

PP14767/09/2012(030761)

UMW Oil and Gas Corporation Bhd

“Sign of Painful Year”

Results Review

- Actual vs. expectations.** UMW Oil and Gas Corporation Bhd (UMW-OG) 6M15 net profit of RM37 million (-68% y-o-y), came in below ours and consensus estimates respectively, accounting 16% and 20% of both estimates full year net profit forecast. Disappointing 6M15 earnings was due to the lower PBT contribution from drilling service segment which dropped by 64% y-o-y to RM44 million, hammered by higher discount on charter rates to existing clients in tandem with the sharp drop in oil prices and additional operating expenses incurred by NAGA 7 due to the termination of contract with Frontier Oil Corp. (FOC).
- Dividend.** No dividend was declared during the quarter.
- Drilling service segment.** UMW-OG’s drilling services segment managed to record higher revenue of RM474 million in 6M15 (+15% 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 and ii) higher utilisation of GAIT 3 in 6M15. However, 6M15 PBT declined sharply to RM44 million (-64% y-o-y) due to discount on charter rate to existing clients and additional operating expenses from NAGA 7 which has yet to secure a new contract.
- Oilfield service segment.** Oilfield service segment posted a flat revenue and weaker PBT of RM22 million (+0% y-o-y) and RM4 million (-21% 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.

Wednesday, August 26, 2015

HOLD (TP: RM0.90)

Current Price (RM)	RM0.91
New Target Price (RM)	RM0.90
Previous Target Price (RM)	RM2.21
Previous Recommend.	HOLD
Upside To Target Price	-1%
Dividend Yield (FY16)	1%

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)	2,789
YTD Chg In Share Price	-45%
Beta (x)	NA
52-week Hi/Lo (RM)	4.10 1.29
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 contract termination.** NAGA 7 (delivered in January 2015) had previously secured a contract worth USD20 million (RM64 million) from Frontier Oil Corp. (FOC) to deploy jack-up rigs in KJF Field SC50 Block at offshore Philippines within four month period beginning from mid-January 2015. However, UMW-OG announced that FOC has failed to honor the contract and the group is seeking a compensation amounting to USD19.2 million for all the losses arising from the breach of contract. UMW-OG now has put NAGA 7 for a new tender.
- **Middle East expansion.** UMW-OG is planning to penetrate the Middle East market in the future after building a strong reputation in Southeast Asia including Malaysia, Vietnam, Myanmar and the Philippines. The Middle East market, which holds 49% of global oil reserve, offers a solid opportunity for the group to strengthen its global business presence driven by OPEC decision to continue their production activities even if the oil prices settle at USD20 per barrel.
- **Change to forecast.** We made adjustment to our earnings by cutting FY15 and FY16 earnings forecast by 45% and 28% respectively due to the lower charter rate assumptions in line with the weakness in oil prices coupled with lower operating days for NAGA 7 impacted by contract termination with FOC. Nonetheless, FY16 earnings are projected to increase by 61% y-o-y lifted by additional contribution from the new delivery of NAGA 8 (3Q15) - of which we expect steady contract flows by then and ii) impressive tender book of RM3.0 billion backed by solid orderbook value of RM1.8 billion.
- **Valuation & recommendation.** We re-value UMW-OG at RM0.90 based on 10x PER (45% discount to average Big-cap PER of 18x) and the stock is a **HOLD**. Re-rating catalyst may come from i) robust prospects of jack up drilling activities in the Middle East 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	1.47	19	20	13.2	12.3	1.1	1.0	10	1	2.95	Buy
Wah Seong	Dec	1.22	14	15	9.5	8.8	0.9	0.9	13	4	1.38	Hold
Bumi Armada	Dec	0.79	7	10	15.3	11.1	1.0	0.9	4	1	1.32	Buy
Dialog Group	Jun	1.51	5	5	31.4	29.9	4.5	4.5	15	1	1.60	Hold
Alam Maritim	Dec	0.40	5	6	9.3	7.9	0.5	0.5	7	NA	0.56	Hold
MMHE	Dec	0.94	8	8	14.3	15.0	0.7	0.7	5	NA	1.20	Hold
PetDag	Dec	20.88	74	81	28.9	26.1	3.4	3.4	12	2	19.71	Hold
Dayang	Dec	1.50	21	24	9.7	8.7	1.8	1.4	22	3	1.80	Buy
UMW-OG	Dec	0.91	9	11	16.2	12.4	0.9	0.8	7	1	0.90	Hold
Perisai	Dec	0.26	3	6	15.6	7.1	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.52	8	13	18.6	11.6	1.7	1.4	12	1	NR	NR
TH Heavy	Dec	0.14	(1)	2	NA	10.5	0.5	0.4	(26)	NA	NR	NR
Petra Energy	Dec	0.92	12	15	8.7	7.1	0.6	0.6	7	2	NR	NR
Deleum	Dec	1.03	16	18	8.0	7.5	1.7	1.4	23	6	NR	NR
Uzma	Dec	1.62	20	24	12.5	10.4	2.3	1.9	18	2	NR	NR
KNM	Dec	0.42	7	7	8.8	7.8	0.5	0.4	3	NA	NR	NR
Average					14.7	12.1	1.4	1.3	8	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	1,036	1,360	1,393
EBITDA	312	411	363	499	539
EBIT	222	278	177	277	297
Finance cost	(24)	(26)	(52)	(68)	(56)
PBT	207	284	152	244	277
Net profit	194	252	126	203	242
EPS (sen)	12	12	6	9	11
EBITDA margin	42%	40%	35%	37%	39%
EBIT margin	30%	27%	17%	20%	21%
PBT margin	28%	28%	15%	18%	20%
Net profit margin	26%	25%	12%	15%	17%
PER (x)	34.1	20.2	15.7	9.7	8.1
P/BV (x)	3.1	2.0	0.9	0.8	0.8
Dividend (sen)	NA	1	1	1	1
Dividend yield	NA	0.4%	0.6%	1%	1%

Source: Company, M&A Securities

Table 3: Results Analysis

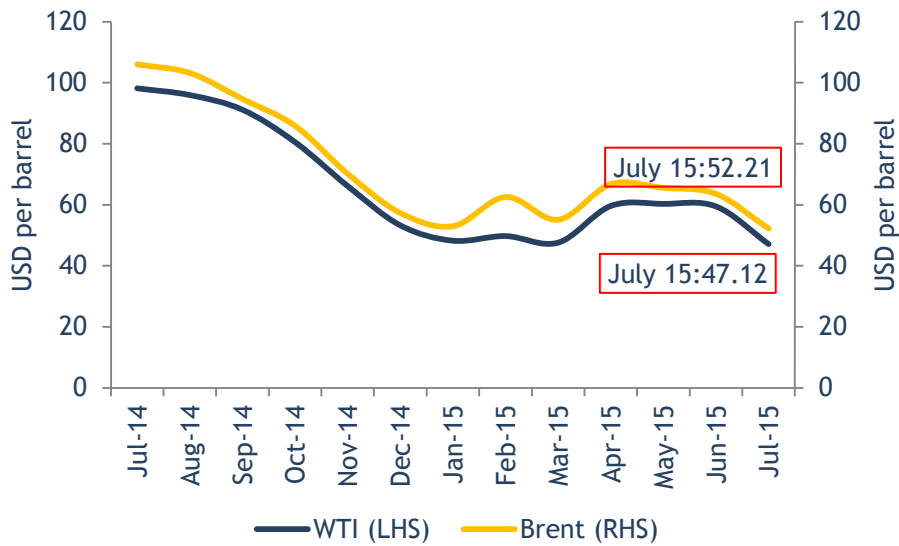
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	239	312	183	-41%	-23%	434	496	14%
EBIT	63	47	13	-71%	-79%	119	60	-49%
Finance cost	(6)	(12)	(13)	6%	116%	(10)	(24)	137%
Associates	0.1	0.1	0.1	-23%	0%	0.2	0.2	0%
Investment income	9	7	7	-5%	-20%	16	14	-10%
Pre-tax profit	66	42	8	-81%	-88%	125	50	-59%
Taxation	(5)	(10)	(4)	-60%	-29%	(10)	(14)	42%
Net Profit	60	32	4	-86%	-93%	114	37	-68%
EPS	3	1	0.2	-86%	-92%	5	2	-68%
EBIT Margin	26%	15%	7%			27%	12%	
Pre-tax margin	28%	14%	4%			29%	10%	
Net Profit margin	25%	10%	2%			26%	7%	
Effective tax rate	8%	23%	49%			8%	27%	

Source: Bursa Malaysia, M&A Securities

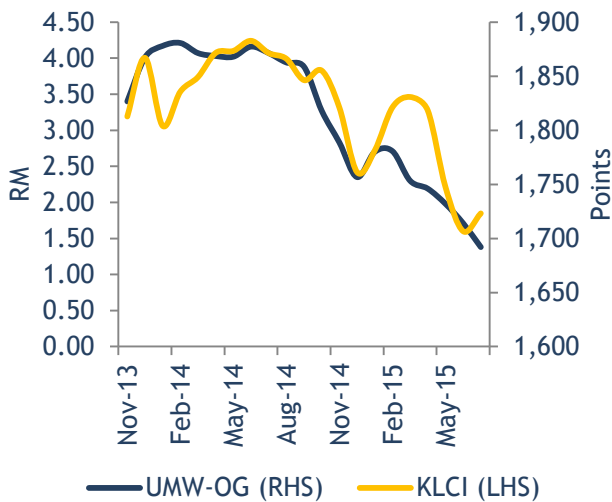
Table 4: Segmental Analysis

YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue								
Drilling services	227	300	174	-42%	-24%	412	474	15%
Oilfield services	12	12	10	-23%	-17%	22	22	0%
Others	0	0	0	NM	NM	0	0	NM
PBT								
Drilling services	63	39	5	-87%	-92%	120	44	-64%
Oilfield services	3	3	1	-65%	-65%	5	4	-21%
Others	0.1	1	2	59%	1691%	0.2	3	1589%

Source: Bursa Malaysia, M&A Securities

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

Source: Bloomberg

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

Source: Bloomberg, M&A Securities

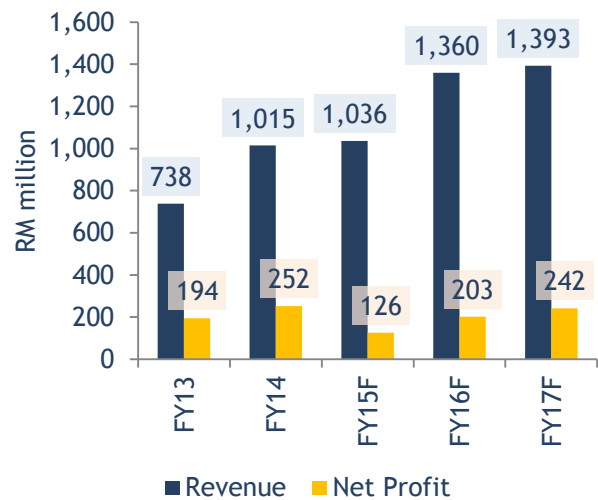
Revenue and Net Profit
(FY13-FY17F)

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

*Pending for delivery; 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