

UMW Holdings

No bottoming in sight yet

- **UMW's 4Q15 earnings missed by a mile.**
- **4Q15 core earnings down 68%yoy dragged by autos and O&G which has now swung into operational losses.**
- **Forecasts slashed by 6% for FY16F.**
- **Maintain NEUTRAL on UMW but TP cut to RM6.30/share.**

Results missed estimates by a mile. UMW reported 4Q15 core earnings of RM52m (after normalising for a RM338m impairment on O&G assets). This brought FY15F core earnings to RM338m, which was well below expectations accounting for 91% of our and 85% of consensus' FY15F. The deviation came mainly from a shortfall in TIV and the larger than anticipated losses for the O&G division as a result of idle rigs and lower utilisation rates.

Key takeaways from the 4Q15 results:

Auto: 4Q15 earnings were down 22%yoy despite higher revenue and TIV due to aggressive year end campaigns and mainly, the weak Ringgit against USD. On a quarterly basis, earnings improved but this is not sustainable considering sharply weaker volumes from 1Q16.

Oil & gas: Swung into a pretax loss of RM411m (vs. 4Q14 pretax profit: RM84m). Even after normalising for the RM338m impairment loss in 4Q15, the O&G division still reported a core pretax loss of RM74m due to idle rigs i.e. half of the fleet of 8 rigs were laying idle.

Equipment: The only bright spot within the group in FY15 (earnings +3%yoy). However, growth this year is likely to flatten out in line with slowing regional economies, the slump in commodity prices and the weak Ringgit.

Earnings slashed: We trim our FY16F earnings by 6% to reflect: (1) Lower Toyota TIV assumptions (2) Lower rates and margins for the jack-up rigs – assuming the idle rigs eventually find a home. Further delays in securing contracts for the idle rigs spells further downside to our projections. We are now 30%/36% below street estimates and a consensus downgrade looks imminent.

Outlook:

Auto: Earnings likely to worsen given massive drop in 1Q16 TIV coupled with even stronger USD rates, albeit a rollback in promotional campaigns and the hike in pricing from Jan will partly offset the impact. Nonetheless, sales of just 2,998 units in Jan (vs. a typical monthly run-rate of 7.5K-8.5K) imply a plant utilisation rate of just 37% on our estimates, exacerbating the pressure on margins given plant diseconomies of scale.

Maintain NEUTRAL
Revised Target price (TP): RM6.30
(Previously RM6.90)

RETURN STATS	
Price (25 February 2016)	RM6.95
Target Price	RM6.30
Expected Share Price Return	-9.4%
Expected Dividend Yield	+1.5%
Expected Total Return	-7.9%

STOCK INFO	
KLCI	1683.09
Bursa / Bloomberg	4588 / UMWK MK
Board / Sector	Main/Automotive
Syariah Compliant	No
Issued shares (mil)	1168.3
Par Value (RM)	1.00
Market cap. (RM'm)	7675.7
Price over NA	1.44
52-wk price Range	RM7.41 - RM11.4
Beta (against KLCI)	1.019865
3-mth Avg Daily Vol	1.74m
3-mth Avg Daily Value	RM14.1m
Major Shareholders (%)	
SKIM AMANAH SAHAM BU	40.4
EMPLOYEES PROVIDENT	8.7
PERMODALAN NASIONAL	5.7

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	13,951.5	14,091.1	14,419.8	14,102.6	14,686.7
EBIT (RM'm)	1,296.5	2,158.5	134.9	884.1	944.4
Pre-tax Profit (RM'm)	1,501.6	2,359.6	265.6	1,017.3	1,078.5
Core net profit (RM'm)	960.4	926.6	338.0	334.0	357.6
FD EPS (sen)	82.2	79.3	29.6	28.6	30.6
EPS growth (%)	0.9	-3.5	-63.5	-1.2	7.1
PER (x)	8.5	8.8	23.5	24.3	22.7
Net Dividend (sen)	37.5	29.7	15.0	10.7	11.5
Net Dividend Yield (%)	5.4	4.3	1.6	1.5	1.7

Source: Company, MIDFR

Toyota (Lexus combined) FY16 TIV forecast of 87K implies a 7% contraction against FY15. Perodua is forecasted to hit 216K TIV in 2016, a marginal 1.3% increase versus 2015. Perodua earnings is also hit by the stronger JPY, which now stands at 3.7 vs. an average rate of 3.4 last year.

Oil & gas: Half of UMW's rig fleet is now laying idle and this will be a key drag to profitability going forward. Of the four that is employed, Naga 4 is close to expiry (Apr 2016). The existing contract with Carigali provides a 2-year extension option but renewal rates are likely to be 30%-35% lower than previous contracted levels. Current jack-up rig spot rates stand at USD90K-100K/day versus a range of USD145K-155K secured under previous contracts. The O&G division core losses might persist into 1Q16 if the four laid-up rigs remain idle.

Recommendation: Maintain NEUTRAL on UMW but cut our SOP-derived TP to RM6.30/share (from RM6.90/share) following downward earnings revisions in this report. Valuation is stretched at 24x FY16F earnings currently. Key earnings risk: (1) Our forecast assumes the idle rigs will find a home this year albeit at a lower rate – delays in securing contracts will result in further earnings cuts, (2) Weak underlying demand for autos exacerbated by recent price hikes, (3) Still weak Ringgit and low plant utilisation rates which are negative for margins.

EXHIBIT 1: UMW FY15 RESULT SUMMARY

31 Dec (RMm)	4Q14	3Q15	4Q15	YoY	QoQ	FY14	FY15	YTD
Revenue	3,679.7	3,533.2	4,160.9	13.1%	17.8%	14,932.5	14,419.8	-3.4%
Operating Profit	232.7	66.8	(359.7)	NA	NA	1,432.9	134.9	-90.6%
Finance Cost	(27.0)	(24.8)	(41.9)	54.9%	69.2%	(85.1)	(126.6)	48.7%
Associates	49.5	(0.3)	35.8	-27.8%	NA	139.6	130.1	-6.8%
Investment Income	34.6	30.5	31.5	-8.8%	3.4%	134.1	127.2	-5.1%
Pretax Profit	289.8	72.2	(334.3)	NA	NA	1,621.5	265.6	-83.6%
Taxation	(92.5)	(44.3)	(57.3)			(408.5)	(259.9)	
Minorities	119.8	14.4	(105.5)	NA	NA	561.0	44.6	
Net Profit	77.5	13.5	(286.0)	NA	NA	652.0	(38.9)	NA
Core net profit	161.4	52.5	51.7	-68.0%	-1.6%	836.8	338.0	-59.6%
EPS (FD, sen)	13.8	4.5	4.4			71.6	28.9	
DPS (sen)	16.0	0.0	10.0			41.0	20.0	
Margins (%):								
Operating	6.3%	1.9%	-8.6%			9.6%	0.9%	
Pretax Profit	7.9%	2.0%	-8.0%			10.9%	1.8%	
Net Profit	4.4%	1.5%	1.2%			4.4%	-0.3%	
Tax Rate	31.9%	61.4%	-17.1%			25.2%	97.9%	

Segmental Breakdown	4Q14	3Q15	4Q15	YoY	QoQ	FY14	FY15	YTD
Automotive	2,562	2,596.1	3,375.9	31.8%	30.0%	10,766	10,710	-0.5%
Equipment	444	474.8	402.9	-9.2%	-15.1%	1,767	1,884	6.6%
Manuf & Eng	174	183.8	182.4	4.8%	-0.8%	725	703	-3.1%
Oil & Gas	326	212.7	131.0	-59.9%	-38.4%	1,015	840	-17.3%
Revenue	3,506	3,467	4,092	16.7%	18.0%	14,273	14,137	-1.0%
Automotive	316.2	113.4	247.9	-21.6%	118.6%	1,475	858	-41.8%
Equipment	79.7	64.4	27.5	-65.4%	-57.2%	218	225	3.1%
Manuf & Eng	(5.3)	0.8	13.4	NA	1680.3%	15	16	10.5%
Oil & Gas	83.8	11.5	(411.3)	NA	NA	284	(349)	NA
Pretax profit	474	190	(122)	-126%	-164%	1,992	750	-62.4%
Pretax margins								
Automotive	12.3%	4.4%	7.3%			13.7%	8.0%	
Equipment	18.0%	13.6%	6.8%			12.3%	11.9%	
Manuf & Eng	-3.0%	0.4%	7.3%			2.0%	2.3%	
Oil & Gas	25.7%	5.4%	-314.1%			28.0%	-41.6%	
Toyota TIV (units)	27,405	23,301	31,663	15.5%	35.9%	102,035	93,760	-8.1%
Average revenue/car (RM)	93,479	111,418	106,618	14.1%	-4.3%	105,513	114,230	8.3%

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.