

Company Result

30 August 2016

UMW Holdings

SELL

Another disappointing quarter

Maintained

Share Price	RM 5.85
Target Price	RM 4.43

Result

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 / UMWK MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	6834.52
52-week price Range	RM4.88– 8.84
Beta (against KLCI)	1.10
3-m Average Daily Volume	1.22m
3-m Average Daily Value [^]	RM6.82m

Share Performance

	1m	3m	12m
Absolute (%)	2.6	2.1	-31.2
Relative (%-pts)	0.9	12.5	-34.0

Major Shareholders

Major Shareholders	%
SKIM AMANAH SAHAM BUMIPUTERA	41.72
EMPLOYEES PROVIDENT FUND	16.07
YAYASAN PELABURAN BUMIPUTRA	5.72
KUMPULAN WANG PERSARAAN	2.91

Historical Chart



Source: Bloomberg

Team Coverage

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- **UMW reported a net loss of RM12.13mill in 2Q16** as compared to net earnings of RM16.58mill in last quarter and RM68.44mill a year ago. Meanwhile, revenue stood at RM2846.81m, increased by 29.5% q-o-q while declined 18.3% y-o-y.
- **As for 1H16, the reported net earnings were RM4.45mill, plunged by 98.1% y-o-y.** Meanwhile, revenue decreased by 25% to RM5045.97mill.
- **Significantly below expectations** – 1H16 net earnings were below expectations by accounting for only 2% of our and market consensus of full year estimates. The lower-than-expected net profit was dented by lackluster performance of automotive, oil & gas and equipment divisions.

Comment

- **Auto division remained gloomy in 1H16.** Auto division's 1H16 PBT recorded a decline of 56.5%, dented by slowdown in economic conditions as well as decline in Toyota sales of 29.8% y-o-y. Toyota failed to increase its market share by recording 10.1% market share in 1H16 against 12.7% a year ago.
- **Nonetheless, 2Q16 segmental PBT expanded by 61.1% q-o-q.** Toyota sales jumped significantly by 65.8% in 2Q16 as compared to 1Q16. We believe the key driver for this was the launch of the all-new Toyota Hilux in early May'16. We acknowledge that Hilux is historically ranked as Toyota's 2nd best seller, accounting for ~30% of Toyota TIV. However, 2Q PBT still declined on yearly basis by 49.4% y-o-y, affected by weaker ringgit against USD coupled with weaker Toyota sales (declined by 24.7% y-o-y) as compared to 2Q15.
- **Perodua sales lower in 1H16.** Perodua sales in 1H16 declined by 10.3% despite maintaining its leading position with the largest market share of 35.3% in 1H16. The slower sales reflected the losing interest of consumer towards big-ticket items in view of rising in cost of living. Nonetheless, we reckon the new Perodua Bezza, as the first sedan model, will offer a bigger volume boost for Perodua in 2H16.
- **Equipment division continued its negative performance for 1H16.** The equipment division recorded a decline for both its 1H16 topline and bottomline no thanks to weaker demand for heavy equipment mainly due to continued low commodity prices. Meanwhile, the restriction imposed on heavy equipment importation by the government in Myanmar also lowered down the equipment

growth for 1H16. Even though its PBT for 2Q16 increased by 10.44% q-o-q and 28.68% y-o-y due to better cost management, the high base recorded in 1Q15 which attributed by higher demand for equipment, parts and services in anticipation of Goods and Services Tax dented the overall equipment performance for 1H16.

- **O&G division continued to slide.** Another contraction recorded by Oil & Gas segment in 1H16 after recording a pre-tax loss of RM132.42mill from a PBT of RM50.46mill in 1H15. The continued lackluster performance was due to lower levels of exploration, development and production activities in the oil and gas industry pursuant to low oil price. Moreover, the reduction of operating and capital expenditure from oil majors remained a downside risk for its O&G division.
- **For 2Q16, Oil & Gas segment continued to post a pre-tax loss of RM64mill** from last quarter pre-tax loss of RM68.4 mill and PBT of RM8mill a year ago. The weaker demand for the group's drilling and oilfield services in the 2Q16 due to low oil prices resulted in losses for its drilling services and oilfield services segments.
- **Inspiring performance of M&E division in 1H16 due to cessation of loss making businesses.** Manufacturing & Engineering's PBT posted a positive growth in 1H16 mainly due to the successful disposal of the loss-making automotive component companies in India in November 2015 which reported in 1Q16. However, its revenue in 1H16 declined by 10.1% y-o-y owing to weaker sales in auto-components business segment. Meanwhile, its PBT for 2Q16 increased for both quarterly and yearly bases backed by better performance of shock absorbers and lubricant businesses.

Earnings Outlook/Revision

- **As 1H16 results came far below from our expectation, we trim our earnings forecast for FY16 by 83%** to factor in the weaker car sales in 2016 after UMW lowered down its car sales forecast for 2016 to 70k units from 80k units previously. We also lower the contribution for oil and gas division as the volatility in the oil prices still persist as well as the possibility for further impairments should crude prices remain at current low level.

Valuation & Recommendation

- **Maintain SELL call on UMW with an unchanged target price of RM4.43.** We pegged our target price at 20x FY2017F PE based on EPS of 22 sen.
- We remain cautious on the group's outlook in view of persistent weak automotive sales coupled with continued slowdown in oil and gas sector amid volatility in oil prices. We do not foresee any meaningful earnings recovery in a near term.

Figure 1: Quarterly Figures

Year to 31 Dec	2Q16 (RMm)	1Q16 (RMm)	2Q15 (RMm)	QoQ % chg	YoY % chg	6M16 (RMm)	6M15 (RMm)	YoY % chg
Revenue	2846.81	2199.16	3485.29	29.45%	-18.32%	5045.97	6725.67	-25.0%
Operating Profit	41.07	17.15	175.98	139.52%	-76.66%	58.21	459.49	-87.3%
Pre-tax Profit	44.81	21.07	207.62	112.65%	-78.42%	65.88	527.64	-87.5%
Profit After Tax	-3.73	-4.93	133.36	N/A	-102.79%	-8.66	369.37	-102.3%
Net Profit	-12.13	16.58	68.44	-173.14%	-117.72%	4.453	233.59	-98.1%
Operating Margin (%)	1.4%	0.8%	5.0%	0.7ppt	-3.6ppt	1.2%	6.8%	-5.7ppt
PBT Margin (%)	1.6%	1.0%	6.0%	0.6ppt	-4.4ppt	1.3%	7.8%	-6.5ppt

Figure 2: Segmental Breakdown

2016	2Q16 (RMm)	1Q16 (RMm)	2Q15 (RMm)	Q-O-Q (%)	Y-O-Y (%)	6M16 (RMm)	6M15 (RMm)	y-O-y (%)
Segmental Revenue								
Automotive	2177.14	1555.99	2732.67	39.92%	-20.33%	3733.12	4738.22	-21.21%
Equipment	351.15	357.97	353.64	-1.90%	-0.70%	709.12	1006.64	-29.56%
Oil & Gas	130.01	87.68	183.37	48.28%	-29.10%	217.69	495.87	-56.10%
M & E	156.97	145.45	165.40	7.92%	-5.10%	302.41	336.46	-10.12%
Others	57.69	62.77	69.523	-8.09%	-17.01%	120.47	185.39	-35.02%
Elimination	-26.15	-10.69	-19.318	144.72%	35.37%	-36.84	-36.91	-0.21%
Total Revenue	2846.81	2199.16	3485.294	29.45%	-18.32%	5045.97	6725.667	-24.97%
Segmental PBT								
Automotive	133.29	82.73	263.37	61.11%	-49.39%	216.02	496.89	-56.53%
Equipment	43.34	39.25	33.68	10.44%	28.68%	82.59	132.98	-37.90%
Oil & Gas	-64.00	-68.42	8.00	N/A	-900.45%	-132.42	50.46	-362.44%
M & E	10.91	6.59	0.40	65.50%	2627.00%	17.50	2.20	694.33%
Total PBT	123.54	60.15	305.446	105.41%	-80.31%	183.689	682.534	-73.09%
Segmental Margin								
Automotive	6.12%	5.32%	9.64%	0.81ppt	-3.52ppt	5.79%	10.49%	-4.70ppt
Equipment	12.34%	10.96%	9.52%	1.38ppt	2.82ppt	11.65%	13.21%	-1.56ppt
Oil & Gas	-49.22%	-78.04%	4.36%	28.81ppt	-53.58ppt	-60.83%	10.18%	-71.00ppt
M & E	6.95%	4.53%	0.24%	2.42ppt	6.71ppt	5.79%	0.65%	5.13ppt

Figure 3: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016F	2017F
Revenue	13,951.46	14,958.91	14,419.75	12,423.89	14,632.58
Operating profit	1,296.46	1,426.78	166.64	310.60	614.57
PBT	1,435.67	1,620.83	265.36	360.06	643.56
Net profit	679.61	650.70	-38.93	34.02	258.71
Core net profit	679.61	650.70	214.35	34.02	258.71
EPS (sen)	0.58	0.56	-0.03	0.03	0.22
P/BV (x)	0.76	0.72	0.74	0.70	0.63
DPS (sen)	0.44	0.41	0.20	0.19	0.20
Dividend yield (%)	7.52%	7.01%	3.42%	3.25%	3.42%
Operating margin (%)	9.29%	9.54%	1.16%	2.50%	4.20%
PBT margin (%)	10.29%	10.84%	1.84%	2.90%	4.40%
Net profit margin (%)	4.87%	4.35%	-0.27%	0.27%	1.77%
Net Gearing Ratio(x)	0.37	0.38	0.66	0.79	0.83
ROE (%)	7.57%	6.89%	-0.42%	0.35%	2.40%
ROA (%)	4.59%	3.96%	-0.22%	0.16%	1.00%

Source: Company, JF Apex

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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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