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Market Access

UMW Holdings Berhad

“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 are negative on this as the rise in car prices will adversely squeeze the sales volume of Toyota or Lexus in the near future. Hence, UMW is a HOLD with target price of RM7.80

- **Increase price by 4%-6%.** According to *StarBiz*, UMW Toyota Motor will increase the prices of all its Toyota and Lexus models by 4%-16% effective January 2016 in order to protect margin due to the weakness of Ringgit against the USD. Note that the management have taken several initiatives to mitigate the higher operational cost by implementing cost-efficiency measures and operational review across supply chain but the weakening of Ringgit has been too sharp to absorb. In sum, the sudden and huge fluctuation of Ringgit within a short period has given excessive impact to their operation and hence, offering no choice for the group except to pass on some rising cost to the consumers.

YTD, Ringgit has depreciated by almost 20% against USD. We expect the cheaper CKD model (e.g. Vios) to have a slight increase of 4% and the pricier CBU model (e.g. Alphard) to be highly impacted by a possible price jump of 16%. The management also pointed out that the upcoming price adjustment will only recover their rising cost partially and the price structure will be reviewed again if Ringgit continued to tumble in near term.

- **Impact on sales volume.** We believe the decision to raise the car prices will adversely impact UMW’s sales volume as consumer are already tightening their belts

Wednesday, October 07, 2015

HOLD (TP: RM7.80)

Current Price (RM)	RM7.60
New Target Price (RM)	RM7.80
Previous Target Price (RM)	RM8.77
Previous Recommend.	HOLD
Upside To Target Price	3%
Dividend Yield (FY16)	6%

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)	8,879
YTD Chg In Share Price	-30%
Beta (x)	0.93
52-week Hi/Lo (RM)	12.16 7.41
3M Average Volume (shrs)	1.42mn
Estimated Free Float	34%

Major Shareholders	
Skim ASB	40%
EPF	16%
PNB	6%

due to inflationary pressure. Conservatively, consumers will opt to find for the best alternative in spending for big ticket item including cars and may switch to cheaper models instead. We note that Toyota's sales performance remained pathetic as at August 2015 after slipping by 19% y-o-y to 55k units in line with the drop in YTD TIV to 434k units (-2% y-o-y). Moreover, lack of new launches particularly in the B-Segment market may further erode Toyota's sales performance in 2016 what more with the hike in car prices. Willy nilly, there could be a potential spiral effect to other auto players in adopting an increase in car prices as Perodua and Honda already hinted to implement similar option as a buffer against the rising operational cost.

- **Earnings outlook.** At this stage, we expect FY15 earnings to be lower by 13% y-o-y impacted by sluggish Toyota sales performance adding with weaker contribution from oil and gas division. Nonetheless, FY16 earnings are projected to increase by 23% y-o-y lifted by i) solid auto performance on higher associates contribution from Perodua sales volume and ii) stronger contribution from equipment division. Note that FY16 earnings are still under review pending UMW's new pricing decision for all affected models.
- **Valuation & recommendation.** We value UMW at RM7.80, pegged to PER of 13x (35% 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	7.59	63	73	15.9	13.8	1.7	1.6	9	4	7.80	Hold
Tan Chong	Dec	2.50	19	26	14.5	10.5	0.6	0.6	3	2	2.55	Hold
MBM Resources	Dec	2.72	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	1.88	22	25	11.4	10.5	5.2	4.4	53	3	2.45	Buy
APM Automotive	Dec	4.05	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&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	1,062	1,147
Finance cost	(24)	(99)	(82)	(93)	(100)
PBT	2,001	1,436	1,621	1,195	1,362
Net Profit	951	653	658	571	702
EPS (sen)	81	56	56	49	60
PBT margin	13%	10%	11%	9%	10%
Net profit margin	6%	5%	4%	4%	5%
PER (x)	14.0	20.2	19.6	15.5	12.6
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%	6%	6%

Source: Bursa Malaysia, M&A Securities

Research Team

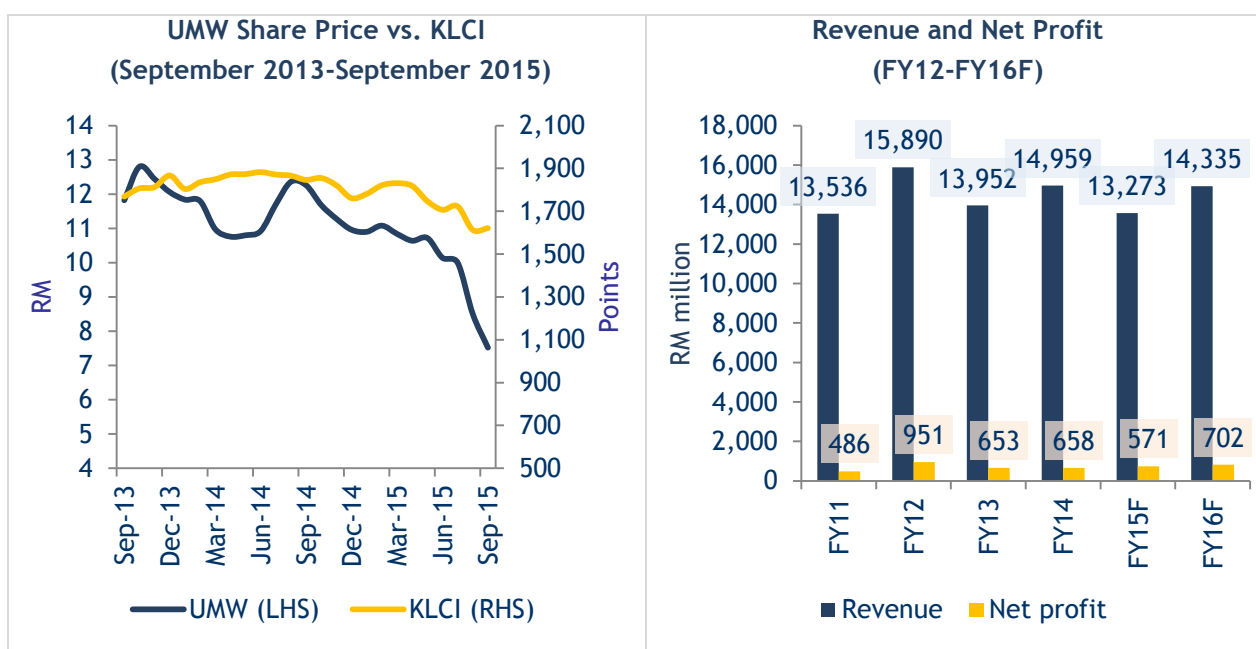
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Table 3: YTD 2015 TIV

Marque	Aug-14	Jul-15	Aug-15	m-o-m	y-o-y	8M14	8M15	y-o-y
Proton	8,611	10,867	9,040	-17%	5%	82,696	70,113	-15%
Perodua	14,585	17,957	16,589	-8%	14%	128,203	143,048	12%
Toyota	7,880	7,491	8,233	10%	4%	68,230	55,414	-19%
Honda	6,689	8,443	6,853	-19%	2%	50,577	58,892	16%
Nissan	3,156	4,165	3,705	-11%	17%	29,106	31,164	7%
Mazda	1,014	1,333	1,192	-11%	18%	7,785	9,107	17%
Others	9,190	8,390	7,840	-7%	-15%	77,937	66,544	-15%
TIV	51,125	58,646	53,452	-9%	5%	444,534	434,282	-2%
Passenger	44,898	52,636	47,302	-10%	5%	395,255	386,341	-2%
Commercial	6,227	6,010	6,150	2%	-1%	49,279	47,941	-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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