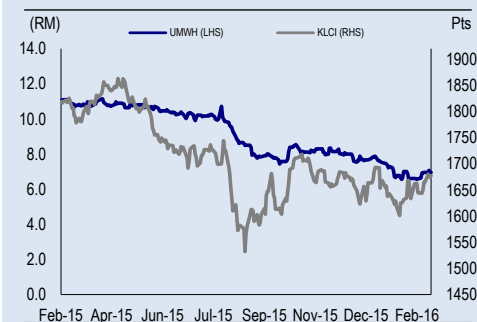


UMW (SELL ↔, EPS ↓)
INDUSTRY: UNDERWEIGHT
EARNINGS EVALUATION
26 February 2016
Price Target: RM5.50 (↓)
Share price: RM6.95
Continued Tough Market 2016

Results	<ul style="list-style-type: none"> ▪ Below Expectations - Reported core net losses of RM59.8m in 4Q15. Nevertheless, full year FY15 was still a profit of RM254.3m, achieving only 65.7% of HLIB's FY15 expectation and 62.3% of consensus.
Deviations	<ul style="list-style-type: none"> ▪ Mainly dragged by lower margins on lower sales volume (automotive and manufacturing divisions), lower charter rates and utilization rates (O&G), and higher operational costs (inputs and marketing expenses).
Dividends	<ul style="list-style-type: none"> ▪ Declared second net interim dividend of 10sen. Total net dividend was 20sen (2.9% dividend yield), below our expectation of 25sen.
Highlights	<ul style="list-style-type: none"> ▪ Automotive: FY15 earnings deteriorated 36.8% yoy on lower sales volume and higher input costs (weakened MYR) and sales and promotional expenses to boost sales volume for Toyota on the back of stiff competition environments. Perodua contribution was also affected by lower revenue mix and higher imported CKD costs on weakened MYR. ▪ Equipment: FY15 earnings stayed relatively flat at -3.3% yoy as demand normalized from Myanmar and Papua New Guinea. However, the slowdown in economy and low commodity prices in 2016 are expected to affect the demand for heavy equipments. ▪ Oil & Gas: FY15 earnings reflect the downturn of demand for jack-up rigs. UMWOG suffered from depressed utilization rates and time charter rates. The unit recognized impairments and writedowns of RM349.8m during 4Q15 due to unfavorable outlook for the demand. We do not discount possibility of further impairments in 2016. ▪ Manufacturing & Engineering: FY15 earnings relatively stable with the stronger demand from China offset the slowdown in Malaysia.
Risks	<ul style="list-style-type: none"> ▪ Prolonged tightening of banks' HP rules. ▪ Slowdown in the Malaysian economy affecting car sales. ▪ Global automotive supply chain disruption. ▪ Appreciation of US\$. ▪ Plunge in crude oil price and slowdown in O&G exploration.
Forecasts	<ul style="list-style-type: none"> ▪ We cut FY16-17 earnings by 50.2% and 40.5% respectively in view of the weaker market demand and higher costs structures. Introduced FY18 earnings at RM426m.
Rating	SELL (↔) <ul style="list-style-type: none"> ▪ Positives – 1) Control largest market share of Malaysia TIV with leading brand - Toyota, Lexus and Perodua; and 2) Investing into new business segment. ▪ Negatives – 1) Slump in crude oil prices affecting demand and charter rates for jack-up rigs; 2) Tightening of bank's lending rules; and 3) Intense competition from rival automotive marques.
Valuation	<ul style="list-style-type: none"> ▪ Maintained SELL recommendation with lower SOP based TP: RM5.50 (from RM6.55) after cutting earnings estimates and lowered P/E multiples on weakened market sentiment.

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KLCI	1,658.2
Expected share price return	-20.9%
Expected dividend return	4.3%
Expected total return	-16.5%

Share price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	8,120
3-mth avg. volume ('000)	983
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	4.5	-16.1	-37.0
Relative	2.5	-14.8	-30.9

Major shareholders

SKIM Amanah Saham	40.77%
EPF	17.6%
PNB	5.7%

Summary Earnings Table

FYE Dec (RM m)	FY15A	FY16E	FY17E	FY18E
Turnover	14,499	13,305	13,971	14,499
EBITDA	1,340	1,082	1,311	1,511
Pre-tax Profit	266	568	787	970
Rpt. net profit	-39	219	331	426
Norm. net profit	254	219	331	426
Norm. EPS (sen)	21.8	18.8	28.3	36.5
P/E (x)	31.9	37.0	24.5	19.0
Book Value (RM)	5.5	5.5	5.5	5.5
P/B (x)	1.3	1.3	1.3	1.3
Net Dvd Yield (%)	2.9	4.3	5.5	5.5
Net Gearing	50.2	26.7	36.8	46.3
ROE (%)	3.9	3.4	5.1	6.6
ROA (%)	1.5	1.3	1.9	2.4

Consensus:

EPS (sen)	42.2	49.6	N.A.
% Diff	-55.5	-42.9	N.A.

HLIB

Figure #1: Quarterly Result Comparison

FYE Dec (RMm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	Comment
Revenue	3,711.2	3,533.2	4,160.9	17.8	12.1	Revenue increased yoy on stronger Toyota and Lexus sales, as consumer took advantage of the aggressive end year sales campaigns and avoid price hikes in Jan 2016.
EBITDA	441.3	326.5	326.1	-0.1	-26.1	
EBITDA Margin (%)	11.9	9.2	7.8	-15.2	-34.1	EBITDA margin declined yoy on lower rigs utilization as well as lower margins on automotive sector due to higher cost structures.
EBIT	329.4	183.1	-77.6	-142.4	-123.6	
EBIT Margin (%)	8.9	5.2	-1.9	-7.0	-10.7	Filtered through lower EBITDA margin yoy.
Net Finance Expense	13.2	5.7	-10.3	-279.8	-178.3	
Associates	49.4	-0.3	35.8	-11168.4	-27.6	Returned to profits mainly due to stronger contribution from Perodua.
Eis	-102.8	-116.3	-282.1			Related to derivatives, forex, impairments and provisions.
Reported PBT	289.1	72.2	-334.3	-562.7	-215.6	
Tax	-93.1	-44.3	-57.3	29.3	-38.5	
Reported Net Profit	196.0	27.9	-391.6	-1502.9	-299.8	
Reported PATAMI	83.2	13.5	-286.0	-2215.2	-443.9	
Core PATAMI	186.0	71.1	-59.8	-184.0	-132.1	Turned to core net losses in 4Q15, dragged by O&G division and others (valued businesses).
Reported EPS (Sen)	7.1	1.2	-24.5	-2215.2	-443.9	
Core EPS (Sen)	15.9	6.1	-5.1	-184.0	-132.1	

Company, HLIB

Figure #2: Cumulative Result Comparison

FYE Dec (RMm)	FY14	FY15	YoY (%)	FY15E	Dif (%)	Comment
Revenue	14,958.9	14,419.8	-3.6	12,509.6	115.3	Revenue declined yoy on lower contribution from O&G (lower rigs utilization and charter rates) and others (disposal of businesses).
EBITDA	1,940.0	1,339.9	-30.9	1,269.1	105.6	
EBITDA Margin (%)	13.0	9.3	-3.7	10.1	-0.9	EBITDA margin declined yoy on lower rigs utilization as well as lower margins on automotive sector due to higher cost structures.
EBIT	1,560.6	574.4	-63.2	755.7	76.0	
EBIT Margin (%)	10.4	4.0	-6.4	6.0	-2.1	Filtered through lower EBITDA margin.
Net Finance Expense	54.5	0.6	-98.9	-7.1	-8.3	
Associates	139.5	98.4	-29.5	113.0	87.1	Lower contribution from associates with losses from valued business segments and lower contribution from Perodua on forex impact (partially due to unrealised forex losses).
EI	-133.8	-407.7		0.0		Related to derivatives, forex, impairments and provisions.
Reported PBT	1,620.8	265.6	-83.6	861.6	30.8	
Tax	-409.1	-259.9	-36.5	-238.0	109.2	
Reported Net Profit	1,211.7	5.7	-99.5	623.6	0.9	
Reported PATAMI	657.7	-38.9	-105.9	387.4	-10.0	
Core PATAMI	791.5	254.3	-67.9	387.4	65.7	Core PATAMI declined 67.9% yoy, mainly dragged down by Automotive, O&G and other segments. FY15 core earnings below HLIB's expectations.
Reported EPS (Sen)	56.3	-3.3	-105.9	33.2	-10.0	
Core EPS (Sen)	67.7	21.8	-67.9	33.2	65.7	

Company, HLIB

Figure #3: UMW Group Automotive Sales Statistics

Unit Sales	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	FY14	FY15
Toyota (51% ownership)	24,185	26,937	23,508	27,405	16,241	22,555	23,301	31,663	102,035	93,760
Lexus (51% ownership)	449	367	369	416	362	532	472	735	1,601	2,101
Perodua (38% ownership)	44,024	50,456	45,837	55,262	57,153	51,349	49,025	55,780	195,579	213,307
Total	68,658	77,760	69,714	83,083	73,756	74,436	72,798	88,178	299,215	309,168
Growth YoY (%)	2.38	4.98	-2.07	8.94	7.43	-4.27	4.42	6.13		3.33

Company, HLIB

Figure #4: UMW Earnings Breakdown

	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	Comment
Reported Revenue						
Automotive	2,573.5	2,596.1	3,375.9	30.0	31.2	Mainly due to spike in Toyota and Lexus sales in 4Q15 as consumer took advantage of the sales campaigns and avoid price hikes in Jan 2016.
Equipment	445.6	474.8	402.9	-15.1	-9.6	Lower sales in 4Q15 as commodity prices dropped further during the quarter.
Oil & Gas	327.7	212.7	131.0	(38.4)	(60.0)	Lower time charter rates and utilization rate for the rigs.
Manufacturing & Engineering	173.3	183.8	182.4	(0.8)	5.3	Stable.
Others	207.0	82.6	94.8	14.6	(54.2)	Business disposals.
Intersegment	(15.8)	(16.9)	(25.9)	53.5	64.0	
Total	3,711.2	3,533.2	4,160.9	17.8	12.1	

Reported PATAMI

Automotive	152.8	59.5	124.5	109.2	(18.5)	Lower yoy margins due to higher input cost (due to unfavorable forex movement) and operational costs – sales and distributional costs.
Equipment	69.4	51.4	26.4	(48.7)	(62.0)	Declined in tandem with higher revenue.
Oil & Gas	39.3	0.1	(228.0)	N.M.	N.M.	Attributed to impairments, low charter rates and utilization rates.
Manufacturing & Engineering	1.5	(0.0)	8.5	N.M.	N.M.	
Others	(179.8)	(97.4)	(217.4)	N.M.	N.M.	
Total	83.1	13.5	(286.0)	N.M.	N.M.	Affected by derivatives losses, forex movements and impairments.
Core PATAMI	186.0	71.1	(59.8)	N.M.	N.M.	

Company, HLIB

Figure #5: UMW SOP

Division	Stakes (%)	FY17 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	453.2	4,532.0	3.88	FY17 PE 10x
Equipment	Various	162.3	1,298.3	1.11	FY17 PE 8x
Oil & Gas	55.73	(50.2)	831.4	0.71	Target Price of RM0.69
Manufacturing & Engineering	Various	13.5	81.1	0.07	FY17 PE 6x
Others	Various	(248.0)	(248.0)	(0.21)	
FY15 Net Cash (Holdings)			(80.0)	(0.07)	Estimated End FY2015
Target Price (RM)				5.50	Implied FY15 P/E of 13.7x
* No of Shares		1,168.3		As at end FY2015	

Company, HLIB

Figure #6: HLIB Forecast versus Consensus

	FY16			FY17			FY18		
	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)	HLIB	Consensus	Difference (%)
Revenue (RMm)	13,305.5	14,058.0	-5.4%	13,971.3	14,591.0	-4.2%	14,499.3	N.A.	N.A.
EBITDA (RMm)	1,082.2	1,375.0	-21.3%	1,311.1	1,590.0	-17.5%	1,511.3	N.A.	N.A.
Core Profit (RMm)	219.3	483.0	-54.6%	330.8	570.1	-42.0%	426.5	N.A.	N.A.
EPS (Sen)	18.8	42.2	-55.5%	28.3	49.6	-42.9%	36.5	N.A.	N.A.

Bloomberg, HLIB

Figure #7: Peers Comparison

Peers	Market Cap (RMm)	Recommendation	PE-16 (x)	PE-17 (x)	PB-16 (x)	ROE-16 (%)	DY-16 (%)
MBM	890.8	Buy	11.2	9.8	0.7	5.9	5.3
DRB	1,952.6	Buy	14.4	6.3	0.3	1.8	0.0
UMW	8,119.6	Sell	37.0	24.5	1.3	3.4	4.3
TCM	1,560.0	Sell	29.0	17.3	0.6	1.9	1.7
BAUTO	2,460.2	N.A	11.32	11.0	5.2	52.0	4.8
Average			20.584	13.78	1.62	13	3.22

Bloomberg, HLIB

Financial Projections

Income statement

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	14,932	14,499	13,305	13,971	14,499
Operating cost	-12,983	-13,160	-12,223	-12,660	-12,988
EBITDA	1,949	1,340	1,082	1,311	1,511
Depreciation	-379	-765	-617	-623	-646
EBIT	1,570	574	466	688	866
Interest income	131	127	117	108	99
Interest expense	-85	-127	-123	-133	-143
Associates	140	98	109	125	149
Exceptionals	-134	-408	0	0	0
Pretax profit	1,621	266	568	787	970
Taxation	-408	-260	-199	-236	-270
Minorities	-561	-45	-150	-221	-273
Net profit	652	-39	219	331	426
Core PATAMI	786	254	219	331	426
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	55.8	-3.3	18.8	28.3	36.5
FD Core EPS (sen)	67.3	21.8	18.8	28.3	36.5

Balance sheet

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17E	FY18E
Fixed assets	5,674	8,136	6,717	7,207	7,676
Other assets	4,027	4,052	4,138	4,200	4,275
Working capital	2,037	2,000	1,744	1,851	1,937
Receivables	1,618	1,273	1,442	1,514	1,571
Payables	-1,411	-1,165	-1,329	-1,376	-1,412
Inventory	1,830	1,892	1,631	1,713	1,777
Net cash	-819	-3,213	-1,728	-2,374	-2,979
Cash	3,371	2,728	3,200	2,945	2,731
ST debt	-2,387	-3,159	-2,387	-2,387	-2,387
LT debt	-1,803	-2,783	-2,541	-2,933	-3,324
Equity	6,580	6,397	6,475	6,455	6,437
Share capital	584	584	584	584	584
Reserves	5,996	5,813	5,890	5,871	5,853
Minorities	2,853	2,827	2,910	2,944	2,985
Other liabilities	1,486	1,750	1,486	1,486	1,486

Assumption Metrics

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
GDP Growth (%)	6.0%	5.0%	4.5%	4.5%	4.5%
TIV ('000)	666.5	666.7	666.1	682.7	699.8
Growth (%)	1.6%	0.0%	-0.1%	2.5%	2.5%
Unit Sale (Unit)	299.2	309.2	305.4	311.0	317.2
Toyota ('000)	102.0	93.8	87.0	90.5	92.3
Lexus ('000)	1.6	2.1	1.8	1.8	1.8
Perodua ('000)	195.6	213.3	216.6	218.7	223.1
Average Price					
UMW (RM '000)	100.5	97.0	100.3	100.3	100.3
Perodua (RM '000)	40.7	40.7	41.1	41.5	41.9

Cashflow

FYE 31 Dec (RMm)	FY14A	FY15A	FY16E	FY17E	FY18E
EBITDA	1,949	1,340	1,082	1,311	1,511
Net interest	46	1	-6	-26	-44
WCap changes	-149	37	-77	-106	-86
Taxation	-418	-256	-199	-236	-270
Others	68	-620	0	0	0
Opex cashflow	1,496	503	800	944	1,111
Capex & acq.	-2,191	-2,128	-1,114	-1,114	-1,114
Free cashflow	-695	-1,625	-314	-170	-3
Other inv cashflow	1,745	97	54	63	74
Net borrowings	1,151	1,692	391	391	391
Share issuance	0	0	0	0	0
Dividends paid	-514	-479	-292	-350	-444
Other fin cashflow	-433	-327	-127	-188	-232
Net cashflow	1,254	-643	-288	-255	-214
Forex translation	12	16	0	0	0
Beginning cash	1,565	3,277	2,948	2,660	2,405
Ending cash	2,830	2,649	2,660	2,405	2,191

Valuation ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Rep. EPS (sen)	55.8	-3.3	18.8	28.3	36.5
FD Core EPS (sen)	67.3	21.8	18.8	28.3	36.5
PER (x)	12.5	-208.6	37.0	24.5	19.0
FD PER (x)	10.3	31.9	37.0	24.5	19.0
Net DPS (sen)	57.0	20.0	30.0	38.0	38.0
Net DY (%)	8.2	2.9	4.3	5.5	5.5
BV/ share (RM)	5.6	5.5	5.5	5.5	5.5
P/BV (x)	1.2	1.3	1.3	1.3	1.3
FCF/share (sen)	-59.5	-139.1	-26.9	-14.6	-0.3
Market Cap	8,120	8,120	8,120	8,120	8,120
Net cash	-819	-3,213	-1,728	-2,374	-2,979
Enterprise value	8,939	11,333	9,848	10,494	11,099
EV/EBITDA (x)	4.6	8.5	9.1	8.0	7.3
ROE (%)	12.2	3.9	3.4	5.1	6.6
ROA (%)	5.1	1.5	1.3	1.9	2.4

Other Ratios

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Growth (%)					
Sales	7.0	-2.9	-8.2	5.0	3.8
EBITDA	8.1	-31.3	-19.2	21.2	15.3
EBIT	5.5	-63.4	-18.9	47.7	25.9
PBT	12.9	-83.6	113.9	38.6	23.2
Core PATAMI	-6.0	-67.6	-13.8	50.8	28.9
Margins (%)					
EBITDA	13.1	9.2	8.1	9.4	10.4
EBIT	10.5	4.0	3.5	4.9	6.0
PBT	10.9	1.8	4.3	5.6	6.7
Core PATAMI	5.3	1.8	1.6	2.4	2.9
Net Gearing (%)	12.4	50.2	26.7	36.8	46.3

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1. As of 26 February 2016, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 26 February 2016, the analyst, Daniel Wong, who prepared this report, has interest in the following securities covered in this report:

(a) -.

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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