

Company Result

25 May 2016

UMW Holdings

SELL

Tough times ahead

Downgraded

Share Price	RM5.40
Target Price	RM4.43

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMW MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6308.79
52-week price Range	RM5.39– 10.90
Beta (against KLCI)	1.05
3-m Average Daily Volume	0.93m
3-m Average Daily Value [^]	RM6.00m

Share Performance

	1m	3m	12m
Absolute (%)	-20.6	-21.4	-49.3
Relative (%-pts)	-16.3	-20.8	-44.9

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	40.71
EMPLOYEES PROVIDENT FUND	17.43
YAYASAN PELABURAN BUMIPUTRA	5.72
KUMPULAN WANG PERSARAAN	2.91

Historical Chart



Source: Bloomberg

Team Coverage

03-87361118, ext. 752

research.dept@jfafex.com.my

Result

- **UMW reported 1Q16 net profit of RM16.58mill**, turnaround from net loss of RM286.04mill in 4Q15 but earnings still plunged 90% yoy. Meanwhile, revenue stood at RM2199.16mill, which declined 32.1% y-o-y and 47.2% q-o-q.
- **Below expectations** – 1Q16 net profit was way below our expectation and market consensus by accounting for a meager 4%-5% of full year estimates. The weaker-than-expected net profit was mainly due to further weakness in the oil and gas and automotive segments.

Comment

- **Disappointing Toyota sales in 1Q16.** Auto division's PBT slumped by 64.6% y-o-y and 66.6% q-o-q mainly due to intense competition among car makers coupled with the depreciation of Ringgit Malaysia. Tepid consumer sentiment towards big ticket items continued to dent Toyota sales in 1Q16, which tumbled by 34.5% y-o-y.
- Similarly, on quarterly basis, Toyota sales declined by 67.6% mainly due to high base in 4Q15 as more buyers rushed for purchase as UMW Toyota Motor had announced earlier that the prices of Toyota and Lexus vehicles will go up from 4% to 16% in Jan'16 due to the sharp depreciation of the Malaysian ringgit against the US dollar. Toyota also failed to increase its market share by recording 8% market share in 1Q16 against 10% a year ago. As a result, Honda has overtaken Toyota to become the leader in market share for non-national car makers in 1Q16.
- **Perodua failed to maintain its positive growth.** Perodua sales units in 1Q16 declined by 17.4% y-o-y and 15.4% q-o-q. Sluggish performance was caused by tightening hire purchase financing guidelines for year 2016 coupled with poor consumer sentiments amid the moderation in economic growth. Nevertheless, Perodua still maintained the pole position for overall car sales with market share at 35.9%, which increased by 2.0% y-o-y.
- **Weak performance posted by Equipment division.** Equipment division also posted y-o-y negative growth in its topline and bottomline for this quarter. The lower revenue and PBT were caused by the high base effect in 1Q15 for the construction and mining sectors. The better sales in 1Q15 were due to forward purchases by customers prior to implementation of GST in April 2015 as well as higher demand for heavy equipment in Myanmar following the resumption of jade mining activities in Hpakant province in late 2014.
- However, for quarterly basis, the PBT increased slightly by

4% attributable to low sales recorded in 4Q15. This was owing to weaker demand for heavy equipment in Myanmar.

- **O&G division sank to the red again.** Oil & Gas segment posted a pre-tax loss of RM68.4mill in 1Q16 from last quarter pre-tax loss of RM411.31mill and PBT of RM42.46mill a year ago. The continued lackluster performance was due to: 1) Low utilisation for some of the assets in the Group; 2) Lower revenue recorded by the Group's operations in Labuan, Thailand, China and Turkmenistan; 3) Lack of available wells and new drilling contracts; 4) Weak demand for the Group's drilling and oilfield services pursuant to low oil price; 5) Low level of exploration, development and production activities in the oil and gas industry.
- **M&E division's PBT improved albeit lower sales.** Despite the declining segmental revenue of 15% y-o-y for this quarter as a result of softer demand for lubricants and auto components products, M&E's PBT managed to expand by 266% y-o-y thanks to the automotive shock absorbers business in addition to the successful disposal of the loss-making automotive components companies in India in November 2015.

Earnings Outlook/Revision

- **We cut our net earnings forecast for FY16 and FY17 by 52% and 49%** respectively mainly due to weaker-than-expected results recorded in this quarter. We have lowered the earnings contribution from all segments amid challenging outlook.

Valuation & Recommendation

- **Downgraded to SELL from HOLD on UMW with lower target price of RM4.43 (previous TP: RM6.30).** This is following our earnings downgrade and we foresee all segments of businesses continue to be under pressure in near future. We roll over our valuation to FY17F, pegging at 20x FY2017F PE based on EPS of 22 sen.
- **Dismal outlook for all divisions.** We reckon that this year will be another challenging year for the group especially for its core business which is automotive division. Total industry volume (TIV) in 1Q16 slumped further by 22% y-o-y as consumer spending turned more cautious on big-ticket discretionary items. Besides, the group's oil and gas division will remain in doldrums in near future owing to oversupply of jack up rigs in the market leading to stiff competition amidst lower oil price.
- In addition, we remain cautious on its M&E division as we believe that the lackluster growth in the automotive industry in 2016 is expected to affect the demand for auto-components and lubricants business segments. Worse still, the uncertainties of its business operations in Myanmar pursuant to the new policies adopted by the newly formed government also weigh on its equipment division.

Figure 1: Quarterly Figures

Year to 31 Dec	1Q16 (RMm)	4Q15 (RMm)	1Q15 (RMm)	QoQ % chg	YoY % chg
Revenue	2199.16	4160.90	3240.37	-47.15%	-32.13%
Operating Profit	17.15	-359.67	283.51	N/A	-93.95%
Pre-tax Profit	21.07	-334.52	320.02	N/A	-93.42%
Profit After Tax	-4.93	-391.57	236.01	N/A	-102.09%
Net Profit	16.58	-286.04	165.15	N/A	-89.96%
Operating Margin (%)	0.78%	-8.64%	8.75%	9.42ppt	-7.97ppt
PBT Margin (%)	0.96%	-8.04%	9.88%	9.00ppt	-8.92ppt

Figure 2: Segmental Breakdown

2016	1Q16 (RMm)	4Q15 (RMm)	1Q15 (RMm)	Q-O-Q (%)	y-O-y (%)
Segmental Revenue					
Automotive	1555.99	3375.86	2005.55	-53.91%	-22.42%
Equipment	357.97	402.88	652.99	-11.15%	-45.18%
Oil & Gas	87.68	130.96	312.50	-33.05%	-71.94%
M & E	145.45	182.40	171.06	-20.26%	-14.98%
Others	62.77	94.752	115.866	-33.75%	-45.82%
Elimination	-10.69	-25.936	-17.596	-58.80%	-39.27%
Total Revenue	2199.164	4160.905	3240.373	-47.15%	-32.13%
Segmental PBT					
Automotive	82.73	247.88	233.52	-66.62%	-64.57%
Equipment	39.25	27.54	99.30	42.51%	-60.48%
Oil & Gas	-68.42	-411.31	42.46	N/A	-261.14%
M & E	6.59	13.39	1.80	-50.77%	265.56%
Total PBT	60.146	-122.497	377.088	-149.10%	-132.48%
Segmental Margin					
Automotive	5.32%	7.34%	11.64%	-2.03%	-6.33%
Equipment	10.96%	6.84%	15.21%	4.13%	-4.24%
Oil & Gas	-78.04%	-314.07%	13.59%	N/A	-91.63ppt
M & E	4.53%	7.34%	1.05%	-2.81ppt	3.48ppt

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016F	2017F
Revenue	13,951.46	14,958.91	14,419.75	10,396.12	12,198.37
Operating profit	1,296.46	1,426.78	166.64	353.47	512.33
PBT	1,435.67	1,620.83	265.36	493.37	603.31
Net profit	679.61	650.70	-38.93	200.80	258.94
Core net profit	679.61	650.70	214.35	200.80	258.94
EPS (sen)	0.58	0.56	-0.03	0.17	0.22
P/BV (x)	0.70	0.67	0.68	0.65	0.58
P/E (x)	9.28	9.70	-162.08	31.42	24.36
DPS (sen)	0.44	0.41	0.20	0.19	0.20
Dividend yield (%)	8.15%	7.59%	3.70%	3.52%	3.70%
Operating margin (%)	9.29%	9.54%	1.16%	3.40%	4.20%
PBT margin (%)	10.29%	10.84%	1.84%	4.75%	4.95%
Net profit margin (%)	4.87%	4.35%	-0.27%	1.93%	2.12%
Net Gearing Ratio(x)	0.37	0.38	0.66	0.79	0.83
ROE (%)	7.57%	6.89%	-0.42%	2.06%	2.40%
ROA (%)	4.59%	3.96%	-0.22%	0.92%	1.00%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST

JF APEX SECURITIES BHD

Head Office:
6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:
15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM

Head Office:
Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:
Lim Teck Seng
Sanusi Bin Mansor (ext 740)
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Zairul Azman (ext 746)

PJ Office:
Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM

Head Office:
Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Norsyafina binti Mohamad Zubir (ext 752)
Low Zy Jing (ext 754)
Nazhatul Shaza binti Shukor (ext 755)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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Published & Printed By:
JF Apex Securities Berhad (47680-X)
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