4.32%	4.68%
ROA (%)	8.43%	4.59%	4.00%	-0.22%	1.82%	1.85%

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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