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## Hold

Price  
RM6.95

Target price  
RM8.10

Bloomberg Code  
UMWH MK

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# UMW Holdings

## Oil & gas rears its ugly head

**UMWH's FY15 normalised net earnings contracted by 56%. Losses from the Oil & Gas and Others division as well as a significant reduction in Motor earnings were to blame. Low fuel prices suggest that prospects for the Oil & Gas and the related Others division remain weak while forex continues to hinder Motor earnings. We will be reviewing our recommendation given the steep drop in share price.**

- After excluding the following exceptional items: 1) RM338m asset and goodwill impairment in the Oil & Gas segment, 2) RM115m gain on derivatives, 3) RM79m in net forex losses, 4) RM28m reversal for impairment losses of assets, 5) RM6m impairment losses of receivables and 6) disposal gains of RM1.3m, UMWH registered 4Q15 normalised net losses of RM8m from a profit of RM119m in the previous quarter and profit of RM172m in the same period last year. The poor sequential performance was largely due to losses from the Oil & Gas and Others segment. The weaker yoy performance was caused by losses at both Oil & Gas and Others segment, but was compounded further by lower Equipment earnings. For the full year, UMWH recorded normalised net earnings of RM343m down 56% but still exceeded our forecast of RM288m due to lower minorities. At the normalised pretax profit level, the earnings were 16% below.
- The Motor division's PBT was up 119% qoq but down 21% yoy and 42% ytd. Qoq improvement was largely due to higher sales volumes for both Toyota and Perodua across all segments. However, yoy and ytd was weaker mainly the result of higher cost of sales given the depreciation of the Ringgit against the greenback.
- The Oil & Gas division's recorded losses before tax of RM411m from an RM11m profit in the previous quarter and RM86 profit in 4Q14. This was largely due to asset and goodwill impairment of RM338m. If we strip that out, loss before tax was RM74m, which was caused by costs incurred on idle jack-ups NAGA 2, 3 5 and 6. For the full year, loss was RM349m (RM12m if we strip out the impairment charges) from a RM286 profit in FY14, again due to underutilised assets.
- The Equipment division's PBT was down 57% qoq, 65% yoy but up 4% for the full year. The weaker quarterly performance was due to seasonality of demand from businesses in Myanmar and Papua New Guinea. On the other hand, overall performance throughout the year improved on the back of higher demand from subsidiaries in Myanmar following the resumption of jade mining activities, Papua New Guinea and Vietnam.
- The Manufacturing and Engineering (M&E) division's PBT improved to RM13m from RM1m profit in 3Q15 and RM4m loss in 4Q14. This was mainly attributed to better performance from the lubricant segment as well as cost-cutting initiatives undertaken.
- The "Others" division saw losses before tax widen to RM212m from RM118m in 3Q15 and RM184m in 4Q14. On a cumulative basis, PBT losses widened to RM484m from RM370m in FY14. According to management, this was largely due losses from subsidiaries in China such as Shanghai BSW Petro-Pipe and Zhongyou BSS (Qinhuangdao) Petropipe, which manufacture line pipes as well as United Seamless Tubular in India and Arabian Drilling Services in Oman.
- The company declared an interim single tier dividend of 10 sen per share bringing total dividend for FY15 to 20 sen per share.
- We currently have a Hold recommendation on the stock and RM8.10 TP.

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Important disclosures can be found in the Disclosure Appendix

## UMWH quarterly trends

RMm FYE 31 Dec	Quarter								Change %		Cumulative			KAF	
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	qoq	yoy	FY14	FY15	% chg	FY15	12M/F
Turnover	3,583	3,967	3,703	3,706	3,240	3,485	3,533	4,161	18	12	14,959	14,420	(4)	13,552	106
<b>EBIT</b>	<b>423</b>	<b>420</b>	<b>393</b>	<b>315</b>	<b>271</b>	<b>177</b>	<b>173</b>	<b>(81)</b>	<b>nm</b>	<b>nm</b>	<b>1,551</b>	<b>539</b>	<b>(65)</b>	<b>669</b>	<b>81</b>
Net interest income	5	15	21	13	12	2	6	(10)	nm	nm	55	10	(82)	34	29
Exceptional	20	(37)	(8)	(89)	3	(1)	(106)	(278)	163	213	(114)	(382)	235	0	nm
Associates	31	24	26	49	33	30	(0)	36	nm	(28)	129	98	(24)	71	139
<b>Pretax profit</b>	<b>479</b>	<b>422</b>	<b>431</b>	<b>289</b>	<b>320</b>	<b>208</b>	<b>72</b>	<b>(334)</b>	<b>nm</b>	<b>nm</b>	<b>1,621</b>	<b>266</b>	<b>(84)</b>	<b>774</b>	<b>34</b>
Tax	(87)	(128)	(101)	(93)	(84)	(74)	(44)	(57)	29	(38)	(409)	(260)	(36)	(242)	108
Minorities	(157)	(152)	(133)	(113)	(71)	(65)	(14)	106	nm	nm	(554)	(45)	(92)	(244)	18
<b>Net earnings</b>	<b>236</b>	<b>142</b>	<b>197</b>	<b>83</b>	<b>165</b>	<b>68</b>	<b>14</b>	<b>(286)</b>	<b>nm</b>	<b>nm</b>	<b>658</b>	<b>(39)</b>	<b>nm</b>	<b>288</b>	<b>nm</b>
<b>Normalised net earnings</b>	<b>215</b>	<b>179</b>	<b>206</b>	<b>172</b>	<b>162</b>	<b>69</b>	<b>119</b>	<b>(8)</b>	<b>nm</b>	<b>nm</b>	<b>772</b>	<b>343</b>	<b>(56)</b>	<b>288</b>	<b>119</b>
<b>Normalised pretax profit</b>	<b>459</b>	<b>459</b>	<b>439</b>	<b>378</b>	<b>317</b>	<b>208</b>	<b>178</b>	<b>(56)</b>	<b>nm</b>	<b>nm</b>	<b>1,735</b>	<b>647</b>	<b>(63)</b>	<b>774</b>	<b>84</b>

Source: Company, KAF

## UMWH segmental trends

RMm FYE 31 Dec	Quarter								Change %		Cumulative			KAF	
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	qoq	yoy	FY14	FY15	% chg	FY15	12M/F
<b>Revenue</b>															
Motor	2,656	2,904	2,643	2,574	2,006	2,733	2,596	3,376	30	31	10,778	10,710	(1)	9,536	112
O&G	196	239	254	328	312	183	213	131	(38)	(60)	1,016	840	(17)	871	96
Equipment	434	454	435	446	653	354	475	403	(15)	(10)	1,769	1,884	7	2,078	91
M&E	182	189	180	173	171	165	184	182	(1)	5	724	703	(3)	707	99
Others	115	181	190	266	98	50	66	69	5	(74)	752	283	(62)	360	79
<b>Group</b>	<b>3,583</b>	<b>3,967</b>	<b>3,703</b>	<b>3,706</b>	<b>3,240</b>	<b>3,485</b>	<b>3,533</b>	<b>4,161</b>	<b>18</b>	<b>12</b>	<b>14,959</b>	<b>14,420</b>	<b>(4)</b>	<b>13,552</b>	<b>106</b>
<b>PBT</b>															
Motor	407	409	344	313	234	263	113	248	119	(21)	1,472	858	(42)	874	98
O&G	58	66	76	86	42	8	11	(411)	nm	nm	286	(349)	nm	(43)	813
Equipment	39	55	44	79	99	34	64	28	(57)	(65)	217	225	4	257	88
M&E	10	12	(1)	(4)	2	0	1	13	nm	nm	16	16	4	10	161
Others	(34)	(120)	(32)	(184)	(57)	(98)	(118)	(212)	80	15	(370)	(484)	31	(324)	149
<b>Group</b>	<b>479</b>	<b>422</b>	<b>431</b>	<b>289</b>	<b>320</b>	<b>208</b>	<b>72</b>	<b>(334)</b>	<b>nm</b>	<b>nm</b>	<b>1,621</b>	<b>266</b>	<b>(84)</b>	<b>774</b>	<b>34</b>
<b>PATAMI</b>															
Motor	192	183	154	153	117	131	59	124	109	(19)	682	431	(37)	421	102
O&G	30	33	36	39	18	2	0	(228)	nm	nm	139	(208)	nm	(33)	626
Equipment	39	44	37	69	79	27	51	26	(49)	(62)	189	183	(3)	218	84
M&E	4	6	(2)	1	1	0	(0)	8	nm	471	10	10	2	6	168
Others	(29)	(124)	(29)	(180)	(49)	(92)	(97)	(217)	123	21	(362)	(456)	26	(324)	141
<b>Group</b>	<b>236</b>	<b>142</b>	<b>197</b>	<b>83</b>	<b>165</b>	<b>68</b>	<b>14</b>	<b>(286)</b>	<b>nm</b>	<b>nm</b>	<b>658</b>	<b>(39)</b>	<b>nm</b>	<b>288</b>	<b>nm</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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