

Outthink. Outperform.

Dragged down by both O&G and automotive

UMW's 1Q16 core net profit of RM16.6m came in below our and street estimates. Earnings were dragged down by all segments, with O&G in the red. We lowered FY16-18 EPS by 35% to 52% to reflect the wider losses by O&G and weak auto sales. We have lowered our SOTP target price to RM4.52. Downgrade to SELL.

1Q16 earnings came in below our and street expectations

In 1Q16, UMW reported a disappointing core net profit of only RM16.6m (-89.4% yoy), dragged down by 32% decline in revenue as well as losses from the Oil&Gas segment and unfavourable forex, which dampened margin. EBIT margin fell by 7.7ppts yoy. This came in below our and street expectations. As expected, no dividend was declared during the quarter (1Q15:nil).

Contribution from all segments declined

Revenue in 1Q16 (-32% yoy to RM2.2bn) was dragged down by all of its segments; auto business (-22% yoy), equipment (-45% yoy), O&G segment (-72% yoy) and manufacturing (-15% yoy). Sales of Toyota declined by a staggering 37% yoy, while sales volume of Perodua fell by 17%. Coupled with the unfavourable forex and weak consumer sentiment, earnings from the motor segment fell by 65% yoy. The O&G division recorded a loss on lower utilisation of the group's drilling rigs.

Downgrade to SELL with a TP of RM4.52

We have cut our FY16E- FY18E EPS by 35% to 52% after imputing (i) the wider losses from UMW-OG and (ii) lower FY16-18E sales volume forecasts for Toyota by 15-18%. For 2016, we forecast sales volume of 76.6k units (1Q16: 10.2k units). Given the cut in earnings, we have also lowered our SOTP-based target price to RM4.52 (from RM6.95 previously). Given the weak consumer spending and weaker-than-expected auto sales, as well as losses from UMW-OG, we downgrade UMW to SELL (from Hold previously).

Risks to our recommendation include; i) higher-than-expected sales volume growth for Toyota and Perodua, (ii) sustained rebound in oil prices, which will lead to improvement in its O&G segment.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	14,932.5	14,419.8	12,406.4	13,117.4	13,757.4
EBITDA (RMm)	803.3	1,111.5	927.7	1,288.9	1,273.5
Pretax profit (RMm)	1,621.5	265.6	613.7	879.1	594.0
Net profit (RMm)	658.3	(38.9)	220.4	400.7	335.7
EPS (sen)	56.3	(3.3)	18.9	34.3	28.7
PER (x)	9.6	(162.1)	28.6	15.7	18.8
Core net profit (RMm)	672.6	172.1	220.4	400.7	335.7
Core EPS (sen)	57.6	14.7	18.9	34.3	28.7
Core EPS growth (%)	(21.1)	(74.4)	28.0	81.8	(16.2)
Core PER (x)	9.4	36.7	28.6	15.7	18.8
Net DPS (sen)	41.0	20.0	20.0	30.0	30.0
Dividend Yield (%)	7.6	3.7	3.7	5.6	5.6
EV/EBITDA (x)	8.7	6.4	7.5	5.5	5.5
Chg in EPS (%)			-52.5	-35.4	-44.7
Affin/Consensus (x)			0.9	0.9	n.a

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

UMW Holdings

UMW MK
Sector: Auto & Autoparts

RM5.40 @ 24 May 2016

SELL (downgrade)

Downside: 16.3%

Price Target: RM4.52

Previous Target: RM6.95



Price Performance

	1M	3M	12M
Absolute	-21.3%	-21.7%	-49.3%
Rel to KLCI	-16.8%	-19.9%	-44.3%

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US\$m)	6308.8/1531.8
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	5.39-10.90
Est free float	23.8%
BV per share (RM)	5.64
P/BV (x)	0.96
Net cash/ (debt) (RMm) (1Q16)	(3,408.3)
ROE (2016F)	7.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Skim Amanah Saham Bumiputera	40.8%
EPF	17.6%
Permodalan Nasional Bhd	5.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q16	QoQ % chg	YoY % chg	Comment
Revenue	2199.2	(47.1)	(32.1)	All four segments fell yoy. Toyota sales volume fell 37% yoy while Perodua sales volume fell 17% yoy
Op costs	(2182.0)	(47.8)	(26.4)	
EBIT	17.1	(178.0)	(93.8)	
<i>EBIT margin (%)</i>	0.8	1.3	(7.7)	Impacted by losses from O&G and weak RM against the US\$
Int expense	(43.3)	3.4	34.5	
Int and other income	25.2	(20.2)	(28.7)	Lower funds
Associates	22.1	(38.3)	(34.0)	
EI	0.0	(100.0)	(100.0)	
Pretax profit	21.1	(106.3)	(93.4)	Dragged down by losses from O&G, unfavourable forex, weak auto sales volume
Tax	(26.0)	(54.6)	(69.0)	
<i>Tax rate (%)</i>	123.4	(6.0)	8.0	
MI	21.5	(79.6)	(130.4)	
Net profit	16.6	(105.8)	(90.0)	
EPS (sen)	1.4	(105.8)	(90.0)	
Core net profit	16.6	(67.9)	(89.4)	Below our and street expectation

Source: Affin Hwang, Company data



Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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