

26 February 2016

Consumer Cyclical | Auto & Autoparts

UMW

Sell (Maintained)

More Speed Bumps Ahead

We see another challenging year ahead across all of UMW's business divisions. With no new passenger car models scheduled for introduction this year, Toyota is expected to lose more market share amid unfavourable industry conditions. Prolonged depressed oil prices could trigger further asset impairments going forward. The strategy to resolve its legacy non-core oil and gas businesses remains unclear. UMW is also at risk of dropping out of the FBM KLCI component stock list at the next review in May. Reiterate SELL, and a MYR5.00 TP (28% downside).

Automotive winter. The macro environment for auto sales in 2016 looks grim. Consumer sentiment is at an all-time low, while cutthroat competition and a soft MYR may contrive to pressure margins. The absence of new passenger car models this year could see Toyota cede further market share to Honda.

Is the worst over at UMWOG? Despite the MYR337.7m impairment charge recognised in 2015 at UMW Oil & Gas (UMWOG), a prolonged period of low crude oil prices could mean another round of impairment charges. The likelihood of turning around the legacy non-core O&G businesses (2015 net loss: MYR455.8m) looks remote in the current industry environment. Weak commodity prices could dampen industrial equipment sales – although business in Myanmar and Papua New Guinea remains promising

Forecasts and risks. We make minor changes to our 2016-2017 numbers. Upside risks to our recommendation and TP include a rebound in the MYR, improvement in consumer sentiment, introduction of attractive new car models, higher crude oil prices and a turnaround at the various legacy non-core oil and gas businesses.

4Q15 earnings missed expectations

(MYRm)	4Q15	3Q15	QoQ (%)	4Q14	YoY (%)	Comments
Revenue	4,161	3,533	17.8	3,706	12.3	Solid 4Q15 auto sales from the rush to avoid price increases
EBIT	-360	67	- >100	227	- >100	Depressed by asset impairments
EBIT (%)	-8.6%	1.9%		6.1%		
NI	-286	14	- >100	83	- >100	
NI (%)	-6.9%	0.4%		2.2%		

Source: Company data, RHB

Investment case. No change to our SELL call and SOP-derived TP of MYR5.00. We see few reasons to change our bearish view on the stock at this juncture. In addition to operational challenges, there is a real risk of the stock being dropped from the FBM KLCI component list at the next review in May. We are unable to justify the stock's elevated valuation multiples relative to its other peers in the sector.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	14,959	14,420	14,023	14,592	15,009
Reported net profit (MYRm)	658	(39)	410	481	524
Recurring net profit (MYRm)	802	147	410	481	524
Recurring net profit growth (%)	(6.0)	(81.7)	179.4	17.3	8.9
Recurring EPS (MYR)	0.69	0.13	0.35	0.41	0.45
DPS (MYR)	0.41	0.20	0.25	0.29	0.31
Recurring P/E (x)	10.1	55.3	19.8	16.9	15.5
P/B (x)	1.23	1.27	1.30	1.35	1.42
P/CF (x)	7.7	13.7	12.2	9.3	4.8
Dividend Yield (%)	5.9	2.9	3.5	4.1	4.5
EV/EBITDA (x)	5.2	20.7	10.7	9.8	8.8
Return on average equity (%)	10.2	(0.6)	6.5	7.9	8.9
Net debt to equity (%)	7.6	34.8	36.0	46.2	48.6
Our vs consensus EPS (adjusted) (%)			(20.3)	(19.2)	0.0

Source: Company data, RHB

Target Price:	MYR5.00
Price:	MYR6.95
Market Cap:	USD1,922m
Bloomberg Ticker:	UMWH MK

Share Data

Avg Daily Turnover (MYR/USD)	6.53m/1.53m
52-wk Price low/high (MYR)	6.56 - 11.1
Free Float (%)	35
Shares outstanding (m)	1,168
Estimated Return	-28%

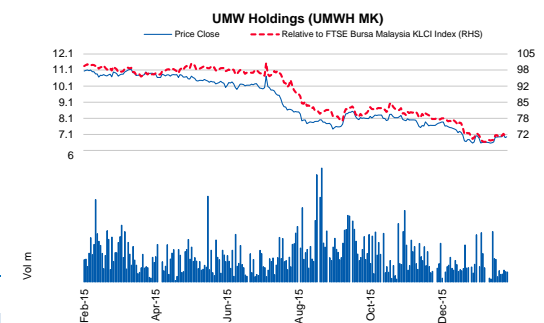
Shareholders (%)

PNB Funds	51.6
EPF	17.6

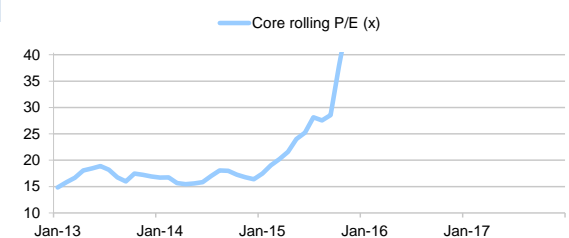
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.7)	2.5	(15.3)	(19.2)	(36.8)
Relative	(9.7)	0.5	(13.7)	(25.2)	(28.1)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Profit & Loss (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	14,959	14,420	14,023	14,592	15,009
Cost of sales	(10,845)	(10,454)	(10,166)	(10,579)	(10,882)
Gross profit	4,114	3,965	3,856	4,013	4,128
Gen & admin expenses	(1,393)	(1,519)	(1,655)	(1,804)	(1,967)
Selling expenses	(507)	(469)	(426)	(450)	(465)
Other operating costs	(787)	(1,843)	(1,187)	(978)	(762)
Operating profit	1,427	135	588	781	934
EBITDA	1,806	563	1,082	1,262	1,396
Depreciation of fixed assets	(379)	(428)	(494)	(481)	(462)
Operating profit	1,427	135	588	781	934
Net income from investments	140	130	99	105	111
Interest income	137	127	90	54	33
Interest expense	(82)	(127)	(141)	(130)	(130)
Pre-tax profit	1,621	266	636	810	949
Taxation	(409)	(260)	(172)	(219)	(256)
Minority interests	(554)	(45)	(54)	(110)	(169)
Reported net profit	658	(39)	410	481	524
Recurring net profit	802	147	410	481	524

Source: Company data, RHB

Key Ratios	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	7.2	(3.6)	(2.8)	4.1	2.9
Operating profit growth (%)	10.1	(90.5)	335.9	32.8	19.7
Recurring net profit growth (%)	(6.0)	(81.7)	179.4	17.3	8.9
Recurrent EPS growth (%)	(6.0)	(81.7)	179.4	17.3	8.9
Gross margin (%)	27.5	27.5	27.5	27.5	27.5
Operating EBITDA margin (%)	12.1	3.9	7.7	8.6	9.3
Operating margin (%)	9.5	0.9	4.2	5.4	6.2
Recurring net profit margin (%)	5.4	1.0	2.9	3.3	3.5
Return on average assets (%)	4.2	(0.2)	2.3	2.9	3.1
Return on average equity (%)	10.2	(0.6)	6.5	7.9	8.9
Net debt to equity (%)	7.6	34.8	36.0	46.2	48.6
Interest cover (x)	17.4	1.1	4.2	6.0	7.2
Capex/Free cash flow (%)	196.4	359.4	180.8	137.9	70.7
BVPS (MYR)	5.64	5.48	5.33	5.13	4.89
DPS (MYR)	0.41	0.20	0.25	0.29	0.31
Dividend payout ratio (%)	72.8	(600.3)	70.0	70.0	70.0
Free cash flow per share (MYR)	(0.87)	(1.31)	(0.46)	(0.28)	0.43

Source: Company data, RHB

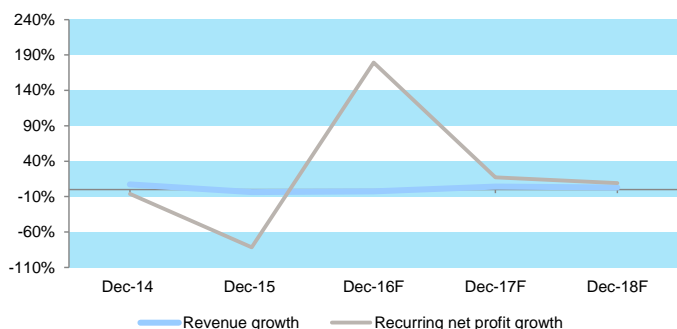
Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Operating profit	1,427	135	588	781	934
Depreciation & amortisation	379	428	494	481	462
Change in working capital	(205)	241	(105)	(43)	667
Other operating cash flow	(43)	175	0	0	21
Operating cash flow	1,558	978	977	1,219	2,084
Interest paid	(90)	(127)	(141)	(130)	(130)
Tax paid	(409)	(260)	(172)	(219)	(256)
Cash flow from operations	1,059	591	664	870	1,698
Capex	(2,080)	(2,125)	(1,200)	(1,200)	(1,200)
Other new investments	(44)	(3)	959	115	115
Other investing cash flow	1,400	224	90	54	33
Cash flow from investing activities	(723)	(1,904)	(151)	(1,031)	(1,052)
Dividends paid	(514)	(479)	(234)	(287)	(337)
Increase in debt	1,183	1,692	(883)	-	1
Other financing cash flow	(1,023)	(806)	(577)	(716)	(804)
Cash flow from financing activities	(354)	407	(1,693)	(1,003)	(1,139)
Cash at beginning of period	2,544	3,376	2,728	1,782	905
Total cash generated	(19)	(906)	(1,180)	(1,164)	(493)
Forex effects	851	258	234	287	337
Implied cash at end of period	3,376	2,728	1,782	905	749

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	3,376	2,728	1,782	905	749
Inventories	1,835	1,892	1,729	1,799	1,645
Accounts receivable	1,326	1,273	1,037	1,079	946
Other current assets	1,997	1,676	968	865	617
Total current assets	8,534	7,569	5,516	4,648	3,956
Total investments	1,878	1,975	2,074	2,179	2,291
Tangible fixed assets	5,646	8,133	8,839	9,557	10,295
Intangible assets	38	38	38	38	38
Total other assets	344	365	365	365	365
Total non-current assets	7,905	10,512	11,316	12,140	12,989
Total assets	16,439	18,081	16,833	16,788	16,946
Short-term debt	2,177	3,159	3,159	3,159	3,159
Accounts payable	1,173	1,165	975	1,014	1,133
Other current liabilities	1,536	1,368	1,305	1,346	1,495
Total current liabilities	4,886	5,692	5,439	5,519	5,787
Total long-term debt	1,914	2,783	1,900	1,900	1,901
Other liabilities	196	383	383	383	383
Total non-current liabilities	2,110	3,165	2,283	2,283	2,284
Total liabilities	6,997	8,857	7,721	7,802	8,071
Share capital	584	584	584	584	584
Retained earnings reserve	5,116	4,640	4,473	4,238	3,958
Other reserves	890	1,173	1,173	1,173	1,173
Shareholders' equity	6,590	6,397	6,230	5,995	5,715
Minority interests	2,853	2,827	2,881	2,991	3,160
Total equity	9,443	9,224	9,111	8,987	8,875
Total liabilities & equity	16,439	18,081	16,833	16,788	16,946

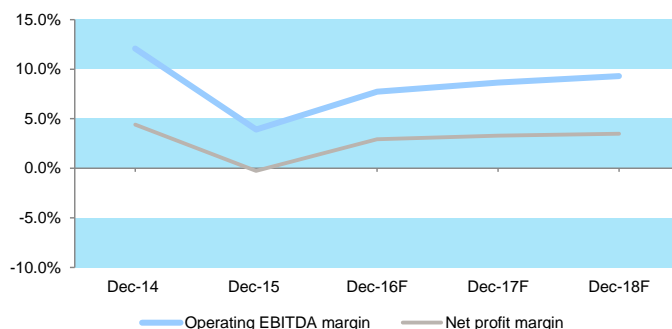
Source: Company data, RHB

Revenue growth vs Recurring net profit growth



Source: Company data, RHB

EBITDA margin vs Net profit margin



Source: Company data, RHB

More Speed Bumps Ahead

Figure 1: Earnings review

FYE Dec (MYRm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	2014	2015	YoY (%)	Comments
Revenue	3,706.1	3,533.2	4,160.9	17.8	12.3	14,958.9	14,419.8	(3.6)	Mainly due to lower auto sales and oil and gas revenue
EBIT	226.5	66.8	(359.7)	- >100	- >100	1,426.8	166.6	(88.3)	MYR337.7m impairment at UMWOG, unfavourable forex and industry competition dampened margins
EBIT margin (%)	6.1	1.9	1.9			9.5	1.2		
Finance costs	(23.9)	(24.8)	(41.9)	69.2	75.0	(82.0)	(126.6)	54.3	
Associates	49.4	(0.3)	35.8	- >100	(27.6)	139.5	98.4	(29.5)	Associate contributions were hit by weaker profitability at Perodua and losses at its China and India associates
Investmt income	37.1	30.5	31.5	3.4	(15.0)	136.6	127.2	(6.9)	
Pretax Profit	289.1	72.2	(334.2)	- >100	- >100	1,620.8	265.6	(83.6)	
Pretax margin (%)	7.8	2.0	(8.0)			10.8	1.8		
Tax	(93.1)	(44.3)	(57.3)	29.3	(38.5)	(409.1)	(259.9)	(36.5)	
Eff tax rate (%)	(32.2)	(61.4)	17.1			(25.2)	(97.9)		
MI	(112.8)	(14.4)	105.5	- >100	(193.5)	(554.1)	(44.6)	(91.9)	
Net Profit	83.2	13.5	(286.0)	- >100	- >100	657.7	(38.9)	(105.9)	
Net Margin (%)	2.2	0.4	(6.9)			4.4	(0.3)		

Source: Company data, RHB

Figure 2: Earnings review - segmental breakdown

FYE Dec (MYRm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	2014	2015	YoY (%)	Comments
Automotive	2,573.5	2,596.1	3,375.9	30.0	31.2	10,777.7	10,710.2	(0.6)	2015 revenue was flat despite a solid 4Q15. Market leadership lost to Honda
Oil & gas	327.7	212.7	131.0	(38.4)	(60.0)	1,016.3	839.5	(17.4)	Lower DCR and rig utilisation
Equipment	445.6	474.8	402.9	(15.1)	(9.6)	1,769.1	1,884.3	6.5	Higher sales to Myanmar and Papua New Guinea
Mfg & eng	173.3	183.8	182.4	(0.8)	5.3	724.3	702.7	(3.0)	
Others	186.1	65.7	68.8	4.7	(63.0)	671.5	283.0	(57.8)	
Revenue	3,706.1	3,533.2	4,160.9	17.8	12.3	14,958.9	14,419.8	(3.6)	
Automotive	313.1	113.4	247.9	118.6	(20.8)	1,472.2	858.2	(41.7)	Unfavourable forex, negative operating leverage and price discounting
Oil & gas	85.8	11.5	(411.3)	- >100	- >100	286.2	(349.4)	- >100	Impairment charges, lower DCR and asset utilisation
Equipment	78.7	64.4	27.5	(57.2)	(65.0)	217.3	224.9	3.5	Stronger demand from jade mining sector
Mfg & eng	(4.4)	0.8	13.4	>100	- >100	15.7	16.3	4.4	
Others	(184.1)	(117.7)	(211.8)	79.8	15.0	(370.5)	(484.4)	30.8	
PBT	289.1	72.2	(334.3)	(562.7)	(215.6)	1,620.8	265.6	(83.6)	
PBT margins									
Automotive	12.2	4.4	7.3			13.7	8.0		
Oil & gas	26.2	5.4	(314.1)			28.2	(41.6)		
Equipment	17.7	13.6	6.8			12.3	11.9		
Mfg & eng	(2.5)	0.4	7.3			2.2	2.3		
Others	(98.9)	(179.1)	(307.7)			(55.2)	(171.1)		
	7.8	2.0	(8.0)			10.8	1.8		
Automotive	152.8	59.5	124.5	>100	(18.5)	682.0	431.3	(36.8)	
Oil & gas	39.3	0.1	(228.0)	- >100	- >100	138.6	(207.6)	- >100	
Equipment	69.4	51.4	26.4	(48.7)	(62.0)	189.2	183.0	(3.3)	
Mfg & eng	1.5	(0.0)	8.5	- >100	>100	10.0	10.2	1.7	
Others	(179.8)	(97.4)	(217.4)	>100	20.9	(362.2)	(455.8)	25.9	
NP	83.2	13.5	(286.0)	- >100	- >100	657.7	(38.9)	- >100	
NP margins									
Automotive	5.9	2.3	3.7			6.3	4.0		
Oil & gas	12.0	0.1	(174.1)			13.6	(24.7)		
Equipment	15.6	10.8	6.5			10.7	9.7		
Mfg & eng	0.9	(0.0)	4.6			1.4	1.5		
Others	(96.6)	(148.2)	(315.9)			(53.9)	(161.0)		
	2.2	0.4	(6.9)			4.4	(0.3)		

Source: Company data, RHB

Figure 3: Summary of UMW's vehicle sales

FYE Dec (units)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	2014	2015	YoY (%)
Toyota	27,821	23,773	32,398	36.3	16.5	103,636	95,861	(7.5)
- Passenger	19,708	16,553	23,372	41.2	18.6	75,294	67,266	(10.7)
- Commercial	8,113	7,220	9,026	25.0	11.3	28,342	28,595	0.9
Perodua	55,262	49,025	55,780	13.8	0.9	195,579	213,307	9.1
- Passenger	55,262	49,025	55,780	13.8	0.9	195,579	213,307	9.1
- Commercial	0	0	0	0.0	0.0	0	0	0.0
Total	83,083	74,436	88,178	18.5	6.1	299,215	309,168	3.3

Source: MAA

Figure 4: Forecast assumptions

FYE Dec	2015	2016F	2017F	2018F
Toyota / Lexus (units)	95,861	87,000	92,000	95,000
Perodua (units)	213,307	212,000	215,000	217,000
Forex (JPY/MYR)*	3.25	3.70	3.60	3.60
Forex (USD/MYR)*	3.90	4.25	4.10	4.00
*average rate				

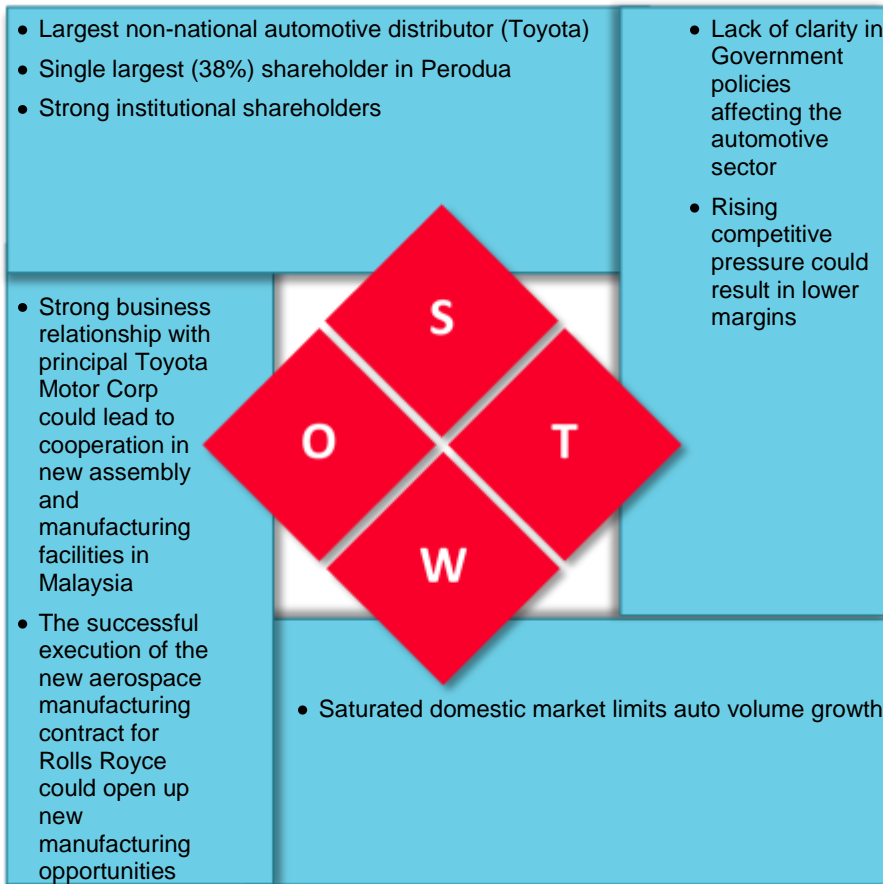
Source: RHB

Figure 5: SOP valuation

	P/E (x)	Valuation (MYR)	Stake (%)	Discount (%)	Per UMW share (MYR)
UMWOG		MYR 0.96	55.15	10	0.88
Other businesses	11.0				4.14
					5.02

Source: RHB estimates

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-02-26	Sell	5.0	7.0
2016-01-17	Sell	5.0	7.3
2015-11-27	Sell	5.0	8.0
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

Source: RHB, Bloomberg

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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

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