

COMPANY RESULTS

UMW Holdings (UMWH MK)

4Q15: The Tough Gets Going

UMW's 4Q15 core net profit was below expectations while 2015 core net profit came in at RM340m. 4Q15 underperformance largely stemmed from: a) a core pre-tax loss of RM73.6m in its oil & gas division after stripping out RM337.7m asset and goodwill impairment, and b) a 20.8% yoy decline in its automobile pre-tax profit which was hit by a weak ringgit against the US dollar. Outlook for both the automobile and oil & gas divisions will get bleaker in 2016. Maintain SELL. Target price: RM6.00.

4Q15 RESULTS

Year to 31 Dec (RMm)	4Q15	qoq % chg	yoy % chg	2015 (RMm)	yoy %chg	Comments
Revenue	4,160.9	17.8	12.3	14,419.8	(3.4)	
-Automobile	3,375.9	30.0	31.2	10,710.2	(0.5)	2015 auto sales 95,861 units vs 2014: 103,636 units
-Equipment	402.9	(15.1)	(9.6)	1,884.3	6.6	
-Mfg & Eng	182.4	(0.8)	5.3	702.7	(3.1)	
-Oil & gas	131.0	(38.4)	(60.0)	839.5	(17.3)	Lower time charter rates and lower utilisation of assets
-Others	68.8	4.7	(63.0)	283.0	(57.1)	
EBIT	66.8	(638.3)	(209.2)	134.9	(90.6)	
Associates	35.8	n.a.	(27.6)	130.1	(6.8)	
PBT	(334.3)	(562.7)	(215.6)	265.6	(83.6)	
-Automobile	247.9	118.6	(20.8)	858.2	(41.8)	PBT hit hard by a weak ringgit against the US dollar.
-Equipment	27.5	(57.2)	(65.0)	224.9	3.1	Demand normalisation due to high base effect in 4Q14 boosted by jade mining activities in Myanmar
-Mfg & Eng	13.4	n.a.	(404.1)	16.3	10.5	Disposal of loss-making component companies in India in Nov 15 resulted in higher PBT in 4Q15
-Oil & gas	(411.3)	n.a.	n.a.	(349.4)	(223.0)	RM337.7m asset and goodwill impairment in 4Q15
-Others	(211.8)	79.8	37.3	(484.4)	30.4	
Net profit	(286.0)	n.a.	n.a.	(38.9)	(106.0)	
Core Net profit	53.5	(51.3)	(68.9)	340.0	(55.6)	
PBT margin (%)	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg	
-Automobile	7.3	3.0	(4.8)	8.0	(5.7)	
-Equipment	6.8	(6.7)	3.4	11.9	(0.4)	
-Mfg & Eng	7.3	6.9	1.2	2.3	0.3	
-Oil & gas	(314.1)	(319.5)	(24.4)	(41.6)	(69.6)	

Source: UMW Holdings Berhad, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	14,932	14,420	14,253	14,449	14,905
EBITDA	1,812	563	1,398	1,463	1,549
Operating profit	1,433	135	850	882	953
Net profit (rep./act.)	652	(39)	317	321	349
Net profit (adj.)	766	340	317	321	349
EPS (sen)	65.7	29.1	27.1	27.5	29.8
PE (x)	10.6	23.9	25.6	25.3	23.3
P/B (x)	1.2	1.3	1.3	1.3	1.2
EV/EBITDA (x)	8.0	25.7	10.3	9.9	9.3
Dividend yield (%)	6.3	3.6	3.3	3.4	3.6
Net margin (%)	4.4	(0.3)	2.2	2.2	2.3
Net debt/(cash) to equity (%)	11.0	50.2	48.3	46.3	44.4
Interest cover (x)	n.a.	n.a.	144.1	68.4	80.8
ROE (%)	10.1	(0.6)	4.9	5.0	5.3
Consensus net profit	-	-	396	474	559
UOBKH/Consensus (x)	-	-	0.80	0.68	0.62

Source: UMW Holdings Berhad, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

SELL

(Maintained)

Share Price	RM6.95
Target Price	RM6.00
Upside	-13.7%

COMPANY DESCRIPTION

Automobile assembler, with operations in equipment, engineering and O&G sectors

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	UMWH MK
Shares issued (m):	1,168.3
Market cap (RMm):	8,119.6
Market cap (US\$m):	1,922.0
3-mth avg daily t'over (US\$m):	1.8

Price Performance (%)

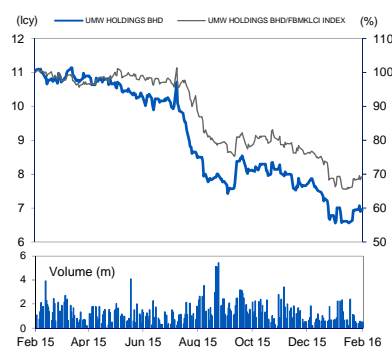
52-week high/low RM11.14/RM6.56

1mth	3mth	6mth	1yr	YTD
2.5	(15.2)	(19.2)	(36.8)	(11.7)

Major Shareholders

	%
Skim Amanah Saham Bumiputra	40.8
EPF	17.6
Permodalan Nasional Berhad	5.7
FY16 NAV/Share (RM)	5.52
FY16 Net Debt/Share (RM)	2.66

PRICE CHART



Source: Bloomberg

ANALYST

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RESULTS

- UMW Holdings' (UMW) 4Q15 core net profit was below our and consensus expectations.** 2015 core net profit of RM340m (-55.6% yoy) accounts for 84% and 72% of our and consensus forecasts respectively. 4Q15 underperformance largely stemmed from: a) a core pre-tax loss of RM73.6m in its oil and gas (O&G) division after stripping off RM337.7m asset and goodwill impairment (4Q14: net profit of RM85.8m), and b) a 20.8% yoy decline in its automobile pre-tax profit which was hit by a weak ringgit against the US dollar. A second interim DPS was declared, bringing 2015 DPS to 25 sen (2014: 41 sen), representing a payout of 85.9% of core net profit.
- Automobile arm to remain weak in 2016.** 4Q15 saw a massive 31.2% yoy increase in automobile sales with 32,398 cars sold (4Q14: 27,821), up 16.5% yoy. The strong performance during the quarter was due to frontloading by consumers in anticipation of price hikes in Jan 16 and aggressive year-end sales campaigns. Automobile sales volume was 95,861 units in 2015 (2014: 103,636), down 7.5% yoy. Like in the preceding quarter, 4Q15 PBT took a hit and was down 20.8% yoy due to the weak ringgit as costs of some of its components and vehicles are in US dollars.
- O&G segment looks bleak.** The division recorded a core pre-tax loss of RM73.6m (4Q14: RM83.8m PBT) on the back of a 60% yoy decline in revenue. The loss was attributed to lower charter rates and high operating expenses from its uncontracted rigs. Only four rigs (Naga 1, 4, 7 and 8) out of eight rigs were on hire in 4Q15 (3Q15: four out of seven).

STOCK IMPACT

- 2016 will be a challenging year.** The price hikes for Toyota and Lexus vehicles by 4-16% effective Jan 16 should lift margins slightly from 4Q15. However, we believe 2016 will continue to be challenging year for the automobile division as stiff competition amid a saturated market as well as a weak ringgit will continue to put pressure on margins. Meanwhile, we anticipate a bleaker outlook for its 55.7%-owned UMW O&G in 2016 due to lower charter rates and low utilisation rates of its jack-up rigs amid weak crude oil prices. Current charter rates stood at only US\$70,000/day vs around US\$100,000/day in 3Q15.
- A glimmer of hope in its new aerospace component manufacturing business.** In Aug 15, UMW announced an agreement with Rolls Royce to manufacture and assemble aerospace products. The agreement will incorporate Malaysia within its supply chain in Southeast Asia. UMW will build a facility to produce, manufacture, assemble and supply fan cases for Rolls Royce's Trent 1000 engines. UMW is currently building a new manufacturing plant in Serendah with product deliveries expected to begin in 2H17. The group is expected to manufacture 250 pieces of fan cases at an indicative price of US\$700,000 per case. At RM4.00/US\$, annual sales will be RM700m and assuming a 5% net margin, this could translate into a RM35m net profit, which we have included into our 2018 projection.

EARNINGS REVISION/RISK

- We cut our 2016 and 2017 net profit forecasts by 14% and 41% respectively after adjusting for: a) weaker margins in the automobile division, and b) an expected net loss in UMW O&G. We also introduce our 2018 net profit forecast.

VALUATION/RECOMMENDATION

- Maintain SELL and SOTP-target price of RM6.00**, implying 22.1x 2016F PE. Its 5-year mean trading PE is 21.4x and the stock currently trades at a lofty 25.6x 2016F PE (+1SD to trading PE at 30.6x). Its dividend yields are not specially compelling for 2016-18, given the downside risks to its earnings as its major divisions operate in current challenging environments.

EARNINGS REVISION

FY Dec	EPS (sen)	% chg
2016F	27.1	(6.8)
2017F	27.5	1.5
2018F	29.8	8.5

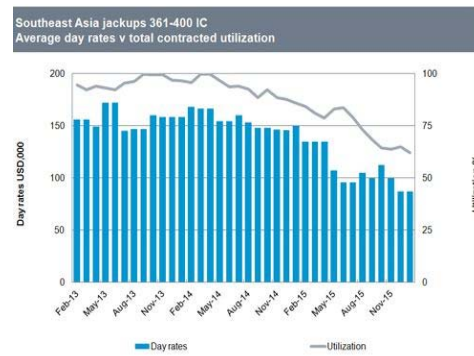
Source: UOB Kay Hian

SOTP FAIR VALUE OF RM6.00/SHARE

Segment	Stake (%)	Equity value (RMm)	% share of RNAV
Toyota/Lexus	51	3,488	50
UMW O&G	56	749	11
Equipment	100	1,925	27
Manufacturing	100	130	2
Perodua	38	712	10
Total		7,004	
Target price (RM)		6.00	

Source: UOB Kay Hian

AVERAGE DAY CHARTER RATES VS TOTAL CONTRACTED UTILISATION



Source: IHS

SEGMENTAL EARNINGS

FY Dec (RMm)	2016F	2017F	2018F
Revenue			
Auto	10,463.3	10,535.7	10,830.7
Equipment	1,948.8	2,046.3	2,148.6
Manufacturing	775.7	814.5	855.2
Oil & Gas	781.7	770.0	770.0
Others	283.0	283.0	300.0
Total	14,252.6	14,449.5	14,904.5
EBIT			
Auto	899.8	906.1	931.4
Equipment	253.3	266.0	279.3
Manufacturing	17.1	17.9	58.8
Oil & Gas	(100.5)	(88.5)	(96.4)
Others	(220.0)	(220.0)	(220.0)
Total	849.8	881.5	953.2

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Net turnover	14,420	14,253	14,449	14,905
EBITDA	563	1,398	1,463	1,549
Deprec. & amort.	428	548	582	595
EBIT	135	850	882	953
Associate contributions	130	91	103	118
Net interest income/(expense)	1	(10)	(21)	(19)
Pre-tax profit	266	931	964	1,052
Tax	(260)	(223)	(231)	(253)
Minorities	(45)	(390)	(411)	(451)
Net profit	(39)	317	321	349
Net profit (adj.)	340	317	321	349

BALANCE SHEET

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Fixed assets	8,139	8,591	8,809	9,014
Other LT assets	2,373	2,463	2,567	2,685
Cash/ST investment	2,728	2,044	2,050	2,058
Other current assets	4,841	4,952	5,004	5,124
Total assets	18,081	18,051	18,430	18,880
ST debt	3,159	2,614	2,616	2,819
Other current liabilities	2,532	2,849	2,868	2,911
LT debt	2,783	2,543	2,443	2,143
Other LT liabilities	383	383	383	383
Shareholders' equity	6,397	6,444	6,493	6,545
Minority interest	2,827	3,217	3,628	4,079
Total liabilities & equity	18,081	18,051	18,430	18,880

CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Operating	375	906	1,096	1,118
Pre-tax profit	266	931	964	1,052
Tax	(260)	(223)	(231)	(253)
Deprec. & amort.	428	548	582	595
Associates	(130)	(91)	(103)	(118)
Working capital changes	(134)	(149)	(33)	(76)
Non-cash items	333	0	0	0
Other operating cashflows	(127)	(109)	(82)	(82)
Investing	(1,904)	(891)	(718)	(718)
Capex (maintenance)	(2,169)	(1,000)	(800)	(800)
Investments	(4)	0	0	0
Proceeds from sale of assets	0	0	0	1
Others	268	109	82	82
Financing	965	(621)	61	40
Dividend payments	(806)	(269)	(273)	(296)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,692	(784)	(98)	(96)
Others/interest paid	79	433	433	433
Net cash inflow (outflow)	(564)	(605)	439	440
Beginning cash & cash equivalent	3,277	2,649	1,611	1,617
Changes due to forex impact	16	0	0	0
Ending cash & cash equivalent	2,728	2,044	2,050	2,058

KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
Profitability				
EBITDA margin	3.9	9.8	10.1	10.4
Pre-tax margin	1.8	6.5	6.7	7.1
Net margin	(0.3)	2.2	2.2	2.3
ROA	(0.2)	1.8	1.8	1.9
ROE	(0.6)	4.9	5.0	5.3
Growth				
Turnover	(3.4)	(1.2)	1.4	3.1
EBITDA	(69.0)	148.4	4.7	5.8
Pre-tax profit	(83.6)	250.3	3.5	9.2
Net profit	(106.0)	n.a.	1.5	8.5
Net profit (adj.)	(55.6)	(6.8)	1.5	8.5
EPS	(55.7)	(6.8)	1.5	8.5
Leverage				
Debt to total capital	39.2	34.8	33.3	31.8
Debt to equity	92.9	80.0	77.9	75.8
Net debt/(cash) to equity	50.2	48.3	46.3	44.4
Interest cover (x)	n.a.	144.1	68.4	80.8

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