

PP14767/09/2012(030761)

Market Access

UMW Holdings Berhad

“Sluggish Auto Contribution”

Results Review

- Actual vs. expectations.** UMW Holdings Bhd (UMW) 6M15 core net profit of RM244 million came in below ours and consensus estimates respectively, accounting 29% and 32% of both estimates full year net profit forecast. Note that 1Q15 earnings have been adjusted to exclude exceptional items including; i) RM6 million impairment losses on receivables, ii) RM7 million provision for write down of inventories, iii) RM21 million reversal of impairment of asset/investment, and iv) RM2 million other non-core item. Disappointing earnings performance in 6M15 were hurt by lower PBT contribution from automotive segment (-39% 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.** Announced interim dividend of 10.0sen/share, translating into 50% payout ratio of 6M15 net profits, higher than 6M14 payout of 31%.
- Top line.** Revenue was down to RM6.7 billion (-11% y-o-y) in 6M15 hammered by lower contribution from automotive and manufacturing and engineering segment. Automotive segment posted a revenue of RM4.7 billion (-15% y-o-y) as Toyota vehicles sales in 1Q15 declined by 24% y-o-y to 39k 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 RM336 million (-9% 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 RM496 million (+14% y-o-y) lifted by additional contribution from NAGA 5, NAGA 6 and GAIT 6 which

Thursday, August 27, 2015

HOLD (TP: RM8.77)

Current Price (RM)	RM8.49
New Target Price (RM)	RM8.77
Previous Target Price (RM)	RM10.77
Previous Recommend.	HOLD
Upside To Target Price	3%
Dividend Yield (FY16)	5%

Stock Code	
Bloomberg	UMWH MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	1,168
Market Cap (RM mn)	10,515
YTD Chg In Share Price	-18%
Beta (x)	0.98
52-week Hi/Lo (RM)	12.68   9.00
3M Average Volume (shrs)	0.99mn
Estimated Free Float	34%

Major Shareholders	
Skim ASB	40%
EPF	16%
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 RM1.0 billion (+13% y-o-y) mainly driven by higher demand for equipment, parts and services in 1Q15 and resumption of jade mining activities in Myanmar.

- **Bottom line.** UMW's PBT slipped to RM528 million (-41% y-o-y) in 6M15 in line with the weak PBT contribution from the automotive segment (-39% y-o-y) 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 2Q15, tumbling to average RM3.67/USD compared to 2Q14 average of RM3.23/USD. Furthermore, oil and gas segment also registered a lower PBT contribution (-59% y-o-y) in 6M15 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 90k units (2014: 103k units) due to intense competition in the B-Segment. As mentioned, Toyota 1H15 sales volume only reached 39k units, 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 by raking in only 12% market share as at 6M15 (6M14: 16%) compared to Honda with 14% market share (6M14: 11%).
- **2015 to be a smashing 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 respectable 130k units since its launch in September 2014 with 84k units have been delivered to customers. 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. 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). Meanwhile, Perodua officially announced that its new Perodua Sedan is now entering into prototype stage expected to make debut between 2016-2018. This could be a new catalyst for Perodua in maintaining its vigorous performance in Malaysia's automotive industry since the last 5-years with market share of between 30%-31% annually.
- **Change to forecast.** We made adjustment to our earnings by trimming FY15 and FY16 earnings forecast by 10% and 12% 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. That said, FY15 and FY16 earnings are projected to increase by 14% and 11% 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 RM8.77, pegged to PER of 12x (35% 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	8.49	63	73	15.9	13.8	1.7	1.6	9	4	8.77	Hold
Tan Chong	Dec	2.48	19	26	14.5	10.5	0.6	0.6	3	2	3.00	Hold
MBM Resources	Dec	2.71	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	2.14	22	25	11.4	10.5	5.2	4.4	53	3	3.32	Buy
APM Automotive	Dec	4.08	52	55	8.5	8.0	0.9	0.8	9	4	NR	NR
Average					12.0	10.3	1.8	1.7	16	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	13,575	14,932
EBITDA	2,149	1,622	1,806	1,629	1,941
EBIT	1,859	1,297	1,427	1,222	1,493
Finance cost	(24)	(99)	(82)	(95)	(105)
PBT	2,001	1,436	1,621	1,697	1,792
Net Profit	951	653	658	747	829
EPS (sen)	81	56	56	64	71
PBT margin	13%	10%	11%	13%	12%
Net profit margin	6%	5%	4%	6%	6%
PER (x)	14.0	20.2	19.6	13.3	12.0
P/BV (x)	2.9	2.6	2.0	1.7	1.6
DPS (sen)	50	44	41	45	45
Dividend yield	4%	4%	4%	5%	5%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	3,967	3,240	3,485	8%	-12%	7,550	6,726	-11%
EBIT	383	284	176	-38%	-54%	816	459	-44%
Finance cost	(20)	(32)	(28)	-14%	38%	(45)	(60)	32%
Associates	24	33	30	-12%	24%	65	63	-2%
PBT	422	320	208	-35%	-51%	901	528	-41%
Taxation	(128)	(84)	(74)	-12%	-42%	(215)	(158)	-27%
Minority interest	(152)	(71)	(65)	-8%	-57%	(309)	(136)	-56%
Net profit	142	165	68	-59%	-52%	378	234	-38.1%
EPS (sen)	12	14	6	-59%	-52%	32	20	-38.1%
PBT margin	11%	10%	6%			12%	8%	
Net profit margin	4%	5%	2%			5%	3%	
Effective tax rate	30%	26%	36%			24%	30%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

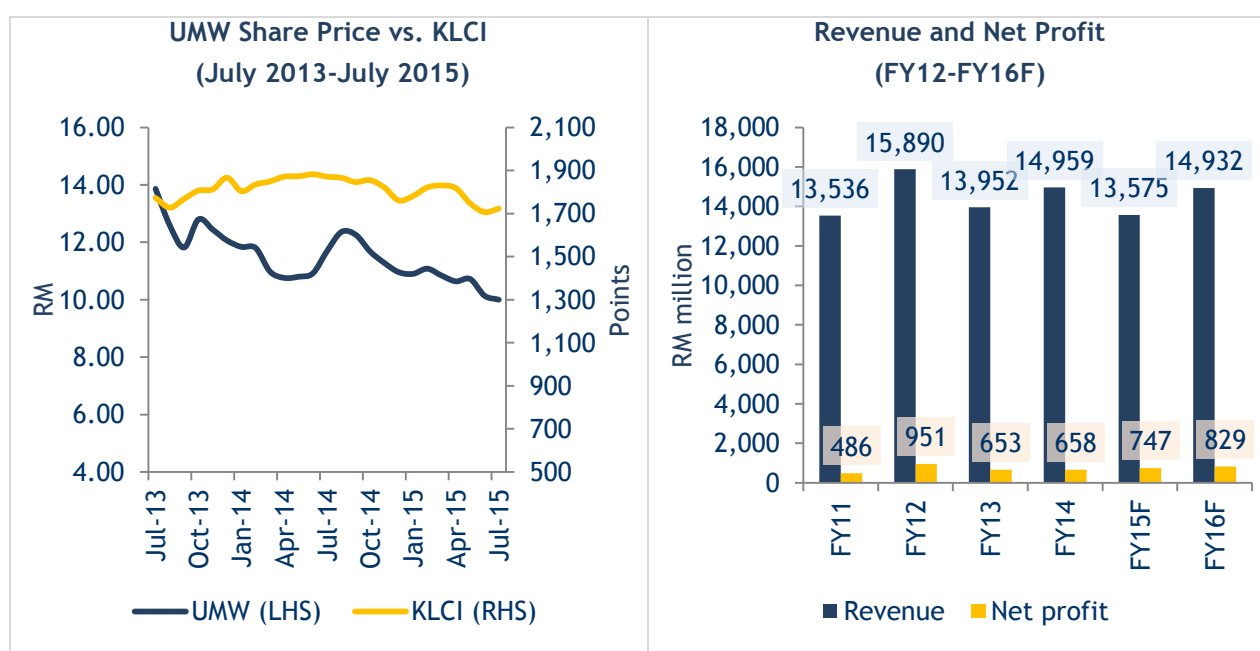
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
<b>Revenue</b>								
Automotive	2,904	2,006	2,733	36%	-6%	5,561	4,738	-15%
Equipment	454	653	354	-46%	-22%	889	1,007	13%
Oil and Gas	239	312	183	-41%	-23%	434	496	14%
Manufacturing and Engineering	189	171	165	-3%	-12%	371	336	-9%
<b>PBT</b>								
Automotive	409	234	263	12.8%	-36%	815	497	-39%
Equipment	55	99	34	-66%	-39%	94	133	41%
Oil and Gas	66	42	8	-81%	-88%	125	50	-59%
Manufacturing and Engineering	12	2	0.4	-78%	-97%	22	2	-90%

Source: Bursa Malaysia, M&amp;A Securities

Table 5: YTD 2015 TIV

Marque	Jun-14	May-15	Jun-15	m-o-m	y-o-y	1H14	1H15	y-o-y
Proton	10,060	8,285	9,267	12%	-8%	63,040	50,206	-20%
Perodua	16,834	17,290	16,475	-5%	-2%	94,500	108,502	15%
Toyota	9,755	7,724	9,173	19%	-6%	51,938	39,690	-24%
Honda	7,295	6,221	8,668	39%	19%	37,203	43,596	17%
Nissan	3,519	3,300	3,765	14%	7%	22,113	23,294	5%
Mazda	1,063	1,155	1,350	17%	27%	5,794	6,582	14%
Others	10,035	7,277	8,739	20%	-13%	58,554	50,314	-14%
TIV	58,561	51,252	57,437	12%	-2%	333,142	322,184	-3%
Passenger	51,898	45,874	50,695	11%	-2%	296,779	286,533	-3%
Commercial	6,663	5,380	35,651	563%	435%	36,363	35,651	-2%

Source: MAA, M&amp;A Securities



Source: Bloomberg, M&amp;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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