

26 February 2016

UMW Holdings

Below Expectations

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- Period** ▪ 4Q15 / FY15
- Actual vs. Expectations** ▪ **Below expectations.** The group reported 4Q15 normalised LATAMI of RM69.2m (<-100% QoQ and YoY), bringing FY15 core PATAMI to RM237.9m (-70%) which made up only 63%/59% of our and the consensus full-year earnings estimates, respectively. (Please refer to the "Results highlight" for details on core NP adjustment).
- The negative deviations were lower-than-expected earnings mainly from: (i) the Automotive segment (weaker margins from higher import costs and aggressive A&P activities), and (ii) higher-than-expected core losses from its Oil & Gas segment (deterioration of discounted charter rates and lower rig utilisation in the 4Q15).
- Dividends** ▪ As expected, an interim single-tier dividend of 10.0 sen per share was declared, bringing FY15 NDPS to 20.0 sen which translates into a net div yield of 2.9%.
- Key Result Highlights** ▪ **YoY, FY15** revenue decreased by 3% owing to lower revenue contributions from all segments except for Equipment segment. Compounded with lower core PATAMI margins of 1.6% (-3.7ppts) which was dragged mainly by higher costs arising from unfavourable forex in Automotive segments as well as discounts on time charter rates and higher OpEx from under-utilised rigs in the Oil & Gas segment, core PATAMI declined by 70%.
- **QoQ,** despite stronger sales (+18%) driven predominantly by the lion's share contributor-Automotive segment (+30%, due to the preemptive purchases in anticipation of price hikes in 2016), the group registered core LATAMI of RM69.2m owing to the core losses in O&G (lower rig utilisation and higher OpEx) as well as other non-core segments.
- **YoY, Automotive:** FY15 revenue decreased by 1%, which saw Toyota's prime position in the passenger vehicle segment ceding ground to Honda due to the latter' attractive model launches, particularly in the B segment. Meanwhile, segmental PBT dropped steeper by 42% with PBT margin corroded by 5.7ppts which we believe was mainly due to: (i) higher A&P costs amidst ongoing aggressive sales promotion activities, and (ii) higher import costs on adverse currency translations.
- **YoY, Equipment:** FY15 revenue jumped by 7% boosted by the resumption of jade mining activities in Myanmar as well as higher parts and services revenue in Papua New Guinea. With better operational efficiency, PBT improved by 3%.
- **YoY, Oil & gas:** 4Q15 revenue decreased by 60% owing to lower time charter rates and lower rig utilisation amid the sluggish Oil & Gas segment in the low oil price environment. Coupled with higher OpEx on unutilised assets, PBT swung into losses.
- **YoY, M&E.** FY15 revenue decreased 3% owing to its weaker auto components business in Malaysia. However, PBT improved by 11% with better cost control in place (after the disposal of loss-making business in India).

UNDERPERFORM ↔

Price: **RM6.95**
Target Price: **RM4.89** ↓

Share Price Performance



KLCI	1,658.16
YTD KLCI chg	-2.0%
YTD stock price chg	-11.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	8,119.6
Issued shares	1,168.3
52-week range (H)	11.30
52-week range (L)	6.50
3-mth avg daily vol:	1,021,067
Free Float	36%
Beta	1.1

Major Shareholders

SKIM AMANAH SAHAM BU	40.8%
EMPLOYEES PROVIDENT	17.6%
PERMODALAN NASIONAL	5.7%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	14420	12803	12848
EBIT	135	570	859
PBT	266	697	1059
Core NP	238	348	522
Consensus (NP)	-	483	571
Erngs Revision (%)	-	-38%	-
EPS (sen)	20.4	29.8	44.7
EPS growth (%)	-69.7	46.1	50.1
DPS (sen)	12.2	17.9	26.8
BVPS (RM)	5.5	5.6	5.8
PER	34.1	23.4	15.6
Price/BV (x)	1.3	1.2	1.2
Gearing (%)	0.5	0.4	0.3
Dividend Yield (%)	1.8	2.6	3.9

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Outlook

- On the Automotive segment, management has guided a combined total sales (Perodua, UMW Toyota) of 303k units (-6k units) in FY16 (vs. our forecast combined total sales of 301k units) with higher sales volume assumptions from Perodua (216k units, +3k units) but lower sales from UMW Toyota (87k units, -9k units) amidst the lack of new attractive models. Meanwhile, we continue to believe that margins will remain subdued, dragged by higher operating costs from marketing and higher import cost on unfavourable currency fluctuations.
- On the Oil and Gas segment, we expect headwinds in the Oil & Gas segment with oil price expected to remain soft in the medium-term. With major oil companies implementing cost-cutting measures and delaying the capital expenditure, we expect continual downward pressure on the charter rates at least in the medium-term. Moreover, four rigs (Naga 2, 3, 5 and 6) are already out of charter contracts, exerting further downward pressure on the group's near-term earnings.

Change to Forecasts

- Post-results, we have reduced our FY16E PATAMI by 38% to account mainly for: (i) lower earnings (to account for higher costs in FY16) from Automotive segment as well as its 38%-owned associate- Perodua, (ii) greater losses assumptions in the Oil & Gas segment in FY17 (reduction on average rig utilisation and DCR assumptions).

Rating

Maintain UNDERPERFORM

Valuation

- Post-earnings revision, our SoP-derived TP has been reduced to RM4.89 from RM6.73 which implies a 16x FY16E PER.

Risks to Our Call

- Higher-than-expected vehicle sales and margins.
- Earlier than expected recovery in Oil & Gas segment.
- Better than expected drilling margins.

Result Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE: Dec (RM 'm)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
Turnover	4160.9	3533.2	17.8%	3679.7	13.1%	14419.8	14932.5	-3.4%
EBIT	-359.7	66.8	-638.3%	232.7	-254.6%	134.9	1432.9	-90.6%
PBT/(LBT)	-334.3	72.2	-562.7%	289.8	-215.4%	265.6	1621.5	-83.6%
Taxation	-57.3	-44.3	-29.3%	-92.5	38.0%	-259.9	-408.5	36.4%
PATAMI	-286.0	13.5	-2215.2%	77.5	-469.2%	-38.9	652.0	-106.0%
Core PATAMI	-69.2	81.7	-184.7%	180.3	-138.4%	237.9	785.8	-69.7%
EPS (sen)	-5.9	7.0	-184.7%	15.4	-138.4%	20.4	67.3	-69.7%
DPS (sen)	10.0	0.0		16.0		20.0	41.0	

*** Note that the FY15 normalised PATAMI has been adjusted by excluding the non-core items totalling -RM276.8m which consists of: (i) asset and goodwill impairment for the O&G segment amounting to RM188.2m, net of equity portion, (ii) provision for impairment losses on disposal of its Auto components companies in India and land rigs in Oman amounting to RM63m, (iii) as well as others non-core items amounting to RM25.7m.*

EBIT margin	-8.6%	1.9%		6.3%		0.9%	9.6%	
Pretax margin	-8.0%	2.0%		7.9%		1.8%	10.9%	
Core NP margin	-1.7%	2.3%		4.9%		1.6%	5.3%	
Effective tax rate	17.1%	-61.4%		-31.9%		-97.9%	-25.2%	

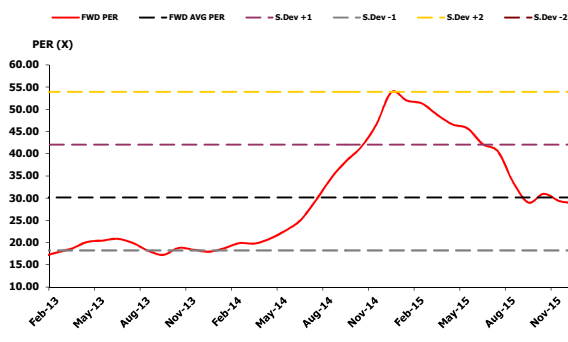
Source: Kenanga Research

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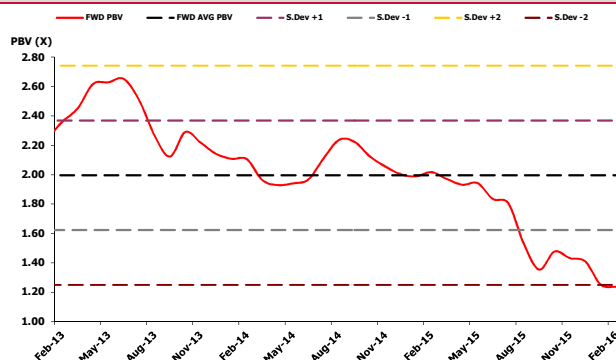
Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
Revenue								
Automotive	3375.9	2596.1	30.0%	2,561.8	31.8%	10710.2	10,766.0	-0.5%
Equipment	402.9	474.8	-15.1%	443.7	-9.2%	1884.3	1767.2	6.6%
O&G	131.0	212.7	-38.4%	326.2	-59.9%	839.5	1014.9	-17.3%
M&E	182.4	183.8	-0.8%	174.1	4.8%	702.7	725.1	-3.1%
Other segment	68.8	65.7	4.7%	173.9	-60.4%	283.0	659.3	-57.1%
Segment PBT								
Automotive	247.9	113.4	118.6%	316.2	-21.6%	858.2	1475.3	-41.8%
Equipment	27.5	64.4	-57.2%	79.7	-65.4%	224.9	218.2	3.1%
O&G	-411.3	11.5	-3690.9%	83.8	-591.0%	-349.4	284.2	-223.0%
M&E	13.4	0.8	1680.3%	-5.3	353.7%	16.3	14.8	10.5%
Other segment	-211.8	-117.7	-79.8%	-184.6	-14.7%	-484.4	-371.0	-30.6%
Segment PBT margin								
Automotive	7.3%	4.4%		12.3%		8.0%	13.7%	
Equipment	6.8%	13.6%		18.0%		11.9%	12.3%	
O&G	-314.1%	5.4%		25.7%		-41.6%	28.0%	
M&E	7.3%	0.4%		-3.0%		2.3%	2.0%	
Other segment	-307.7%	-179.1%		-106.1%		-171.1%	-56.3%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Sum-of-Parts Valuation of UMW

Segment	(x)	FY16 Value (RMm)	Remarks
Others business	12.0	4825.6	Based on 12.0x FY16 PER (excluding UMWOG contribution)
UMWOG	0.5	884.3	Based on 0.5x FY16 PBV with effective stake of 55.72%
Total value		5709.95	
No of shares		1168.3	
Fair value		4.89	

Source: Kenanga Research

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Malaysian Automotive Peers Comparison

NAME	Price @	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr	2 Yr	Target Price	Rating
	25/02/16		Actual	1 Yr Fwd	2 Yr Fwd			(%)	(%)	Actual	1 Yr Fwd	2 Yr Fwd		
	(RM)	(RMm)				(%)	(%)				(%)	(%)	(RM)	
DRB-HICOM BHD	1.01	1952.5	9.6	16.6	15.8	5.9%	6.3%	202.8	117.4	123.7	-42.1%	5.4%	1.06	UP
MBM RESOURCES BERHAD	2.28	890.8	10.7	9.9	8.0	2.7%	5.0%	83.5	89.9	111.6	7.7%	24.1%	2.30	MP
TAN CHONG MOTOR HOLDINGS BHD	2.39	1560.2	27.3	23.8	20.7	2.1%	2.0%	57.1	65.6	75.5	15.0%	15.1%	2.15	UP
UMW HOLDINGS BHD	6.95	8119.7	34.1	21.8	13.3	2.9%	4.0%	237.9	372.7	612.1	56.7%	64.2%	4.89	UP
BERJAYA AUTO BHD	2.15	2450.4	11.5	11.6	10.1	5.5%	43.5%	215.4	213.2	244.9	-1.0%	14.9%	2.63	OP

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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