

PP14767/09/2012(030761)

Market Access

UMW Holdings Berhad

“Shifting Into Low Gear”

Results Review

- Actual vs. expectations.** UMW Holdings Bhd (UMW) 9M15 core net profit of RM374 million (-35% y-o-y) came in below ours but slightly in line with consensus estimates respectively, accounting 65% and 72% of both estimates full year net profit forecast. Note that 9M15 earnings have been adjusted to exclude exceptional items including; i) RM4 million impairment losses on receivables, ii) RM17 million provision for write down of inventories, iii) RM39 million provision for impairment losses of assets iv) RM175 million net forex gain and iv) RM241 million loss on derivative. Disappointing earnings performance in 9M15 were hurt by lower PBT contribution from automotive segment (-47% y-o-y) weighed by margin compression arising from the strengthening of USD against Ringgit, putting further hit on UMW’s PBT margin.
- Dividend.** No dividend was declared during the quarter.
- Top line.** Revenue was down to RM10.3 billion (-9% y-o-y) in 9M15 hammered by lower contribution from automotive and manufacturing and engineering segment. Automotive segment posted a revenue of RM7.3 billion (-11% y-o-y) as Toyota vehicles sales in 9M15 declined by 16% y-o-y to 63k units due to the stiff competition especially in the B-segment model which largely impacted the sales volume of Toyota Vios. Moreover, manufacturing and engineering segment recorded lower revenue of RM520 million (-6% y-o-y) in 6M15 due to low orders for export of KAYABA 4-wheeler products, original equipment market products and power steering pumps.

Contrariwise, oil and gas segment revenue rose to RM709 million (+3% y-o-y) lifted by additional contribution from NAGA 5, NAGA 6 and GAIT 6 which

Friday, November 27, 2015

HOLD (TP: RM7.70)

Current Price (RM)	RM8.28
New Target Price (RM)	RM7.70
Previous Target Price (RM)	RM7.80
Previous Recommend.	HOLD
Upside To Target Price	-7%
Dividend Yield (FY16)	5%

Stock Code

Bloomberg	UMWH MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	1,168
Market Cap (RM mn)	9,755
YTD Chg In Share Price	-24%
Beta (x)	1.02
52-week Hi/Lo (RM)	11.50 7.41
3M Average Volume (shrs)	1.74mn
Estimated Free Float	34%

Major Shareholders

Skim ASB	40%
EPF	17%
PNB	6%

commenced operation in May 2014, October 2014 and August 2014 respectively and higher utilisation of GAIT 3 in 6M15. Equipment segment revenue also surged to RM1.5 billion (+12% y-o-y) mainly driven by higher demand for equipment, parts and services in 9M15 and resumption of jade mining activities in Myanmar.

- Bottom line.** UMW's PBT slipped to RM600 million (-55% y-o-y) in 9M15 in line with weak PBT contribution from the automotive segment (-47% y-o-y) arising from slower-than-expected Toyota vehicle sales which was further weighed by unfavourable foreign exchange movement and higher advertising and promotional cost. Note that Ringgit continued its downtrend performance in 3Q15, tumbling to average RM4.14/USD compared to 3Q14 average of RM3.21/USD. Furthermore, oil and gas segment also registered a lower PBT contribution (-69% y-o-y) in 9M15 due to lower charter rate and utilisation rate in tandem with the decline in oil prices as well as the additional operating expenses from NAGA 7's contract termination with Frontier Oil Corporation (FOC) in January 2015.
- 2015 a challenging year for Toyota.** Moving forward, we expect 2015 to be a challenging year for Toyota to achieve its sales target of approximately 90k units (2014: 103k units) due to intense competition in the B-Segment coupled with weaker consumer sentiment. As mentioned, Toyota 9M15 sales volume only reached 63k units (-16% y-o-y), essentially behind in their target. We assume the sales of Toyota Vios will continue to get softer in 2015 impacted by stiff competition from Honda City and Honda Jazz as well as the entrance of the new Mazda 2. Moreover, Toyota also has lost the top position as the market leader for non-national marques after raking in only 13% market share as at 9M15 (9M14: 15%) compared to Honda with 14% market share (9M14: 12%).
- Car price hike in January 2016.** UMW has officially announced the increase in prices for all Toyota and Lexus model by 4%-6% beginning of January 2016 in order to mitigate the higher operational cost impacted by the falling of Ringgit against USD. We do not rule out the possibility of inferior sales volume to be suffered by several industry players including Toyota on the hike in vehicle prices. However, we do not see a vast dent to the sales volume of foreign marque as they have loyal base and strong followers for all their models. Nonetheless, we foresee the hike in car prices as temporary setback and we expect the readjustment of the selling price of car prices to be implemented gradually when Ringgit starts heading towards its fundamentals.
- Change to forecast.** We made adjustment to our earnings by trimming FY15 and FY16 earnings forecast by 19% and 8% respectively due to the tough outlook on Toyota sales throughout 2015 and cautious sentiment on current softness of global oil prices which may dampen the contribution from oil and gas division. Nonetheless, FY16 earnings are projected to increase by 39% y-o-y lifted by i) solid auto performance on higher associates contribution from Perodua sales volume and ii) stronger contribution from equipment division.
- Valuation & recommendation.** We re-value UMW at RM7.70, pegged to PER of 14x (25% discount to average last 3-years PER of 19x) and the stock is a **HOLD**. Re-rating catalyst may come from i)

appreciation of Ringgit against USD in the near term and ii) better-than-expected hire purchase financing environment going forward.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	8.28	45	54	18.1	15.1	1.4	1.4	8	5	7.70	Hold
Tan Chong	Dec	2.83	11	16	25.2	16.5	0.6	0.6	2	2	2.47	Sell
MBM Resources	Dec	2.79	32	36	8.5	7.5	0.7	0.6	8	3	3.20	Buy
Berjaya Auto	Apr	2.18	20	22	10.0	9.4	4.2	3.6	52	5	2.45	Buy
APM Automotive	Dec	3.81	49	49	8.3	8.3	0.7	NA	8	5	NR	NR
Average					14.0	11.4	1.5	1.6	15	4		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	15,890	13,952	14,959	13,273	14,335
EBITDA	2,149	1,622	1,806	1,460	1,648
EBIT	1,859	1,297	1,427	863	932
Finance cost	(24)	(99)	(82)	(93)	(100)
PBT	2,001	1,436	1,621	796	860
Net Profit	951	653	658	465	645
EPS (sen)	81	56	56	40	55
PBT margin	13%	10%	11%	6%	6%
Net profit margin	6%	5%	4%	4%	5%
PER (x)	14.0	20.2	19.6	20.8	15.0
P/BV (x)	2.9	2.6	2.0	1.5	1.4
DPS (sen)	50	44	41	45	45
Dividend yield	4%	4%	4%	5%	5%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	3,703	3,485	3,533	1%	-5%	11,253	10,259	-9%
EBIT	384	176	67	-62%	-83%	1,200	526	-56%
Finance cost	(13)	(28)	(25)	-11%	93%	(58)	(85)	46%
Associates	26	30	-0.3	-101%	-101%	90	63	-30%
PBT	430	208	72	-65%	-83%	1,332	600	-55%
Taxation	(101)	(74)	(44)	-40%	-56%	(316)	(203)	-36%
Minority interest	(133)	(65)	(14)	-78%	-89%	(441)	(150)	-66%
Net profit	197	68	14	-80%	-93%	575	247	-57%
EPS (sen)	17	6	1	-80%	-93%	49	21	-57%
PBT margin	12%	6%	2%			12%	6%	
Net profit margin	5%	2%	0.4%			5%	2%	
Effective tax rate	23%	36%	61%			24%	34%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

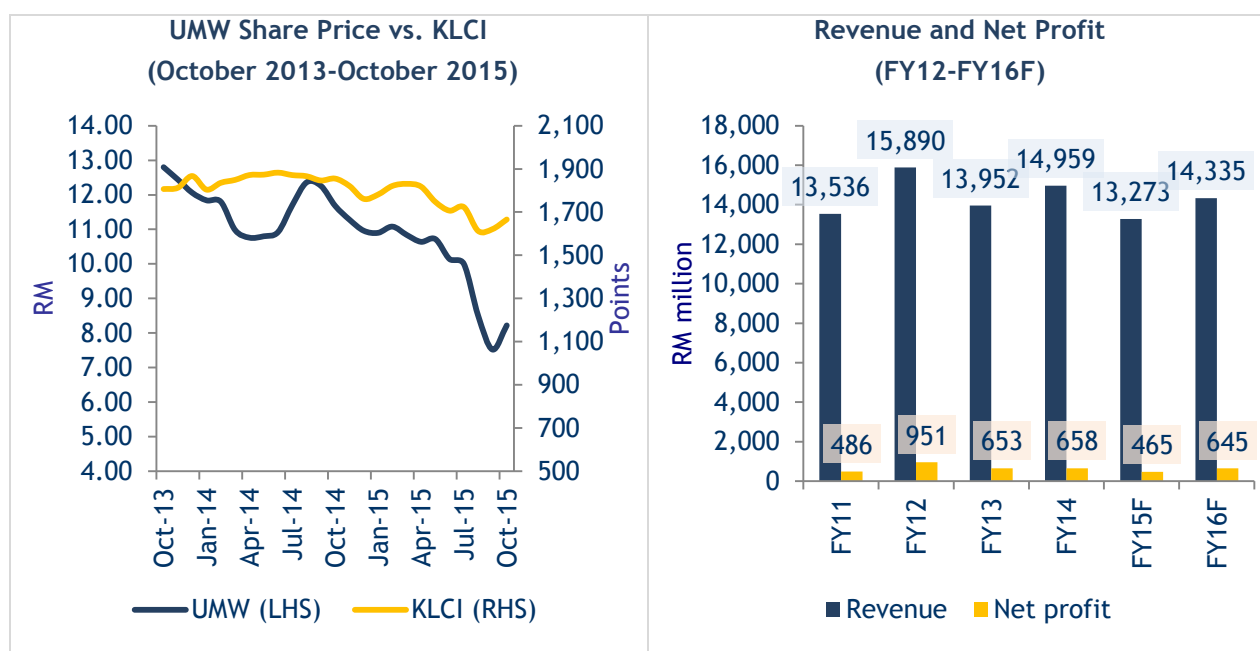
YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Automotive	2,643	2,733	2,596	-5%	-2%	8,204	7,334	-11%
Equipment	435	354	475	34%	9%	1,323	1,481	12%
Oil and Gas	254	183	213	16%	-16%	689	709	3%
Manufacturing and Engineering	180	165	184	11%	2%	551	520	-6%
PBT								
Automotive	344	263	113	-56.9%	-67%	1,159	610	-47%
Equipment	44	34	64	91%	45%	139	197	42%
Oil and Gas	76	8	11	43%	-85%	200	62	-69%
Manufacturing and Engineering	(1)	0	0.8	89%	NM	20	3	-85%

Source: Bursa Malaysia, M&A Securities

Table 5: YTD 2015 TIV

Marque	Sep-14	Aug-15	Sep-15	m-o-m	y-o-y	9M14	9M15	y-o-y
Proton	8,053	9,040	8,723	-4%	8%	90,749	78,836	-13%
Perodua	12,114	16,589	14,479	-13%	20%	140,317	157,527	12%
Toyota	7,585	8,233	8,049	-2%	6%	75,815	63,463	-16%
Honda	6,170	6,853	7,519	10%	22%	56,747	66,411	17%
Nissan	3,503	3,705	3,595	-3%	3%	32,609	34,759	7%
Mazda	990	1,192	1,279	7%	29%	8,775	10,386	18%
Others	9,356	7,840	7,462	-5%	-20%	87,293	74,006	-15%
TIV	47,771	53,452	51,106	-4%	7%	492,305	485,388	-1%
Passenger	41,397	47,302	45,245	-4%	9%	436,652	431,586	-1%
Commercial	6,374	6,150	5,861	-5%	-8%	55,653	53,802	-3%

Source: MAA, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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