

25 May 2016

**Hold**

Price  
RM5.40

Target price  
RM8.10

Ticker  
UMWH MK

Equity | Malaysia | Automotive

Flashnote

# UMW Holdings

## Still struggling

**1Q16 normalised net profit amounted to a mere RM2m, well below our and consensus expectations. We expect earnings to remain under pressure due to soft demand and intense competition in the Auto segment as well as the bearish outlook for the O&G segment. Our earnings forecasts are under review.**

- 1Q16 revenue fell by 47% qoq and 32% yoy to RM2.2bn as sales declined across all business segments. Headline net profit of RM16.6m rebounded from a net loss in the preceding quarter, mainly due to the lumpy RM336m impairment of assets and goodwill charge relating to UMW Oil & Gas assets as well as RM128m impairment for the China and India Oil & Gas assets that were included in the 4Q15 numbers.
- Normalised net profit, meanwhile, amounted to a mere RM2m vs the RM44m net loss in the preceding quarter and RM173m profit in 1Q15. The result came in well below our and consensus full-year earnings expectations of RM340m and RM350m, respectively. The earnings trend continues to reflect the impact of the capex crunch in the Oil & Gas and mining segments, weak Ringgit and a rather cautious market sentiment. On a yoy basis, all business segments, except for Manufacturing & Engineering (M&E), registered lower pretax profit.
- The Auto segment posted a 54% qoq and 22% yoy decline in revenue due to lower vehicle sales, partially offset by the price hike in Jan 2016. Sales of Toyota vehicles declined by 68% qoq and 37% to 10,216 units. Note that the lower sales were due to the higher base in 4Q15 as buyers brought forward purchases in anticipation of a price hike in 1Q16. In 1Q15, sales were boosted by pre-GST purchases. PBT margin averaged 5% in 1Q16 vs 7% in the preceding quarter and 12% in 1Q15. Despite the price hike, we believe the lower sales volume and aggressive discounting activity have negatively impacted margins. Management had also cut its sales target (including Lexus) to 80,000 units from 87,000 units previously.
- The Oil & Gas segment booked a second consecutive quarter of pretax loss, attributable to reduced time charter rates and weak demand for drilling services, in line with the capex cut by oil majors. The segment incurred a RM68m pretax loss vs RM75m loss in 4Q15 (excluding the RM336m impairment loss).
- The Equipment segment saw revenue declining by 11% qoq and 45% yoy to RM358m due to lower machine and parts sales in Malaysia as well as lower demand from the mining sector in Myanmar. The latter was negatively impacted by the restriction in jade mining activity.
- The M&E segment posted a higher pretax profit due to higher domestic and overseas sales as well as lower operating expenditure. The 'Other' segment, which includes the China and India Oil & Gas assets, reported a pretax loss of RM39m, in line with the weak sector fundamentals.
- On a broad perspective, we expect earnings to remain under pressure due to soft demand and intense competition in the Auto segment as well as the bearish outlook for the O&G segment. We are reviewing our earnings forecasts.

### Analyst

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**Table 1 : Quarterly earnings trend**

RMm FYE 31 Dec	Quarter								% chg			
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	qoq	yoy	3M/F
Turnover	3,583	3,967	3,703	3,706	3,240	3,485	3,533	4,161	2,199	-47	-32	16
<b>EBITDA</b>	<b>505</b>	<b>507</b>	<b>529</b>	<b>452</b>	<b>405</b>	<b>283</b>	<b>327</b>	<b>185</b>	<b>123</b>	<b>-34</b>	<b>-70</b>	<b>9</b>
Depreciation & amortisation	-73	-81	-114	-112	-113	-105	-143	-149	-133	-11	17	26
<b>EBIT</b>	<b>432</b>	<b>427</b>	<b>415</b>	<b>341</b>	<b>292</b>	<b>178</b>	<b>183</b>	<b>36</b>	<b>-10</b>	<b>-128</b>	<b>-103</b>	<b>-1</b>
Net interest income	-7	5	11	2	3	2	6	-10	-18	76	-689	77
Exceptional	24	-33	-21	-103	-8	-2	-116	-396	27	-107	-421	
Associates	31	24	26	49	33	30	0	36	22	-38	-34	31
<b>Pretax profit</b>	<b>479</b>	<b>422</b>	<b>431</b>	<b>289</b>	<b>320</b>	<b>208</b>	<b>72</b>	<b>-334</b>	<b>21</b>	<b>-106</b>	<b>-93</b>	<b>2</b>
Tax	-87	-128	-101	-93	-84	-74	-44	-57	-26	-55	-69	9
Minorities	-157	-152	-133	-113	-71	-65	-14	106	22	-80	-130	-8
<b>Net earnings</b>	<b>236</b>	<b>142</b>	<b>197</b>	<b>83</b>	<b>165</b>	<b>68</b>	<b>14</b>	<b>-286</b>	<b>17</b>	<b>-106</b>	<b>-90</b>	<b>5</b>
<b>Normalised net earnings</b>	<b>212</b>	<b>177</b>	<b>218</b>	<b>186</b>	<b>173</b>	<b>69</b>	<b>140</b>	<b>-44</b>	<b>2</b>	<b>-103</b>	<b>-99</b>	<b>0</b>
<b>Dividend (sen)</b>	<b>0.0</b>	<b>10.0</b>	<b>15.0</b>	<b>16.0</b>	<b>0.0</b>	<b>10.0</b>	<b>0.0</b>	<b>10.0</b>	<b>0.0</b>	-	-	<b>0</b>

Source: Company, KAF

**Table 2 : Quarterly vehicle sales**

Units	Quarter								% change		
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	qoq	yoy
Toyota											
Cars	17,876	19,820	16,705	19,292	10,852	15,725	16,081	22,637	7,044	-69	-35
Commercial	6,309	7,117	6,803	8,113	5,389	6,830	7,220	9,026	3,172	-65	-41
<b>Total</b>	<b>24,185</b>	<b>26,937</b>	<b>23,508</b>	<b>27,405</b>	<b>16,241</b>	<b>22,555</b>	<b>23,301</b>	<b>31,663</b>	<b>10,216</b>	<b>-68</b>	<b>-37</b>
Lexus	449	367	369	416	362	532	472	735	272	-63	-25
<b>Grand total</b>	<b>24,634</b>	<b>27,304</b>	<b>23,877</b>	<b>27,821</b>	<b>16,603</b>	<b>23,087</b>	<b>23,773</b>	<b>32,398</b>	<b>10,488</b>	<b>-68</b>	<b>-37</b>

Source: Company, KAF

**Table 3 : Quarterly segmental breakdown**

RMm FYE 31 Dec	Quarter								% change		
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	qoq	yoy
<b>Revenue</b>											
Motor	2,656	2,904	2,643	2,574	2,006	2,733	2,596	3,376	1,556	-54	-22
Equipment	434	454	435	446	653	354	475	403	358	-11	-45
O&G	196	239	254	328	312	183	213	131	88	-33	-72
M&E	182	189	180	173	171	165	184	182	145	-20	-15
Others	131	205	209	207	116	70	83	95	63	-34	-46
Inter-segment	-16	-24	-19	-21	-18	-19	-17	-26	-11	-59	-39
<b>Group</b>	<b>3,583</b>	<b>3,967</b>	<b>3,703</b>	<b>3,706</b>	<b>3,240</b>	<b>3,485</b>	<b>3,533</b>	<b>4,161</b>	<b>2,199</b>	<b>-47</b>	<b>-32</b>
<b>PBT</b>											
Motor	407	409	344	313	234	263	113	248	83	-67	-65
Equipment	39	55	44	79	99	34	64	28	39	43	-60
O&G	58	66	76	86	42	8	11	-411	-68	-83	-261
M&E	10	12	-1	-4	2	0	1	13	7	-51	266
Others	-34	-120	-32	-184	-57	-98	-118	-212	-39	-82	-32
<b>Group</b>	<b>479</b>	<b>422</b>	<b>430</b>	<b>289</b>	<b>320</b>	<b>208</b>	<b>72</b>	<b>-334</b>	<b>21</b>	<b>-106</b>	<b>-93</b>
<b>PATAMI</b>											
Motor	192	183	154	153	117	131	59	124	55	-55	-52
Equipment	39	44	37	69	79	27	51	26	30	14	-62
O&G	30	33	36	39	18	2	0	-228	-36	-84	-302
M&E	4	6	-2	1	1	0	0	8	1	-87	-13
Others	-29	-124	-30	-179	-49	-92	-97	-217	-34	-84	-31
<b>Group</b>	<b>236</b>	<b>142</b>	<b>196</b>	<b>84</b>	<b>165</b>	<b>68</b>	<b>14</b>	<b>-286</b>	<b>17</b>	<b>-106</b>	<b>-90</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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