

PP14767/09/2012(030761)

UMW Oil and Gas Corporation Bhd

“NAGA Loss the Fire”

Results Review

- Actual vs. expectations.** UMW Oil and Gas Corporation Bhd (UMW-OG) 9M15 net profit of RM37 million (-80% y-o-y), came in below ours and consensus estimates respectively, accounting 54% and 43% of both estimates full year net profit forecast. Disappointing 9M15 earnings was due to the lower PBT contribution from drilling service segment which dropped by 87% y-o-y to RM25 million, hammered by higher discount on charter rates to existing clients in tandem with the sharp drop in oil prices. Note that UMW-OG currently has only 4 rigs in operation (NAGA 1, NAGA 4, NAGA 7, NAGA 8) after NAGA 5 and NAGA 6 completed their contract by 3Q15.
- Dividend.** No dividend was declared during the quarter.
- Drilling service segment.** UMW-OG’s drilling services segment managed to record higher revenue of RM678 million in 9M15 (+4% y-o-y) driven by; i) additional contribution from NAGA 5, NAGA 6 and GAIT 6 which commenced operation in May 2014, October 2014 and August 2014 respectively. However, 9M15 PBT declined sharply to RM25 million (-87% y-o-y) as drilling services segment suffered a loss of RM19 million during 3Q15 vs. 3Q14 PBT of RM73 million impacted by lower charter rates and lower utilisation rate during the period.
- Oilfield service segment.** Oilfield service segment posted a weaker revenue and PBT of RM31 million (-9% y-o-y) and RM4 million (-25% y-o-y) respectively, hammered by lower contribution from Oil Country Tubular Goods (OCTG) threading and pipe repair services from the group’s operations in Labuan and China.

Thursday, November 26, 2015

SELL (TP: RM0.83)

Current Price (RM)	RM1.22
New Target Price (RM)	RM0.83
Previous Target Price (RM)	RM0.90
Previous Recommend.	SELL
Upside To Target Price	-32%
Dividend Yield (FY16)	0.4%

Stock Code

Bloomberg	UMWOG MK
-----------	----------

Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	2,162
Market Cap (RM mn)	2,616
YTD Chg In Share Price	-49%
Beta (x)	NA
52-week Hi/Lo (RM)	3.25 0.86
3M Average Volume (shrs)	1.15mn
Estimated Free Float	22%

Major Shareholders

UMW Holdings	56%
Skim ASB	8%
EPF	6%

Results Review - UMW Oil and Gas Corporation Bhd

- **NAGA 7 - new contract.** UMW-OG is ready to deploy its NAGA 7 to serve a new contract for Petronas Carigali Sdn Bhd (PCSB) after its previous contract was terminated by Frontier Oil Corp. (FOC). UMW-OG has received a Letter of Award (LOA) from PCSB in October 2015 for the provision of a jack-up drilling rig. The contract period has started from 15 October 2015 involving the drilling of 7 firm wells with extension option of 1 plus 1 well (estimated duration of minimum 1 month for each well).
- **Delivery of NAGA 8.** On the latest development, UMW-OG has formally taken the delivery of new jack-up rig, NAGA, 8 from Keppel FELS Limited (Keppel FELS) in September 2015. NAGA 8 is a premium jack-up drilling rig capable of operating in water depths of up to 400 feet and drilling to a total depth of 30,000 feet sub-sea. It is currently serving a contract with SapuraKencana Energy until 2017. The contract involves the drilling of 18 wells with extension option for additional 3 wells.
- **Change to forecast.** We made adjustment to our earnings by cutting FY15 and FY16 earnings forecast by 29% and 19% respectively due to lower charter rate assumptions in line with the weakness in oil prices coupled with lower operating days for NAGA 5 and NAGA 6 which yet secure a new contract. Nonetheless, FY16 earnings are projected to increase by 146% y-o-y lifted by additional contribution from the new delivery of NAGA 7 and NAGA 8 - of which we expect steady contract flows by then.
- **Valuation & recommendation.** We value UMW-OG at RM0.83 based on 15x PER (15% discount to average big-cap PER of 18x) and the stock is a **SELL**. Re-rating catalyst may come from i) robust prospects of jack up drilling activities in Southeast Asia (SEA) market and ii) faster-than-expected recovery in global oil prices.

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				
SapuraKencana	Jan	2.20	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.09	12	13	9.9	8.9	0.8	0.8	10	3	1.15	Hold
Bumi Armada	Dec	1.09	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.64	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.10	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	25.04	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.46	18	21	9.6	8.2	1.6	1.4	18	2	1.80	Hold
UMW-OG	Dec	1.22	4	6	33.6	19.2	0.8	0.8	5	1	0.83	Sell
Perisai	Dec	0.32	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	NA	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.19	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.37	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.16	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.13	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.51	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	2		

Source: Bloomberg, M&A Securities

Results Review - UMW Oil and Gas Corporation Bhd

Table 2: Financial Forecast

YE: Dec (RM'mil)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	738	1,015	800	1,192	1,202
EBITDA	312	411	264	394	409
EBIT	222	278	78	172	168
Finance cost	(24)	(26)	(40)	(60)	(48)
PBT	207	284	59	143	150
Net profit	194	252	48	118	130
EPS (sen)	12	12	2	6	6
EBITDA margin	42%	40%	33%	33%	34%
EBIT margin	30%	27%	10%	14%	14%
PBT margin	28%	28%	7%	12%	12%
Net profit margin	26%	25%	6%	10%	11%
PER (x)	34.1	20.2	54.5	22.2	20.1
P/BV (x)	3.1	2.0	0.8	0.8	0.7
Dividend (sen)	NA	1	0	0	1
Dividend yield	NA	0.4%	0.2%	0.4%	0%

Source: Company, 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	254	183	213	16%	-16%	689	709	3%
EBIT	74	13	22	67%	-70%	192	83	-57%
Finance cost	(6)	(13)	(17)	34%	171%	(16)	(41)	151%
Associates	0.1	0.1	0.1	0%	0%	0.4	0.4	0%
Investment income	8	7	6	-17%	-29%	24	20	-16%
Pre-tax profit	76	8	12	44%	-85%	200	62	-69%
Taxation	(9)	(4)	(9)	134%	-1%	(19)	(23)	21%
Net Profit	66	4	0	-96%	-100%	180	37	-80%
EPS	3	0.2	0.01	-95%	-100%	8	2	-80%
EBIT Margin	29%	7%	10%			28%	12%	
Pre-tax margin	30%	4%	5%			29%	9%	
Net Profit margin	26%	2%	0%			26%	5%	
Effective tax rate	12%	49%	79%			9%	37%	

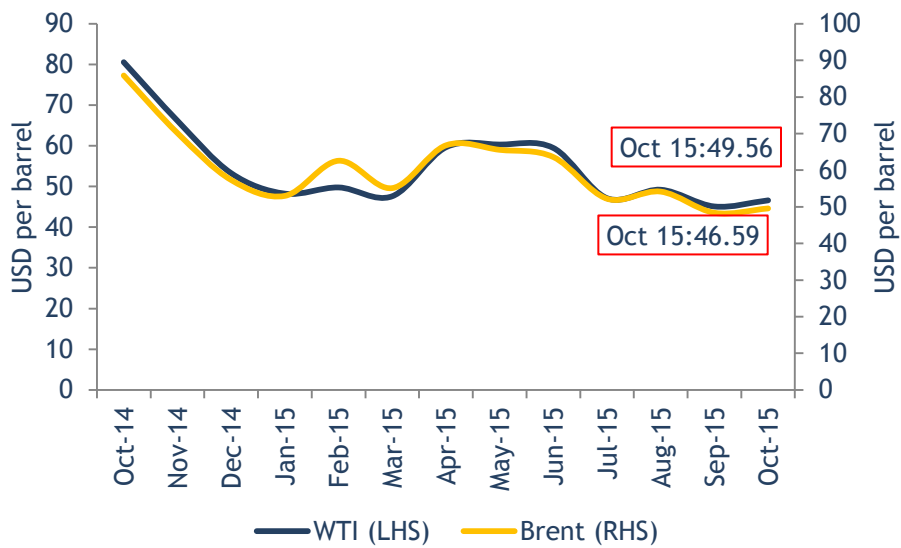
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
<u>Revenue</u>								
Drilling services	242	174	204	17%	-16%	655	678	4%
Oilfield services	12	10	9	-6%	-25%	34	31	-9%
Others	0	0	0	NM	NM	0	0	NM
<u>PBT</u>								
Drilling services	73	5	(19)	NM	NM	193	25	-87%
Oilfield services	1	1	1	-26%	-42%	6	4	-25%
Others	2	2	30	1408%	1463%	2	33	1467%

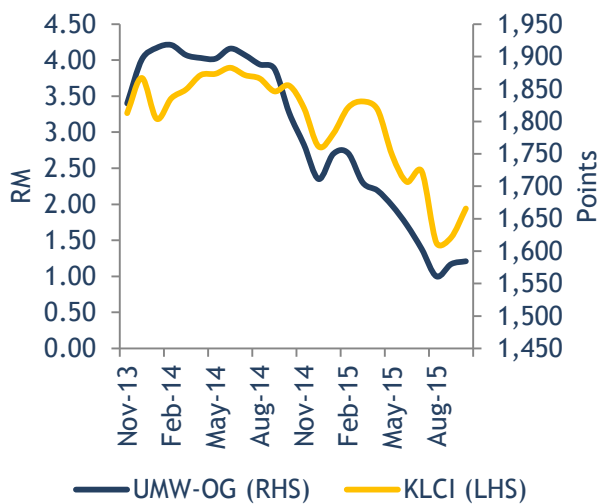
Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(October 2014-October 2015)

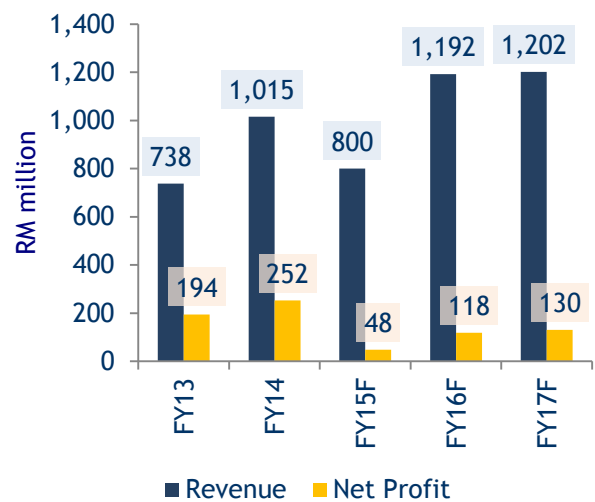


Source: Bloomberg

UMW-OG Share Price vs. KLCI
(November 2013-October 2015)



Revenue and Net Profit
(FY13-FY17F)



Source: Bloomberg, M&A Securities

Table 5: Drilling Rigs Assets

	NAGA 1	NAGA 2	NAGA 3	NAGA 4
				
Type	Semi-Submersible	Jack-Up	Jack-Up	Jack-Up
Ownership	50%	100%	100%	100%
Delivery Year	1974	2009	2010	2013
Water Depth	1,000ft	350ft	350ft	400ft
Drilling Depth	30,000ft	30,000ft	30,000ft	30,000ft

	NAGA 5	NAGA 6	NAGA 7	NAGA 8
				
Type	Jack-Up	Jack-Up	Jack-Up	Jack-Up
Ownership	100%	100%	100%	100%
Delivery Year	2Q14	3Q14	1Q15	3Q15
Water Depth	400ft	400ft	400ft	400ft
Drilling Depth	30,000ft	30,000ft	30,000ft	30,000ft

Source: UMW-OG

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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my