

PP14767/09/2012(030761)

Market Access

UMW Holdings Berhad

“Tough Atmosphere in FY15”

Results Review

- Actual vs. expectations.** UMW Holdings Bhd (UMW) 1Q15 core net profit of RM169 million came in below ours and consensus estimates respectively, accounting 18% and 19% of both estimates full year net profit forecast. Note that 1Q15 earnings have been adjusted to exclude exceptional items including; i) RM46 million loss on derivatives, ii) RM44 million net forex gain, iii) RM5 million reversal of impairment of asset/investment, and iv) RM7 million other non-core item. Disappointing earnings performance in 1Q15 was hurt by lower PBT contribution from automotive segment (-43% y-o-y) weighed further 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 down to RM3.2 billion (-10% y-o-y) in 1Q15 hammered by lower contribution from automotive and manufacturing and engineering segment. Automotive segment posted a revenue of RM2.0 billion (-25% y-o-y) as Toyota vehicles sales in 1Q15 declined by 33% y-o-y to 16,603 units due to the stiff competition especially in B-segment model which largely impacted the sales volume of Toyota Vios. Moreover, manufacturing and engineering segment recorded lower revenue of RM171 million due to the weaker sales volume by auto-component manufacturer. Nonetheless, oil and gas segment revenue rose to RM312 million (+60% y-o-y) lifted by the full year contribution of NAGA 5 and NAGA 6 as well as improved operating efficiency by NAGA 2 and NAGA 3 respectively.

Wednesday, May 27, 2015

HOLD (TP: RM10.77)

Current Price (RM)	RM10.70
New Target Price (RM)	RM10.77
Previous Target Price (RM)	RM11.57
Previous Recommend.	HOLD
Upside To Target Price	1%
Dividend Yield (FY16)	4%

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)	12,524
YTD Chg In Share Price	-2%
Beta (x)	1.05
52-week Hi/Lo (RM)	12.68   10.00
3M Average Volume (shrs)	1.28mn
Estimated Free Float	32%

Major Shareholders

Skim ASB	36%
EPF	16%
PNB	9%

- **Bottom line.** UMW's PBT slipped to RM320 million (-33% y-o-y) in 1Q15 in line with the weak revenue contribution from the automotive segment arising from slower-than-expected Toyota vehicle sales which was further weighed by unfavourable foreign exchange movement which has affected the profitability of the group during the period. Note that Ringgit continued its downtrend performance in 1Q15, tumbling to average RM3.65/USD compared to 1Q14 average of RM3.29/USD. Furthermore, oil and gas segment also registered a lower PBT contribution (-27% y-o-y) in 1Q15 due to the discount on charter rate in tandem with the decline in oil prices as well as the termination of contract of UMW NAGA 7 with Frontier Oil Corporation (FOC).
- **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 90,000 units due to intense competition in automotive market especially in the B-Segment model as where 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 by raking in only 10% market share as at 1Q15 (1Q14: 15%) compared to Honda with 13% market share (1Q14: 10%).
- **2015 is a shining year for Perodua.** We foresee 2015 to be a great year for Perodua due to the strong demand of Perodua Axia whose booking numbers have reached a respectable 100,000 units with 60,000 units have been delivered to customers by the end of March 2015. Interestingly, Perodua has launched the new Perodua Myvi facelift on 15 January 2015 with price range from RM41k-RM58k, potentially maintaining its strong grip in the A and B class segment. The new Perodua Myvi came out with six different choice of colours and available in six variants consisting of; i) 1.3 Standard G MT, ii) 1.3 Standard G AT, iii) 1.3 Premium X AT, iv) 1.5 SE MT, v) 1.5 SE AT and vi) 1.5 Advance AT. Hence, we remain optimistic that the two key models would drive Perodua to achieve its 2015 sales target of 208k units (+6% y-o-y).
- **Change to forecast.** We made adjustment to our earnings by trimming FY15 and FY16 earnings forecast by 10% 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, FY15 and FY16 earnings are projected to increase by 26% and 13% y-o-y lifted by i) solid auto performance on higher associates contribution from Perodua sales volume and ii) additional contribution from oil and gas segment on the delivery of NAGA 8 in 3Q15
- **Valuation & recommendation.** We value UMW at RM10.77, pegged to PER of 13x (30% discount to average last 3-years PER of 19x) and the stock is a **HOLD**. Re-rating catalyst may come from i) stronger-than-expected sales by Toyota 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	10.70	77	84	14.1	13.0	1.8	1.7	10	4	11.57	Hold
Tan Chong	Dec	2.90	22	29	14.0	10.3	0.7	0.7	4	2	3.00	Hold
MBM Resources	Dec	3.44	37	41	9.3	8.3	0.8	0.8	8	2	4.17	Buy
Berjaya Auto	Apr	3.58	23	29	15.6	13.8	6.9	5.8	52	3	4.30	Buy
APM Automotive	Dec	4.95	53	56	9.7	9.2	1.0	1.0	10	4	NR	NR
Average					12.5	10.9	2.3	2.0	17	3		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	15,890	13,952	14,959	15,083	15,686
EBITDA	2,149	1,622	1,806	1,810	2,039
EBIT	1,859	1,297	1,427	1,357	1,569
Finance cost	(24)	(99)	(82)	(106)	(110)
PBT	2,001	1,436	1,621	1,885	2,039
Net Profit	951	653	658	830	941
EPS (sen)	81	56	56	71	81
PBT margin	13%	10%	11%	13%	13%
Net profit margin	6%	5%	4%	6%	6%
PER (x)	14.0	20.2	19.6	15.1	13.3
P/BV (x)	2.9	2.6	2.0	1.8	1.7
DPS (sen)	50	44	41	45	45
Dividend yield	4%	4%	4%	4%	4%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	3,583	3,706	3,240	-13%	-10%	3,583	3,240	-10%
EBIT	433	227	284	25%	-35%	433	284	-35%
Finance cost	(25)	(24)	(32)	35%	28%	(25)	(32)	28%
Associates	41	49	33	-32%	-18%	41	33	-18%
PBT	479	289	320	11%	-33%	479	320	-33%
Taxation	(87)	(93)	(84)	-10%	-4%	(87)	(84)	-4%
Minority interest	(157)	(113)	(71)	-37%	-55%	(157)	(71)	-55%
Net profit	236	83	165	98%	-30%	236	165	-30%
EPS (sen)	20	7	14	99%	-30%	20	14	-30%
PBT margin	13%	8%	10%			13%	10%	
Net profit margin	7%	2%	5%			7%	5%	
Effective tax rate	18%	32%	26%			18%	26%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
<b>Revenue</b>								
Automotive	2,656	2,574	2,006	-22%	-25%	2,656	2,006	-25%
Equipment	435	446	653	47%	50%	435	653	50%
Oil and Gas	196	328	312	-5%	60%	196	312	60%
Manufacturing and Engineering	182	173	171	-1%	-6%	182	171	-6%
<b>PBT</b>								
Automotive	407	313	234	-25.4%	-43%	407	234	-43%
Equipment	39	79	99	26%	154%	39	99	154%
Oil and Gas	58	86	42	-51%	-27%	58	42	-27%
Manufacturing and Engineering	10	(4)	2	NM	-81%	10	2	-81%

Source: Bursa Malaysia, M&amp;A Securities

Table 5: Selected New Launches 2014/2015

Model	Launch	Segment	OTR price (RM)
Toyota Rush Facelift	Apr-15	SUV	98k-103k
Toyota Camry	Apr-15	D	150k-175k
Mazda CX-5 GL	Apr-15	SUV	126k-133k
Mazda 3	Apr-15	C	106k-121k
Honda H-RV	Feb-15	SUV	99k-119k
Proton Exora Facelift	Feb-15	MPV	57k-82k
Perodua Myvi Facelift	Jan-15	B	42k-59k
Mazda 2	Jan-15	B	88k
Nissan Almera Facelift	Jan-15	B	65k-78k
Nissan X-Trail	Jan-15	SUV	142k-165k
Perodua Axia	Sep-14	A	24K-42K
Proton Iriz	Sep-14	B	42k-62k
Honda Jazz	Jul-14	B	73k-88k
Nissan Teana	Jun-14	D	140k-170k
Mazda 5	May-14	MPV	157k
Perodua Myvi XT	Apr-14	B	41k - 44k
Nissan Sylphy	Apr-14	C	112k - 122k

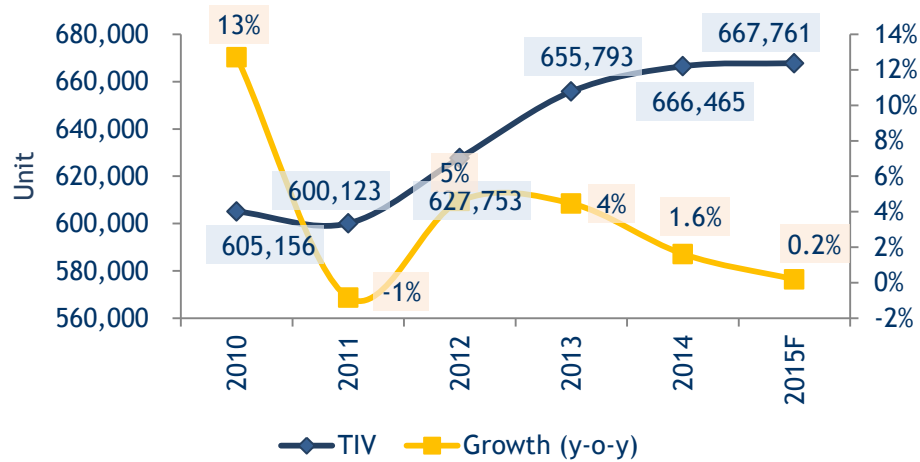
Source: Company, M&amp;A Securities

Table 6: YTD 2015 TIV

Marque	Mar-14	Feb-15	Mar-15	m-o-m	y-o-y	3M14	3M15	y-o-y
Proton	12,315	8,254	10,528	28%	-15%	32,734	27,682	-15%
Perodua	16,324	18,589	22,497	21%	38%	44,024	57,153	30%
Toyota	10,046	5,159	7,335	42%	-27%	24,634	16,603	-33%
Honda	4,915	6,042	9,581	59%	95%	15,627	22,145	42%
Nissan	3,994	3,515	5,005	42%	25%	11,957	13,226	11%
Mazda	918	994	1,503	51%	64%	2,257	3,372	49%
Others	10,407	7,837	10,865	39%	4%	28,677	28,125	-2%
TIV	58,919	50,390	67,314	33.6%	14%	159,910	168,306	5.250%
Passenger	52,122	44,917	59,318	32%	14%	52,122	148,932	186%
Commercial	6,797	5,473	7,996	46%	18%	17,382	19,374	11%

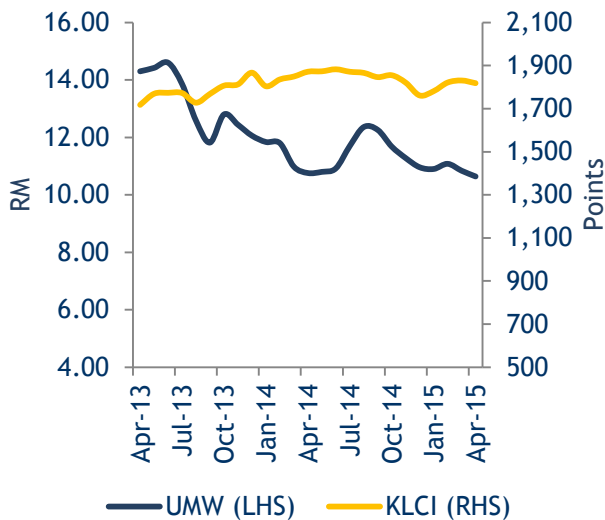
Source: MAA, M&amp;A Securities

TIV Performance  
(2010-2015F)

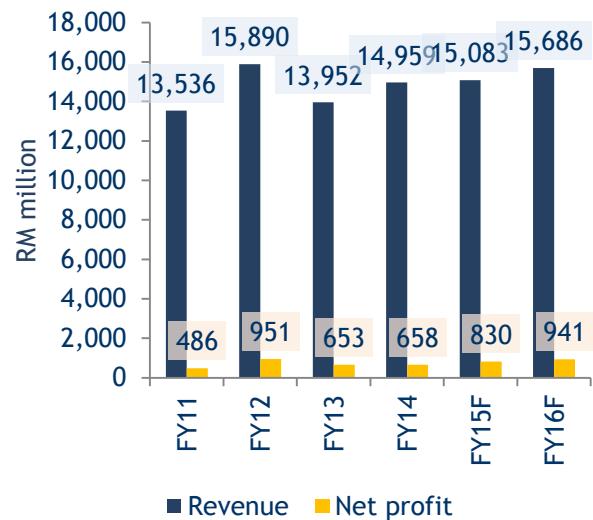


Source: MAA, M&A Securities

UMW Share Price vs. KLCI  
(April 2013-April 2015)



Revenue and Net Profit  
(FY12-FY16F)



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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