

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/SELL/RM5.40/Target: RM4.70)

1Q16: LOOKING BLEAK

Year to 31 Dec	1Q16 (RMm)	qoq % chg	yoy % chg	Remarks	Year	EPS (sen)	PE (x)	PB (x)
Revenue	2,199.2	(47.1)	(32.1)	(see sales breakdown below)	2016F	8.7	62.3	1.0
-Auto	1,556.0	(53.9)	(22.4)	1Q16 Toyota sales volume down 37.1% yoy.	2017F	12.6	42.9	1.0
-Equipment	358.0	(11.1)	(45.2)	1Q15 formed a high base due to front-loading prior to GST implementation and higher demand in Myanmar.	2018F	23.5	22.9	1.0
-Mfg & Eng	145.4	(20.3)	(15.0)	Lower demand for lubricants and auto components.				
-Oil & Gas	87.7	(33.0)	(71.9)	1Q16 sales down on lower charter rates and lower utilisation of its rigs.				
-Others	62.8	(8.8)	(63.0)					
EBIT	17.1	(104.8)	(94.0)					
Associates	22.1	(38.3)	(34.0)	1Q16 Perodua sales dropped 17.4% yoy and bottom line was hit by unfavourable forex trend.				
PBT	21.1	(106.3)	(93.4)					
Net profit	16.6	(105.8)	(90.0)					
Core Net profit	16.9	(68.4)	(90.2)	1Q16 core net profit below expectations.				
PBT margins (%)	(%)	(%)	ppt chg					
-Auto	5.3	(2.0)	(6.3)	Hit by weak ringgit against major currencies.				
-Equipment	11.0	4.1	(4.2)					
-Mfg & Eng	4.5	(2.8)	3.5					
-Oil & Gas	(78.0)	(21.8)	(91.6)	Charter rates still low at US\$70,000-90,000 per day.				

Source: UMW Holdings, UOB Kay Hian

WHAT'S NEW

- **UMW's 1Q16 core net profit of RM16.9m (-90.2% yoy) was well below both our and consensus expectations**, accounting for only 5% of both our full-year earnings forecasts. UMW Holdings' (UMW) 1Q16 underperformance largely stemmed from: a) a core pre-tax loss of RM68.4m in its oil and gas (O&G) division, and b) a 64.6% yoy decline in its automobile pre-tax profit which was hit by lacklustre sales amid soft consumer sentiment and a weak ringgit against the US dollar. As expected, no interim dividend was declared.
- **Automobile arm continues to look bleak on weak ringgit.** Toyota and Perodua's 1Q16 sales volumes fell 37.1% yoy and 17.4% yoy to 10,216 units and 47,181 units respectively. Like in the previous quarters, 1Q16 PBT took a hit and was down by a more significant quantum of 64.6% yoy due to the weak ringgit as some of its auto components and vehicle costs are denominated in US dollars. We gather from management that Toyota and Perodua 2016 sales forecasts are at 80,000 units and 216,000 units respectively.
- **No improvement in sight for O&G segment.** The division recorded a pre-tax loss of RM68.4m (1Q15: RM42.5m PBT) on the back of a 71.9% yoy decline in revenue. The loss was attributed to lower charter rates and high operating expenses from its uncontracted rigs. Of its 8 rigs, only 2 units (Naga 7 & 8) were in works in 1Q16. Naga 4 was warm-stacked in 1Q16 with zero utilisation due to deferment of client's drilling programmes to 2Q16.

COMMENT

- **2016 going to be tough on UMW.** Given that the ringgit had recently reversed its strength against the greenback and that competition continues to be stiff amid soft consumer sentiment in the auto sector, we believe its auto division will continue to disappoint in 2016. Although oil prices have gradually crept up in the recent months, we still do not see light at the end of the tunnel yet for its 55.7%-owned UMW O&G in 2016. In the current oversupplied rig market, charter rates could remain low in the near to mid-term until a strong and sustained recovery in oil price is seen. Current charter rates in the Southeast Asian region stand at US\$70,000-90,000 per day and we gather that at the current rates, UMW O&G needs 5-6 working rigs to achieve net profit break even.
- We cut our 2016-18 earnings forecasts by 21-68% after adjusting for: a) lower sales and margin assumptions for the automobile division, and b) higher net loss in UMW O&G. We expect UMW O&G to be in the red from 2016 to 2018.
- **Downgrade to SELL with a lower SOTP-based target price of RM4.70 (from RM6.00)** after rolling forward our base year to 2017, implying a 2017F 0.9x P/B. We upgraded the stock last week to HOLD from SELL rating premised on the limited downside from our previous target price (as share price has shed 26% ytd) based on previous earnings assumptions. We do not see any re-rating catalysts in the near- to mid-term as all of its major divisions are operating in challenging environments. Based on our trough valuation of average P/B of 0.5x (whereby we use historical data during the Asian financial crisis from Oct 97 till end-98), we derive a trough fair value of RM2.80, based on 0.5x 2017F P/B.

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